

# ANNUAL FINANCIAL REPORT

June 30, 2018





# NORTH DAKOTA UNIVERSITY SYSTEM

## ANNUAL FINANCIAL REPORT

Fiscal Year Ended  
JUNE 30, 2018

Prepared by the North Dakota University System Director of Financial Reporting  
in collaboration with Campus Controllers and Accounting Staff.



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# **NORTH DAKOTA UNIVERSITY SYSTEM**

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Position	16
Statement of Financial Position – Component Units	17
Statement of Revenues, Expenses and Changes in Net Position	18
Statement of Activities – Component Units	19
Statement of Cash Flows	20
Combining Statement of Financial Position – Component Units	21
Combining Statement of Activities – Component Units	23
Notes to Financial Statements	25
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Proportionate Share of Net Pension Liability and Schedule of Employer Contributions	73
Schedule of Proportionate Share of Other Post-Retirement Benefits Liability and Schedule of Employer Contributions	74
<b>SUPPLEMENTARY INFORMATION:</b>	
Combining Statement of Net Position	76
Combining Statement of Revenues, Expenses, and Changes in Net Position	78
Combining Statement of Cash Flows	80
Combining Statement of Financial Position – Non-Major Component Units	84
Combining Statement of Activities – Non-Major Component Units	85
Schedule of Bonds Payable – Primary Institution	86
Financial Information for Revenue Producing Buildings (Unaudited)	88

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
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FARGO, NORTH DAKOTA 58103

## **INDEPENDENT AUDITOR'S REPORT**

Members of the Legislative Assembly

The State Board of Higher Education

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities, and the aggregate discretely presented component units of the North Dakota University System as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the North Dakota University System's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Summary of Opinions**

Opinion Unit	Type of Opinion
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Qualified

**Basis for Qualified Opinion of the Aggregate Discretely Presented Component Units**

Management has not included the financial data for Dickinson State University Foundation, a discretely presented component unit of the North Dakota University System, with its aggregate discretely presented component units. Accounting principles generally accepted in the United States of America require the financial data for such component units to be reported with the financial data of the North Dakota University System's aggregate discretely presented component units. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units has not been determined.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the North Dakota University System, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the North Dakota University System as of June 30, 2018, the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As described in Note 1, the North Dakota University System's financial statements are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, and aggregate discretely presented component units of the North Dakota University System that are attributable to the transactions of the North Dakota University System. They do not purport to, and do not, present fairly the

financial position of the State of North Dakota as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Also discussed in Note 1 to the financial statements, the North Dakota University System adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions for Pensions, the Schedule of Employer's Share of Net OPEB Liability and the Schedule of Employer Contributions for OPEB, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota University System's financial statements. The combining statements and the Schedule of Bonds Payable – Primary Institution, as listed in the table of contents, are presented for the purposes of additional analysis and are not required parts of the financial statements.

The combining statements and Schedule of Bonds Payable – Primary Institution, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors the combining statements and Schedule of Bonds Payable – Primary Institution are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Financial Information for Revenue Producing Buildings, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018 on our consideration of the North Dakota University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota University System's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Fargo, North Dakota

November 29, 2018

**NORTH DAKOTA UNIVERSITY SYSTEM  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The North Dakota University System’s (the “System”) discussion and analysis (MD&A) provides an overview of the System’s financial activities and issues for the year ended June 30, 2018. It focuses on the current year’s activities, resulting changes and currently known facts to assist readers in understanding the accompanying financial statements.

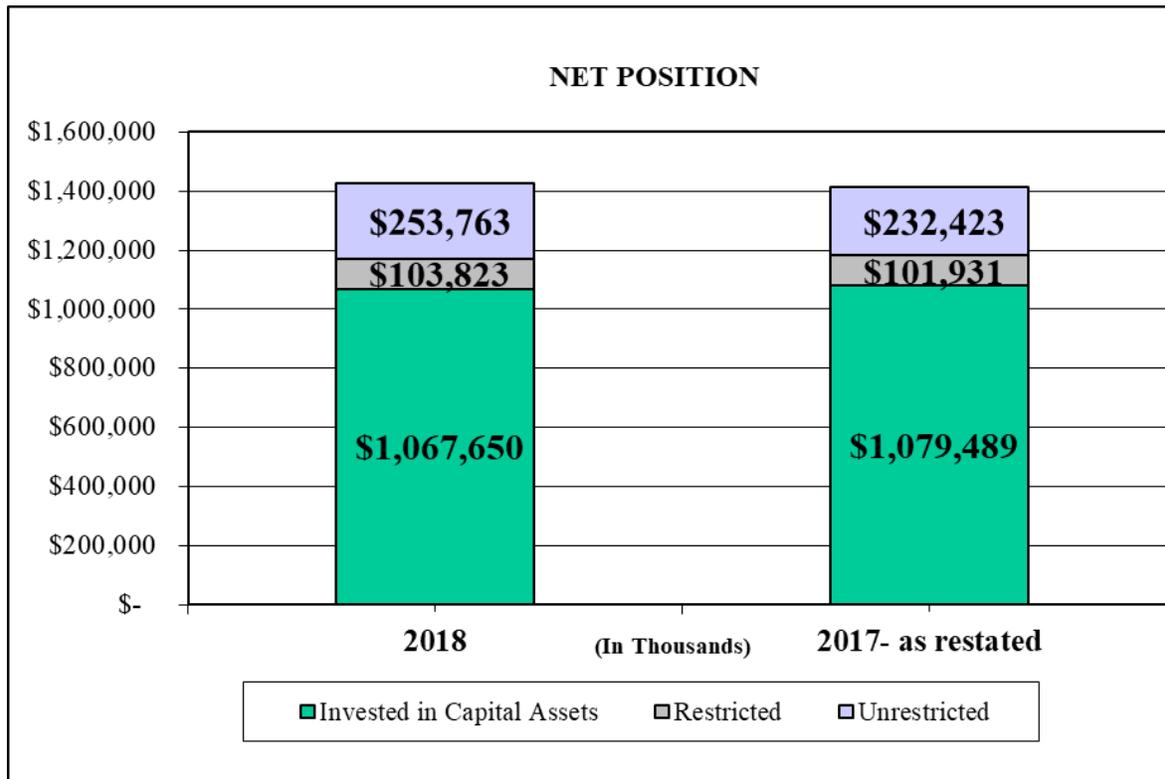
This discussion provides an overview of the financial position of the System for the year ended June 30, 2018 and should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes, and this discussion and analysis are the responsibility of management.

Activities from the eleven public post-secondary institutions, the North Dakota University System Office, and the System’s component units are included in the accompanying financial statements. For a detailed listing of these entities, refer to Note 1 of the accompanying financial statements.

**FINANCIAL HIGHLIGHTS**

The System’s total assets and deferred outflows of resources of \$2.068 billion and total liabilities and deferred inflows were \$643 million, resulting in a net position total of \$1.425 billion (an increase of \$11.4 million over the previous restated fiscal year).

The following graph illustrates the net position breakdown for fiscal years ending June 30, 2018 and 2017, as restated:



As a percent of total net position, invested in capital assets is the largest category of net position due to the significant size of the System’s physical infrastructure.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **JUNE 30, 2018**

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#### **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 System as a whole and present a long-term view of the System's finances. Refer to Note 1 in the accompanying financial statements for activities included in the System's basic financial statements.

The Statement of Net Position reports the assets, deferred outflows, liabilities, deferred inflows and net position of the System. The Statement of Revenues, Expenses, and Changes in Net Position report revenue and expense information of the System. The Statement of Cash Flows summarizes transactions affecting cash and cash equivalents during the fiscal year. It also provides information about the ability of the System to generate future cash flows necessary to meet its obligations and to evaluate its potential for additional financing.

Other non-financial factors, such as the condition of the campuses infrastructure, changes in legislative funding and changes in student enrollments need to be considered in order to assess the overall health of the System.

#### **STATEMENT OF NET POSITION**

The Statement of Net Position presents the financial position of the System at one point in time and is the difference between assets and deferred outflows and liabilities and deferred inflows of the System. It may be thought of as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net position are an indicator of whether its financial health is improving or deteriorating.

Assets and liabilities are classified as either current or noncurrent. Current assets are those resources that are convertible to cash within one year and are available to satisfy current liabilities. Current assets include cash and cash equivalents, short-term investments and accounts receivable. Noncurrent assets are mainly long-term investments and property, equipment and intangibles. Current liabilities are those obligations of the System that are due within one year of the statement date. Noncurrent liabilities are comprised of long-term debt and other obligations of the System.

Net position is reported in three categories: investment in capital assets, restricted net position (both nonexpendable and expendable); and unrestricted net position. Net investment in capital assets consists of capital assets less the balance of the outstanding debt incurred during the construction or improvement of those assets. Restricted net position is limited in use due to the constraints put in place by donors or by law. Unrestricted net position is assets that do not qualify as either invested in capital assets or restricted net position but may have Board or other campus designated restrictions on use.

Unrestricted net position encompasses a wide array of core operational functions of the campuses. The balances shown are not only cash balances, but consist of investments, accounts receivable, inventories, and other non-liquid assets. Operating cycles create significant balance fluctuations during the fiscal year. Therefore, although some funds are not yet expended as of a particular point in time, they are generally designated for specific uses.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

The following table shows the Condensed Statement of Net Position at June 30, 2018 and 2017, as restated:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2018</b>	<b>2017-restated</b>		
Current assets	\$ 436,206	\$ 424,378	\$ 11,827	3%
Capital assets, net	1,379,572	1,368,399	11,173	1%
Other noncurrent assets	179,643	140,197	39,445	28%
Total assets	<u>\$ 1,995,421</u>	<u>\$ 1,932,975</u>	<u>\$ 62,446</u>	<u>3%</u>
Deferred Outflows of Resources	<u>\$ 81,268</u>	<u>\$ 36,101</u>	<u>\$ 45,168</u>	<u>125%</u>
Current liabilities	\$ 109,926	\$ 128,440	\$ (18,514)	-14%
Noncurrent liabilities	519,869	414,985	104,885	25%
Total liabilities	<u>\$ 629,795</u>	<u>\$ 543,425</u>	<u>\$ 86,370</u>	<u>16%</u>
Deferred Inflows of Resources	<u>\$ 13,209</u>	<u>\$ 11,945</u>	<u>\$ 1,265</u>	<u>11%</u>
Invested in capital assets	\$ 1,067,650	\$ 1,079,489	\$ (11,839)	-1%
Restricted	103,823	101,931	1,891	2%
Unrestricted	262,212	232,286	29,926	13%
Total Net Position	<u>\$ 1,433,684</u>	<u>\$ 1,413,706</u>	<u>\$ 19,978</u>	<u>1%</u>

The increase in in fiscal year 2018 of other non-current assets of \$39.4 million is mainly due to an increase in restricted investments at NDSU that represent the unspent portion of revenue bonds issued in July 2017 for new construction.

Deferred outflows of resources increased in fiscal year 2018 by \$45.2 million as a result of a change in actuarial assumptions used to calculate the pension liability at all NDUS institutions resulting in an increase of \$42.3 million. The remaining increase is mostly due to the implementation of GASB Statement 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions that resulted in additional deferred outflows of \$1.9 million.

Total liabilities increased \$86.4 million during fiscal year 2018 to a total of \$630.0 million. The increase is mainly attributed to an increase in bonds payable and partially offset by a decrease in accounts payable and accrued payroll as a result of budget reductions implemented in fiscal year 2018. The increase in long-term liabilities is discussed in a later section of this MD&A.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

The Statement of Revenues, Expenses, and Changes in Net Position provides information about the System's activities during the year. In the Statement of Revenues, Expenses and Changes in Net Position, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the System's operating results.

Revenues and expenses are categorized as either operating or nonoperating. Operating revenues are revenues earned by the System in exchange for its goods and services, such as tuition and fees, grants and contracts, sales

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

and services of educational departments and auxiliary enterprise revenues. Operating expenses are expenses incurred during the normal operations of the System and include, salaries and wages, operating expenses, depreciation, scholarships and fellowships and cost of sales and services. Nonoperating revenues and expense are those derived from non-exchange transactions. Examples include: insurance proceeds, investment income, gifts, state appropriations, interest on capital asset-related debt and gains or losses on capital assets. Even though state appropriations fund operating expenses, they are classified as nonoperating revenues as the Government Accounting Standards Board has ruled that they are not an exchange for goods or services. Other nonoperating items that are reported separately at the bottom of the statement include capital related transactions – appropriations, gifts, grants and transfers.

The following table shows a Condensed Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2018 and 2017, as restated.

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2018</b>	<b>2017-restated</b>		
Operating revenues	\$ 713,916	\$ 702,983	\$ 10,933	2%
Operating expenses	1,160,803	1,179,972	(19,169)	-2%
Operating loss	\$ (446,886)	\$ (476,989)	\$ 30,103	-6%
Nonoperating revenues, net of expenses	444,689	465,349	(20,660)	-4%
Income before capital grants, gifts, and transfers	\$ (2,197)	\$ (11,640)	9,443	-81%
Capital appropriations, grants and gifts	22,039	78,599	(56,560)	-72%
Increase in net position	\$ 19,842	\$ 66,959	\$ (47,117)	-70%

Operating revenues and expenses fluctuations are discussed in later sections of this MDA analysis.

**Revenues**

The following table shows revenues by source for the fiscal years ended June 30, 2018 and 2017, as restated:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2018</b>	<b>2017 - restated</b>		
<b>Operating revenues</b>				
Student tuition and fees	\$ 334,215	\$ 327,658	\$ 6,557	2%
Grants and contracts	170,158	161,377	8,781	5%
Sales and services of education departments	100,858	103,010	(2,152)	-2%
Auxiliary enterprises	107,349	109,079	(1,730)	-2%
Other	1,336	1,860	(523)	-28%
Total operating revenues	713,916	\$ 702,983	\$ 10,933	2%

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

**Nonoperating revenues, capital gifts and grants**

State appropriations	\$ 363,010	\$ 397,230	\$ (34,220)	-9%
Federal appropriations	7,482	7,302	180	2%
Federal grants and contracts	39,093	35,801	3,292	9%
Local Appropriations	-	984	(984)	-100%
Gifts	38,061	37,026	1,034	3%
Endowment and investment income	10,387	8,860	1,527	17%
Insurance proceeds	527	2,767	(2,241)	-81%
Tax revenues	5,448	5,131	317	6%
Gain on sale of capital assets	48	(3,247)	3,295	-101%
Other nonoperating, net	2,302	1,585	717	45%
State appropriations-capital assets	17,286	46,573	(29,287)	-63%
Capital grants & gifts	4,752	32,026	(27,274)	-85%
<b>Total nonoperating revenues, capital gifts and grants</b>	<b>\$ 488,396</b>	<b>\$ 572,039</b>	<b>\$ (83,642)</b>	<b>-15%</b>
<b>Total Revenues</b>	<b>\$ 1,202,313</b>	<b>\$ 1,275,022</b>	<b>\$ (72,709)</b>	<b>-6%</b>

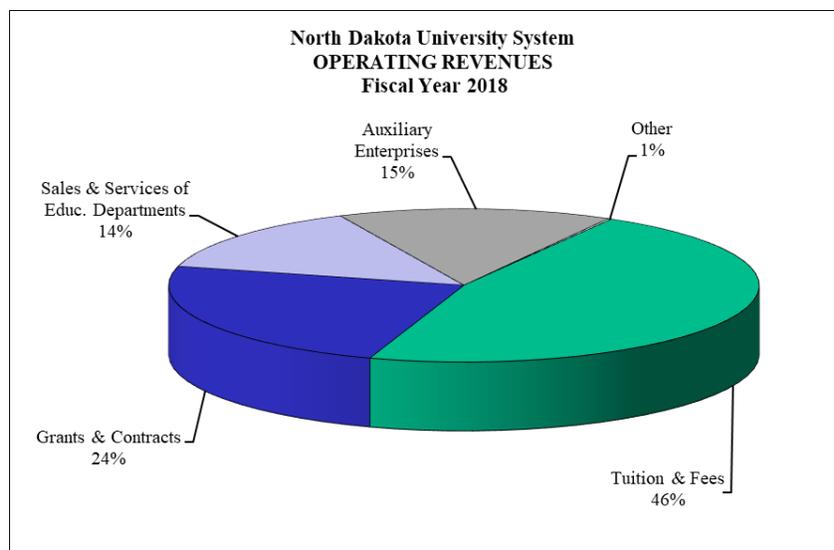
The North Dakota State Legislature determines state appropriations and state appropriations for capital assets. These revenues decreased eleven percent and sixty-three percent, respectively over fiscal year 2017 primarily due to lower prices of agricultural commodities and oil, resulting in a reduction of tax revenues.

Additional information on capital assets and construction in process are included in a later section of this MD&A.

Capital gifts and grants decreased \$27.3 million or 85 percent due to the following:

- NDSU: Fiscal year 2017 included capital gifts for the Sanford Health Athletic Complex.
- UND: The Collaborative Engineering Complex was completed with gift funds in fiscal year 2017.

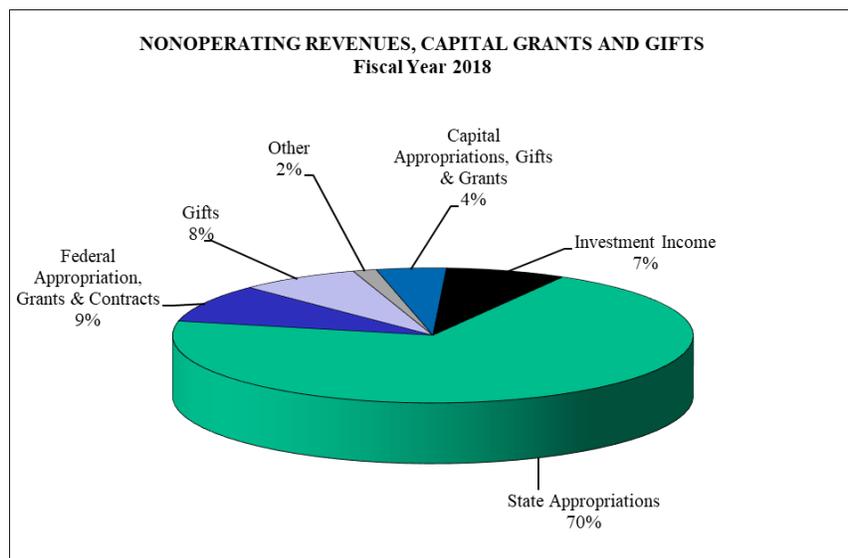
The following graph depicts sources of operating revenues for fiscal year 2018:



There were no significant fluctuations compared to fiscal year 2017.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

The following chart depicts sources of nonoperating revenues, capital grants and gifts for fiscal year 2018:



Capital appropriations, gifts and grants decreased to 4 percent compared to 14 percent in fiscal year 2017. The decrease was addressed in the Revenue section of the MD&A.

**Expenses**

The following table shows expenses by natural classification for the fiscal years ended June 30, 2018 and 2017:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2018</b>	<b>2017 - restated</b>		
<b>Operating expenses</b>				
Salaries and wages	\$ 753,738	\$ 785,955	\$ (32,217)	-4%
Operating expenses	253,278	238,663	14,615	6%
Data processing	16,502	18,042	(1,539)	-9%
Depreciation expense	71,990	69,778	2,212	3%
Scholarships and fellowships	41,281	40,411	871	2%
Cost of sales and services	24,012	27,123	(3,110)	-11%
Total operating expenses	<u>\$ 1,160,803</u>	<u>\$ 1,179,972</u>	<u>\$ (19,169)</u>	<u>-2%</u>
<b>Nonoperating expenses</b>				
Interest on capital asset related debt	\$ 11,370	\$ 11,369	\$ 1	0%
General and special grant expenditures	6,558	14,316	(7,757)	-54%
Transfers to Industrial Commission	3,740	2,406	1,334	55%
Total nonoperating expenses	<u>\$ 21,669</u>	<u>\$ 28,091</u>	<u>\$ (6,422)</u>	<u>-23%</u>
<b>Total expenses</b>	<u>\$ 1,182,471</u>	<u>\$ 1,208,063</u>	<u>\$ (25,591)</u>	<u>-2%</u>

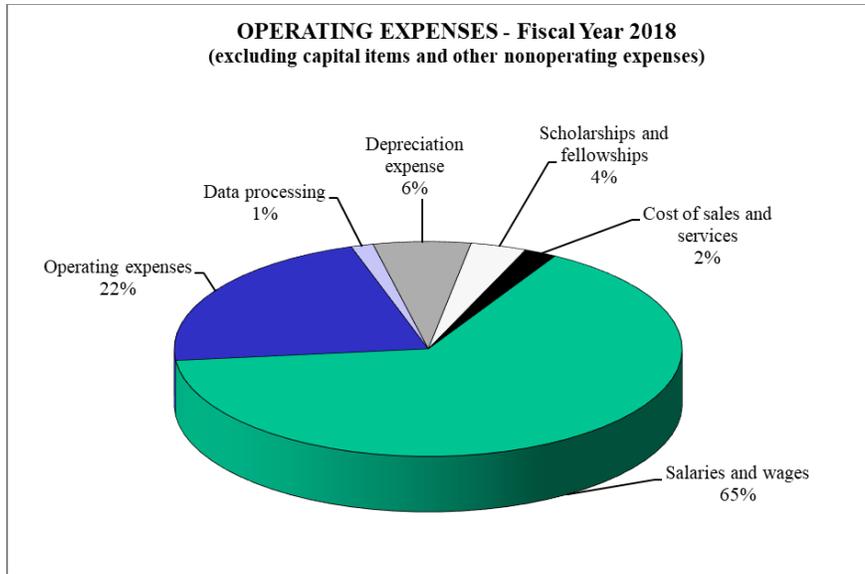
Salaries and wages decreased due to system-wide budget reductions implemented as a result of reduced state appropriations. The reductions were taken in the form of voluntary buyouts, reductions-in-force and not filling vacant positions.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

Operating expenses increase is mainly due to an increase in EPSCOR (Established Program to Stimulate Competitive Research) grants and an increase in EERC subcontract activity at UND as a result of increased federal grants and contracts revenue.

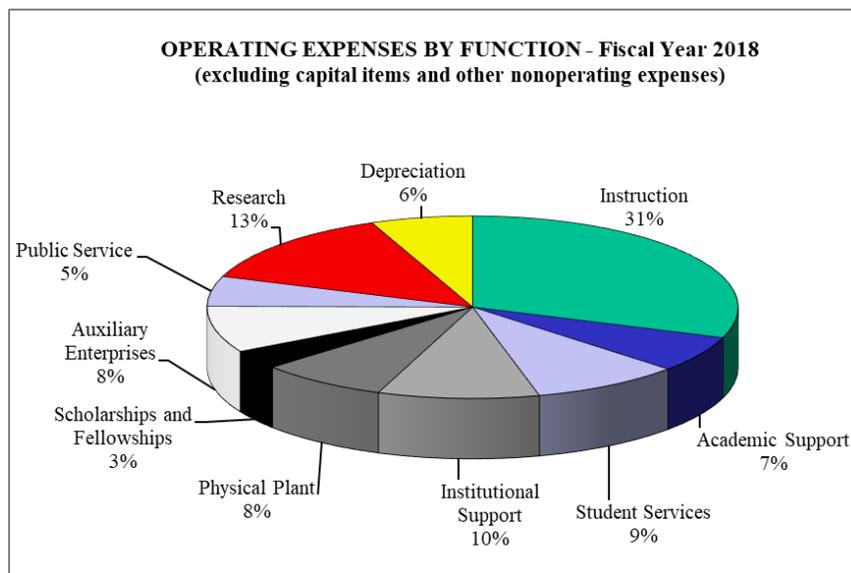
The decrease in scholarship and fellowships expenses is mainly attributed to a decrease in Challenge Grant funds awarded in fiscal year 2018 of \$1.2 million compared to \$8.0 million in fiscal year 2017.

The following chart depicts the uses of operating funds according to natural classification for fiscal year 2018:



The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2017.

The following chart illustrates operating expenses by function for fiscal year 2018:



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2018

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The allocation of expenses to functional areas has not changed significantly from prior year. Instructional expenses, at 31 percent, continue to represent the largest expenditure category. The instructional function includes all expenses related to instruction (e.g. classroom, distance education and continuing education) and instructional support. Academic support includes libraries, academic deans, and other departments that directly support the academic unit of the campuses. Student services include all offices that provide a specific service to students, including career services, registration, admission and counseling. Institutional support includes staff that supports the institution as a whole (e.g. business office, IT support and president's office). The physical plant function includes upkeep, maintenance and utilities for campus facilities. Scholarships and fellowships include aid provided to students. Auxiliary enterprises are the self-supporting activities of the campuses, such as bookstore, food service and housing. Depreciation represents the non-cash expense of capitalized assets over time. Public service includes expenses for activities established primarily to provide non-instructional services that are beneficial to individuals and groups external to the institution. All activities specifically organized to produce research, which is mostly federally funded, is included in the research function.

#### STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows inflows and outflows of cash without regard to accrual items. Cash flows from operating activities on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of noncash items, such as depreciation expense, on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows revenues earned and expenses incurred. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and, scholarships to students.

State appropriations are the primary source of cash flows from noncapital financing activities. Accounting standards require reporting this source of revenue as nonoperating, even though the campus budgets depend on this to continue the current level of operations. Other noncapital financing activity includes gifts received from endowment and charitable gift annuities.

Cash flows from capital and related financing activities include all plant funds and related long-term debt activities (except depreciation and amortization), as well as capital gifts, grants and appropriations. Purchase and sale of investments and income earned on investments are included in cash flows from investing activities.

The Condensed Statement of Cash Flows for the fiscal years ended June 30, 2018 and 2017 is shown below:

	<b>June 30 (in Thousands)</b>	
	<b>2018</b>	<b>2017-restated</b>
Cash flows from operating activities	\$ (371,533)	\$ (403,970)
Cash flows from noncapital financing activities	441,899	466,537
Cash flows from capital and related financing activities	(26,689)	(39,893)
Cash flows from investing activities	(22,988)	(19,344)
Increase in cash and cash equivalents during the year	<u>\$ 20,688</u>	<u>\$ 3,330</u>

Consistent with accounting standards, cash flows from state appropriations (excluding capital assets) are included in noncapital financing activities, even though they provide funding for operating activities. Cash received from state appropriations, excluding capital assets, in fiscal year 2018 was \$361.4 million. If this amount is added to the cash flows from operating activities, the result is a cash out flow of \$10.1 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

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**CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS**

**CAPITAL ASSETS**

On June 30, 2018, the System had \$1.4 billion invested in net capital assets, which represents a net increase of \$11.3 million or 1 percent during the fiscal year.

	<b>June 30 (in thousands)</b>	
	<b>2018</b>	<b>2017</b>
Land	\$ 19,676	\$ 19,676
Land improvements/infrastructure	217,266	211,775
Buildings	1,658,140	1,597,758
Furniture, fixtures, and equipment	347,058	334,652
Library materials	86,170	89,928
Construction in progress	52,509	60,515
Capitalized software	25,055	24,843
Other intangibles	<u>2,132</u>	<u>2,136</u>
Total	<u>\$ 2,408,006</u>	<u>\$ 2,341,283</u>
Total accumulated depreciation and amortization	<u>(1,028,433)</u>	<u>(972,988)</u>
Capital assets, net	<u>\$ 1,379,573</u>	<u>\$ 1,368,295</u>

Total additions to depreciable capital assets in fiscal year 2018 were \$46.8 million. Construction in progress for other projects underway totaled \$52.5 million at June 30, 2018. Some of the major projects and their estimated total project costs over the life of the project include:

DSU

- Wood Hall Renovation and Asbestos Removal - \$1.5 million
- Various safety capital projects - \$4.3 million

NDSCS

- Water and Sewer Replacement - \$13.2 million

NDSU

- Catherine Cater Hall - \$18.7 million
- University Village – Phase 1 - \$8.4 million
- Sudro Hall - \$2.0 million

Outstanding commitments for these and other capital projects as of June 30, 2018 totaled \$54.79 million. More detailed information about the System's capital assets is presented in Note 5 and Note 15 to the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

**LONG-TERM LIABILITIES**

	<b>June 30 (in thousands)</b>	
	<b>2018</b>	<b>2017</b>
Bonds Payable	\$ 271,333	\$ 229,961
Notes Payable	26,237	19,246
Capital Leases	40,058	41,425
Special Assessments	5,288	5,209
Compensated Absences	31,332	31,356
<b>Total Debt</b>	<b>\$ 374,248</b>	<b>\$ 327,197</b>

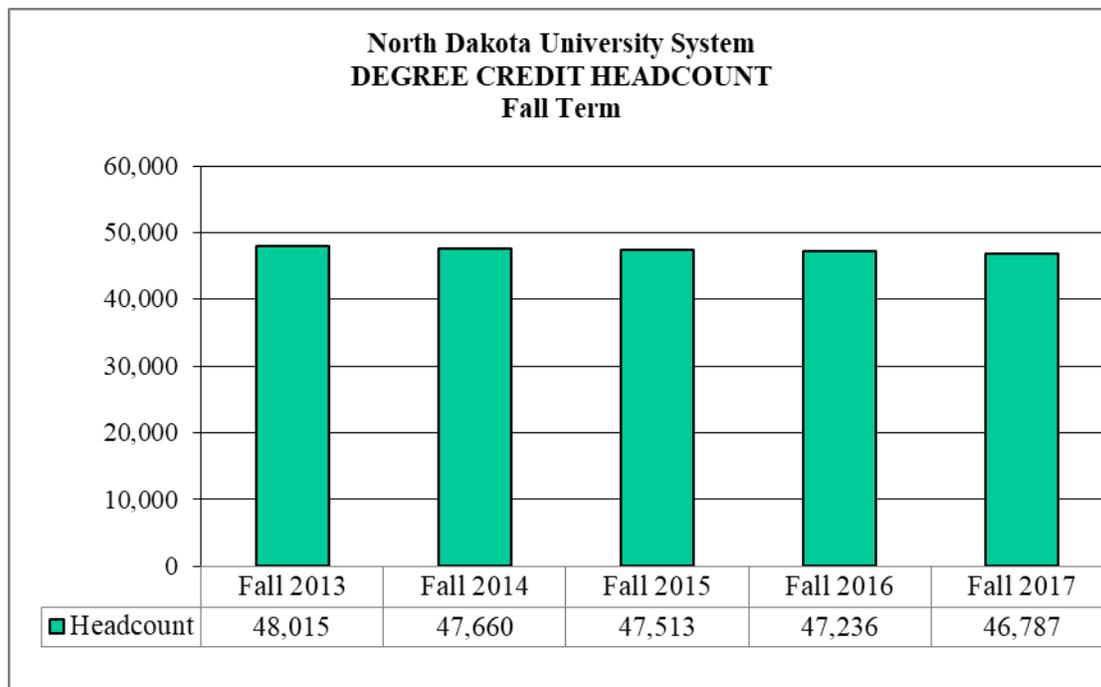
Long-term liabilities added in fiscal year 2018 totaled approximately \$98.3 million, including revenue bonds issued totaling \$77.2 million for new construction and renovation projects, \$8.4 million in new capital leases for capital assets, \$481,000 in new special assessments for campus improvements and \$346,000 in compensated absences liability. Total debt retired in fiscal year 2018 was \$51.6 million, consisting primarily of bond payments of \$35.8 million, notes payable payments of 5.2 million, capital lease payments of \$9.8 million and compensated absences of \$370,000. At June 30, 2018, \$18.2 million of revenue are pledged as security for outstanding revenue bonds.

The increase in fiscal year 2018 is the result of two bonds issued by NDSU totaling \$74.5 million, partially offset by retirements and payments of \$27.7 million.

**OTHER HIGHLIGHTS**

**STUDENT ENROLLMENTS**

As illustrated in the chart below, Annual Degree Credit Headcount enrollment for fall 2017 decreased by 449 compared to fall 2016 and by 1,228 compared to fall 2013.



*Source: 2017 Fall Enrollment Report: Table 6-Degree Credit Headcount Enrollment by Instructional Mode*

*Additional detailed enrollment data is contained in the 2017 Fall Enrollment Report at <http://www.ndus.edu/information/>.*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2018**

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**STATE FUNDING**

The 2017 Legislative Assembly approved a state general fund appropriation for all entities of the North Dakota University System of \$723.6 Million for the 2017-19 biennium. This is a decrease of \$276.4 million below the 2015-17 original appropriation. Of the total decreases, \$128.9 million was base funding, \$66.3 million of this reduction occurred during the 2016 Special Legislative Session; \$46.1 million was one-time items and the remaining \$101.4 million was one-time funding for major capital projects.

**FINANCIAL CONTACT** The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate accountability. If you have questions about the report or need additional financial information, contact the System's Director of Financial Reporting at [robin.putnam@ndus.edu](mailto:robin.putnam@ndus.edu) or State Capitol - 10<sup>th</sup> Floor, 600 E. Boulevard, Bismarck, ND 58505-0230.

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**STATEMENT OF NET POSITION**

	<b>Primary Institutions</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 202,094,188
Investments	134,646,690
Accounts receivable, net	22,364,531
Due from component units - investments held on behalf of the institutions	363,584
Due from component units	4,056,927
Due from Student Loan Transfer Fund	8,449,000
Due from State general fund	10,449,360
Grants and contracts receivables, net	36,133,853
Inventories	6,898,632
Notes receivable, net	8,121,888
Other assets	<u>2,627,102</u>
Total current assets	<u>\$ 436,205,755</u>
Noncurrent assets	
Restricted cash and cash equivalents	\$ 6,342,242
Restricted investments	34,231,854
Endowment investments	548,156
Notes receivable, net	24,389,878
Other long-term investments	85,721,757
Due from component units - investments held on behalf of the institutions	28,018,507
Other noncurrent assets	390,197
Capital assets, net	<u>1,379,572,373</u>
Total noncurrent assets	<u>\$ 1,559,214,964</u>
Total assets	<u>\$ 1,995,420,719</u>
Deferred outflows of resources	\$ 81,268,167
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	\$ 25,163,111
Due to component units	542,368
Accrued payroll	37,363,452
Unearned revenue	20,637,588
Deposits	6,905,628
Long-term liabilities - current portion	
Due to component units	3,269,879
Due to others	<u>16,043,613</u>
Total current liabilities	<u>\$ 109,925,639</u>
Noncurrent liabilities	
Pension liability	\$ 157,065,812
OPEB liability	7,365,193
Other noncurrent liabilities	503,616
Long-term liabilities	
Due to component units	36,070,517
Due to others	<u>318,864,025</u>
Total noncurrent liabilities	<u>\$ 519,869,163</u>
Total liabilities	<u>\$ 629,794,802</u>
Deferred inflows of resources	\$ 13,209,497
<b>NET POSITION</b>	
Net investment in capital assets	\$ 1,067,650,115
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	18,545,390
Expendable:	
Scholarships and fellowships	4,824,038
Research	6,630,184
Institutional	16,017,698
Loans	45,479,178
Capital projects	767,906
Debt service	11,028,888
Other	529,255
Unrestricted	<u>262,211,935</u>
Total net position	<u>\$ 1,433,684,587</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**STATEMENT OF FINANCIAL POSITION**

<b>FASB Basis</b>	<b>Component Units</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 46,961,950
Investments	41,642,259
Accounts receivable, net	7,806,964
Notes receivable	3,690,000
Receivable from primary institution	4,746,546
Unconditional promises to give, net of allowance	15,323,617
Inventories	1,038,904
Current portion of net investment in direct financing leases	1,114,286
Other assets	1,173,098
Total current assets	<u>\$ 123,497,624</u>
Noncurrent assets	
Restricted cash and cash equivalents	\$ 2,525,359
Contributions receivable	506,270
Investments	
Investments, net of current portion	524,601,486
Investments, restricted	5,941,824
Investments held in trust	37,704,758
Beneficial interest in trust	16,663,452
Charitable gift annuity investments	6,321,673
Charitable remainder trust account investments	19,073,715
Real estate and equipment held for investment, net of accumulated depreciation	19,014,417
Other long-term investments	15,209,301
Total investments	<u>\$ 644,530,626</u>
Contracts for deed and notes receivable, net of current portions	\$ 838,276
Long term pledges receivable/ unconditional promises to give	49,773,412
Other receivables	46,851
Due from primary institution-capital leases	36,081,276
Notes receivable, net	2,800,000
Net investment in direct financing leases, net of current portion	13,715,921
Other noncurrent assets	2,080,233
Capital assets, net	155,837,953
Total noncurrent assets	<u>\$ 908,736,177</u>
Total assets	<u>\$ 1,032,233,801</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	\$ 3,070,334
Payable to Institutions	5,415,697
Accrued payroll	973,944
Current portion of gift annuities and life income agreements	2,926,900
Deferred revenue in excess of cash on hand	414,502
Deferred revenue	11,600,920
Deposits held in custody for others	493,764
Other current liabilities	841,250
Long-term liabilities--current portion	9,194,227
Total current liabilities	<u>\$ 34,931,538</u>
Noncurrent liabilities	
Deposits	\$ 3,480,439
Investments held on behalf of Institutions	27,080,788
Gift annuities and life income agreements, net of current portion	20,327,296
Obligations under split-interest agreement	6,764,722
Other noncurrent liabilities	385,896
Long-term liabilities	71,337,147
Total noncurrent liabilities	<u>\$ 129,376,288</u>
Total liabilities	<u>\$ 164,307,826</u>
<b>NET ASSETS</b>	
Temporarily restricted	\$ 146,065,798
Permanently restricted	494,301,297
Net investment in property and equipment	59,800,109
Unrestricted	167,758,771
Total net assets	<u>\$ 867,925,975</u>
Total liabilities and net assets	<u>\$ 1,032,233,801</u>

# NORTH DAKOTA UNIVERSITY SYSTEM

## Financial Statements

JUNE 30, 2018

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<b>Primary Institution</b>
<b>OPERATING REVENUES</b>	
Student tuition and fees (net of scholarship allowances of \$62.5 million and bad debt allowance of \$857,000)	\$ 334,214,979
Federal grants and contracts (net of bad debt allowance of \$62,000)	119,186,982
State grants and contracts	21,766,811
Nongovernmental grants and contracts	29,204,056
Sales and services of educational departments (net of bad debt allowance of \$595,000)	100,858,104
Auxiliary enterprises (net of scholarship allowances of \$1.0 million and bad debt allowance of \$178,000)	107,348,875
Other (net of bad debt allowance of \$246,000)	1,336,418
Total operating revenues	<u>\$ 713,916,225</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	\$ 753,737,920
Operating expenses	253,278,482
Data processing	16,502,145
Depreciation expense	71,990,406
Scholarships and fellowships	41,281,405
Cost of sales and services	24,012,353
Total operating expenses	<u>\$ 1,160,802,711</u>
Operating income (loss)	<u>\$ (446,886,486)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State appropriations	\$ 363,010,470
Federal appropriations	7,482,072
Federal grants and contracts	39,092,821
Gifts	38,060,630
Endowment and investment income	10,386,872
Interest on capital asset - related debt	(11,370,164)
Gain (loss) on disposal of capital assets	48,300
Insurance proceeds	526,606
Tax revenues	5,448,276
General and special grant expenditures	(6,558,499)
Transfers to North Dakota Industrial Commission	(3,740,001)
Other nonoperating revenues (expenses) (net of bad debt allowance of \$79,000)	2,302,059
Net nonoperating revenues (expenses)	<u>\$ 444,689,442</u>
Income (loss) before capital grants, gifts, and transfers	\$ (2,197,044)
State appropriations - capital assets	\$ 17,286,339
Capital grants and gifts	4,752,355
Total other revenue	<u>\$ 22,038,694</u>
Increase (decrease) in net position	<u>\$ 19,841,650</u>
<b>NET POSITION</b>	
Net position - beginning of year, as restated	\$ 1,413,842,937
Net position - end of year	<u>\$ 1,433,684,587</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**STATEMENT OF ACTIVITIES**

<b>FASB BASIS</b>	<b>Component Units</b>
<b>Support and Revenue</b>	
Gift and contributions	\$ 74,794,104
Investment income	28,941,152
Net realized and unrealized gains (losses) on investment securities	21,948,348
Program and event income	53,003,671
Other income	10,875,453
Total support and revenue	<u>\$ 189,562,728</u>
<b>Expenses</b>	
Program services	\$ 31,251,427
Supporting services	67,583,216
Fundraising expense	4,033,251
Total operating expenses	<u>\$ 102,867,894</u>
Change in Net Assets	\$ 86,694,834
Net Assets, Beginning of Year, as restated	<u>\$ 781,231,141</u>
Net Assets, End of Year	<u><u>\$ 867,925,975</u></u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**STATEMENT OF CASH FLOWS**

	<b>Primary Institution</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student tuition and fees	\$ 335,239,824
Grants and contracts	168,736,987
Payments to suppliers	(297,375,368)
Payments to employees	(746,659,360)
Payments for scholarships and fellowships	(41,281,409)
Loans issued to students	(5,151,742)
Collection of loans to students	6,060,971
Auxiliary enterprise charges	107,793,982
Sales and service of educational departments	97,583,529
Cash received/(paid) on deposits	228,729
Other receipts (payments)	3,291,085
Net cash used by operating activities	<u>\$ (371,532,772)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	\$ 361,431,642
Federal appropriations	7,482,072
Grants and gifts received for other than capital purposes	77,065,119
Grants given for other than capital purposes	(6,558,499)
Direct lending receipts	195,598,769
Direct lending disbursements	(195,412,272)
Agency fund cash increase/(decrease)	584,222
Transfers to Industrial Commission	(3,740,002)
Tax revenues	5,448,270
Net cash flows provided by noncapital financing activities	<u>\$ 441,899,321</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from issuance of debt	\$ 85,656,494
Capital appropriations	21,522,787
Capital grants and gifts received	4,560,071
Proceeds from sale of capital assets	1,392,095
Purchases of capital assets	(83,944,653)
Insurance proceeds	439,210
Principal paid on capital debt and lease	(17,814,513)
Deposits with capital debt payment trustees	(26,258,648)
Interest paid on capital debt and lease	(12,241,611)
Net cash used by capital and related financing activities	<u>\$ (26,688,768)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	\$ 89,935,409
Interest on investments	9,028,777
Purchase of investments	(121,952,656)
Net cash provided by investing activities	<u>\$ (22,988,470)</u>
Net increase (decrease) in cash	\$ 20,689,311
CASH - BEGINNING OF YEAR, as restated	<u>187,747,120</u>
CASH - END OF YEAR	<u>\$ 208,436,431</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (446,886,486)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation expense	71,990,406
Other nonoperating revenues (expenses)	1,594,379
Change in assets, deferred outflows, liabilities and deferred inflows	
Accounts receivable adjusted for interest receivable	582,516
Grant & contract receivables	(1,486,591)
Inventories	1,173,721
Notes receivable	1,272,460
Other assets	360,279
Accounts payable and accrued liabilities adjusted for interest payable	(7,916,090)
Pension liability	56,316,613
OPEB liability	1,183,083
Net change in deferred outflows	(44,161,100)
Net change in deferred inflows	1,164,297
Accrued payroll	(7,334,881)
Compensated absences	(23,726)
Unearned revenue	409,613
Deposits	228,730
Net cash provided (used) by operating activities	<u>\$ (371,532,777)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>	
Assets acquired through capital lease	\$ 4,991,619
Assets acquired through special assessment	52,350
Expenses paid by capital lease/special assessments	469,452
Gifts of capital assets	242,350
Net increase (decrease) in value of investments	<u>1,613,032</u>
Total non-cash transactions	<u>\$ 7,368,803</u>

**STATEMENT OF FINANCIAL POSITION- MAJOR COMPONENT UNITS**

FASB BASIS	BSC Foundation		NDSU Research & Technology Park	UND Aerospace Foundation	UND Alumni Association & UND Foundation
	June 30, 2018	December 31, 2017	June 30, 2018	June 30, 2018	June 30, 2018
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 1,003,126	\$ 5,956,232	\$ 2,414,705	\$ 10,843,480	\$ 11,775,379
Investments	-	20,370,915	-	-	-
Accounts receivable, net	48,417	856,356	211,041	7,060,184	-
Notes Rrceivable	-	-	3,690,000	-	-
Receivable from primary institution	147,290	-	-	-	-
Unconditional promises to give, net of allowance	1,123,271	9,677,658	2,500	-	3,799,472
Inventories	-	-	-	299,545	-
Current portion of net investment in direct financing leases	-	-	1,114,286	-	-
Other assets	36,337	157,161	2,600	364,170	941,847
Total current assets	\$ 2,358,441	\$ 37,018,322	\$ 7,435,132	\$ 18,567,379	\$ 16,516,698
Noncurrent assets					
Restricted cash and cash equivalents	\$ -	\$ 2,509,284	\$ -	\$ -	\$ -
Contributions receivable	506,270	-	-	-	-
Investments:					
Investments, net of current portion	14,239,686	218,020,102	-	-	254,455,271
Investments, restricted	-	-	-	-	-
Investments held in trust	6,650,772	-	-	-	27,320,513
Beneficial interest in trust	1,609,535	-	-	-	15,053,917
Charitable gift annuity investments	-	-	-	-	6,321,673
Charitable remainder trust account investments	-	-	-	-	19,073,715
net of accumulated depreciation	182,492	32,788,693	-	-	-
Other long-term investments	65,754	-	-	-	13,770,066
Total investments	\$ 22,748,239	\$ 250,808,795	\$ -	\$ -	\$ 335,995,155
Contracts for deed and notes receivable, net of current portions	\$ -	\$ 838,276	\$ -	\$ -	\$ -
Long term pledges					
receivable/unconditional promises to give	610,082	27,595,679	-	-	19,309,829
Other receivables	-	-	-	-	5,865,434
Receivable from primary institution	1,068,892	-	-	-	-
Notes receivable, net	-	-	2,800,000	-	-
Net investment in direct financing leases, net of current portion	-	-	13,715,921	-	-
Other noncurrent assets	92,173	1,072,299	312,457	243,889	-
Capital assets, net	21,602,557	3,313,767	6,126,353	54,295,808	11,527,625
Total noncurrent assets	\$ 46,628,213	\$ 286,138,100	\$ 22,954,731	\$ 54,539,697	\$ 372,698,043
Total assets	\$ 48,986,654	\$ 323,156,422	\$ 30,389,863	\$ 73,107,076	\$ 389,214,741
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued liabilities	\$ 227,736	\$ 781,873	\$ 209,312	\$ 547,793	\$ 204,258
Payable to primary institution	-	-	-	2,667,275	-
Accrued payroll	-	-	26,302	587,198	358,914
Current portion of gift annuities and life income agreements	374,304	794,406	-	-	1,719,819
Deferred revenue in excess of cash on hand	-	-	-	-	-
Deferred revenue	-	83,915	-	3,486,560	1,688,359
Deposits held in custody for others	-	-	-	-	-
Other current liabilities	69,900	388,670	100,000	21,600	-
Long-term liabilities-current portion	600,798	1,027,651	5,037,311	576,166	1,034,285
Total current liabilities	\$ 1,272,738	\$ 3,076,515	\$ 5,372,925	\$ 7,886,592	\$ 5,005,635
Noncurrent liabilities					
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 3,480,439
Investments held on behalf of institutions	-	-	-	-	23,841,079
Gift annuities and life income agreements, net of current portion	3,453,416	-	-	-	16,381,958
Obligations under split-interest agreement membership units	-	6,764,722	-	-	-
Other noncurrent liabilities	249,096	-	-	136,800	-
Long-term liabilities	9,828,821	24,920,249	17,940,186	2,514,008	6,242,779
Total noncurrent liabilities	\$ 13,531,333	\$ 31,684,971	\$ 17,940,186	\$ 2,650,808	\$ 49,946,255
Total liabilities	\$ 14,804,071	\$ 34,761,486	\$ 23,313,111	\$ 10,537,400	\$ 54,951,890
<b>NET ASSETS</b>					
Temporarily restricted	\$ 1,772,491	\$ 73,904,339	\$ 2,500	\$ 375,000	\$ 49,612,948
Permanently restricted:	22,548,145	181,371,992	-	-	243,886,427
Net investment in property and equipment	-	-	-	-	-
Unrestricted	9,861,947	33,118,605	7,074,252	62,194,676	40,763,476
Total net assets	\$ 34,182,583	\$ 288,394,936	\$ 7,076,752	\$ 62,569,676	\$ 334,262,851
Total liabilities and net assets	\$ 48,986,654	\$ 323,156,422	\$ 30,389,863	\$ 73,107,076	\$ 389,214,741

**STATEMENT OF FINANCIAL POSITION - MAJOR COMPONENT UNITS - Continued**

FASB BASIS	RE Arena, Inc UND Arena Services, Inc. UND Sports	Facilities, Inc. Arena Holdings Charitable LLC & Affiliates			Total Major Component Units	Non-major Component Units	Reclassifications	Total Component Units
	May 31, 2018							
<b>ASSETS</b>								
Current assets								
Cash and cash equivalents	\$ 6,087,086	\$ 38,080,008	\$ 8,881,942	\$ -	\$ -	\$ 46,961,950		
Investments	4,829,007	25,199,922	16,442,337	-	-	41,642,259		
Accounts receivable, net	636,710	8,812,708	468,036	(1,473,780)	-	7,806,964		
Notes receivable	-	3,690,000	-	-	-	3,690,000		
Receivable from primary institution	-	147,290	110,181	4,489,075	-	4,746,546		
Unconditional promises to give, net of allowance	-	14,602,901	720,716	-	-	15,323,617		
Inventories	739,359	1,038,904	-	-	-	1,038,904		
Current portion of net investment in direct financing leases	-	1,114,286	-	-	-	1,114,286		
Other assets	265,717	1,767,832	67,740	(662,474)	-	1,173,098		
Total current assets	<u>\$ 12,557,879</u>	<u>\$ 94,453,851</u>	<u>\$ 26,690,952</u>	<u>\$ 2,352,821</u>	<u>\$ -</u>	<u>\$ 123,497,624</u>		
Noncurrent assets								
Restricted cash and cash equivalents	\$ 16,075	\$ 2,525,359	\$ -	\$ -	\$ -	\$ 2,525,359		
Contributions receivable	-	506,270	-	-	-	506,270		
Investments:								
Investments, net of current portion	-	486,715,059	37,886,427	-	-	524,601,486		
Investments, restricted	5,941,824	5,941,824	-	-	-	5,941,824		
Investments held in trust	-	33,971,285	3,733,473	-	-	37,704,758		
Beneficial interest in trust	-	16,663,452	-	-	-	16,663,452		
Charitable gift annuity investments	-	6,321,673	-	-	-	6,321,673		
Charitable remainder trust account investments	-	19,073,715	-	-	-	19,073,715		
net of accumulated depreciation	-	32,971,185	-	(13,956,768)	-	19,014,417		
Other long-term investments	-	13,835,820	1,373,481	-	-	15,209,301		
Total investments	<u>\$ 5,941,824</u>	<u>\$ 615,494,013</u>	<u>\$ 42,993,381</u>	<u>\$ (13,956,768)</u>	<u>\$ -</u>	<u>\$ 644,530,626</u>		
Contracts for deed and notes receivable, net of current portions	\$ -	\$ 838,276	\$ -	\$ -	\$ -	\$ 838,276		
Long term pledges								
receivable/unconditional promises to give	-	47,515,590	2,257,822	-	-	49,773,412		
Other receivables	-	5,865,434	-	(5,818,583)	-	46,851		
Receivable from primary institution	-	1,068,892	244,269	34,768,115	-	36,081,276		
Notes receivable, net	-	2,800,000	-	-	-	2,800,000		
Net investment in direct financing leases, net of current portion	-	13,715,921	-	-	-	13,715,921		
Other noncurrent assets	-	1,720,818	359,415	-	-	2,080,233		
Capital assets, net	59,800,109	156,666,219	16,517,319	(17,345,585)	-	155,837,953		
Total noncurrent assets	<u>\$ 65,758,008</u>	<u>\$ 848,716,792</u>	<u>\$ 62,372,206</u>	<u>\$ (2,352,821)</u>	<u>\$ -</u>	<u>\$ 908,736,177</u>		
Total assets	<u>\$ 78,315,887</u>	<u>\$ 943,170,643</u>	<u>\$ 89,063,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,032,233,801</u>		
<b>LIABILITIES</b>								
Current liabilities								
Accounts payable and accrued liabilities	\$ 1,302,970	\$ 3,273,942	\$ 115,595	\$ (319,203)	\$ -	\$ 3,070,334		
Payable to primary institution	1,984,023	4,651,298	445,196	319,203	-	5,415,697		
Accrued payroll	-	972,414	1,530	-	-	973,944		
Current portion of gift annuities and life income agreements	-	2,888,529	38,371	-	-	2,926,900		
Deferred revenue in excess of cash on hand	414,502	414,502	-	-	-	414,502		
Deferred revenue	6,087,086	11,345,920	255,000	-	-	11,600,920		
Deposits held in custody for others	-	-	493,764	-	-	493,764		
Other current liabilities	237,304	817,474	23,776	-	-	841,250		
Long-term liabilities-current portion	578,278	8,854,489	339,738	-	-	9,194,227		
Total current liabilities	<u>\$ 10,604,163</u>	<u>\$ 33,218,568</u>	<u>\$ 1,712,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,931,538</u>		
Noncurrent liabilities								
Deposits	\$ -	\$ 3,480,439	\$ -	\$ -	\$ -	\$ 3,480,439		
Investments held on behalf of institutions	-	23,841,079	3,239,709	-	-	27,080,788		
Gift annuities and life income agreements, net of current portion	-	19,835,374	491,922	-	-	20,327,296		
Obligations under split-interest agreement membership units	-	6,764,722	-	-	-	6,764,722		
Other noncurrent liabilities	-	385,896	-	-	-	385,896		
Long-term liabilities	288,881	61,734,924	9,602,223	-	-	71,337,147		
Total noncurrent liabilities	<u>\$ 288,881</u>	<u>\$ 116,042,434</u>	<u>\$ 13,333,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,376,288</u>		
Total liabilities	<u>\$ 10,893,044</u>	<u>\$ 149,261,002</u>	<u>\$ 15,046,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,307,826</u>		
<b>NET ASSETS</b>								
Temporarily restricted	\$ -	\$ 125,667,278	\$ 20,398,520	\$ -	\$ -	\$ 146,065,798		
Permanently restricted:	-	447,806,564	46,494,733	-	-	494,301,297		
Net investment in property and equipment	59,800,109	59,800,109	-	-	-	59,800,109		
Unrestricted	7,622,734	160,635,690	7,123,081	-	-	167,758,771		
Total net assets	<u>\$ 67,422,843</u>	<u>\$ 793,909,641</u>	<u>\$ 74,016,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 867,925,975</u>		
Total liabilities and net assets	<u>\$ 78,315,887</u>	<u>\$ 943,170,643</u>	<u>\$ 89,063,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,032,233,801</u>		

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**STATEMENT OF ACTIVITIES, Major Component Units**

**FASB BASIS**

	<b>BSC</b>		<b>NDSU</b>		<b>UND</b>		<b>UND Alumni</b>
	<b>Foundation</b>	<b>NDSU Foundation</b>	<b>Research &amp; Technology Park</b>	<b>Foundation</b>	<b>Aerospace Foundation</b>	<b>Foundation</b>	<b>Association &amp; UND Foundation</b>
	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2018</b>	<b>June 30, 2018</b>	<b>June 30, 2018</b>	<b>June 30, 2018</b>
<b>Support and revenue</b>							
Gifts and contributions	\$ 2,063,128	\$ 46,645,770	\$ 274,165	\$ 365,890	\$ 19,322,912		
Investment income	704,793	10,564,874	740,232	64,061	14,950,725		
Net realized and unrealized gains (losses) on investment securities	790,437	19,791,620	-	-	-		
Program and event income	31,195	-	82,000	32,437,074	7,552,045		
Other income	1,143,466	1,049,030	890,545	1,201,342	-		
<b>Total support and revenue</b>	<b>\$ 4,733,019</b>	<b>\$ 78,051,294</b>	<b>\$ 1,986,942</b>	<b>\$ 34,068,367</b>	<b>\$ 41,825,682</b>		
<b>Expenses</b>							
Program services	\$ 1,006,292	\$ 8,383,667	\$ 1,073,275	\$ -	\$ 15,771,365		
Supporting services	1,380,044	10,251,665	763,816	31,921,196	2,526,789		
Fundraising expense	54,813	-	-	820,641	3,082,563		
<b>Total expenses</b>	<b>\$ 2,441,149</b>	<b>\$ 18,635,332</b>	<b>\$ 1,837,091</b>	<b>\$ 32,741,837</b>	<b>\$ 21,380,717</b>		
<b>Change in Net Assets</b>	<b>\$ 2,291,870</b>	<b>\$ 59,415,962</b>	<b>\$ 149,851</b>	<b>\$ 1,326,530</b>	<b>\$ 20,444,965</b>		
<b>Net Assets, Beginning of Year, as Restated</b>	<b>\$ 31,890,713</b>	<b>\$ 228,978,974</b>	<b>\$ 6,926,901</b>	<b>\$ 61,243,146</b>	<b>\$ 313,817,886</b>		
<b>Net Assets, End of Year</b>	<b>\$ 34,182,583</b>	<b>\$ 288,394,936</b>	<b>\$ 7,076,752</b>	<b>\$ 62,569,676</b>	<b>\$ 334,262,851</b>		

**STATEMENT OF ACTIVITIES, Major Component Units - Continued**

	RE Arena, Inc UND Arena Services, Inc. UND Sports Facilities, Inc. Arena Holdings Charitable LLC & Affiliates May 31, 2018	Total Major Component Units	Non-Major Component Units	Total Component Units
<b>Support and revenue</b>				
Gifts and contributions	\$ -	\$ 68,671,865	\$ 6,122,239	\$ 74,794,104
Investment income	-	27,024,685	1,916,467	28,941,152
Net realized and unrealized gains (losses) on investment securities	-	20,582,057	1,366,291	21,948,348
Program and event income	8,923,122	49,025,436	3,978,235	53,003,671
Other income	1,731,607	6,015,990	4,859,463	10,875,453
<b>Total support and revenue</b>	<b>\$ 10,654,729</b>	<b>\$ 171,320,033</b>	<b>\$ 18,242,695</b>	<b>\$ 189,562,728</b>
<b>Expenses</b>				
Program services	\$ 1,568,211	\$ 27,802,810	\$ 3,448,617	\$ 31,251,427
Supporting services	11,022,795	57,866,305	9,716,911	67,583,216
Fundraising expense	-	3,958,017	75,234	4,033,251
<b>Total expenses</b>	<b>\$ 12,591,006</b>	<b>\$ 89,627,132</b>	<b>\$ 13,240,762</b>	<b>\$ 102,867,894</b>
<b>Change in Net Assets</b>	<b>\$ (1,936,277)</b>	<b>\$ 81,692,901</b>	<b>\$ 5,001,933</b>	<b>\$ 86,694,834</b>
<b>Net Assets, Beginning of Year, as Restated</b>	<b>\$ 69,359,120</b>	<b>\$ 712,216,740</b>	<b>\$ 69,014,401</b>	<b>\$ 781,231,141</b>
<b>Net Assets, End of Year</b>	<b>\$ 67,422,843</b>	<b>\$ 793,909,641</b>	<b>\$ 74,016,334</b>	<b>\$ 867,925,975</b>

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY**

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

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

**North Dakota University System Entities (Primary Institution)**

North Dakota University System Office (NDUSO)

Bismarck State College (BSC)

Dakota College of Bottineau (DCB)

Dickinson State University (DSU)

Lake Region State College (LRSC)

Mayville State University (MaSU)

Minot State University (MiSU)

North Dakota State College of Science (NDSCS)

North Dakota State University (NDSU)

Agricultural Experiment Stations:

North Dakota State University Main Research Center

Dickinson Research Extension Center

Central Grasslands Research Extension Center

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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Hettinger Research Extension Center  
Langdon Research Extension Center  
North Central Research Extension Center  
Williston Research Extension Center  
Carrington Research Extension Center  
Agronomy Seed Farm  
Northern Crops Institute  
Upper Great Plains Transportation Institute  
North Dakota State University Cooperative Extension Service  
North Dakota Forest Service  
University of North Dakota (UND)  
School of Medicine and Health Sciences  
Valley City State University (VCSU)  
Williston State College (WSC)

**Component Units**

The process of evaluating potential component units involved the application of criteria set forth in Governmental Accounting Standards Board 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. Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations Are Component Units, modifies and clarifies previously 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 organizations relationship and the extent of financial integration with the primary institution are now considered when determining potential component units. Governmental Accounting Standards Board 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 entry. GASB Statement No. 61 requires a financial benefit or burden relationship in addition to a fiscal dependency.

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

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

### **Blended Component Units**

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

**North Dakota University System Foundation** is considered a blended component unit. Although it is a legally separate, non-profit 501(c)(3) organization, NDUS Foundation is reported as if it were part of the primary institution because its sole purpose is to support the NDUS. Some members of the SBHE serve on the Board of Trustees for the foundation. Complete financial statements may be obtained at the entity's administrative office at 600 E. Boulevard Ave. Dept. 215, Bismarck, ND 58505.

### **Discretely Presented Component Units**

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to the University System, exclusion would render the financial statements incomplete or misleading. Although the primary institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon that the entities hold and invest are restricted by the donors to the activities of the primary institution or its constituents. Therefore, these entities are discretely presented in the accompanying financial statements using Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Component units that are significant relative to the other component units and to the primary institution are considered "major" component units and are displayed in separate columns in the component unit section of the accompanying financial statements and are included in Note 17 under Major Component Units. Component units that are not significant relative to the other component units and to the primary institution are considered "non-major" component units and are displayed in a combined column in the component unit section of the accompanying financial statements.

### **Major Component Units**

The **Bismarck State College Foundation** is a legally separate, tax-exempt organization providing support and recognition to BSC through a variety of programs. The foundation acts primarily as a fundraising organization to supplement the resources that are available to the college. The foundation is managed by a 75-member board of directors comprised of leading citizens, both alumni and friends of the college as well as seven ex-officio members that are officers/employees of BSC. Complete financial statements for Bismarck State College Foundation may be obtained at the entity's administrative offices at 1255 Schafer Street, PO Box 5587, Bismarck, ND 58506-5587.

**NDSU Foundation** is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. The foundation builds enduring relationships that maximize advocacy and philanthropy to support North Dakota State University. The foundation raises, manages, and disburses contributions for the benefit of NDSU. The foundation engages in development and outreach activities on behalf of North Dakota State University. The foundation is governed by an Executive Governing Board comprised of 11 voting members as well as two ex-officio members – the president of NDSU and the President/CEO of the foundation.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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Effective January 1, 2016, the foundation changed its name from NDSU Development Foundation to NDSU Foundation and Alumni Association. On January 1, 2018, the foundation changed its name to the NDSU Foundation. The foundation's fiscal year-end is December 31<sup>st</sup>. Foundation financial statements and footnote disclosures are presented as of December 31, 2017. Complete financial statements for NDSU Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102.

**NDSU Research & Technology Park, Inc.**, is a nonprofit organization established in 1999 to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff and students and the citizens of North Dakota. The majority of the Park's board of directors (7 of 10) works in private industry. Vacancies are filled by a majority vote of the Board, however, two of the three University Directors must approve an outside Director. Officers of NDSU fill the remaining three positions. The President of NDSU serves as president of the board of directors and has control over final building plans for any new building at the Park. Complete financial statements for NDSU Research & Technology Park, Inc. may be obtained at the entity's administrative office at 1854 NDSU Research Circle North, Fargo, ND 58102.

**UND Aerospace Foundation** is a nonprofit entity organized in 1985 to encourage and develop the University of North Dakota's John D. Odegard School of Aerospace Sciences. The UND Aerospace Foundation and subsidiary is a North Dakota not-for-profit entity organized to encourage and develop the University of North Dakota's (UND) John D. Odegard School of Aerospace Sciences. The Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation's principal activities are located in Grand Forks, North Dakota, with additional flight training centers located in Phoenix, Arizona and Crookston, Minnesota.

The Foundation is governed by a board of directors consisting of three to nine voting members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board. Non-voting members/representatives on the board include a senior manager of the foundation elected by the board, the dean of the Odegard School of Aerospace Sciences and the president of the University. The Foundation benefits the University, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. Complete financial statements for the UND Aerospace Foundation may be obtained at the entity's administrative office at 4275 University Ave Box 9023, Grand Forks, ND 58202-9023.

**The UND Alumni Association and Foundation** is a nonprofit organization exclusively for the benefit of the University of North Dakota and whose mission is to support the University of North Dakota students, faculty, alumni and the greater community by providing resources for growth and development. The University of North Dakota Alumni Association merged with the UND Foundation September 15, 2014 to integrate the operations, leadership and strategic growth of the two organizations as they support UND.

The UND Alumni Association & Foundation fosters connections, inspires generosity, and advances the University of North Dakota. The organization receives, holds and manages contributions from alumni and private sources and engages in development and engagement activities on behalf of the University of North Dakota. The Foundation is supported primarily through donor contributions and earnings on investments.

The UND Alumni Association & Foundation is governed by a board of directors. The board of directors consists of twenty-two voting members, twenty-one of whom are alumni of UND, and an additional six

June 30, 2018

## NOTES TO THE FINANCIAL STATEMENTS

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ex-officio members. The six ex-officio members consist of two UNDAAF officers and four UND officers. The financial statement for the University of North Dakota Alumni Association and Foundation may be obtained at the entity's administrative office at 3501 University Ave Stop 8157, Grand Forks, ND 58202-8157.

**RE Arena Inc. (REA), UND Arena Services Inc. (UAS), UND Sports Facilities Inc. (UNDSF) and Arena Holdings Charitable LLC (AHC)** are related organizations with commonality among their boards of directors and management organized for the benefit of the University. There are many transactions between the organizations and all related party transactions have been eliminated in the combined financial statements.

These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, N.D. The complex is used primarily for UND athletics and activities. UND Sports Facilities, Inc. (UNDSF) is the sole member of Arena Holdings Charitable LLC (AHC). RE Arena, Inc. conducts day-to-day operations of the arena through a contract with UND Arena Services, Inc. UND Arena Services, Inc. is the legal manager of the AHC, which is the leasee of the land from UND and is the titleholder of the complex. At the conclusion of the original thirty-year lease in 2030, the complex will vest with UND.

UAS has a seven-member board with one member being the UND Vice President for Finance and Operations (VPFO). REA has a five-member board with the President being the REA General Manager. The remaining four board members are board members of UAS with no UND employee represented on the board. AHC is a disregarded entity and does not have any board members. UNDSF has three board members, who also serve on the other boards, with one of the board members being the UND VPFO. All board members from all three entities have voting rights. A complete combined financial statement for these organizations may be obtained at Ralph Engelstad Arena, One Ralph Engelstad Arena Drive, Grand Forks ND 58203.

### Non-major Component Units

**Minot State University Development Foundation** was incorporated in 1978 exclusively for the benefit of MiSU. Its purpose is to establish, promote and stimulate voluntary financial support for the benefit of the university, especially in the building of endowment and in addressing the long-term priorities of the university. A board of directors comprising 11 voting members manages the foundation. Two are ex-officio appointments from the Board of Regents and the Alumni Association, and three are ex-officio members who are employees of MiSU. Complete financial statements for Minot State University Development Foundation may be obtained at the entity's administrative office at 500 University Avenue West, Minot, ND 58707.

**North Dakota State College of Science Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to NDSCS. The foundation is managed by an 18-member board of directors comprised of leading citizens, both alumni and friends of the college as well as five ex-officio members that are officers/employees of NDSCS. Complete financial statements for North Dakota State College of Science Foundation may be obtained at the entity's administrative office at 800 Sixth Street North, Wahpeton, ND 58076-0002.

**Williston State College Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to WSC. The foundation is managed by an 11-member board of directors comprised of leading citizens, both alumni and friends of the college. Complete financial statements for Williston State College Foundation may be obtained at the entity's administrative office at 721 East Highland Drive, Suite E, Williston, ND 58801.

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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**JOINT VENTURES**

**Tri-College University**

Tri-College University (TCU) is a legally separate organization that is organized exclusively for educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code. TCU's purpose is to assist in the establishment and maintenance of coordinated programs between Concordia College, Minnesota State University Moorhead, Minnesota State Community and Technical College – Moorhead, NDSCS and NDSU, as a means of maximizing higher educational services for the people of the region. The organization serves as an agency through which resources are received and dispensed to supplement the educational endeavors of the five member institutions. The corporation also serves as a means for promoting and strengthening existing and potential educational programs and courses. A ten-member board of directors, including the presidents of the five universities, handles the affairs of the corporation. All property, funds and income of this corporation are held for the exclusive use and benefit of the participating institutions. Administration of funds and other resources received by TCU for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2018, Tri-College University had net position of approximately \$643,529 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at North Dakota State University, Renaissance Hall, 650 NP Avenue 110, Fargo, ND 58102.

**INSIGNIFICANT COMPONENT UNITS**

The following organizations are component units of the University System but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than 1.0 percent each in total assets compared to total NDUS assets and less than 10 percent in payments to or from the primary institution. Separate boards of directors control these entities. In addition, the college or university does not exercise financial or administrative control over these entities and/or the entities' relationship with the primary institutions is not significant enough to warrant inclusion in the reporting entity's financial statements. The related organizations at June 30, 2018 were:

BSC:	Bismarck Innovations Foundation 1200 Edwards Avenue Bismarck, ND 58506-5587	DSU	The Blue Hawk Booster Club 620 Villard St. W Dickinson, ND 58601-5128
	National Alumni Association 1255 Schafer Street PO Box 5587 Bismarck, ND 58506-5587		Dickinson State University Heritage Foundation 290 Campus Drive Box 19 Dickinson, ND 58601
	Mystic Athletic Club 1500 Edwards Ave, PO Box 5587 Bismarck, ND 58506-5587	LRSC:	Lake Region Community College Foundation 1801 College Drive North Devils Lake, ND 58301-1598
DCB:	DCB Foundation 105 Simrall Boulevard Bottineau, ND 58318	MiSU:	MiSU Alumni Association, Inc Minot State University 500 University Ave W Minot, ND 58707
MaSU:	Mayville Mutual Aid Corporation 330 3 <sup>rd</sup> Street NE Mayville, ND 58257		Beaver Boosters, Inc Minot State University 500 University Ave W Minot, ND 58707
	Mayville State University Foundation 330 3 <sup>rd</sup> Street NE Mayville, ND 58257	UND:	EERC Foundation Energy & Environmental Research Center University of North Dakota

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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NDSU:	Alliance for Arts & Humanities 221 Minard Hall, Albrecht Blvd PO Box 6050 Fargo, ND 58108-6050	15 North 23 <sup>rd</sup> Street, Stop 9018 Grand Forks, ND 58202-9018
	NDSU Research Foundation 1735 NDSU Research Park Drive Suite 124 Fargo, ND 58102	The Fellows of the University of North Dakota 264 Centennial Drive Twamley Hall Grand Forks, ND 58502
	NDSU Team Makers Club Dept. 1200 PO Box 6050 Fargo, ND 58108-6050	UND Center for Innovation Foundation 4200 James Ray Drive, Stop 8372 Grand Forks, ND 58203
		VCSU: VCSU Foundation 101 College Street SW Valley City, ND 58072
		WSC: Teton Booster Club PO Box 760 Williston, ND 58802

**BASIS OF PRESENTATION**

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

**BASIS OF ACCOUNTING**

The financial statements of the University System 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.

The University System 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.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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**REVENUE AND EXPENSE RECOGNITION**

The University System presents its revenues and expenses as operating or nonoperating 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 nonexchange transactions and state appropriations that represent subsidies or gifts to the University System, as well as investment income, are considered nonoperating 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 nonoperating activities and are presented after nonoperating activities.

**BUDGETARY PROCESS**

The State of North Dakota operates through a biennial appropriation. Legislation requires the SBHE 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 SBHE allocates contingency and capital emergency funding within guidelines provided by the General Assembly. Any funds received by the SBHE 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 SBHE has the authority to transfer funds between line items by notifying the Office of Management and Budget in writing, with the exception that the SBHE 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.

SBHE policy requires each college or university to submit a biennial budget for SBHE 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 SBHE 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,

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 System 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 System'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 and investments in real estate. Investments are reported at fair value for year-end financial reporting. Fair value is the amount at which an investment could be exchanged between two willing parties, which for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income. Investments are classified as investments, if the maturity date is more than three months to one year, or as Other Long-term Investments, if the maturity date is more than one-year from the date of the financial statements. Investments restricted by bond covenants or invested from bond proceeds are classified as Restricted Investments. Investments held by endowment funds are classified as Endowment Investments.

Investments are measured at fair value using the hierarchy established by general 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; and Family Practice Center revenues (UND). 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-

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 the following dates for the various institutions which are stated at appraised values: July 1, 1964 (MiSU, BSC, NDSCS, NDSU); July 1, 1965 (UND); July 1, 1966 (VCSU, DCB); July 1, 1969 (DSU); July 1, 1970 (MaSU); July 1, 1984 (WSC); and July 1, 1987 (LRSC). 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 the following dates for the following institutions with subsequent additions at cost and deletions at average cost: June 30, 1973 (MaSU, VCSU); June 30, 1974 (UND, NDSCS, NDSU, DCB); June 30, 1976 (DSU); July 1, 1979 (MiSU); June 30, 1985 (BSC, LRSC); and June 30, 1990 (WSC).

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

The composite method is used for library book depreciation. All books purchased during a year are consolidated together and depreciated as a group of assets rather than individually. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for the construction or remodeling costs.

Certain reserves have been established by bond indenture for the repayment of revenue bond indebtedness. Such reserves are recorded in the appropriate restricted assets category (cash/investments) and as "net position restricted for debt service" on the Statement of Net Position.

Depreciation and intangible amortization is calculated using the straight-line method over the following estimated useful lives for the System and its component units. All institutions, except UND and NDSU, use the half-year convention.

Land Improvements	10 – 35 years
Infrastructure	20 – 60 years
Buildings	10 – 120 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

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 of resources 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**

For purposes of measuring the net Other Post-Employment Benefits (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 System 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 System. Invested in capital assets represents the cost or gifted value of buildings, equipment, land improvements and infrastructure, less accumulated depreciation and related outstanding debt.

**June 30, 2018**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**RESTATEMENT OF BEGINNING NET POSITION**

<b>Net Position, beginning of the year, as previously reported</b>	<b>\$ 1,419,814,947</b>
<u>Prior period adjustments:</u>	
Change in accounting method	(6,182,115)
Correction of error	210,105
	<hr/>
<b>Net Position, beginning of the year, as restated</b>	<b><u><u>\$ 1,413,842,937</u></u></b>

**USE OF ESTIMATES**

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

**New Accounting Pronouncements**

Accounting Standards Implemented

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This statement is effective for periods beginning after June 15, 2017. This statement revises accounting and financial reporting for OPEB provided to employees of state and local governments. The statement established standards for measuring and recognizing OPEB liabilities and expense as well as deferred outflows and deferred inflows of resources related to these benefits. The statement required retroactive adoption and resulted in a restatement of prior period net position of \$6.2 million

Accounting Standards Issued but Not Yet Implemented

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

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

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

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

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

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**LIMITATIONS**

North Dakota Century Code (NDCC) governs the deposit and investment policies of the System. NDCC Section 6-09-07 states, “All state funds...must be deposited in the Bank of North Dakota (BND) ...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 institutions 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 BND.

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 BND, 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.

**DEPOSITS**

Cash and Cash Equivalents are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash Deposits at the Bank of North Dakota	\$ 194,294,594	\$ 210,234,198
Cash Deposits at institutions other than the Bank of North Dakota	13,957,625	10,670,453
Certificates of Deposit at the Bank of North Dakota	213,076,703	213,077,716
Certificates of Deposit at institutions other than the Bank of North Dakota	163,199	47,400
Total Bank Deposits	<u>\$ 421,492,122</u>	<u>\$ 434,029,766</u>
Cash on Hand/Petty Cash	\$ 184,209	
Amounts credit risked as deposits but reported as investments	(213,239,903)	
Total Cash and Cash Equivalents	<u>\$ 208,436,428</u>	

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a financial institution failure, the System’s deposits may not be returned to it. The System does not specifically address policies concerning custodial credit risk and while the deposits in the Bank of North Dakota are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2018, \$430.5 million of

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

the System's bank balance of \$434.0 million was exposed to custodial credit risk as follows:

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

**Investments**

Investments are reported at fair value (market). The balances at June 30, 2018 are:

Investment Type	Market Value	Maturities Less than 1 year
US Treasuries	\$ 24,745,409	\$ 24,745,409
Money Market Mutual funds	5,957,649	5,957,649
<b>Debt Securities Subtotal</b>	<b>\$ 30,703,058</b>	<b>\$ 30,703,058</b>
Stocks	\$ 108,734	
Exchange Transfer Funds (ETF's)	982,321	
Certificates of Deposit - BND	213,076,703	
Certificates of Deposit - non-BND	163,199	
Investment in Real Estate	10,114,442	
<b>Equity Securities Subtotal</b>	<b>\$ 224,445,399</b>	
<b>Total Investments</b>	<b>\$ 255,148,457</b>	

**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 system is limited to investing funds with the Bank of North Dakota, with the exception of gifts governed by an endowment agreement. Accordingly, the system 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. Institutions choose terms based on maximizing their return within the limits of their cash flow needs. Institutions rely on brokers to provide year-end market values for the investments held with those brokers.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2018, the system's debt portfolio (excluding US Treasuries and US Agencies) included Standard & Poor's quality ratings as follows:

	Market Value	Credit Quality Rating		Total
		AAA	AA	
Money market mutual funds	\$ 5,957,649	\$ 5,515,839	\$ 441,810	\$ 5,957,649
<b>Total</b>	<b>\$ 5,957,649</b>	<b>\$ 5,515,839</b>	<b>\$ 441,810</b>	<b>\$ 5,957,649</b>

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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

**Fair Value Hierarchy**

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

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

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Equity securities	\$ 108,732	\$ -	\$ -	\$ 108,732
US Treasuries	24,745,409	-	-	24,745,409
ETF funds	982,321	-	-	982,321
Real estate	-	-	10,114,442	10,114,442
<b>Total</b>	<b>\$ 25,836,462</b>	<b>\$ -</b>	<b>\$ 10,114,442</b>	<b>\$ 35,950,904</b>

Investments categorized as Level 1 are valued using prices quoted in active markets for those securities. Real estate categorized as Level 3 represents land leases for commercial and residential development and are primarily valued using discounted cash flow techniques.

**NOTE 3 – RECEIVABLES**

Receivables consist of the following amounts:

June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

	Current	Non-Current	Total
Student and General Receivables	\$ 28,965,252		\$ 28,965,252
Interest Receivable	302,493		302,493
Allowance for Doubtful Accounts	<u>(6,903,214)</u>		<u>(6,903,214)</u>
Accounts Receivable, net	<u>\$22,364,531</u>		<u>\$ 22,364,531</u>
Grants and Contracts Receivable	\$ 30,020,542		\$ 30,020,542
Due from Other State Agencies	<u>6,113,311</u>		<u>6,113,311</u>
Grants and Contracts Receivable, net	<u>\$ 36,133,853</u>		<u>\$ 36,133,853</u>
Student	\$ 9,335,976	\$ 28,219,929	\$ 37,555,905
Allowance for Doubtful Notes	<u>(1,214,088)</u>	<u>(3,830,051)</u>	<u>(5,044,139)</u>
Notes Receivable, net	<u>\$ 8,121,888</u>	<u>\$ 24,389,878</u>	<u>\$ 32,511,766</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, institutions have differing policies with respect to spending investment income and net appreciation on endowment funds.

For UND, distributions for spending from Endowments each fiscal year will be calculated once annually with the quarter ended December 31 unitized market value and is based on the set spending rate, currently four percent, applied to the average market value for the preceding twelve quarter average. All endowments in existence at December 31 for one year will receive a distribution spending allocation. The available amount will be forecast to UND for planning purposes by February 1, and these distribution amounts will be available for spending in the upcoming fiscal year. NDSU and WSC give departments authority to spend all investment income earned on the endowment funds. Net appreciation on investments is available for expenditure and consists of the following at June 30, 2018:

		<u>Reflected in net position as:</u>
North Dakota State University	\$ 198,883	Expendable scholarships and fellowships
University of North Dakota	935,308	Non-expendable scholarships and fellowships
Williston State College	<u>1,261</u>	Non-expendable scholarships and fellowships
Total NDUS	<u>\$ 1,135,452</u>	

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

Department. The annual proceeds from assets held by the State Land Commissioner are deposited into each college/university's operating fund at the State Treasury and are used for current operating purposes. Bismarck State College, Lake Region State College and Williston State College do not participate in the proceeds allocated by the State Land Department. Total assets held by the State Land Department and proceeds for the fiscal year ended June 30, 2018 are approximately \$175.2 million and \$6.1 million, respectively.

**NOTE 5 – CAPITAL AND INTANGIBLE ASSETS**

Capital asset activity for the year ended June 30, 2018 are as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 19,675,565	\$ -	\$ -	\$ -	\$ 19,675,565
Construction in progress	60,515,349	39,296,792	41,607	(47,261,220)	52,509,314
<b>Total non-depreciable capital assets</b>	<b>\$ 80,190,914</b>	<b>\$ 39,296,792</b>	<b>\$ 41,607</b>	<b>\$ (47,261,220)</b>	<b>\$ 72,184,879</b>
Land improvements/infrastructure	\$ 211,774,815	\$ 3,626,708	\$ -	\$ 1,864,646	\$ 217,266,169
Buildings	1,597,758,476	21,448,900	4,691,399	43,623,982	1,658,139,959
Furniture, fixtures, and equipment	334,651,553	20,391,561	9,757,939	1,772,592	347,057,767
Intangibles:					
Computer Software	24,842,724	288,859	76,250	-	25,055,333
Websites	829,376	36,890	41,170	-	825,096
Other	1,306,428	-	-	-	1,306,428
Library materials	89,927,570	995,191	4,752,543	-	86,170,218
<b>Total depreciable capital assets</b>	<b>\$ 2,261,090,942</b>	<b>\$ 46,788,109</b>	<b>\$ 19,319,301</b>	<b>\$ 47,261,220</b>	<b>\$ 2,335,820,970</b>
Less accumulated depreciation and amortization					
Land improvements/infrastructure	\$ 101,641,655	\$ 5,685,396	\$ -	\$ -	\$ 107,327,051
Buildings	560,114,313	38,862,100	3,139,717	-	595,836,696
Furniture, fixtures, and equipment	216,078,654	22,390,051	8,561,666	-	229,907,039
Intangibles:					
Computer Software	20,589,304	1,499,048	76,250	-	22,012,102
Websites	565,617	29,594	15,241	-	579,970
Other	509,092	15,550	-	-	524,642
Library materials	73,489,843	3,508,674	4,752,541	-	72,245,976
<b>Total accumulated depreciation and amortization</b>	<b>\$ 972,988,478</b>	<b>\$ 71,990,413</b>	<b>\$ 16,545,415</b>	<b>\$ -</b>	<b>\$ 1,028,433,476</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 1,288,102,464</b>	<b>\$ (25,202,304)</b>	<b>\$ 2,773,886</b>	<b>\$ 47,261,220</b>	<b>\$ 1,307,387,494</b>
<b>Capital assets, net</b>	<b>\$ 1,368,293,378</b>	<b>\$ 14,094,488</b>	<b>\$ 2,815,493</b>	<b>\$ -</b>	<b>\$ 1,379,572,373</b>

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

	Total Amount Authorized	Expended (CIP Asset)	Expended (Non capitalized)	Remaining Authorized Balance
Bismarck State College	\$ 240,000	\$ 134,059	\$ -	\$ 105,941
Dickinson State University	10,966,350	6,755,048	-	4,211,302
North Dakota State College of Science	14,500,563	13,613,651	734,760	152,152
North Dakota State University	81,913,224	29,979,758	804,878	51,128,588
University of North Dakota	25,725,730	1,763,794	20,157	23,941,779
Valley City State University	1,369,345	67,484	-	1,301,861
North Dakota University System Office	682,720	195,520	-	487,200
<b>Total NDUS</b>	<b>\$ 135,397,932</b>	<b>\$ 52,509,314</b>	<b>\$ 1,559,795</b>	<b>\$ 81,328,823</b>

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

Accounts Payable	\$ 19,017,525
Due to other state agencies	1,130,650
Due to Other Funds	52,021
Sales Tax Payable	21,848
Accrued Interest	2,396,859
Contractor Payable/Retainage	2,525,839
Other liabilities	18,369
	<u>\$ 25,163,111</u>

**NOTE 7 – LONG-TERM LIABILITIES**

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

	Beginning		Ending		Current	Noncurrent
	Balance, restated	Additions	Retirements	Balance	Portion	Portion
Bonds Payable	\$ 208,031,203	\$ 77,213,021	\$ 34,136,424	\$ 251,107,800	\$ 9,397,462	\$ 241,710,338
Bonds Payable to Component Units	21,930,000	-	1,705,001	20,224,999	1,729,999	18,495,000
Notes Payable	19,290,768	11,895,729	5,164,024	26,022,473	1,305,729	24,716,744
Notes Payable to Component Units	266,303	-	51,985	214,318	53,972	160,346
Capital Leases	21,199,008	6,167,318	6,209,621	21,156,705	2,495,257	18,661,448
Capital Leases with Component Units	20,225,838	2,235,000	3,559,759	18,901,079	1,485,908	17,415,171
Special Assessments	5,208,832	481,211	401,546	5,288,497	425,667	4,862,830
Compensated Absences	31,355,892	345,879	369,608	31,332,163	2,419,498	28,912,665
Total	<u>\$ 327,507,844</u>	<u>\$ 98,338,158</u>	<u>\$ 51,597,968</u>	<u>\$ 374,248,034</u>	<u>\$ 19,313,492</u>	<u>\$ 354,934,542</u>

**NOTE 8 – BONDS PAYABLE**

Revenue bonds are limited obligations of the University System. 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 institutions, as of June 30, 2018 is presented below and the detail is presented in the Supplementary Information section following these notes.

	Original	Interest	Balances
	Balances,	Rates	Outstanding
Bismarck State College	\$ 10,184,334	2.0 - 4.0%	\$ 8,253,203
Mayville State University	4,685,057	1.25 - 6.63%	3,797,527
Minot State University	13,433,825	2.0 - 6.60%	11,969,472
North Dakota State College of Science	9,000,000	3.76%	7,625,000
North Dakota State University	151,397,818	1.5 - 5.0%	138,097,389
University of North Dakota	103,119,689	0.75 - 4.25%	88,355,210
Valley City State University	5,995,000	2.8 - 7.05%	5,345,000
Williston State College	9,375,000	6.9%	7,890,000
Total Bonds Payable	<u>\$ 307,190,723</u>		<u>\$ 271,332,801</u>

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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**Industrial Commission Bonds**

For the 2017-2019 biennium, the North Dakota University System Office received an appropriation of \$6.6 million to act as the fiscal agent for the institutions on bond payments to the Industrial Commission. During fiscal year 2018, the North Dakota University System Office paid \$3.7 million in general funds to the Industrial Commission of North Dakota.

**Refunding and Defeased Bonds**

The purpose of a refunding bond is to refund in advance of maturity of 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 that 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 System's financial statements. The following is a description of the University System's defeased bonds and the balance of the bonds outstanding in the trust.

**Mayville State University**

Mayville State University issued \$2.8 million of Housing and Auxiliary Facilities bonds with an interest rate of 3.9 percent. The bonds were used to recall \$2.7 million of outstanding Series 2010 Housing and Auxiliary bonds. The bonds were refunded to reduce total debt service payments over the next twelve years by \$129,000. The economic gain realized as a result of the refunding was \$109,000.

**North Dakota State University**

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

**Scheduled Maturities of Bonds Payable**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 11,127,462	\$ 10,015,657	\$ 21,143,119
2020	12,382,050	9,700,948	22,082,998
2021	12,785,684	9,301,647	22,087,331
2022	12,941,869	8,862,401	21,804,270
2023	12,918,892	8,370,327	21,289,219
2024 - 2028	63,812,470	34,424,775	98,237,245
2029 - 2033	65,621,119	22,541,046	88,162,165
2034 - 2038	43,312,261	11,689,364	55,001,625
2039 - 2043	24,532,352	4,751,776	29,284,128
2044 - 2048	11,898,641	967,200	12,865,841
	<u>\$ 271,332,800</u>	<u>\$ 120,625,141</u>	<u>\$ 391,957,941</u>

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 9 – NOTES PAYABLE**

Dickinson State University has a note payable with US Bank for capital projects for safety improvements. Mayville State University has a note payable to Capitol One, for energy improvements through a performance contract. Lake Region State College has a note with Banc of America Public Capital Corp for a wind turbine. The University of North Dakota has a note payable with Bremer Bank for the purchase of a building from the University of North Dakota Research Foundation in fiscal year 2015. Williston State College has a note payable of \$2.2 million with the Bank of North Dakota for construction of the Petroleum Safety and Technology Center and a note payable of \$214,000 to the Williston State College Foundation for construction of a dormitory geothermal system.

Details of the notes are as follows:

Institution	Original Balance	Maturity Date	Interest Rate	Outstanding Balance June 30, 2018
Dickinson State University	\$ 7,557,272	December 2033	2.59%	\$ 7,557,272
Lake Region State College	4,881,045	June 2027	3.27%-5.15%	3,249,768
Mayville State University	4,338,457	December 2024	2.74%	4,211,977
University of North Dakota	9,800,000	October 2023	5.38%	8,765,364
Williston State College	3,000,000	January 2022 & May 2030	1.75% - 3%	2,452,411
Total Notes Payable	\$ 29,576,774			\$ 26,236,792

**Refunding and Defeased Notes Payable**

**Mayville State University**

Mayville State University issued a \$4.3 million note payable with an interest rate of 2.74 percent. The notes were used to recall a \$4.3 million outstanding note payable. The notes were refunded to reduce total debt service payments over the next twelve years by \$233,000. The economic gain realized as a result of the refunding was \$129,000.

**Scheduled Maturities of Notes Payable**

	Principal	Interest	Total
2019	\$ 1,359,701	\$ 1,104,558	\$ 2,464,259
2020	1,670,296	925,757	2,596,053
2021	1,780,955	867,394	2,648,349
2022	1,854,838	807,970	2,662,808
2023	1,894,890	744,676	2,639,566
2024 - 2028	13,380,312	1,070,947	14,451,259
2029 - 2033	3,515,631	364,742	3,880,373
2034 - 2038	780,168	17,897	798,065
	<u>\$ 26,236,792</u>	<u>\$ 5,903,940</u>	<u>\$ 32,140,732</u>

**NOTE 10 – CAPITAL LEASES**

The institutions lease 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

**June 30, 2018**  
**NOTES TO THE FINANCIAL STATEMENTS**

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rates with maturities to 2053.

<b>Carrying Value of Assets Held Under Capital Leases</b>		
	<b>Carrying Value</b>	<b>Accumulated Depreciation</b>
Land improvements/infrastructure	\$ 60,015	\$ 15,603
Buildings	52,386,945	12,461,248
Intangibles - Easement	73,864	81,639
Furniture, fixtures, and equipment	12,197,291	2,629,390
<b>Total</b>	<b>\$ 64,718,115</b>	<b>\$ 15,187,880</b>

**Scheduled Maturities of Capital Leases**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 3,981,165	\$ 1,662,640	\$ 5,643,805
2020	3,940,386	1,487,491	5,427,877
2021	3,447,003	1,309,394	4,756,397
2022	3,362,972	1,158,513	4,521,485
2023	3,181,833	1,015,280	4,197,113
2024 - 2028	12,009,968	3,103,419	15,113,387
2029 - 2033	3,958,583	1,664,735	5,623,318
2034 - 2038	2,801,709	1,003,950	3,805,659
2039 - 2043	886,389	671,629	1,558,018
2044 - 2048	1,369,609	436,561	1,806,170
2049 - 2053	1,118,162	100,844	1,219,006
	<b>\$ 40,057,779</b>	<b>\$ 13,614,456</b>	<b>\$ 53,672,235</b>

**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 institution property.

**June 30, 2018**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Scheduled Maturities of Special Assessments**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 425,667	\$ 232,945	\$ 658,612
2020	430,667	211,042	641,709
2021	418,535	194,939	613,474
2022	322,159	177,566	499,725
2023	293,924	163,863	457,787
2024 - 2028	1,259,247	638,886	1,898,133
2029 - 2033	1,068,436	387,307	1,455,743
2034 - 2038	741,695	155,924	897,619
2039 - 2043	328,167	31,116	359,283
	<u>\$ 5,288,497</u>	<u>\$ 2,193,588</u>	<u>\$ 7,482,085</u>

**Compensated Absences**

The compensated absences liability of the institutions at June 30, 2018 consists of accumulated unpaid annual leave, compensatory time, payable portion of accumulated sick leave, personal holiday hours, and Saturday/legal holiday hours earned and vested. Compensated absences for employees at June 30, 2018 totaled \$31.3 million. 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 consist of the following:

<b>Deferred Outflows</b>	
Pension	\$ 75,185,203
Other post employment retirement benefits	1,898,875
Deferred outflows from debt refunding	4,184,088
	<u>\$ 81,268,166</u>
<b>Deferred Inflows</b>	
Pension	\$ 12,525,050
Other post employment retirement benefits	459,367
Grant amounts received prior to meeting time requirements	121,395
Deferred inflows from debt refunding	103,685
	<u>\$ 13,209,497</u>

**NOTE 13 – RETIREMENT BENEFITS**

**North Dakota Public Employees Retirement System (Main System)**

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

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and 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 for 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.

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

---

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

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

At June 30, 2018, the NDUS reported a liability of \$157.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The NDUS' proportion of the net pension liability was based on their share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017, the NDUS' proportion was 9.77 percent which was a decrease of 0.57 percent from its proportion measured at June 30, 2016.

For the year ended June 30, 2018, NDUS recognized pension expense of \$21,915,893. At June 30, 2018, the NDUS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 933,589	\$ 765,255
Changes of assumptions	64,407,579	3,542,556
Net difference between projected and actual earnings on pension plan investments	2,112,405	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	597,417	8,217,239
Employer contributions subsequent to the measurement date	7,134,215	-
Total	<u>\$ 75,185,205</u>	<u>\$ 12,525,050</u>

Deferred outflows of resources of \$7.1 million related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the fiscal year ended June 30, 2019.

June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

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

Year ended June 30:		
2019	\$	11,824,749
2020		14,723,233
2021		12,530,742
2022		10,332,388
2023		6,114,828
Thereafter		-

**Actuarial assumptions.** The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	Service at Beginning of Year:	Increase Rate:
	0	15.00%
	1	10.00%
	2	8.00%
	Age*	
	Under 36	8.00%
	36 - 40	7.50%
41 - 49	6.00%	
50+	5.00%	

\*Age-based salary increase rates apply for employees with three or more years of service

Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

Domestic Fixed Income	17%	1.43%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

**Discount rate.** For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate**

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	<b>1% Decrease (5.44%)</b>	<b>Current Discount Rate (6.44%)</b>	<b>1% Increase (7.44%)</b>
Employer's proportionate share of the net pension li:	\$ 213,221,645	\$ 157,065,812	\$ 110,346,498

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report at <https://ndpers.nd.gov/employers/employer-resources/governmental-accounting-standards-board-gasb/>

**NOTES TO THE FINANCIAL STATEMENTS**

**TIAA RETIREMENT PLAN**

**Description of Plan**

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

**Funding Policy**

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

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

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

**NOTE 14 – POST-EMPLOYMENT BENEFITS**

**STATE GROUP HEALTH PLAN**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the NDUS reported a liability of \$7.4 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The NDUS' proportion of the net OPEB liability was based on the NDUS' share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the NDUS' proportion was 9.31 percent.

For the year ended June 30, 2018, the NDUS recognized OPEB expense of \$893,000. At June 30, 2018, the NDUS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**June 30, 2018**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ 179,630
Changes of assumptions	713,362	-
Net difference between projected and actual earnings on OPEB plan investments	-	278,474
Changes in proportion and differences between employer contributions and proportionate share of contributions	36,723	1,263
Employer contributions subsequent to the measurement date	1,148,790	-
Total	<u>\$ 1,898,875</u>	<u>\$ 459,367</u>

Deferred outflows of resources of \$1.1 million, related to OPEB resulting from Employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

<b>Year ended June 30:</b>	
2019	\$ 19,480
2020	19,480
2021	19,480
2022	19,480
2023	89,097
Thereafter	123,701

**Actuarial assumptions.** The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	37%	5.80%
Small Cap Domestic Equities	9%	7.05%
International Equities	14%	6.20%
Core-Plus Fixed Income	40%	1.56%

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017, and July 1, 2016, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employer's proportionate share of the net pension	\$ 9,220,325	\$ 7,365,193	\$ 5,775,016

**NOTE 15 – TERMINATION BENEFITS**

Termination benefits are benefits provided to employees who are involuntarily or voluntarily terminated, as a result of budget reductions. Termination benefits agreements may include contract buyouts, retirement incentives, severance lump-sum payouts and continuing healthcare coverage for a designated period of time or a combination of these benefits. The agreement terms vary by institution. The outstanding liability is measured at the discounted present value and projected increases in health insurance rates.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

NDUS entered into voluntary termination agreements with 23 employees for a cost of \$822,000 in fiscal year 2018. The time-period for payment of benefits range from one month to twenty-six months. NDUS recorded a liability at June 30, 2018 of \$519,000 for future payments.

During the same time-period, the NDUS entered into involuntary separation agreements with 10 employees for a cost of \$240,000. The time-period for payment of benefits range from one to fourteen months. NDUS recorded a liability at June 30, 2018 of \$19,000 for future payments.

In fiscal year 2018, NDUS incurred \$5.0 million in expenses related to voluntary termination agreements entered into in prior fiscal years for 139 employees. The terms for these agreements range from one month to forty-nine months. At June 30, 2018, the liability for future payments was \$697,000.

In fiscal year 2018, NDUS incurred \$38,000 in expenses related to involuntary termination agreements entered into in prior fiscal years for one employee. The term for this agreement was one month. At June 30, 2018, there was no liability for future payments.

**NOTE 16 – Construction Commitments and Financing**

The institutions have contracted for various construction projects as of June 30, 2018. Estimated costs to complete the various projects and the sources of anticipated funding are as follows:

Campus	Contracts Awarded	Expended Through 6/30/2018	Remaining Cost To Complete	Funding for Remaining Costs			
				Federal Sources	State Sources	Institutional Funds	Other Sources
BSC	\$ 193,491	\$ 134,059	\$ 59,432	\$ -	\$ 58,011	\$ 1,421	\$ -
DCB	-	-	-	-	-	-	-
DSU	11,118,460	6,401,626	4,716,834	-	284,974	765,510	3,666,350
LRSC	-	-	-	-	-	-	-
MaSU	742,649	-	742,649	49,989	-	-	692,660
MiSU	297,320	66,180	231,140	-	-	-	231,140
NDSCS	14,365,650	14,245,225	120,425	-	120,425	-	-
NDSU	69,950,185	27,117,922	42,832,263	-	1,111,393	2,223,117	39,497,753
UND	9,955,785	5,095,880	4,859,905	-	3,129,988	1,729,916	-
VCSU	1,241,623	67,484	1,174,139	-	-	154,161	1,019,978
WSC	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 107,865,163</b>	<b>\$ 53,128,376</b>	<b>\$ 54,736,787</b>	<b>\$ 49,989</b>	<b>\$ 4,704,791</b>	<b>\$ 4,874,125</b>	<b>\$ 45,107,881</b>

June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 17 – COMPONENT UNITS**

**Major Component Units Investments**

Investments are reported at fair value (market) as follows:

Investment Type	Market Value	Maturities			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
US Treasuries	\$ 877,867	\$ 328,787	\$ 338,013	\$ 211,067	\$ -
US Agencies	-	-	-	-	-
Corporate Bonds	22,726,033	5,298,506	15,993,871	475,378	958,278
Municipal Bonds	507,315	-	-	507,315	-
Mutual Bond Funds	138,151,263	22,365,289	30,095,863	20,927,042	64,763,069
Money Market Mutual Funds	687,469	687,469	-	-	-
Other	886,903	170,948	75,516	-	640,439
Subtotal	<u>\$ 163,836,850</u>	<u>\$ 28,850,999</u>	<u>\$ 46,503,263</u>	<u>\$ 22,120,802</u>	<u>\$ 66,361,786</u>
Equity Mutual Funds	258,304,266				
Trust Funds	-				
Investment in Real Estate	49,044,278				
Commodity Hedge and Limited Partnerships	56,877,424				
Stocks	13,672,019				
Certificate of Deposits	16,994,751				
Investments held with Foundation	-				
Other	81,964,347				
Total Investments	<u>\$ 640,693,935</u>				

**Interest Rate Risk**

NDSU Foundation and Alumni Association's investment policy addresses interest rate risk by requiring allocation of fixed income securities among maturities of different lengths according to interest rate prospects.

Bismarck State College Foundation uses an asset allocation strategy in an effort to diversify assets, maximize returns and manage risk consistent with market conditions. The policy permits investing in commercial paper, repurchase agreements, Treasury Bills, certificates of deposits and money market funds that have a maturity of one year or less at the time of purchase. Commercial paper assets must be rated a minimum of A-2 or P-2 by S&P and Moody's, respectively.

**Custodial Credit Risk**

REA Arena, Inc.'s cash balances may exceed FDIC limits at various times during the year at one institution. In fiscal year 2017, REA Arena, Inc., obtained a \$9.0 million letter of credit to insure cash balances in excess of FDIC insurance limits at this institution.

The major component units' investments are registered in the name of the component unit.

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

**Major Component Units Capital Assets**

Capital asset activity for the major component units for the year ended June 30, 2018 was as follows:

	<b>Beginning Balance-Restated</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 6,186,686	\$ 49,504	\$ -	\$ -	\$ 6,236,190
Construction in progress	-	-	-	-	-
<b>Total non-depreciable capital assets</b>	<b>\$ 6,186,686</b>	<b>\$ 49,504</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,236,190</b>
Land improvements/infrastructure	\$ 1,256,561	\$ -	\$ -	\$ (47,358)	\$ 1,209,203
Buildings	195,239,093	80,634	21,485	-	195,298,242
Furniture, fixtures, and equipment	45,698,942	5,820,594	4,074,749	47,358	47,492,145
<b>Total depreciable capital assets</b>	<b>\$ 242,194,596</b>	<b>\$ 5,901,228</b>	<b>\$ 4,096,234</b>	<b>\$ -</b>	<b>\$ 243,999,590</b>
Less accumulated depreciation					
Land improvements/infrastructure	\$ 535,004	\$ 49,900	\$ -	\$ (10,570)	\$ 574,334
Buildings	66,444,596	5,365,609	-	-	71,810,205
Furniture, fixtures, and equipment	19,924,875	3,487,177	2,237,600	10,570	21,185,022
<b>Total accumulated depreciation</b>	<b>\$ 86,904,475</b>	<b>\$ 8,902,686</b>	<b>\$ 2,237,600</b>	<b>\$ -</b>	<b>\$ 93,569,561</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 155,290,121</b>	<b>\$ (3,001,458)</b>	<b>\$ 1,858,634</b>	<b>\$ -</b>	<b>\$ 150,430,029</b>
<b>Capital assets, net</b>	<b>\$ 161,476,807</b>	<b>\$ (2,951,954)</b>	<b>\$ 1,858,634</b>	<b>\$ -</b>	<b>\$ 156,666,219</b>

**MAJOR COMPONENT UNITS LONG-TERM LIABILITIES SUMMARY**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Bonds Payable	\$ 46,985,126	\$ 2,235,000	\$ 6,143,728	\$ 43,076,398	\$ 3,696,860	\$ 39,379,538
Notes Payable	27,445,667	-	8,353,312	19,092,355	1,376,259	17,716,096
Capital Leases	1,438,083	-	59,295	1,378,788	62,122	1,316,666
Special Assessments	550,581	46,092	44,801	551,872	29,248	522,624
Other	6,490,000	-	-	6,490,000	3,690,000	2,800,000
<b>Total</b>	<b>\$ 82,909,457</b>	<b>\$ 2,281,092</b>	<b>\$ 14,601,136</b>	<b>\$ 70,589,413</b>	<b>\$ 8,854,489</b>	<b>\$ 61,734,924</b>

**MAJOR COMPONENT UNITS BONDS PAYABLE**

Bonds payable for the major component units at June 30, 2018 was as follows:

<b>Component Unit</b>	<b>Maturity Date (Fiscal Year)</b>	<b>Interest Rate</b>	<b>Balance Outstanding</b>
BSC Foundation	2022-2040	1.75% - 5.25%	\$ 5,939,014
NDSU Foundation	2021-2037	2.0% - 4.89%	14,256,021
NDSU Research & Technology Park, Inc.	2032	1.0% - 3.541%	16,045,000
UND Alumni Foundation	2019-2029	0.75% - 4.20%	6,836,363
<b>Total Component Unit Bonds Payable</b>			<b>\$ 43,076,398</b>

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

**Scheduled Maturities of Major Component Bonds Payable**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,020,713	\$ 508,053	\$ 1,528,766
2019	3,736,250	1,305,751	5,042,001
2020	3,395,421	1,208,911	4,604,332
2021	3,162,755	1,119,491	4,282,246
2022	3,085,486	1,030,346	4,115,832
2023	2,543,641	942,287	3,485,928
2024 - 2028	13,491,098	3,418,846	16,909,944
2029 - 2033	9,344,990	1,319,701	10,664,691
2034 - 2038	2,996,317	229,842	3,226,159
2039 - 2043	299,727	4,439	304,166
	<u>\$ 43,076,398</u>	<u>\$ 11,087,666</u>	<u>\$ 54,164,064</u>

**MAJOR COMPONENT UNITS NOTES PAYABLE**

Detail of notes payable for the major component units is as follows:

<u>Component Unit</u>	<u>Interest Rate</u>	<u>Maturity Date (Fiscal Year)</u>	<u>Balance Outstanding</u>
BSC Foundation	2.99%	2020	\$ 4,490,605
NDSU Foundation	1.75%	2024	11,582,503
UND Alumni Association & UND Foundation	4.35%	2037	440,701
UND Aerospace Foundation	3.69% - 4.75%	2019 - 2022	1,711,387
RE, Arena, Inc	3.0%	2020	867,159
<b>Total Component Unit Notes Payable</b>			<u>\$ 19,092,355</u>

**Scheduled Maturities of Major Component Units Notes Payable**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 579,125	\$ 579,125
2019	1,458,762	847,669	2,306,431
2020	6,039,395	648,175	6,687,570
2021	1,171,668	545,582	1,717,250
2022	1,552,376	476,997	2,029,373
2023	8,519,636	228,213	8,747,849
2024 - 2028	112,049	64,696	176,745
2029 - 2033	139,219	37,527	176,746
2034 - 2038	99,250	6,797	106,047
	<u>\$ 19,092,355</u>	<u>\$ 3,434,781</u>	<u>\$ 22,527,135</u>

**June 30, 2018**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Scheduled Maturities of Major Component Units Capital Leases**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 62,122	\$ 64,218	\$ 126,340
2020	65,082	31,258	96,340
2021	68,183	58,156	126,339
2022	71,433	54,907	126,340
2023	74,837	51,503	126,340
2024 - 2028	431,200	200,497	631,697
2029 - 2033	544,215	87,482	631,697
2034 - 2038	61,716	1,453	63,169
	<u>\$ 1,378,788</u>	<u>\$ 549,474</u>	<u>\$ 1,928,262</u>

**Reconciliation of Component Unit Receivable to and Payable from Primary Institution**

A reconciliation of the receivables to and payables from balances between the Component Units and the Institutions is as follows:

Primary University Receivable from Component Units - Current	\$ 4,056,927	Primary University Payable to Component Units - Current	\$ 542,368
Primary University Receivable Component Units - Non-Current	-	Primary University Long Term Liability to Component Unit - Current Portion	3,269,879
Total Due from Component Units	\$ 4,056,927	Primary University Long Term Liability to Component Unit - Non-Current Portion	36,070,517
Reconciling Differences:		Total Due to Component Units	\$ 39,882,764
Transactions with Component Units having fiscal year ends other than June 30, 2018	(234,196)	Reconciling Differences:	
Transactions in transit at June 30, 2018	1,797,963	Transactions with Component Units having fiscal year ends other than June 30, 2018	439,444
Receivables from insignificant component units	(91,906)	Transaction with insignificant component units that are not discretely presented	(27,275)
Other differences	(113,091)	Transactions in transit at June 30, 2018	414,980
Component Unit Payable to Primary University	\$ 5,415,697	Other	117,909
		Total Receivable from Primary University	\$ 40,827,822
		Component Unit Current Receivable from Primary University - Current	\$ 4,746,546
		Component Unit Non-Current Receivable from Primary University	36,081,276
		Total Component Unit Receivable from Primary Institution	\$ 40,827,822

June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS

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**BEGINNING COMPONENT UNIT NET ASSET RESTATEMENTS**

Net assets, beginning of the year, as previously reported	\$ 781,719,473
Prior period adjustments:	
Correction of errors	<u>(488,335)</u>
Net assets, beginning of the year, as restated	<u>\$ 781,231,138</u>

**SIGNIFICANT TRANSACTIONS AND DEVELOPMENTS**

**Bismarck State College Foundation**

On January 25, 2007, BSC and BSC Foundation entered into a 15-year lease agreement to facilitate the construction of a Mechanical Maintenance building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the \$1.4 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for \$100. On August 15, 2013, an addendum was made to the lease agreement to facilitate an addition to the facility.

On October 19, 2007, BSC and BSC Foundation entered into a 25-year lease agreement to facilitate the construction of the National Energy Center of Excellence building. Under the agreement, BSC is responsible for payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth in the lease. The amount of the rent is tied to the \$5.0 million debt service retirement. Upon payment of all the bonds, BSC will have the option to purchase the premises for \$100.

The foundation's financial statements include these transactions as a receivable from BSC and a long-term liability. BSC's financial statements include the capitalized assets and a long-term liability due to BSC Foundation.

	<b>BSC</b>	
	<b>BSC</b>	<b>Foundation</b>
NECE Building	\$ 9,548,989	\$ 10,846,116
Accumulated Depreciation	<u>(2,062,870)</u>	<u>(2,641,913)</u>
	\$ 7,486,119	\$ 8,204,203

On September 26, 2014, BSC and Student Housing, LLC (a wholly owned subsidiary of BSC Foundation) entered into a 30-year Ground Lease to facilitate the construction and development of a student apartment housing complex on approximately 4.67 acres of land owned by BSC. Under the agreement, BSC would enter into a separate operating and lease agreement with LLC for the constructed student housing apartment complex for use as a College student housing facility. There are no separate rent payments to be paid by LLC during the term of the Ground Lease agreement in exchange for use of the land.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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On October 14, 2014, BSC and Student Housing, LLC (a wholly owned subsidiary of BSC Foundation) entered into a Memorandum of Understanding (MOU) which sets forth the essential terms of an Apartment Master Lease agreement to be entered into between LLC and BSC, under which LLC will lease to BSC space in the student housing complex to be constructed by LLC on BSC property according to the terms and conditions of the Ground Lease. The 5-year renewable Apartment Master Lease Agreement will address quarterly rent payments by BSC and responsibilities for maintenance, repairs and insurance of the facilities and improvements during the term of the lease.

On August 13, 2015, BSC and Student Housing, LLC entered into a 5-year lease agreement to operate student housing services in the two newly constructed housing units (Ritchie Hall and Gate City Bank Hall). Under the agreement, BSC is responsible for payment of all rent, maintenance, and daily repair/maintenance of the facility, and restrictions of use of the facility as set forth in the lease. Student Housing, LLC is responsible for major repairs/maintenance and property and liability insurance on the facilities. The lease is classified as an operating lease on BSC financial statements and Student Housing, LLC financial statements includes the capitalized asset.

**Dickinson State University Foundation – Arbitration:**

The Dickinson State University Foundation (DSUF) had ownership interest and/or management responsibilities in various real estate projects by way of its membership in Dickinson Investments, LLC (Dickinson Investments) and other entities. DSUF was involved in a dispute with another member of Dickinson Investments, Granville Brinkman and other Brinkman entities (Respondent). An arbitration claim was filed on December 26, 2013. On September 30, 2014, the arbitrator awarded the Respondent a buy-out of their equity interest in the amount of \$1.260 million. The Respondent was also awarded repayment of a note, prejudgment interest and attorneys' fees and costs. DSUF and Dickinson Investments were jointly and severally liable for the buyout amount.

On October 28, 2014, the arbitrator issued a final arbitration award and ordered:

- a) prejudgment interest at 6% would commence December 26, 2013,
- b) the amount of attorney fees and costs to be repaid was \$233,420,
- c) the note prepayment amount was \$133,600
- d) the parties shared responsibility for arbitration fees and expenses totaling \$67,620.

The final award exceeded \$1.7 million. Although DSUF had an equity interest of about 6 percent in Dickinson Investments, the arbitrator ruled that it was jointly and severally liable for the entire award, except the \$133,600 loan for which Dickinson Investments is responsible.

**Receivership:**

At the request of the NDUS Chancellor, on November 21, 2014, the North Dakota Attorney General petitioned the state district court for the appointment of a receiver. On December 3, 2014, the court appointed Sean Smith, JD, CPA, to act as the receiver for DSUF. The court order included the following directives:

- The receiver shall take immediate possession, custody, and control of all assets owned or held by DSUF;
- The DSUF board of directors shall be temporarily suspended and have no authority to act on behalf of DSUF;
- The receiver shall gather, protect and oversee DSUF's corporate and charitable assets;
- The receiver shall report to the court; and

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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- The receiver shall have all the authority necessary to continue the day-to-day activities of the DSUF.

The receiver filed interim reports on a regular basis through September 2016. In the seventh interim report, dated August 31, 2015, the receiver recommended that DSUF be dissolved. This recommendation was based on an inability to negotiate a mutually acceptable settlement of the outstanding Brinkman judgment against DSUF. The report indicates that dissolution should foremost prioritize DSUF obligations to honor restrictions placed on DSUF assets by donors, then address claims made by creditors, employees, and other interested parties. However, DSUF accounting reports indicated that the foundation had total net restricted assets in an amount less than total permanently and temporarily restricted donations.

The Office of Attorney General requested the commencement of dissolution for DSUF. On August 30, 2017, Stark County District Court Judge William Herauf issued an Order that, in part, approved a settlement reached between the Attorney General and the DSUF's major creditors. The Order also resolved all claims against the DSUF, allowing for the distribution of assets and final closure of the issues surrounding the DSUF.

On June 20, 2017, a settlement agreement was signed by the SBHE, DSU and five financial institutions whereby an amount of \$3.1 million will be paid to the financial institutions to repay the outstanding debt related to the Biesiot Activities Center. The 2017 North Dakota Legislative Assembly provided an appropriation to Dickinson State University for the settlement amount. The settlement was paid in July 2017 consistent with the terms of the settlement agreement.

DSUF's Restated Articles of Incorporation state that upon dissolution, remaining assets shall be distributed to the SBHE for the exclusive use and benefit of the Dickinson State University or its direct successors in interest. The receiver recommended that all remaining net assets of DSUF be directed to be turned over to a new 501(c)(3) tax-exempt Foundation in keeping with DSUF's Restated Articles of Incorporation.

There is a cash reserve account remaining in excess of \$300,000 pending the outcomes of resolving claims from the U.S. Internal Revenue Service relating to Charitable Remainder Trusts. All tax returns have been filed by the court appointed Receiver. The U.S. Internal Revenue Service has approved one of the returns and the remainder of the returns are pending review. Once all returns are approved, any remaining cash will be distributed to the DSU Heritage Foundation and a final Receiver's report will be filed to obtain Court approval of the final distribution and closing the receivership dissolution action.

**Financial Audit:**

In fiscal year 2013, The DSUF's independent auditors issued a qualified opinion on the DSUF financial statements because they were unable to form an opinion regarding the proper amount and classification of unrestricted and temporarily restricted net assets. In fiscal year 2014, the DSUF's independent auditors were unable to issue an audit opinion on the DSUF financial statements as a result of the aforementioned arbitration and the overall condition of the DSUF financial records. An audit was not performed for fiscal years 2015, 2016, 2017 and 2018. Therefore, the unaudited consolidated Statement of Financial Position, as of June 30, 2016, presented on the following page is unaudited.

Additionally, it has been reported that DSUF may have used endowment funds as collateral to obtain financing and to meet monthly operating expenses of the foundation and one of its real estate projects.

**Dickinson State University Foundation, Inc.**  
**Balance Sheet**  
**As of June 30, 2016**  
**Unaudited**

Assets	
Cash and cash equivalents	\$ 80,642
Accounts receivable	689,487
Total Current Assets	<u>\$ 770,129</u>
Investments	\$ 7,584,420
Fixed assets	2,147,741
Other assets	1,058,530
Total Non-Current Assets	<u>\$ 10,790,691</u>
Total Assets	<u><u>\$ 11,560,820</u></u>
Liabilities	
Accounts payable	\$ 7,103,948
Payroll liabilities	46,718
Total Current Liabilities	<u>\$ 7,150,666</u>
Long-term liabilities	<u>\$ 4,872,920</u>
Total Liabilities	<u>\$ 12,023,586</u>
Net Assets	
Unrestricted	\$ (12,885,205)
Temporarily restricted - Obligated and Unobligated	(575,387)
Permanently restricted (Endowed)	12,937,079
Planned gifts	60,747
Total Net Assets	<u>\$ (462,766)</u>
Total Liabilities and Net Assets	<u><u>\$ 11,560,820</u></u>

**NDSU Research and Technology Park, Inc.**

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

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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

During fiscal year 2017, NDSU and the RTP entered into renewed agreements, whereby NDSU leases the Research Buildings #1 and #2 through June 30, 2032. During fiscal year 2018, total annual rent of \$312,000 was paid by NDSU for these two buildings, in addition to the \$1,781,951 of principal and interest paid by NDSU directly to the bond trustee. NDSU reimbursed the RTP \$30,556 for property insurance on the two buildings and directly pays the utility costs under these agreements. The annual rent will be re-adjusted by mutual agreement every two years. These agreements are subject to funding and legislative appropriations.

**NDSU Foundation**

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

**Fargodome Lease and Improvements**

In fiscal year 2006, the Foundation financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The Foundation has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSUFAA for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the Foundation incident to the lease, less any contributions received by the Foundation for the project. Under this agreement in fiscal year 2018, the Foundation paid the debt service and other fees on behalf of NDSU in the amount of \$331,996.

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

**Renaissance Hall**

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

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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Under this refinanced debt issuance and lease agreement, as approved by the SBHE on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the Foundation incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the Foundation \$414,906 in fiscal year 2018 for debt service under this agreement. As of June 30, 2018, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$4.1 million.

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

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

In May 2012, the Foundation refinanced the original bonds issued in November 2007. As a result, new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds. During fiscal year 2018, NDSU paid \$776,215 to the bond trustee on-behalf of the Foundation under the new leases for debt service on Barry Hall & Klai Hall. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 20108, the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$9.1 million

**Other Transactions**

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

NDSU pays the Foundation rent under operating lease agreements for two buildings (Criminal Justice and Graduate Center), as well as pasture rent paid from NDSU's Agricultural Experiment Station. Those operating lease payments totaled \$123,596 during fiscal year 2018.

In addition to the debt service payments on the Fargodome, Renaissance, Barry and Klai Halls, NDSU reimburses the Foundation for other operating expenses related to those buildings, such as property insurance, flood insurance, boiler inspection fees, real estate taxes and bond administrative fees. Those costs totaled \$95,604 during fiscal year 2018.

The Foundation's fiscal year end is December 31, NDSU year end is June 30. Timing differences in

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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amounts may occur between entity financial statements, due to different year end dates.

**UND Aerospace Foundation**

The UND Aerospace Foundation (Aerospace) recorded expenses reimbursed to UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating \$14.0 million in fiscal year 2018. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. Expenses reimbursed to UND represent actual costs incurred and are included in training expenses in the consolidated statements of activities.

The Foundation recorded revenue for service and hangar, CRJ, 360-degree tower, and aircraft rental to UND of \$4.0 million in fiscal year 2018, which is included in training and support services revenue in the consolidated statements of activities.

As of June 30, 2018, the Foundation had recorded accounts payable to UND of \$2.7 million for reimbursable costs and services. As of June 30, 2018, the Foundation had recorded accounts receivable from UND of \$894,000, which are included in accounts receivable in the consolidated statements of financial position.

The Foundation entered into a sublease with UND to lease the aircraft storage hangar/ground support equipment facility. The lease term is for 20 years, commencing on July 7, 2003, until July 6, 2023. For the first fifteen years of the sublease, UND will pay the Foundation's monthly minimum payment of \$12,672, beginning on October 1, 2003, subject to actual cost adjustments. At the end of the 15 years of the sublease, rent will be adjusted based upon the interest rate adjustments of the debt incurred by the Foundation in the construction of the hangar.

**RE Arena, Inc.**

RE Arena Inc. and UND, enter into an annual operating agreement from July 1, 2017 to June 30, 2020. The operating agreement sets forth the facility usage, fees and services, ticket administration and revenue allocation, sponsorship sales administration and revenue allocation, and net income disposition. In accordance with this agreement: (i) RE Arena Inc. collects all ticket revenue from ticketed UND athletic events (men's and women's hockey, football, men's and women's basketball, and volleyball), RE Arena, Inc. retains 52 percent of such ticket revenue and remits 48 percent to the UND, and (ii) RE Arena Inc. collects all sponsorship sales revenue from the UND athletic events at the arena, RE Arena, Inc. retains 64 percent of such sponsorship revenue, net of direct costs, and remits 36 percent to the UND net of direct costs. In addition, UND and RE Arena, Inc. jointly utilize the UND and RE Arena Inc. marketing staff to market and promote the UND athletic events.

RE Arena, Inc. may contract with UND for materials and personnel in service, utility and other areas and will reimburse UND based on separate agreements. Revenue and expense arrangements for all other UND events held at the arena will be negotiated on an event-by-event basis.

In fiscal year 2018, gross tickets sales were \$5.2 million of which RE Arena, Inc. recognized revenue of \$2.7 million with a net due to UND \$2.5 million. Gross ticket sales for the next athletic season year are recorded in deferred revenue at gross by RE Arena, Inc. for a total of \$2.9 million.

RE Arena, Inc. recognized net sponsorship (advertising) revenue of \$791,000 and the net due UND in sponsorship (advertising) income of \$445,000. In addition, RE Arena, Inc. allocated \$1,000,000 of net income to UND Athletic Department for the year ended May 31, 2018.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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RE Arena, Inc. expensed \$931,000 to UND for utilities, maintenance staff, phone service and other expenses.

At the end of the fiscal year RE Arena, Inc. owes UND \$2.0 million for the annual operating agreement and monthly services.

Amounts are reported on the accrual basis of accounting, which may or may not be the same as that used by UND. RE Arena Inc.'s fiscal year end is May 31<sup>st</sup>, UND's fiscal year end is June 30<sup>th</sup>. Amounts may differ between entity financial statement because of timing differences due to different year ends.

**UND Alumni Association and UND Foundation**

UND is leasing space in the Gorecki Alumni Center in the amount of \$75,000 per year. Additional rental payments consisting of UND's share of the operating and maintenance costs for space used in the Gorecki Alumni Center are calculated annually.

During the year ended June 30, 2018, UND provided approximately \$1.1 million of institutional support for event and database support, annual giving campaign and shared positions. The UND Alumni Association and Foundation (Foundation) manages UND's endowment investments and charged them \$401,000 in investment management fees during the year ended June 30, 2018. These fees and support are reported as operations, fees and miscellaneous revenue on the statement of activities.

The Foundation has other receivables with UND related to the construction of the EERC and Minot Center for Family Practice.

The Foundation is leasing 45,000 square feet of land for the Gorecki Alumni Center from UND. Starting in 2016, the rate is \$0.10 per square foot, per year. The cost in FY2018 was \$4,500.

On July 24, 2002, the Foundation issued \$8.6 million of tax exempt lease revenue bonds to finance the construction of an office building and the renovation of an existing building for the Energy and Environmental Research Center (EERC) of UND. On October 18, 2012, the Foundation issued refunding lease revenue bonds in the amount of \$6.4 million to refund its outstanding Lease Revenue Bonds, Series 2002. The Foundation also amended the related lease agreement with UND. Interest accrues on the bonds at rates from 0.75 percent to 4.20 percent depending upon maturity. Annual and principal as of June 30, 2018 was \$4.2 million. *The terms for the repayment are the same as the payment terms of the related bonds.* During fiscal year ended June 30, 2018, the Foundation recorded payment of principal and interest of \$395,000 and \$167,000, respectively. The interest is included in operations, fees and miscellaneous income on the statement of activities.

On October 24, 2003, the Foundation issued \$4.4 million of tax-exempt lease revenue bonds to finance the purchase of land and the construction of a facility for the Minot Center for Family Practice in Minot, North Dakota. The center is a department of the School of Medicine & Health Sciences at UND. In June 2008, the \$3.7 million remaining balance of the 2003 bonds were financed with Lease Revenue Refunding Bonds, series 2008. In April 2018, the \$2.2 million remaining balance of the 2008 bonds was refinanced with Lease Revenue Bonds, Series 2018. The interest rate is fixed at 3.5% until 2028. Payments of \$133,333 are required semi-annually through 2028. The bonds are secured by a lease with UND.

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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**NON-MAJOR COMPONENT UNITS**

**North Dakota State College of Science Foundation**

For the year ended June 30, 2018, NDSCS paid the Foundation \$174,000 for the rental of the Skills & Technology Training Center building and \$11,000 for parking lots.

In exchange for services provided by the Foundation to NDSCS, the Foundation receives office space and accounting services at no charge from NDSCS. The approximate fair market value for rent is \$5,670 and for accounting services is \$7,677.

**Williston State College Foundation**

Effective September 1, 2011, the Williston State College Foundation (WSCF) loaned WSC \$500,000 for the purchase of a geothermal system for the residence hall. Semiannual principal and interest payments of \$30,000 are due January 1 and July 1, with a final payment of \$20,036 due July 1, 2022. The loan bears an interest rate of 5%. As of June 30, 2018, the loan balance of \$214,318 of which \$53,972 is a current asset. The loan bears an interest rate of 3%.

On November 1, 2013, WSCF entered into a lease agreement with WSC. WSCF is leasing a passenger motor coach to WSC. The value of the bus was \$375,000. Quarterly lease payments of \$15,000 are being made by WSC for a seven-year lease term. The lease expires on October 31, 2020. Total payments on the lease as of June 2018 was \$60,000. At June 30, 2018, the lease had a balance of \$129,691 of which \$45,768 is a current asset.

Individuals working on behalf of the WSCF and the North Dakota Department of Motor Vehicles (DMV) are employees of and paid by WSC. WSCF reimburses WSC for the time WSC employees spend on Foundation and DMV matters. WSCF records these amounts as expenses. The amount reimbursed for the years ending June 30, 2018 was \$892,309.

**NOTE 18 – PLEDGED REVENUES**

Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$ 362,578,115		
Term of Commitment ranging from	2019-2047		
Percentage of Revenue Pledged	5%		
Current Year Pledged Revenue, by source:	Pledged Revenue	Recognized Revenue	Percentage of Pledged Revenue to Recognized
Net revenues from auxiliaries	\$ 13,934,664	\$ 107,348,875	13%
Tuition and Student Fees	3,987,740	334,214,979	1%
Other	511,500	-	0%
Total	\$ 18,433,904	\$ 441,563,854	4%
Current Year Principal and Interest Paid	\$ 18,433,904		

June 30, 2018

**NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 19 – FUNCTIONAL EXPENSE CLASSIFICATION**

The System reports operating expenses using the “natural classification” on the Statement of Revenues, Expenses and Changes in Net Position. Operating expenses for the year ending June 30, 2018, using the functional classification are as follows:

<b>Operating Expense</b>	
Instruction	\$ 353,402,037
Academic Support	74,707,948
Student Services	105,371,448
Institutional Support	113,806,652
Physical Plant	90,344,942
Scholarships and Fellowships	39,210,532
Auxiliary Enterprises	95,084,804
Public Service	61,707,820
Research	155,176,123
Depreciation	71,990,406
Total	<u>\$ 1,160,802,711</u>

**NOTE 20 – OPERATING LEASES**

The institutions are obligated under certain leases for equipment, vehicles and facility rental, which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2018, amounted to \$4.7 million.

Future minimum lease payments at June 30, 2018:

<b>Fiscal Year</b>	<b>Future Minimum Lease Payments</b>
2019	\$ 3,626,467
2020	2,207,289
2021	1,345,196
2022	1,130,536
2023	608,895
2024 - 2028	1,240,803
2029 - 2033	472,678
2034 - 2038	141,803
	<u>\$ 10,773,667</u>

**NOTE 21 – CONTINGENCIES**

Amounts received and expended by the University 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 University System.

In the normal course of its activities, the institutions of the University System are party to various legal

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 University System. Therefore, an estimated liability has not been recorded.

**NOTE 22 – RISK MANAGEMENT**

The University System is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are programs established by the state to address some of these risks and loss exposures.

There have been no significant reductions in insurance coverage from the prior year and settled claims from these risks have not exceeded insurance coverage in any of the past three years. Additional information regarding coverage can be found at <https://www.nd.gov/omb/agency/risk-management-services>.

**RISK MANAGEMENT FUND**

The Risk Management Fund (N.D.C.C. ch. 32-12.2) was established by the 1995 North Dakota Legislature as a result of a court decision that eliminated the State's sovereign immunity. The Risk Management Division of the Office of Management and Budget administers the Fund.

The Fund provides liability coverage and defense of a claim/lawsuit brought against the state of North Dakota, its agencies and employees acting within the scope of employment. The coverage amounts are \$250,000 per person and \$1,000,000 per occurrence.

The Fund is a risk retention pool that is funded by contributions paid by all State agencies. The contributions are calculated by an actuary based on various factors, including the agency's loss history and number of full-time employees.

**NORTH DAKOTA FIRE AND TORNADO AND STATE BONDING FUND**

The University System also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The University System pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is determined in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the University System with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

**Risk Management Workers Compensation Program**

The Risk Management Workers Compensation Program (N.D.C.C. § 65-04-03.1) was established by the 2001 North Dakota Legislature and created a single workers' compensation account for all state agencies. This cross-agency program is designed to save premium dollars through a deductible program while enhancing recovery of injured employees. The program is administered by the Risk Management Division of the Office of Management and Budget.

Workers compensation provides money and medical benefits to an employee who has an injury as a result of an accident, injury or occupational disease on-the-job. The question of negligence or fault is usually not at issue.

**June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS**

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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

**<https://www.nd.gov/omb/agency/risk-management-services>**

**NOTE 23 – ASBESTOS SETTLEMENT**

During fiscal year 1999, the University System settled an asbestos lawsuit against W.R. Grace & Co. The Chancellor has designated the dollars for asbestos related projects at the institutions. The expenditures for NDSU and UND at June 30, 2018 were \$315,000 and \$655,000, respectively.

**NOTE 24 – SUBSEQUENT EVENTS**

On October 1, 2018, Minot State University signed a lease purchase agreement for an energy savings project. The total project cost is \$6.8 million of which \$5.7 million is financed at an annual interest rate of 3.79 percent. The agreement requires semi-annual principal and interest payments beginning October 1, 2019 through October 1, 2034.

On September 13, 2018, University of North Dakota issued \$93 million certificates of participation (COP's), series 2018 that included \$76.6 million in tax exempt COP's, Series 2018A and \$16.4 million in taxable COP's, series 2018B. The proceeds will fund demolition of the existing coal-fired steam heat facility, construction of a new natural gas-fired steam heat facility, improvements to buildings located on UND's campus. UND entered into a lease-purchase agreement on September 1, 2018 with Johnson Controls PI Project Site Operations LLC. Johnson Controls will construct the project, own the building and provide operations and maintenance services until 2057. The COP's were rated A1 by Moody's.

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**North Dakota University System**  
**Required Supplementary Information (RSI)**  
**June 30, 2018**

**Schedule of the NDUS Proportionate Share of Net Pension Liability - Last 10 Fiscal Years \***

	<u>NDUS' Proportion of the Net Pension Liability</u>	<u>NDUS' Proportionate Share of the Net Pension Liability</u>	<u>NDUS Covered Employee Payroll</u>	<u>Share of the Net Pension Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<b>2018</b>	9.77%	\$ 157,065,812	\$ 99,755,332	157.45%	61.98%
<b>2017</b>	10.34%	100,749,199	104,177,803	96.71%	70.46%
<b>2016</b>	11.08%	75,351,113	98,721,150	76.33%	77.15%
<b>2015</b>	11.23%	71,311,045	94,566,414	75.41%	77.70%

*\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Complete data for this schedule is not available prior to 2015.*

**Schedule of the NDUS Contributions -- Last 10 Fiscal Years \***

	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>NDUS Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
<b>2018</b>	\$ 7,134,215	\$ 7,134,215	-	\$ 100,833,398	7.08%
<b>2017</b>	7,546,708	7,546,708	-	104,177,803	7.09%
<b>2016</b>	7,654,994	7,654,994	-	98,721,150	7.26%
<b>2015</b>	7,380,713	7,380,713	-	94,566,414	7.44%

*\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Complete data for this schedule is not available prior to 2015.*

**Changes of assumptions**

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2017. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale and percent married assumptions.

**North Dakota University System**  
**Required Supplementary Information (RSI)**  
**June 30, 2018**

**Schedule of the NDUS Proportionate Share of Net OPEB Liability - Last 10 Fiscal Years \***

	<u>NDUS' Proportion of the Net OPEB Liability</u>	<u>NDUS' Proportionate Share of the Net OPEB Liability</u>	<u>NDUS Covered Employee Payroll</u>	<u>Share of the Net OPEB Liability as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</u>
<b>2018</b>	9.31%	\$ 7,365,193	\$ 100,731,452	7.31%	59.78%

*\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Complete data for this schedule is not available prior to 2018.*

**Schedule of the NDUS Contributions - Last 10 Fiscal Years \***

	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>NDUS Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
<b>2018</b>	\$ 1,148,790	\$ 1,148,790	-	\$ 100,849,689	1.14%

*\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Complete data for this schedule is not available prior to 2018.*

**Changes of assumptions**

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2017. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale and percent married assumptions.

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# NORTH DAKOTA UNIVERSITY SYSTEM

Supplementary Information  
June 30, 2018

## COMBINING STATEMENT OF NET POSITION

	North Dakota University System Office	Bismarck State College	Dakota College at Bottineau	Dickinson State University	Lake Region State College	Mayville State University	Minot State University
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$16,205,038	\$10,019,553	\$ 3,069,537	\$ 1,995,927	\$ 5,924,926	\$ 3,336,584	\$ 23,343,949
Investments	-	3,561,000	-	9,655,000	-	417,015	647,400
Accounts receivable, net	7,004	601,650	472,560	283,188	848,729	719,656	787,941
Due from component units - investments held on behalf of the institutions	-	-	-	207,904	-	-	-
Due from component units	-	44,009	5,000	9,404	16,047	21,929	140,356
Due from Student Loan Transfer Fund	921,000	-	-	-	-	-	-
Due from other NDUS institutions	1,281,207	322,235	108,278	-	65,379	-	236,761
Due from State general fund	475,679	374,787	406	375,000	-	1,071,340	111,304
Grants and contracts receivables, net	50,251	685,736	444,990	217,370	537,377	797,079	649,022
Inventories	-	718,577	132,670	-	252,089	273,939	-
Notes receivable, net	-	570,356	40,513	863,228	68,674	131,117	621,452
Other assets	45,072	378,292	30,696	-	6,212	53,807	53,430
Total current assets	\$18,985,251	\$17,276,195	\$ 4,304,650	\$13,607,021	\$ 7,719,433	\$ 6,822,466	\$ 26,591,615
Noncurrent assets							
Restricted cash and cash equivalents	\$ -	\$ 101,579	\$ -	\$ 3,836,963	\$ -	\$ 90,758	\$ 29
Restricted investments	-	-	-	-	-	-	752,260
Endowment investments	-	-	-	-	-	-	-
Notes receivable, net	-	133,622	146,181	239,234	247,795	433,646	2,242,385
Other long-term investments	-	65,000	-	-	-	-	-
Due from component units - investments held on behalf of the institutions	-	-	-	-	-	-	3,239,709
Other noncurrent assets	-	-	-	-	-	-	-
Capital assets, net	3,376,840	54,020,724	7,734,134	34,504,384	15,035,843	29,157,314	75,823,399
Total noncurrent assets	\$ 3,376,840	\$54,320,925	\$ 7,880,315	\$38,580,581	\$15,283,638	\$29,681,718	\$ 82,057,782
Total assets	\$22,362,091	\$71,597,120	\$12,184,965	\$52,187,602	\$23,003,071	\$36,504,184	\$ 108,649,397
Deferred outflows of resources	\$ 2,528,617	\$ 3,409,599	\$ 545,817	\$ 1,951,191	\$ 1,319,384	\$ 2,419,297	\$ 3,509,534
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 1,758,227	\$ 1,300,223	\$ 169,562	\$ 508,566	\$ 363,162	\$ 332,931	\$ 911,361
Due to other NDUS institutions	142,233	59,981	112,758	24,538	31,904	55,617	40,171
Due to component units	-	22,303	-	-	-	-	-
Accrued payroll	636,060	1,491,915	308,525	1,247,415	461,389	942,684	2,161,644
Unearned revenue	-	810,081	76,537	50,000	1,093,066	356,776	971,044
Deposits	254,889	438,369	132,101	104,185	231,830	104,245	687,148
Long-term liabilities - current portion	-	147,290	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-
Due to others	169,850	767,341	28,293	268,126	355,260	1,015,812	536,287
Total current liabilities	\$ 2,961,259	\$ 5,037,503	\$ 827,776	\$ 2,202,830	\$ 2,536,611	\$ 2,808,065	\$ 5,307,655
Noncurrent liabilities							
Pension liability	\$ 4,627,818	\$ 6,686,468	\$ 1,074,542	\$ 3,894,265	\$ 2,701,533	\$ 4,615,475	\$ 7,248,589
OPEB liability	214,906	313,297	50,182	180,842	125,454	214,334	338,513
Other noncurrent liabilities	16,259	-	24,600	377,888	-	-	-
Long - term liabilities	-	1,068,891	-	-	-	-	-
Due to component units	-	-	-	-	-	-	-
Due to others	1,380,490	9,377,172	181,280	7,856,248	3,431,629	7,769,429	12,915,507
Total noncurrent liabilities	\$ 6,239,473	\$17,445,828	\$ 1,330,604	\$12,309,243	\$ 6,258,616	\$12,599,238	\$ 20,502,609
Total liabilities	\$ 9,200,732	\$22,483,331	\$ 2,158,380	\$14,512,073	\$ 8,795,227	\$15,407,303	\$ 25,810,264
Deferred inflows of resources	\$ 156,341	\$ 505,021	\$ 109,585	\$ 339,601	\$ 316,110	\$ 201,908	\$ 740,191
<b>NET POSITION</b>							
Net investment in capital assets	\$ 1,904,699	\$43,854,724	\$ 7,701,135	\$26,845,462	\$11,630,737	\$20,755,023	\$ 63,679,417
Restricted for:							
Nonexpendable:							
Scholarships and fellowships	-	-	-	-	-	17,524	3,239,710
Expendable:							
Scholarships and fellowships	-	93,623	18,223	223,244	-	18,456	1,119,418
Research	-	-	-	-	-	65,637	-
Institutional	13,908	(269)	29,991	(25,049)	(21,932)	478,286	602,289
Loans	-	226,140	229,842	1,215,733	382,991	648,272	3,358,871
Capital projects	-	-	-	-	-	46,791	-
Debt service	-	49,672	12,935	3,672,080	487,609	814,133	479,019
Other	61,610	-	-	-	-	-	-
Unrestricted	13,553,418	7,794,477	2,470,691	7,355,649	2,731,713	470,148	13,129,752
Total net position	\$15,533,635	\$52,018,367	\$10,462,817	\$39,287,119	\$15,211,118	\$23,314,270	\$ 85,608,476

# NORTH DAKOTA UNIVERSITY SYSTEM

Supplementary Information

June 30, 2018

## COMBINING STATEMENT OF NET POSITION - CONTINUED

	North Dakota State College of Science	North Dakota State University	University of North Dakota	Valley City State University	Williston State College	Eliminations	Total
<b>ASSETS</b>							
Current assets							
Cash and cash equivalents	\$27,702,112	\$ 53,258,080	\$ 45,155,343	\$ 7,580,604	\$ 4,502,535	\$ -	\$ 202,094,188
Investments	672,285	16,000,407	103,000,000	693,583	-	-	134,646,690
Accounts receivable, net	1,212,817	5,346,815	11,284,227	612,276	548,416	(360,748)	22,364,531
Due from component units - investments held on behalf of the institutions	-	-	-	155,680	-	-	363,584
Due from component units	290,268	453,002	2,924,236	33,993	118,683	-	4,056,927
Due from Student Loan Transfer Fund	-	-	7,528,000	-	-	-	8,449,000
Due from other NDUS institutions	-	119,935	114,739	13,543	55,973	(2,318,050)	-
Due from State general fund	316,754	6,906,821	797,406	19,863	-	-	10,449,360
Grants and contracts receivables, net	694,684	14,688,600	16,914,141	202,613	251,990	-	36,133,853
Inventories	567,443	1,362,571	3,263,625	179,177	148,541	-	6,898,632
Notes receivable, net	246,443	1,568,620	3,833,049	150,068	28,368	-	8,121,888
Other assets	-	513,291	1,446,495	48,037	51,770	-	2,627,102
Total current assets	<u>\$31,702,806</u>	<u>\$100,218,142</u>	<u>\$196,261,261</u>	<u>\$ 9,689,437</u>	<u>\$ 5,706,276</u>	<u>\$ (2,678,798)</u>	<u>\$ 436,205,755</u>
Noncurrent assets							
Restricted cash and cash equivalents	\$ -	\$ 1,929,624	\$ 99,796	\$ 17,562	\$ 265,931	\$ -	\$ 6,342,242
Restricted investments	-	30,260,826	2,250,000	441,810	526,958	-	34,231,854
Endowment investments	-	448,739	-	47,217	52,200	-	548,156
Notes receivable, net	889,337	5,611,953	13,830,773	541,490	73,462	-	24,389,878
Other long-term investments	-	75,813,976	8,402,781	900,000	540,000	-	85,721,757
Due from component units - investments held on behalf of the institutions	-	53,747	23,841,079	883,972	-	-	28,018,507
Other noncurrent assets	-	390,197	-	-	-	-	390,197
Capital assets, net	53,728,317	487,480,181	531,763,836	38,443,565	48,503,836	-	1,379,572,373
Total noncurrent assets	<u>\$54,617,654</u>	<u>\$601,989,243</u>	<u>\$580,188,265</u>	<u>\$41,275,616</u>	<u>\$49,962,387</u>	<u>\$ -</u>	<u>\$1,559,214,964</u>
Total assets	<u>\$86,320,460</u>	<u>\$702,207,385</u>	<u>\$776,449,526</u>	<u>\$50,965,053</u>	<u>\$55,668,663</u>	<u>\$ (2,678,798)</u>	<u>\$1,995,420,719</u>
Deferred outflows of resources	\$ 4,079,037	\$ 27,449,125	\$ 31,721,512	\$ 1,421,793	\$ 913,261	\$ -	\$ 81,268,167
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 822,300	\$ 11,725,940	\$ 6,853,534	\$ 401,135	\$ 173,179	\$ (157,009)	\$ 25,163,111
Due to other NDUS institutions	37,147	303,369	1,687,865	2,313	23,893	(2,521,789)	-
Due to component units	-	-	519,065	-	1,000	-	542,368
Accrued payroll	2,162,573	12,442,524	13,685,743	1,154,179	668,801	-	37,363,452
Unearned revenue	628,200	8,417,686	7,708,887	422,120	103,191	-	20,637,588
Deposits	596,225	1,670,330	2,489,794	244,471	(47,959)	-	6,905,628
Long-term liabilities - current portion	-	-	-	-	-	-	-
Due to component units	-	2,352,821	659,270	-	110,498	-	3,269,879
Due to others	418,739	5,970,421	6,052,391	157,051	304,042	-	16,043,613
Total current liabilities	<u>\$ 4,665,184</u>	<u>\$ 42,883,091</u>	<u>\$ 39,656,549</u>	<u>\$ 2,381,269</u>	<u>\$ 1,336,645</u>	<u>\$ (2,678,798)</u>	<u>\$ 109,925,639</u>
Noncurrent liabilities							
Pension liability	\$ 8,384,564	\$ 51,083,526	\$ 62,056,483	\$ 2,845,117	\$ 1,847,432	\$ -	\$ 157,065,812
OPEB liability	397,237	2,404,117	2,908,399	132,121	85,791	-	7,365,193
Other noncurrent liabilities	-	77,067	-	-	7,802	-	503,616
Long - term liabilities	-	-	-	-	-	-	-
Due to component units	-	27,648,947	7,119,168	-	233,511	-	36,070,517
Due to others	8,638,595	139,157,685	107,812,604	10,084,696	10,258,690	-	318,864,025
Total noncurrent liabilities	<u>\$17,420,396</u>	<u>\$220,371,342</u>	<u>\$179,896,654</u>	<u>\$13,061,934</u>	<u>\$12,433,226</u>	<u>\$ -</u>	<u>\$ 519,869,163</u>
Total liabilities	<u>\$22,085,580</u>	<u>\$263,254,433</u>	<u>\$219,553,203</u>	<u>\$15,443,203</u>	<u>\$13,769,871</u>	<u>\$ (2,678,798)</u>	<u>\$ 629,794,802</u>
Deferred inflows of resources	\$ 932,860	\$ 3,892,152	\$ 5,658,764	\$ 245,373	\$ 111,591	\$ -	\$ 13,209,497
<b>NET POSITION</b>							
Net investment in capital assets	\$45,926,597	\$356,976,862	\$421,560,633	\$28,709,082	\$38,105,744	\$ -	\$1,067,650,115
Restricted for:							
Nonexpendable:							
Scholarships and fellowships	5,494	514,931	14,253,509	459,291	54,931	-	18,545,390
Expendable:							
Scholarships and fellowships	2,000	1,252,141	1,861,059	161,397	74,477	-	4,824,038
Research	-	6,471,999	92,548	-	-	-	6,630,184
Institutional	647,944	1,105,657	12,685,986	465,999	34,888	-	16,017,698
Loans	4,121,885	7,580,526	26,889,554	707,097	118,267	-	45,479,178
Capital projects	-	721,115	-	-	-	-	767,906
Debt service	25	1,968,634	2,264,714	441,761	838,306	-	11,028,888
Other	-	-	-	467,645	-	-	529,255
Unrestricted	16,677,112	85,918,060	103,351,068	5,285,998	3,473,849	-	262,211,935
Total net position	<u>\$67,381,057</u>	<u>\$462,509,925</u>	<u>\$582,959,071</u>	<u>\$36,698,270</u>	<u>\$42,700,462</u>	<u>\$ -</u>	<u>\$1,433,684,587</u>

# NORTH DAKOTA UNIVERSITY SYSTEM

Supplementary Information  
JUNE 30, 2018

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	North Dakota University System Office	Bismarck State College	Dakota College of Bottineau	Dickinson State University	Lake Region State College	Mayville State University	Minot State University
<b>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$62.5 million and bad debt allowance of \$857,000)	\$ 5,267,726	\$ 13,299,686	\$ 1,998,049	\$ 6,863,814	\$ 4,258,636	\$ 5,040,360	\$ 15,565,350
Federal grants and contracts (net of bad debt allowance of \$62,000)	231,127	3,746,636	546,906	753,252	576,687	4,512,292	4,020,418
State grants and contracts	-	419,872	315,787	825,520	664,849	167,125	1,588,229
Nongovernmental grants and contracts	99,500	214,433	70,091	-	16,919	475	334,433
Sales and services of educational departments (net of bad debt allowance of \$595,000)	1,551,116	3,331,299	157,580	1,037,246	843,326	1,075,190	1,893,275
Auxiliary enterprises (net of scholarship allowances of \$1.0 million and bad debt allowance of \$178,000)	-	4,549,433	1,547,007	1,720,065	1,755,820	2,167,465	3,398,933
Other (net of bad debt allowance of \$246,000)	-	8,926	5,952	82,130	10,420	12,770	84,294
Total operating revenues	\$ 7,149,469	\$ 25,570,285	\$ 4,641,372	\$ 11,282,027	\$ 8,126,657	\$ 12,975,677	\$ 26,884,932
<b>OPERATING EXPENSES</b>							
Salaries and wages	16,430,910	27,995,710	5,805,844	18,643,368	10,806,799	15,486,480	37,166,732
Operating expenses	10,251,864	10,752,318	2,541,150	7,581,601	2,831,151	4,387,814	11,377,507
Data processing	5,644,729	377,123	131,766	356,042	238,135	126,995	399,726
Depreciation expense	1,543,756	2,986,122	394,249	1,426,613	1,248,433	1,703,211	4,385,261
Scholarships and fellowships	16,039,243	1,369,325	443,193	804,190	624,795	790,902	1,752,742
Cost of sales and services	-	1,987,360	284,923	487,452	749,025	693,930	-
Total operating expenses	\$ 49,910,502	\$ 45,467,958	\$ 9,601,125	\$ 29,299,266	\$ 16,498,338	\$ 23,189,332	\$ 55,081,968
Operating income (loss)	\$ (42,761,033)	\$ (19,897,673)	\$ (4,959,753)	\$ (18,017,239)	\$ (8,371,681)	\$ (10,213,655)	\$ (28,197,036)
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	\$ 51,702,410	\$ 15,131,390	\$ 3,786,000	\$ 14,324,670	\$ 6,137,144	\$ 6,834,276	\$ 19,508,567
Federal appropriations	-	-	-	-	-	-	-
Federal grants and contracts	-	2,688,207	1,079,376	1,428,428	1,291,268	1,367,141	3,253,734
Gifts	17,025	1,125,637	296,545	938,144	912,834	588,663	2,255,050
Endowment and investment income	10,410	16,910	140,508	168,686	5,017	275,173	278,793
Interest on capital asset - related debt	(6,859)	(356,871)	(6,575)	(1,276)	(140,355)	(348,441)	(695,115)
Gain (loss) on disposal of capital assets	-	20,020	-	-	(15,021)	-	700
Insurance proceeds	-	17,242	6,711	9,725	-	-	7,055
Tax revenues	-	-	-	-	-	241,091	-
General and special grant expenditures	(10,043,058)	-	-	-	-	-	-
Transfers to North Dakota Industrial	(3,471,359)	-	-	-	-	-	-
Other nonoperating revenues (expenses) (net of bad debt allowance of \$79,000)	4,524,770	-	935	(19,142)	-	(108,828)	84,263
Net nonoperating revenues (expenses)	\$ 42,733,339	\$ 18,642,535	\$ 5,303,500	\$ 16,849,235	\$ 8,190,887	\$ 8,849,075	\$ 24,693,047
Income (loss) before capital grants, gifts, and transfers	\$ (27,694)	\$ (1,255,138)	\$ 343,747	\$ (1,168,004)	\$ (180,794)	\$ (1,364,580)	\$ (3,503,989)
State appropriations - capital assets	\$ -	\$ 344,136	\$ 65,050	\$ 3,000,961	\$ 834,401	\$ 992,918	\$ 972,196
Capital grants and gifts	-	89,870	162,879	-	47,632	(2,000)	1,192,649
Total other revenue	\$ -	\$ 434,006	\$ 227,929	\$ 3,000,961	\$ 882,033	\$ 990,918	\$ 2,164,845
Increase (decrease) in net position	\$ (27,694)	\$ (821,132)	\$ 571,676	\$ 1,832,957	\$ 701,239	\$ (373,662)	\$ (1,339,144)
<b>NET POSITION</b>							
Net position - beginning of year, as restated	\$ 15,561,329	\$ 52,839,499	\$ 9,891,141	\$ 37,454,162	\$ 14,509,879	\$ 23,687,932	\$ 86,947,620
Net position - end of year	\$ 15,533,635	\$ 52,018,367	\$ 10,462,817	\$ 39,287,119	\$ 15,211,118	\$ 23,314,270	\$ 85,608,476

# NORTH DAKOTA UNIVERSITY SYSTEM

Supplementary Information  
JUNE 30, 2018

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CONTINUED

	North Dakota State College of Science	North Dakota State University	University of North Dakota	Valley City State University	Williston State College	Eliminations	Total
<b>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$62.5 million and bad debt allowance of \$857,000)	\$ 8,483,236	\$ 120,082,759	\$ 144,718,748	\$ 7,164,007	\$ 1,523,501	\$ (50,893)	\$ 334,214,979
Federal grants and contracts (net of bad debt allowance of \$62,000)	743,690	41,133,817	64,711,523	621,399	1,255,235	(3,666,000)	119,186,982
State grants and contracts	700,575	8,675,385	12,753,665	70,495	566,764	(4,981,455)	21,766,811
Nongovernmental grants and contracts	5,961	12,109,851	16,349,919	-	2,474	-	29,204,056
Sales and services of educational departments (net of bad debt allowance of \$595,000)	3,402,976	32,691,045	52,636,936	775,020	3,251,024	(1,787,929)	100,858,104
Auxiliary enterprises (net of scholarship allowances of \$1.0 million and bad debt allowance of \$178,000)	8,570,118	45,258,273	33,997,433	2,930,560	1,835,977	(382,209)	107,348,875
Other (net of bad debt allowance of \$246,000)	185,756	378,524	540,331	12,530	14,785	-	1,336,418
Total operating revenues	<u>\$ 22,092,312</u>	<u>\$ 260,329,654</u>	<u>\$ 325,708,555</u>	<u>\$ 11,574,011</u>	<u>\$ 8,449,760</u>	<u>\$ (10,868,486)</u>	<u>\$ 713,916,225</u>
<b>OPERATING EXPENSES</b>							
Salaries and wages	27,699,937	273,804,949	294,093,833	15,728,325	10,075,033	\$ -	\$ 753,737,920
Operating expenses	9,252,796	86,028,908	108,188,150	4,977,893	3,648,718	(8,541,388)	253,278,482
Data processing	167,812	3,908,912	4,568,564	391,579	267,518	(76,756)	16,502,145
Depreciation expense	3,410,253	25,425,451	25,318,517	1,754,264	2,394,276	-	71,990,406
Scholarships and fellowships	1,406,321	6,958,150	9,730,677	650,837	855,030	(144,000)	41,281,405
Cost of sales and services	2,836,111	8,821,329	7,352,416	407,010	392,797	-	24,012,353
Total operating expenses	<u>\$ 44,773,230</u>	<u>\$ 404,947,699</u>	<u>\$ 449,252,157</u>	<u>\$ 23,909,908</u>	<u>\$ 17,633,372</u>	<u>\$ (8,762,144)</u>	<u>\$ 1,160,802,711</u>
Operating income (loss)	<u>\$(22,680,918)</u>	<u>\$(144,618,045)</u>	<u>\$(123,543,602)</u>	<u>\$(12,335,897)</u>	<u>\$(9,183,612)</u>	<u>\$(2,106,342)</u>	<u>\$(446,886,486)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	\$ 16,800,000	\$ 112,020,735	\$ 102,611,390	\$ 10,053,888	\$ 4,100,000	\$ -	\$ 363,010,470
Federal appropriations	-	7,482,072	-	-	-	-	7,482,072
Federal grants and contracts	3,741,465	11,525,138	10,091,559	1,479,471	1,147,034	-	39,092,821
Gifts	986,008	15,039,830	12,775,858	605,059	2,560,895	(40,918)	38,060,630
Endowment and investment income	790,753	4,624,558	3,562,393	507,646	6,025	-	10,386,872
Interest on capital asset - related debt	(313,371)	(3,930,168)	(4,453,246)	(484,158)	(633,729)	-	(11,370,164)
Gain (loss) on disposal of capital assets	(26,203)	(133,891)	209,235	(514)	(6,026)	-	48,300
Insurance proceeds	-	326,531	159,342	-	-	-	526,606
Tax revenues	-	500,000	4,707,185	-	-	-	5,448,276
General and special grant expenditures	-	-	-	-	-	3,484,559	(6,558,499)
Transfers to North Dakota Industrial	-	(268,642)	-	-	-	-	(3,740,001)
Other nonoperating revenues (expenses) (net of bad debt allowance of \$79,000)	120	(1,284,562)	489,201	(50,753)	3,354	(1,337,299)	2,302,059
Net nonoperating revenues (expenses)	<u>\$ 21,978,772</u>	<u>\$ 145,901,601</u>	<u>\$ 130,152,917</u>	<u>\$ 12,110,639</u>	<u>\$ 7,177,553</u>	<u>\$ 2,106,342</u>	<u>\$ 444,689,442</u>
Income (loss) before capital grants, gifts, and transfers	\$ (702,146)	\$ 1,283,556	\$ 6,609,315	\$ (225,258)	\$ (2,006,059)	\$ -	\$ (2,197,044)
State appropriations - capital assets	\$ 845,754	\$ 2,293,803	\$ 5,687,020	\$ 2,250,100	\$ -	\$ -	\$ 17,286,339
Capital grants and gifts	110,353	2,684,232	333,990	-	132,750	-	4,752,355
Total other revenue	<u>\$ 956,107</u>	<u>\$ 4,978,035</u>	<u>\$ 6,021,010</u>	<u>\$ 2,250,100</u>	<u>\$ 132,750</u>	<u>\$ -</u>	<u>\$ 22,038,694</u>
Increase (decrease) in net position	<u>\$ 253,961</u>	<u>\$ 6,261,591</u>	<u>\$ 12,630,325</u>	<u>\$ 2,024,842</u>	<u>\$ (1,873,309)</u>	<u>\$ -</u>	<u>\$ 19,841,650</u>
<b>NET POSITION</b>							
Net position - beginning of year, as restated	\$ 67,127,096	\$ 456,248,334	\$ 570,328,746	\$ 34,673,428	\$ 44,573,771	\$ -	\$ 1,413,842,937
Net position - end of year	<u>\$ 67,381,057</u>	<u>\$ 462,509,925</u>	<u>\$ 582,959,071</u>	<u>\$ 36,698,270</u>	<u>\$ 42,700,462</u>	<u>\$ -</u>	<u>\$ 1,433,684,587</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**Supplementary Information**  
**June 30, 2018**

**COMBINING STATEMENT OF CASH FLOWS**

	<b>North Dakota University System Office</b>	<b>Bismarck State College</b>	<b>Dakota College of Bottineau</b>	<b>Dickinson State University</b>	<b>Lake Region State College</b>	<b>Mayville State University</b>	<b>Minot State University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Student tuition and fees	\$ 5,248,634	\$ 12,999,190	\$ 1,978,724	6,905,524	\$ 4,264,952	\$ 5,015,669	\$ 15,553,275
Grants and contracts	280,378	5,809,583	971,269	1,550,570	1,058,580	4,164,775	6,137,279
Payments to suppliers	(16,629,172)	(13,459,950)	(2,852,470)	(11,037,511)	(4,216,756)	(4,876,040)	(12,212,285)
Payments to employees	(16,024,688)	(27,562,101)	(5,657,260)	(18,256,389)	(10,640,838)	(14,967,646)	(36,501,627)
Payments for scholarships and fellowships	(16,039,244)	(1,369,325)	(443,193)	(804,190)	(624,795)	(790,903)	(1,752,742)
Loans issued to students	-	(533,325)	(14,694)	(187,912)	(4,000)	(33,765)	(394,987)
Collection of loans to students	-	60,420	26,566	142,592	54,865	69,223	455,439
Auxiliary enterprise charges	-	4,546,252	1,535,083	1,734,575	1,732,887	2,174,093	3,429,856
Sales and service of educational departments	388,851	3,428,820	26,703	1,472,631	850,159	912,864	1,724,167
Cash received/(paid) on deposits	175,936	(16,821)	6,205	46,038	(4,769)	104,445	(1,871)
Other receipts (payments)	3,588,474	64,382	7,656	(10,502)	13,286	(131,616)	177,192
Net cash provided (used) by operating activities	\$ (39,010,831)	\$ (16,032,875)	\$ (4,415,411)	\$ (18,444,574)	\$ (7,516,429)	\$ (8,358,901)	\$ (23,386,304)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 51,645,333	\$ 15,351,450	\$ 3,786,000	\$ 14,324,670	\$ 6,142,144	\$ 6,834,276	\$ 19,520,863
Federal appropriations	-	-	-	-	-	-	-
Grants and gifts received for other than capital purposes	17,026	4,104,233	1,375,922	2,366,573	2,204,102	1,955,806	5,508,785
Grants given for other than capital purposes	(10,043,058)	-	-	-	-	-	-
Direct Lending Receipts	-	7,145,388	1,963,987	4,318,002	2,195,720	4,115,662	8,813,807
Direct Lending Disbursements	-	(7,160,976)	(1,977,941)	(4,318,002)	(2,195,720)	(4,113,592)	(8,806,630)
Agency fund cash increase/(decrease)	(8,492)	229,442	(4,843)	(15,916)	(111,369)	64,404	(60,531)
Transfers to Industrial Commission	(3,471,359)	-	-	-	-	-	-
Tax revenues	-	-	-	-	-	241,088	-
Net cash flows provided (used) by noncapital financing activities	\$ 38,139,450	\$ 19,669,537	\$ 5,143,125	\$ 16,675,327	\$ 8,234,877	\$ 9,097,644	\$ 24,976,294
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ -	\$ -	\$ 7,557,272	\$ 17,498	\$ 181,385	\$ -
Capital appropriations	1,383,748	303,603	170,441	2,648,018	1,044,168	-	882,719
Capital grants and gifts received	-	89,870	162,879	50,000	47,633	(2,000)	1,172,549
Proceeds from sale of capital assets	-	2,600	-	-	10,908	-	-
Purchases of capital assets	(1,049,800)	(316,449)	(495,789)	(6,690,321)	(971,868)	(1,582,562)	(1,754,286)
Insurance proceeds	-	17,240	6,707	9,725	-	-	7,049
Principal paid on capital debt and lease	(54,792)	(836,084)	(14,340)	(16,430)	(412,056)	(866,051)	(405,223)
Deposits with capital debt payment trustees	-	-	-	-	-	-	-
Interest paid on capital debt and lease	(6,860)	(366,570)	(6,574)	(1,276)	(140,356)	(320,885)	(708,052)
Net cash provided (used) by capital and related financing activities	\$ 272,296	\$ (1,105,790)	\$ (176,676)	\$ 3,556,988	\$ (404,073)	\$ (2,590,113)	\$ (805,244)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 3,561,000	\$ -	\$ -	\$ 105,000	\$ -	\$ (587,713)
Interest on investments	10,413	16,864	140,508	168,308	5,015	274,879	287,646
Purchase of investments	-	(3,626,000)	-	-	-	(14)	522,515
Net cash provided (used) by investing activities	\$ 10,413	\$ (48,136)	\$ 140,508	\$ 168,308	\$ 110,015	\$ 274,865	\$ 222,448
Net increase (decrease) in cash	\$ (588,672)	\$ 2,482,736	\$ 691,546	\$ 1,956,049	\$ 424,390	\$ (1,576,505)	\$ 1,007,194
CASH - BEGINNING OF YEAR, as restated	\$ 16,793,710	\$ 7,638,396	2,377,991	3,876,841	\$ 5,500,536	\$ 5,003,847	\$ 22,336,784
CASH - END OF YEAR	\$ 16,205,038	\$ 10,121,132	\$ 3,069,537	\$ 5,832,890	\$ 5,924,926	\$ 3,427,342	\$ 23,343,978

**NORTH DAKOTA UNIVERSITY SYSTEM**

Supplementary Information

June 30, 2018

**COMBINING STATEMENT OF CASH FLOWS**

	<u>North Dakota University System Office</u>	<u>Bismarck State College</u>	<u>Dakota College of Bottineau</u>	<u>Dickinson State University</u>	<u>Lake Region State College</u>	<u>Mayville State University</u>	<u>Minot State University</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ (42,761,033)	\$ (19,897,673)	\$ (4,959,753)	\$ (18,017,239)	\$ (8,371,681)	\$ (10,213,655)	\$ (28,197,036)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities							
Depreciation expense	1,543,756	2,986,122	394,249	1,426,613	1,248,433	1,703,211	4,385,261
Other nonoperating revenues (expenses)	3,596,818	(7,596)	25,536	(74,624)	-	(111,307)	80,659
Change in assets, deferred outflows, liabilities and deferred inflows							
Accounts receivable adjusted for interest receivable	(1,181,357)	(207,376)	(175,737)	440,769	(13,988)	(49,505)	(209,741)
Grant & contract receivables	(50,250)	1,428,641	38,483	(28,203)	(199,876)	(515,118)	194,198
Inventories	-	(40,731)	-	420,544	31,096	(14,317)	-
Notes receivable	-	(471,275)	15,611	(19,880)	64,372	55,052	108,359
Other assets	(8,344)	63,051	(23,832)	(18,008)	2,865	(33,079)	12,239
Accounts payable and accrued liabilities adjusted for interest payable	(732,576)	(300,034)	100,548	(3,007,565)	(456,182)	243,285	(493,589)
Pension liability	2,135,441	2,208,213	314,512	1,321,970	871,483	1,715,375	2,260,628
OPEB liability	31,893	51,135	8,394	29,117	20,425	34,300	55,643
Net change in deferred outflows	(1,608,838)	(1,786,945)	(282,187)	(1,075,212)	(738,206)	(1,282,735)	(1,937,852)
Net change in deferred inflows	(10,129)	140,341	38,186	78,682	66,847	30,978	270,674
Accrued payroll	(90,167)	(247,677)	72,828	116,592	(17,381)	(1,030)	(67,039)
Compensated absences	(51,978)	68,544	(3,149)	(84,168)	(37,206)	21,948	83,051
Unearned revenue	-	(2,795)	14,693	-	17,338	(46,747)	70,110
Deposits	175,933	(16,822)	6,207	46,038	(4,768)	104,443	(1,869)
Net cash provided (used) by operating activities	<u>\$ (39,010,831)</u>	<u>\$ (16,032,877)</u>	<u>(4,415,411)</u>	<u>\$ (18,444,574)</u>	<u>\$ (7,516,429)</u>	<u>\$ (8,358,901)</u>	<u>\$ (23,386,304)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>							
Assets acquired through capital lease	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assets acquired through special assessment	-	-	-	-	-	-	-
Expenses paid by capital lease/special assessments	-	-	-	19,190	-	-	-
Gifts of capital assets	-	-	-	-	-	-	20,100
Net increases (decrease) in value of investments	-	-	-	-	-	-	(9,523)
Total non-cash transactions	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 19,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,577</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**Supplementary Information**  
**June 30, 2018**

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**

	<b>North Dakota State College of Science</b>	<b>North Dakota State University</b>	<b>University of North Dakota</b>	<b>Valley City State University</b>	<b>Williston State College</b>	<b>Eliminations</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Student tuition and fees	\$ 8,714,470	\$ 120,121,720	\$ 145,506,898	\$ 7,147,596	\$ 1,834,065	\$ (50,893)	\$ 335,239,824
Grants and contracts	2,112,672	60,901,975	91,571,299	852,678	1,973,384	(8,647,455)	168,736,987
Payments to suppliers	(12,976,280)	(101,409,333)	(116,066,308)	(5,655,551)	(4,601,856)	8,618,144	(297,375,368)
Payments to employees	(27,015,410)	(271,243,790)	(293,357,205)	(15,571,623)	(9,860,783)	-	(746,659,360)
Payments for scholarships and fellowships	(1,406,322)	(6,958,150)	(9,730,677)	(650,837)	(855,031)	144,000	(41,281,409)
Loans issued to students	-	(1,290,860)	(2,614,488)	(77,711)	-	-	(5,151,742)
Collection of loans to students	196,279	1,257,421	3,683,305	89,925	24,936	-	6,060,971
Auxiliary enterprise charges	8,732,142	45,505,305	33,777,459	2,945,815	2,062,724	(382,209)	107,793,982
Sales and service of educational departments	3,395,258	32,566,532	50,912,494	752,987	2,939,992	(1,787,929)	97,583,529
Cash received/(paid) on deposits	(107,052)	(12,523)	26,616	(20,552)	33,077	-	228,729
Other receipts (payments)	176,845	(235,253)	1,065,262	(38,609)	(48,734)	(1,337,298)	3,291,085
Net cash provided (used) by operating activities	\$ (18,177,398)	\$ (120,796,956)	\$ (95,225,345)	\$ (10,225,882)	\$ (6,498,226)	\$ (3,443,640)	\$ (371,532,772)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 16,813,919	\$ 117,120,851	\$ 95,086,097	\$ 10,053,888	\$ 4,752,151	\$ -	\$ 361,431,642
Federal appropriations	-	7,482,072	-	-	-	-	7,482,072
Grants and gifts received for other than capital purposes	4,727,474	26,576,770	22,476,887	2,084,530	3,707,929	(40,918)	77,065,119
Grants given for other than capital purposes	-	-	-	-	-	3,484,559	(6,558,499)
Direct Lending Receipts	8,361,494	54,466,471	98,101,867	4,490,056	1,626,315	-	195,598,769
Direct Lending Disbursements	(8,361,494)	(54,466,471)	(97,930,030)	(4,490,056)	(1,591,360)	-	(195,412,272)
Agency fund cash increase/(decrease)	76,020	126,291	91,952	206,500	(9,236)	-	584,222
Transfers to Industrial Commission	-	(268,643)	-	-	-	-	(3,740,002)
Tax revenues	-	500,000	4,707,182	-	-	-	5,448,270
Net cash flows provided (used) by noncapital financing activities	\$ 21,617,413	\$ 151,537,341	\$ 122,533,955	\$ 12,344,918	\$ 8,485,799	\$ 3,443,641	\$ 441,899,321
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ 74,662,082	\$ 3,212,733	\$ 25,524	\$ -	\$ -	\$ 85,656,494
Capital appropriations	1,544,329	4,744,875	6,570,649	2,230,237	-	-	21,522,787
Capital grants and gifts received	110,353	2,650,433	278,354	-	-	-	4,560,071
Proceeds from sale of capital assets	-	-	1,377,952	635	-	-	1,392,095
Purchases of capital assets	(1,720,324)	(45,233,459)	(21,022,292)	(2,710,788)	(396,715)	-	(83,944,653)
Insurance proceeds	-	326,527	71,962	-	-	-	439,210
Principal paid on capital debt and lease	(316,857)	(6,606,057)	(7,738,634)	(176,403)	(371,586)	-	(17,814,513)
Deposits with capital debt payment trustees	-	(22,540,000)	(3,718,648)	-	-	-	(26,258,648)
Interest paid on capital debt and lease	(315,153)	(5,044,077)	(4,213,919)	(484,159)	(633,730)	-	(12,241,611)
Net cash provided (used) by capital and related financing activities	\$ (697,652)	\$ 2,960,324	\$ (25,181,843)	\$ (1,114,954)	\$ (1,402,031)	\$ -	\$ (26,688,768)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 6,086,646	\$ 80,250,001	\$ 520,475	\$ -	\$ -	\$ 89,935,409
Interest on investments	790,478	3,538,031	3,282,980	507,647	6,008	-	9,028,777
Purchase of investments	-	(40,969,984)	(77,250,000)	(629,173)	-	-	(121,952,656)
Net cash provided (used) by investing activities	\$ 790,478	\$ (31,345,307)	\$ 6,282,981	\$ 398,949	\$ 6,008	\$ -	\$ (22,988,470)
Net increase (decrease) in cash	\$ 3,532,841	\$ 2,355,402	\$ 8,409,748	\$ 1,403,031	\$ 591,550	\$ -	\$ 20,689,310
CASH - BEGINNING OF YEAR, as restated	24,169,271	\$ 52,832,302	\$ 36,845,391	6,195,135	4,176,916	-	187,747,120
CASH - END OF YEAR	\$ 27,702,112	\$ 55,187,704	\$ 45,255,139	\$ 7,598,166	\$ 4,768,466	\$ -	\$ 208,436,430

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**Supplementary Information**  
**June 30, 2018**

**COMBINING STATEMENT OF CASH FLOWS - CONTINUED**

	<b>North Dakota State College of Science</b>	<b>North Dakota State University</b>	<b>University of North Dakota</b>	<b>Valley City State University</b>	<b>Williston State College</b>	<b>Eliminations</b>	<b>Total</b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ (22,680,918)	\$ (144,618,045)	\$ (123,543,602)	\$ (12,335,897)	\$ (9,183,612)	\$ (2,106,342)	\$ (446,886,486)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities							
Depreciation expense	3,410,253	25,425,451	25,318,517	1,754,264	2,394,276	-	71,990,406
Other nonoperating revenues (expenses)	(8,912)	(983,247)	480,918	(50,754)	(15,809)	(1,337,298)	1,594,384
Change in assets, deferred outflows, liabilities and deferred inflows							
Accounts receivable adjusted for interest receivable	377,594	(465,445)	(763,683)	16,253	135,934	2,678,798	582,516
Grant & contract receivables	662,445	(1,082,795)	(2,243,808)	160,783	148,909	-	(1,486,591)
Inventories	57,460	439,246	315,778	3,647	(39,002)	-	1,173,721
Notes receivable	228,828	13,215	1,218,000	26,768	33,410	-	1,272,460
Other assets	-	369,469	44,012	(386)	(47,708)	-	360,279
Accounts payable and accrued liabilities adjusted for interest payable	(889,498)	(2,727,511)	3,108,542	106,016	(188,728)	(2,678,798)	(7,916,090)
Pension liability	2,728,780	18,207,966	22,990,951	874,549	686,745	-	56,316,613
OPEB liability	65,060	382,741	468,779	21,827	13,769	-	1,183,083
Net change in deferred outflows	(2,270,857)	(14,313,159)	(17,578,487)	(749,817)	(536,805)	-	(44,161,100)
Net change in deferred inflows	184,571	584,005	(349,582)	125,657	4,067	-	1,164,297
Accrued payroll	(36,636)	(2,146,875)	(4,912,838)	(32,075)	27,417	-	(7,334,881)
Compensated absences	13,608	(87,801)	117,807	(83,439)	19,057	-	(23,726)
Unearned revenue	87,877	218,350	76,736	(42,728)	16,779	-	409,613
Deposits	(107,053)	(12,521)	26,615	(20,550)	33,077	-	228,730
Net cash provided (used) by operating activities	<u>\$ (18,177,398)</u>	<u>\$ (120,796,956)</u>	<u>\$ (95,225,345)</u>	<u>\$ (10,225,882)</u>	<u>\$ (6,498,224)</u>	<u>\$ (3,443,640)</u>	<u>\$ (371,532,772)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>							
Assets acquired through capital lease	\$ -	\$ -	\$ 4,973,980	\$ 17,639	\$ -	\$ -	\$ 4,991,619
Assets acquired through special assessment	-	-	-	35,190	17,160	-	52,350
Expenses paid by capital lease/special assessments	-	450,262	-	-	-	-	469,452
Gifts of capital assets	-	11,700	77,800	-	132,750	-	242,350
Net increases (decrease) in value of investments	176	777,769	844,610	-	-	-	1,613,032
Total non-cash transactions	<u>\$ 176</u>	<u>\$ 1,239,731</u>	<u>\$ 5,896,390</u>	<u>\$ 52,829</u>	<u>\$ 149,910</u>	<u>\$ -</u>	<u>\$ 7,368,803</u>

# NORTH DAKOTA UNIVERSITY SYSTEM

## Supplementary Information

June 30, 2018

### Combining Statement of Financial Position -- Non-Major Component Units

	MiSU Development Foundation June 30, 2018	NDSCS Foundation June 30, 2018	WSC Foundation June 30, 2018	Total Non-major Component
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 314,667	\$ 855,905	\$ 7,711,370	\$ 8,881,942
Investments	-	16,334,723	107,614	16,442,337
Accounts receivable, net	2,953	196,869	268,214	468,036
Receivable from primary institution	-	-	110,181	110,181
Unconditional promises to give, net of allowance	418,466	55,000	247,250	720,716
Other assets	28,456	-	39,284	67,740
Total current assets	<u>\$ 764,542</u>	<u>\$ 17,442,497</u>	<u>\$ 8,483,913</u>	<u>\$ 26,690,952</u>
Noncurrent assets				
Investments:				
Investments, net of current portion	\$ 23,736,842	\$ -	\$ 14,149,585	\$ 37,886,427
Investments held in trust	3,239,709	-	493,764	3,733,473
Other long-term investments	-	-	1,373,481	1,373,481
Total investments	<u>\$ 26,976,551</u>	<u>\$ -</u>	<u>\$ 16,016,830</u>	<u>\$ 42,993,381</u>
Long term pledges				
receivable/unconditional promises to give	\$ 927,373	\$ 276,699	\$ 1,053,750	\$ 2,257,822
Receivable from primary institution	-	-	244,269	244,269
Other noncurrent assets	97,763	200,000	61,652	359,415
Capital assets, net	5,358,655	1,672,839	9,485,825	16,517,319
Total noncurrent assets	<u>\$ 33,360,342</u>	<u>\$ 2,149,538</u>	<u>\$ 26,862,326</u>	<u>\$ 62,372,206</u>
Total assets	<u>\$ 34,124,884</u>	<u>\$ 19,592,035</u>	<u>\$ 35,346,239</u>	<u>\$ 89,063,158</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 2,106	\$ 19,425	\$ 94,064	\$ 115,595
Payable to university	114,542	290,268	40,386	445,196
Accrued payroll	-	-	1,530	1,530
and life income agreements	38,371	-	-	38,371
Deferred revenue	-	255,000	-	255,000
Deposits held in custody for others	-	-	493,764	493,764
Other current liabilities	2,334	-	21,442	23,776
Long-term liabilities--current portion	122,100	64,385	153,253	339,738
Total current liabilities	<u>\$ 279,453</u>	<u>\$ 629,078</u>	<u>\$ 804,439</u>	<u>\$ 1,712,970</u>
Noncurrent liabilities				
Gift annuities and life income				
agreements, net of current portion	\$ 261,624	\$ 230,298	\$ -	\$ 491,922
Investments held on behalf of institutions	3,239,709	-	-	3,239,709
Long-term liabilities	2,044,774	1,547,017	6,010,432	9,602,223
Total noncurrent liabilities	<u>5,546,107</u>	<u>1,777,315</u>	<u>6,010,432</u>	<u>13,333,854</u>
Total liabilities	<u>\$ 5,825,560</u>	<u>\$ 2,406,393</u>	<u>\$ 6,814,871</u>	<u>\$ 15,046,824</u>
<b>NET ASSETS</b>				
Temporarily restricted	\$ 1,534,719	\$ 1,490,911	\$ 17,372,890	\$ 20,398,520
Permanently restricted	24,179,111	14,637,116	7,678,506	46,494,733
Unrestricted	2,585,494	1,057,615	3,479,972	7,123,081
Total net assets	<u>\$ 28,299,324</u>	<u>\$ 17,185,642</u>	<u>\$ 28,531,368</u>	<u>\$ 74,016,334</u>
Total liabilities and net assets	<u>\$ 34,124,884</u>	<u>\$ 19,592,035</u>	<u>\$ 35,346,239</u>	<u>\$ 89,063,158</u>

# NORTH DAKOTA UNIVERSITY SYSTEM

Supplementary Information

June 30, 2018

## COMBINING STATEMENT OF ACTIVITIES, Non-Major Component Units

### FASB BASIS

	MiSU			
	Development	NDS	WSC	
	Foundation	Foundation	Foundation	Total
	June 30, 2018	June 30, 2018	June 30, 2018	
<b>Support and revenue</b>				
Contributions, grants and donations	\$ 4,261,755	\$ 1,201,078	\$ 348,399	\$ 5,811,232
Government grants and contracts	133,498	-	-	133,498
In-Kind contributions	177,509	-	-	177,509
Gifts and contributions	\$ 4,572,762	\$ 1,201,078	\$ 348,399	\$ 6,122,239
Investment income				
Dividends and interest	\$ 593,289	\$ -	\$ 342,349	\$ 935,638
Investment income	-	1,045,846	(29,589)	1,016,257
Change in split interest agreements	14,189	(49,617)	-	(35,428)
Investment income	\$ 607,478	\$ 996,229	\$ 312,760	\$ 1,916,467
Net realized and unrealized gains (losses) on investment securities	\$ 953,351	\$ -	\$ 412,940	\$ 1,366,291
Program and event income	\$ -	\$ -	\$ 3,978,235	\$ 3,978,235
Other income	\$ 525,301	\$ 776,463	\$ 3,557,699	\$ 4,859,463
Total support and revenue	\$ 6,658,892	\$ 2,973,770	\$ 8,610,033	\$ 18,242,695
<b>EXPENSES</b>				
Program Services	\$ -	\$ 1,109,612	\$ 2,339,005	\$ 3,448,617
Supporting services	3,404,902	488,922	5,823,087	9,716,911
Fundraising expense	-	75,234	-	75,234
Total expenses	\$ 3,404,902	\$ 1,673,768	\$ 8,162,092	\$ 13,240,762
Change in Net Assets	\$ 3,253,990	\$ 1,300,002	\$ 447,941	\$ 5,001,933
Net Assets, Beginning of Year, as restated	\$ 25,045,334	\$ 15,885,640	\$ 28,083,427	\$ 69,014,401
Net Assets, End of Year	\$ 28,299,324	\$ 17,185,642	\$ 28,531,368	\$ 74,016,334

# North Dakota University System

## Supplementary Information

June 30, 2018

### SCHEDULE OF BONDS PAYABLE - Primary Institution

Issue	Original Balance	Original Discount (Premium)	Original Balance, Net of Discount (Premium)	Interest Rate	Installments	Balance Outstanding
<b>Bismarck State College</b>						
2015 Housing & Auxiliary Facilities, due through 2030, collateralized by net revenues of housing & auxiliary system and College Fee, interest rate fixed.	\$ 3,005,000	\$ 59,569	\$ 3,064,569	2.0 - 3.0%	\$160,000 to \$275,000	\$ 2,547,655
2012 Housing & Auxiliary Facilities, due through 2033, collateralized by net revenues of housing & auxiliary system and College Fee, interest rate fixed.	7,000,000	119,765	7,119,765	2.0 - 4.0%	\$265,000 to \$475,000	5,705,548
Total BSC	<u>\$ 10,005,000</u>	<u>\$ 179,334</u>	<u>\$ 10,184,334</u>			<u>\$ 8,253,203</u>
<b>Mayville State University</b>						
2013 Facilities Revenue Bonds, due through the year 2024, collateralized by student fees, sales tax and earnings, interest rate fixed.	\$ 1,850,000	\$ 35,057	\$ 1,885,057	2.0-3.25%	\$181,516 to \$213,413	\$ 1,197,527
2017 Facilities Revenue Bonds (2010 Refund), due through year 2030, collateralized by Housing and Facilities revenue, student fees, federal interest subsidy related to the bond interest payments and earnings on funds created under the indenture	2,800,000	-	2,800,000	1.25%-3.25%	\$185,000 to \$255,000	2,600,000
Total MaSU	<u>\$ 4,650,000</u>	<u>\$ 35,057</u>	<u>\$ 4,685,057</u>			<u>\$ 3,797,527</u>
<b>Minot State University</b>						
2015 Student Services Facilities Revenue Bonds refunding due through 2030, collateralized by net revenues from auxiliary housing.	\$ 3,305,000	\$ 128,825	\$ 3,433,825	2.0-4.0%	\$195,000 to \$290,000	3,004,472
2010 Wellness Fund, due August 1, 2040, collateralized by student fees and net revenues from the Wellness Center, housing and the student union.	10,000,000	-	10,000,000	2.0-6.6%	\$135,000 to \$1,415,000	8,965,000
Total MiSU	<u>\$ 13,305,000</u>	<u>\$ 128,825</u>	<u>\$ 13,433,825</u>			<u>\$ 11,969,472</u>
<b>North Dakota State College of Science</b>						
2012 Housing Facilities Revenue Bonds, due through 2037, fixed rate collateralized by net housing and auxiliary facilities pledged revenues.	\$ 9,000,000	\$ -	\$ 9,000,000	3.76%	\$265,000 to \$545,000	\$ 7,625,000
Total NDSCS	<u>\$ 9,000,000</u>	<u>\$ -</u>	<u>\$ 9,000,000</u>			<u>\$ 7,625,000</u>
<b>North Dakota State University</b>						
2012A Housing & Auxiliaries Facilities Revenue Bonds, Maturity April 1, 2027, collateralized by auxiliary revenue	\$ 5,730,000	\$ 62,552	\$ 5,792,552	2.0-3.0%	\$455,956 to \$465,450	3,701,287
2014A Housing & Auxiliary Facilities Revenue Refunding Bonds Maturity April 1, 2034, collateralized by net revenues of housing and auxiliary services, interest rate fixed.	8,340,000	108,914	8,448,914	2.0-4.0%	\$575,237 to \$581,250	\$ 7,140,218
2015A Housing & Auxiliary Facilities Refunding Bonds Maturity April 1, 2036 collateralized by net revenues of housing and auxiliary services, interest rate fixed	21,195,000	2,185,340	23,380,340	3.0 - 5.0%	\$2,351,200 \$2,351,200	18,502,589
2015B Housing & Auxiliary Facilities Bonds, Maturity April 1, 2035, collateralized by net revenues of housing and auxiliary services, interest rate fixed	9,355,000	366,958	9,721,958	2.0 - 5.0%	\$524,659 to \$683,806	8,746,217
2016 Housing & Auxiliary Facilities Refunding Bonds, Maturity April 1, 2036, collateralized by net revenues of housing and auxiliary services, interest rate fixed	10,405,000	310,288	10,715,288	2.0 - 4.0%	\$534,469 to \$671,575	9,958,867
2016 Research & Tech Park Taxable Lease Refunding Bonds, Maturity May 1, 2032, collateralized by lease revenues, interest rate fixed	18,790,000	-	18,790,000	1.1 - 3.9%	\$1,254,452 to \$1,806,231	16,045,000
2017A Housing & Auxiliary Facilities Bonds, Maturity April 1, 2047, collateralized by net revenues of housing and auxiliary services, interest rate fixed	48,770,000	1,522,948	50,292,948	2.0 - 5.0%	\$1,833,019 to \$2,782,350	50,245,890

# North Dakota University System

## Supplementary Information

June 30, 2018

### SCHEDULE OF BONDS PAYABLE - Primary Institution

Issue	Original Balance	Original Discount (Premium)	Original Balance, Net of Discount (Premium)	Interest Rate	Installments	Balance Outstanding
2017B Housing & Auxiliary Facilities Refunding Bonds, Maturity April 1, 2039, collateralized by net revenues of housing and auxiliary services, interest rate fixed	22,755,000	1,500,818	24,255,818	2.0 - 5.0%	\$1,539,325 to \$1,544,338	23,757,321
Total NDSU	<u>\$ 145,340,000</u>	<u>\$ 6,057,818</u>	<u>\$ 151,397,818</u>			<u>\$ 138,097,389</u>
<b>University of North Dakota</b>						
2015 Housing & Auxiliary Facilities Revenue Bonds due through 2035, collateralized by net housing and auxiliary facilities system, debt service grants, and bond indenture earnings, fixed rate.	\$ 38,985,000	\$ 1,489,517	\$ 40,474,517	3.0-4.0%	\$2,719,125 to \$2,835,607	\$ 35,441,536
2009 Aerospace Hanger Revenue Bonds due through 2029, collateralized by revenue from flight operations and proceeds from any casualty insurance payments.	1,500,000	-	1,500,000	4.25%	\$73,016 to \$133,054	856,500
2012 Housing & Auxiliaries Facilities Revenue Bonds, Maturity April 1, 2027, collateralized by housing and auxiliary revenue.	17,360,000	1,561,940	18,921,940	2-5%	\$220,000 to \$1,115,000	15,535,905
2012 EERC Revenue Bonds, maturity June 1, 2027, variable interest rate	6,405,000	-	6,405,000	0.75-4.2%	\$325,000 to \$540,000	4,180,000
2013 Housing & Auxiliaries Facilities Revenue Bonds Maturity April 1, 2034 collateralized by net housing and auxiliary facilities system revenue	8,130,000	81,122	8,211,122	2.0%-4.1%	\$300,000 to \$560,000	6,962,891
2014 Housing & Auxiliaries Facilities Revenue Bonds Maturity April 1, 2044 collateralized by net housing and auxiliary facilities system revenue	27,305,000	302,110	27,607,110	3.0%-4.0%	\$475,000 to \$1,465,000	25,378,378
Total UND	<u>\$ 99,685,000</u>	<u>\$ 3,434,689</u>	<u>\$ 103,119,689</u>			<u>\$ 88,355,210</u>
<b>Valley City State University</b>						
2010 Housing & Auxiliary Facilities Revenue Bonds for the renovation of Snoeyenbos Hall Revenue Bonds due through 2040, collateralized by net housing and auxiliary facilities system, interest is variable and ranges from 2.8% to 7.05%	\$ 3,430,000	\$ -	\$ 3,430,000	2.8% - 7.05%	\$25,000 to \$380,000	\$ 3,175,000
2013 Housing & Auxiliary Facilities Revenue Bonds due through 2033, collateralized by net housing and auxiliary facilities system, interest rate fixed.	2,565,000	-	2,565,000	3% - 4%	\$40,000 to \$185,000	2,170,000
Total VCSU	<u>\$ 5,995,000</u>	<u>\$ -</u>	<u>\$ 5,995,000</u>			<u>\$ 5,345,000</u>
<b>Williston State College</b>						
2010 Housing and Auxiliary Services, matures 2041				6.9%	\$200,000 to \$505,000	
Total WSC	<u>\$ 9,375,000</u>	<u>\$ -</u>	<u>\$ 9,375,000</u>			<u>\$ 7,890,000</u>
Total Bonds Payable	<u>\$ 297,355,000</u>	<u>\$ 9,835,723</u>	<u>\$ 307,190,723</u>			<u>\$ 271,332,801</u>

# NORTH DAKOTA UNIVERSITY SYSTEM

## Supplementary Information

June 30, 2018

### Financial Information for Revenue Producing Buildings (Unaudited)

(as Required by ND Century Code 15-55-20)

	DCB					
	Bismarck	Dakota	Dickinson	Lake Region	Mayville	Minot
	State	State	State	State	State	State
	College	College	University	College	University	University
Operating Revenues	\$ 4,752,278	\$ -	\$ -	\$ -	\$ 2,175,190	\$ 651,238
Operating Expenses	4,941,062	-	-	-	1,882,808	528,549
Net Operating Revenues	<u>\$ (188,784)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,382</u>	<u>\$ 122,689</u>
Pledged Fees	\$ 454,652	\$ -	\$ -	\$ -	\$ 89,239	\$ 1,031,003
Non Operating Revenue	531,400	-	-	-	128,904	84,986
Investment Income	88	-	-	-	-	2,138
Debt Service Grants	-	-	-	-	122,024	187,496
Net Revenue Available for Debt Retirement	<u><u>\$ 797,356</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 632,549</u></u>	<u><u>\$ 1,428,312</u></u>
Current year Debt Service Principal	\$ 465,000	\$ -	\$ -	\$ -	\$ 200,000	\$ 365,000
Interest	<u>256,704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,399</u>	<u>666,003</u>
Total Debt Service	<u><u>\$ 721,704</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 314,399</u></u>	<u><u>\$ 1,031,003</u></u>

# NORTH DAKOTA UNIVERSITY SYSTEM

## Supplementary Information

June 30, 2018

### Financial Information for Revenue Producing Buildings (Unaudited) - Continued

(as Required by ND Century Code 15-55-20)

	North Dakota State College of Science	North Dakota State University	University of North Dakota	Valley City State University	Williston State College	Total
Operating Revenues	\$ 8,829,160	\$ 44,940,097	\$ 33,876,491	\$ 3,072,919	\$ 652,137	\$ 90,120,350
Operating Expenses	7,638,436	35,761,805	30,319,406	2,600,106	253,389	76,287,125
Net Operating Revenues	<u>\$ 1,190,724</u>	<u>\$ 9,178,292</u>	<u>\$ 3,557,085</u>	<u>\$ 472,813</u>	<u>\$ 398,748</u>	<u>\$ 13,833,225</u>
Pledged Fees	\$ 315,942	\$ 6,317,876	\$ 3,497,130	\$ 122,612	\$ 90,000	\$ 11,602,512
Non Operating Revenue	55,036	3,320,913	-	490,035	-	4,556,238
Investment Income	1,907	5,062	40,449	90,663	301,408	439,808
Debt Service Grants	-	-	-	-	-	309,520
Net Revenue Available for Debt Retirement	<u><u>\$ 1,563,609</u></u>	<u><u>\$ 18,822,143</u></u>	<u><u>\$ 7,094,664</u></u>	<u><u>\$ 1,176,123</u></u>	<u><u>\$ 790,156</u></u>	<u><u>\$ 30,741,303</u></u>
Current year Debt Service						
Principal	\$ 285,000	\$ 3,460,000	\$ 3,200,000	\$ 155,000	\$ 225,000	\$ 8,070,000
Interest	<u>291,131</u>	<u>2,569,901</u>	<u>3,046,644</u>	<u>292,900</u>	<u>543,728</u>	<u>7,490,279</u>
Total Debt Service	<u><u>\$ 576,131</u></u>	<u><u>\$ 6,029,901</u></u>	<u><u>\$ 6,246,644</u></u>	<u><u>\$ 447,900</u></u>	<u><u>\$ 768,728</u></u>	<u><u>\$ 15,560,279</u></u>