

# ANNUAL FINANCIAL REPORT

June 30, 2014





# NORTH DAKOTA UNIVERSITY SYSTEM

## ANNUAL FINANCIAL REPORT

Fiscal Year Ended  
JUNE 30, 2014

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**

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## **INDEPENDENT AUDITOR'S REPORT**

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

The State Board of Higher Education

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, 2014, and the related notes to the financial statements, which collectively comprise the North Dakota University System's basic 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, with the exception of Dickinson State University Foundation, 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 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**

The financial statements of the Dickinson State University Foundation have not been audited, and we were not engaged to audit the Dickinson State University Foundation financial statements as part of our audit of the North Dakota University System's basic financial statements. Dickinson State University Foundation's financial activities are included in the North Dakota University System's financial statements as a major discretely presented component unit and represent 2.7 percent, 1.5 percent, and 1.7 percent of the assets, net position, and revenues, respectively, of the North Dakota University System's aggregate discretely presented component units.

**Qualified Opinion**

In our opinion, except for the possible 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, 2014, 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 respective financial position of the business-type activities of the North Dakota University System as of June 30, 2014, and the respective changes in financial position and, where applicable, 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, *New Accounting Pronouncements*, to the financial statements, the North Dakota University System adopted the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

As described in Note 15, there are circumstances surrounding the Dickinson State University Foundation that could negatively impact Dickinson State University. Our opinion is not modified with respect to this matter.

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, 2014, 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.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 basic financial statements. The combining statements and the Schedule of Bonds Payable – Primary Institution listed in the table of contents are presented for the purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and Schedule of Bonds Payable – Primary Institution are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial

statements as a whole.

The Financial Information for Revenue Producing Buildings has not been subjected to the auditing procedures applied in the audit of the basic 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 December 10, 2014 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 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 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.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

Fargo, North Dakota

December 10, 2014

**NORTH DAKOTA UNIVERSITY SYSTEM  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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, 2014. It is designed to focus on the current year’s activities, resulting changes and currently known facts to assist readers in understanding the accompanying financial statements.

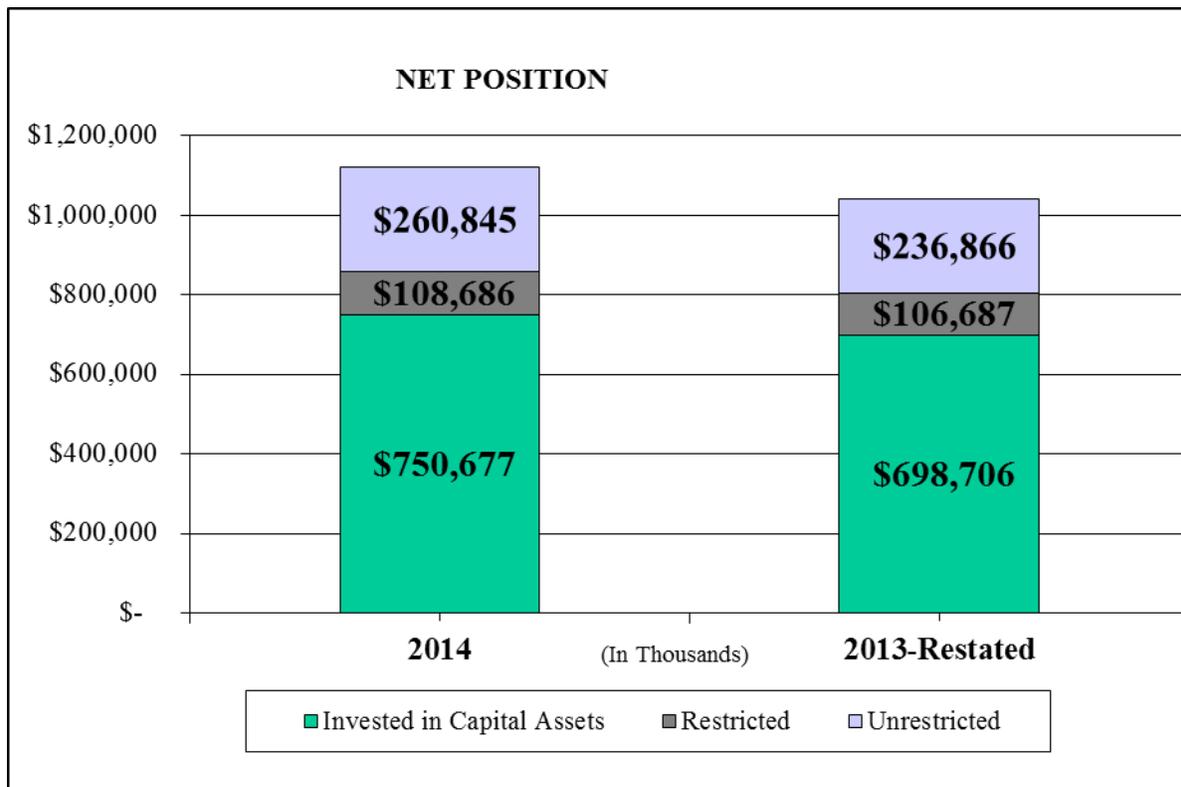
This discussion provides an overview of the financial position of the System for the year ended June 30, 2014 and should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes, and this discussion and analysis are the responsibility of management.

Activities from the eleven public post-secondary campuses, 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 overall financial standing continues to be sound with total assets and deferred outflows of resources of \$1.569 billion and total liabilities and deferred inflows of \$448.6 million, resulting in a net position total of \$1.120 billion (an increase of \$77.9 million over the previous fiscal year).

The following graph illustrates the net position breakdown for fiscal years ending June 30, 2014 and 2013:



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

### **JUNE 30, 2014**

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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.

#### **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 and the Statement of Revenues, Expenses, and Changes in Net Position report information on the System as a whole and on its activities in a way that helps answer this question. 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 includes all assets and liabilities of the System. Net Position is the difference between assets and liabilities and 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 the donors or by law. Unrestricted net position is those 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, 2014**

The following table shows the Condensed Statement of Net Position at June 30, 2014 and 2013:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2014</b>	<b>2013-Restated</b>		
Current assets	\$ 351,243	\$ 291,617	\$ 59,626	20%
Capital assets, net	1,038,958	986,947	52,011	5%
Other noncurrent assets	176,533	191,213	(14,680)	-8%
Total assets	<u>\$ 1,566,734</u>	<u>\$ 1,469,777</u>	<u>\$ 96,957</u>	<u>7%</u>
Deferred Outflows of Resources	\$ 2,062	\$ -	\$ 2,062	100%
Current liabilities	\$ 113,496	\$ 114,623	\$ (1,127)	-1%
Noncurrent liabilities	334,861	312,895	21,966	7%
Total liabilities	<u>\$ 448,358</u>	<u>\$ 427,518</u>	<u>\$ 20,840</u>	<u>5%</u>
Deferred Inflows of Resources	\$ 231	\$ -	\$ 231	100%
Invested in capital assets	\$ 750,677	\$ 698,706	\$ 51,971	7%
Restricted	108,686	106,687	1,999	2%
Unrestricted	260,845	236,866	23,979	10%
Total Net Position	<u>\$ 1,120,208</u>	<u>\$ 1,042,259</u>	<u>\$ 77,949</u>	<u>7%</u>
<b>Current Ratio</b>				
(current assets to current liabilities)	<u>3.1</u>	<u>2.5</u>		
<b>Primary Reserve Ratio</b>				
(expendable net position to operating expenses)	<u>0.33</u>	<u>0.31</u>		

The increase in total assets of \$96.9 million is due to an increase in cash and cash equivalents of \$59.1 million from \$123.4 million in fiscal year 2013 to \$182.5 million in fiscal year 2014, an increase in capital assets of \$52.0 million for the same period. The increase is partially offset by a decrease in investments of \$17.3 million in fiscal 2014 to \$204.0 million from \$221.3 million in fiscal year 2013.

Contributing to the increase in cash and cash equivalents was increases in tuition and fees of \$7.1 million, state appropriations of \$16.6 million, proceeds from the issuance of debt at MaSU of \$1.9 million, NDSU of \$8.4 million and UND of \$20.8 million and an increase in proceeds from sales and maturities of investments of \$58.4 million, partially offset by an increase in investment purchases of \$11.4 million. Offsetting these increases are increases in payments to employees and suppliers of \$47.2 million.

Net capital assets are discussed in a later section of this MD&A.

Total liabilities increased \$20.8 million during fiscal year 2014 to a total of \$448.4 million. The change is the result of an increase in long-term liabilities of \$22.0 million, which is discussed in a later section of this MD&A, and partially offset by a decrease in current liabilities of \$1.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2014

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The current ratio, calculated by dividing current assets by current liabilities, measures the System's ability to meet current obligations. The System's current ratio at June 30, 2014 was 3.1 to 1, which indicates the System's current assets are almost three times that of its current liabilities. A ratio of less than 1 to 1 would be cause for concern.

The primary reserve ratio (calculated by dividing expendable and unrestricted net position by operating expenses), measures the ability of the System to continue operating at current levels, within current restrictions, without future revenues. Proof of an adequate reserve ratio is often required to secure long-term financing. The System's primary reserve ratio at June 30, 2014 is 0.33 to 1. A ratio of less than .05 would cause concern.

#### **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 by reporting all the revenues and expenses for 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 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, 2014 and 2013:

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2014</b>	<b>2013</b>		
Operating revenues	\$ 672,393	\$ 653,993	\$ 18,400	3%
Operating expenses	1,109,797	1,067,196	42,601	4%
Operating loss	(437,405)	(413,203)	(24,202)	6%
Nonoperating revenues, net of expenses	453,599	429,211	24,388	6%
Income before capital grants, gifts, and transfers	16,195	16,008	187	1%
Capital appropriations, grants and gifts	67,654	68,806	(1,152)	-2%
Transfers	(5,900)	(6,166)	266	-4%
Increase in net position	<u>\$ 77,949</u>	<u>\$ 78,648</u>	<u>\$ (699)</u>	<u>-1%</u>
<b>Tuition and Fees Funding Ratio</b> (tuition and fees to operating expenses)	<u>27%</u>	<u>27%</u>		
<b>Net Income Margin</b> (increase in net position to total revenue)	<u>6.4%</u>	<u>6.7%</u>		

Operating revenues and expenses fluctuations are discussed in later sections of this MDA analysis. Net income margin, calculated by dividing increase in net position by total revenue, is a measure of current year financial status. The System's net income margin for fiscal year 2014 is 6.4 percent. A positive margin signifies the System is not spending more than it is taking in.

**Revenues**

The following table shows revenues by source for the fiscal years ended June 30, 2014 and 2013:

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating revenues</b>				
Student tuition and fees	\$ 298,535	\$ 289,265	\$ 9,270	3%
Grants and contracts	168,643	170,845	(2,202)	-1%
Sales and services of education departments	100,671	79,550	21,121	27%
Auxiliary enterprises	103,824	113,148	(9,324)	-8%
Other	719	1,186	(467)	-39%
Total operating revenues	<u>\$ 672,393</u>	<u>\$ 653,994</u>	<u>\$ 18,399</u>	<u>3%</u>
<b>Nonoperating revenues, capital gifts and grants</b>				
State appropriations	\$ 392,163	\$ 364,097	\$ 28,066	8%
Federal appropriations	5,791	5,127	664	13%
Federal grants and contracts	39,107	40,110	(1,003)	-3%
Gifts	25,541	24,201	1,340	6%
Endowment and investment income	7,950	6,326	1,624	26%
Insurance proceeds	466	338	128	38%
Tax revenues	3,197	3,113	84	3%
Gain on sale of capital assets	-	521	(521)	-100%
State appropriations-capital assets	48,950	48,941	9	0%
Capital grants & gifts	18,704	19,866	(1,162)	-6%
Total nonoperating revenues, capital gifts and grants	<u>\$ 541,868</u>	<u>\$ 512,640</u>	<u>\$ 29,228</u>	<u>6%</u>
<b>Total Revenues</b>	<u><u>\$ 1,214,261</u></u>	<u><u>\$ 1,166,634</u></u>	<u><u>\$ 47,627</u></u>	<u><u>4%</u></u>

Tuition and fee revenues increased 3 percent from fiscal year 2013. The increase is attributed to an increase in tuition rates while enrollment remained relatively stable from fiscal year 2013.

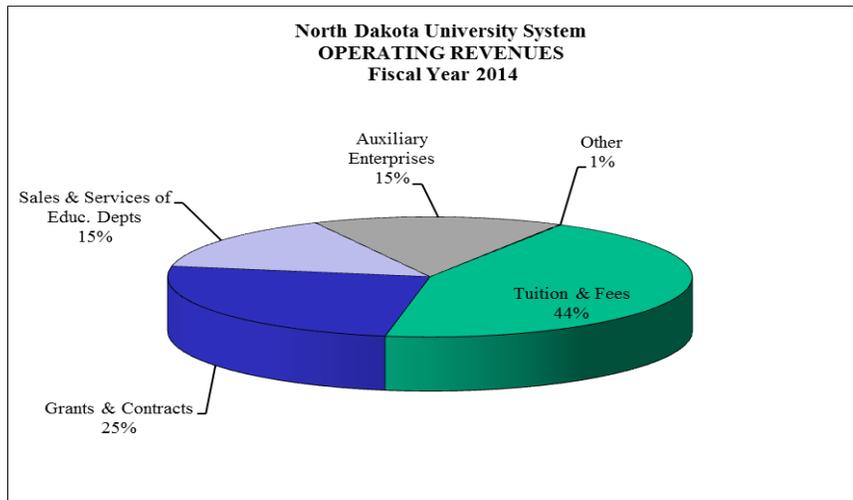
Revenues from auxiliary enterprises such as housing, bookstore and foodservice decreased \$9.3 million as a result of reclassifying \$17.9 million of inter-collegiate athletics expenses to sales and services of education departments to better align these expenses functionally, partially offset by a decrease of \$5.9 million in scholarship allowance expense allocated to auxiliary enterprises revenue as a result of the reclassification. Additionally, sales and services of education departments revenues decreased \$6.0 million at UND as a result of a change during fiscal year 2014 due to duplication of recorded revenue for services between the UND Aerospace Foundation and the UND Aerospace Department.

State appropriations, excluding capital assets, are determined by the North Dakota State Legislature and increased 8 percent over fiscal year 2013.

The following graph depicts sources of operating revenues for fiscal year 2014:

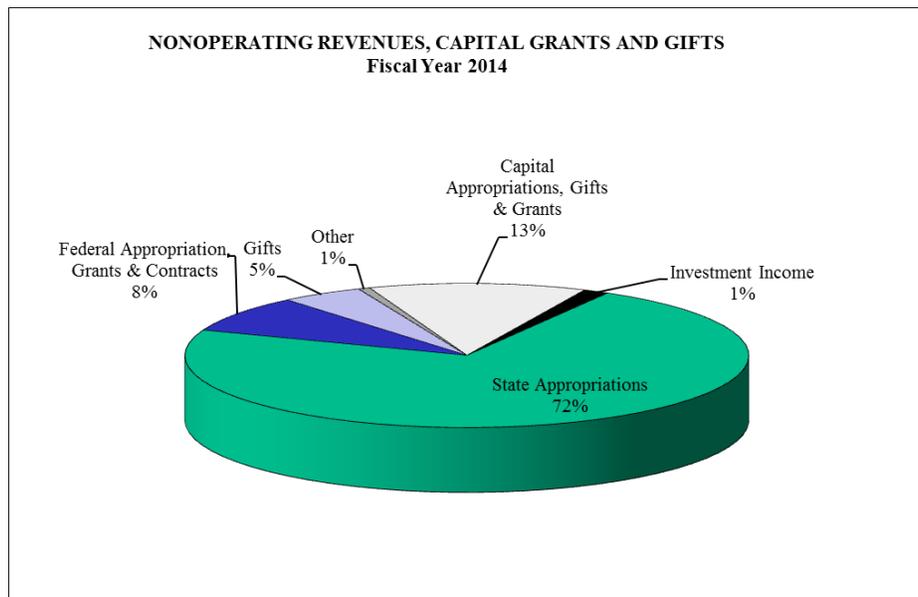
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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In fiscal year 2014 and 2013, tuition and fees accounted for 44 percent of operating revenues. Sales & services of educational departments increased 3 percent from fiscal year 2013 while auxiliary enterprises decreased 2 percent as a result of the previously discussed reclassification of inter-collegiate athletics expenses from auxiliary enterprises to sales & services of educational departments.

The following chart depicts sources of nonoperating revenues, capital grants and gifts for fiscal year 2014:



No major changes in these percentages have occurred from the previous fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**Expenses**

The following table shows expenses by natural classification for the fiscal years ended June 30, 2014 and 2013:

	<b>June 30 (in Thousands)</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating expenses</b>				
Salaries and wages	\$ 724,440	\$ 689,410	\$ 35,030	5%
Operating expenses	243,905	224,077	19,828	9%
Data processing	18,635	19,345	(710)	-4%
Depreciation expense	57,948	55,179	2,769	5%
Scholarships and fellowships	32,542	36,544	(4,002)	-11%
Cost of sales and services	32,327	42,642	(10,315)	-24%
Total operating expenses	<u>\$ 1,109,797</u>	<u>\$ 1,067,197</u>	<u>\$ 42,600</u>	<u>4%</u>
<b>Nonoperating expenses</b>				
Interest on capital asset related debt	\$ 13,398	\$ 14,271	\$ (873)	-6%
Loss on sale of capital assets	1,757	-	1,757	
General and special grant expenditures	4,344	42	4,302	10243%
Other nonoperating, net	1,116	310	806	260%
Total nonoperating expenses	<u>\$ 20,615</u>	<u>\$ 14,623</u>	<u>\$ 5,992</u>	<u>41%</u>
<b>Total expenses</b>	<u><u>\$ 1,130,412</u></u>	<u><u>\$ 1,081,820</u></u>	<u><u>\$ 48,592</u></u>	<u><u>4%</u></u>

Salaries and wages expense for the System increased 5 percent in fiscal year 2014 as a result of wage increases averaging 4.6 percent, a 1 percent increase in retirement contributions starting January 1, 2014 and increases in health insurance expense.

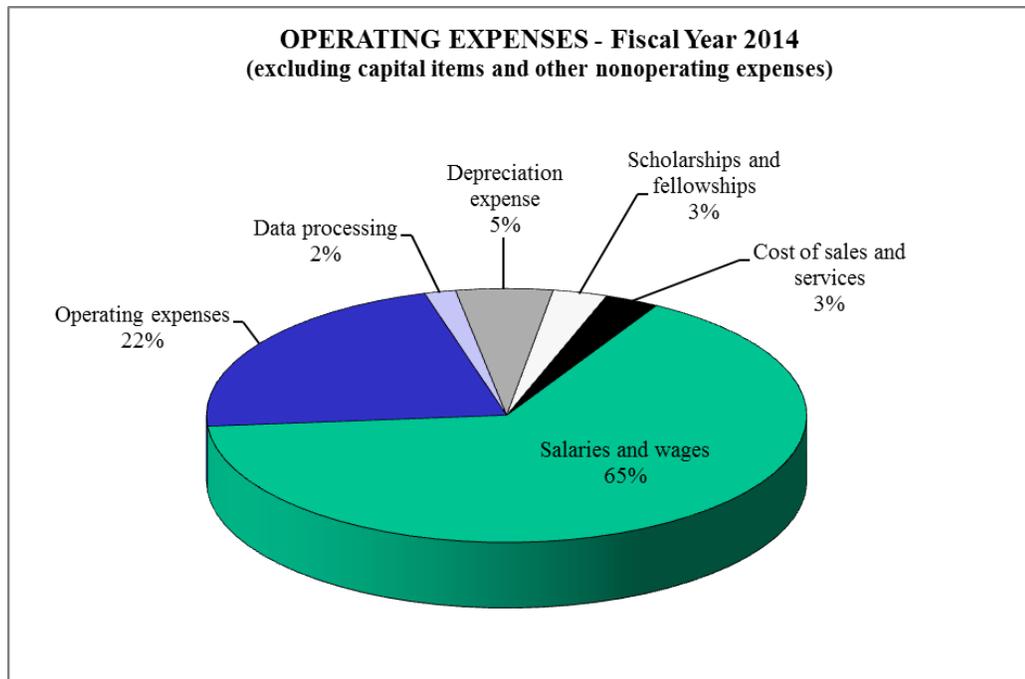
Operating expenses, includes travel, office expenses, supplies, utilities, repairs, rents and leases, fees, instructional supplies and other general expenses increased 9 percent from fiscal year 2013 as a result of overall higher costs for such goods and services. Additionally, operating expenses at BSC increased \$3.9 million due to expenses incurred related to the TREND grant which is a federally-funded initiative through the United States Department of Labor to increase certificate attainment in technical career training for high-wage, high-skill jobs in the energy industry and supporting industries, such as transportation, building and construction trades. The revenue received from the TREND grant is reflected in federal grants revenue. MiSU's increase in operating expenses of \$2.9 million was primarily attributed the \$1.2 million transfer of an endowment to the MiSU Development Foundation as well as increased costs associated with the third party administration of the meal plan for students and professional fees and services related to facilities management, remodeling projects and athletic training.

Scholarships and fellowships expense decreased 11 percent primarily due to a decrease in grants and contracts sponsored tuition remission and federal PELL awards.

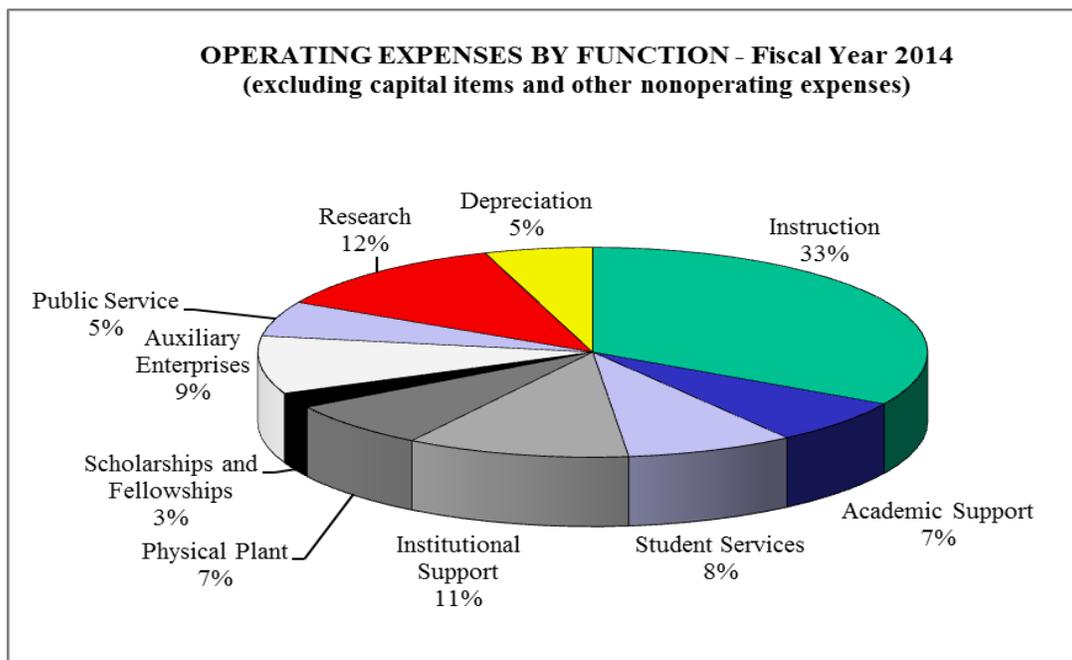
Cost of sales and services at UND decreased 24 percent as a result of a change during fiscal year 2014 due to duplication of recorded expenses for services between the UND Aerospace Foundation and the UND Aerospace Department.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2013. The following chart depicts the uses of operating funds according to natural classification for fiscal year 2014:



The following chart illustrates operating expenses by function for fiscal year 2014:



The allocation of expenses to functional areas has not changed significantly from prior year. As previously discussed, in fiscal year 2014, inter-collegiate athletic expenses were reclassified to student services, resulting in

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### JUNE 30, 2014

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a decrease from 12 percent to 9 percent in auxiliary enterprises and an increase from 5 percent to 8 percent in student services. Instructional expenses, at 33 percent, continue to represent the largest expenditure category. The instructional function includes all expenses related to instruction (e.g. classroom, distance ed 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 that we reflect 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, 2014 and 2013 is shown below:

	<b>June 30 (in Thousands)</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities	\$ (369,288)	\$ (344,568)
Cash flows from noncapital financing activities	454,794	442,172
Cash flows from capital and related financing activities	(51,731)	(78,020)
Cash flows from investing activities	25,322	(19,371)
Increase in cash and cash equivalents during the year	<u>\$ 59,098</u>	<u>\$ 213</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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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received from state appropriations, excluding capital assets, in fiscal year 2014 was \$388.2 million. If this amount is added to the cash flows from operating activities, the result is a positive cash flow of \$18.9 million.

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

**CAPITAL ASSETS**

On June 30, 2014, the System had \$1.039 billion invested in net capital assets, as reflected in the following table, which represents a net increase of \$52.0 million or 5 percent during the fiscal year.

	<u>2014</u>	<u>2013-Restated</u>
Land	\$ 15,821	\$ 15,540
Land improvements/infrastructure	187,858	187,356
Buildings	1,168,034	1,051,783
Furniture, fixtures, and equipment	292,817	283,410
Library materials	108,460	108,033
Construction in progress	88,106	129,021
Capitalized software	23,754	23,350
Other intangibles	2,211	1,845
Total	<u>\$ 1,887,059</u>	<u>\$ 1,800,338</u>
Total accumulated depreciation and amortization	<u>(848,101)</u>	<u>(813,391)</u>
Capital assets, net	<u>\$ 1,038,958</u>	<u>\$ 986,947</u>

Total additions to depreciable capital assets in fiscal year 2014 were \$55.8 million. Construction in progress for other projects underway totaled \$88.1 million at June 30, 2014. Some of the major projects, and their estimated project costs, include:

BSC

- Student Union Addition and Renovation - \$9.0 million
- Communications and Creative Arts Center - \$19.6 million

MaSU

- HPER Facilities Improvement - \$5.5 million

MiSU

- Wellness Center - \$12.8 million
- Geothermal conversion - \$16.2 million
- Press Box - \$11.8 million

NDSCS

- Old Main Remodel - \$8.4 million

NDSU

- STEM Classroom Building - \$29.4 million
- Bison Sports Arena - \$41.0 million

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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- Agriculture Research Greenhouse Phase III - \$9.5 million

UND

- School of Medicine and Health Sciences Building - \$122.5 million
- Law School additions and renovations - \$13.9 million
- Wilkerson Addition at UND - \$29.0 million
- Indoor Athletic Practice Facility at UND - \$19.5 million

VCSU

- Vangstad Hall renovation - \$3.5 million

WSC

- TrainND Building - \$8.2 million
- Steven's Hall renovation - \$12.1 million

Outstanding commitments for these and other capital projects as of June 30, 2013 totaled \$103.9 million. More detailed information about the System's capital assets is presented in Note 5 and Note 14 to the financial statements.

LONG-TERM LIABILITIES

	<b>June 30 (in thousands)</b>	
	<b>2014</b>	<b>2013</b>
Bonds Payable	\$ 246,569	\$ 222,588
Notes Payable	19,536	10,518
Capital Leases	44,774	61,796
Special Assessments	3,949	3,968
Compensated Absences	31,642	32,078
Total Debt	<u>\$ 346,469</u>	<u>\$ 330,948</u>
<b>Viability Ratio</b> (expendable net position to L-T debt)	<u>1.02</u>	<u>1.00</u>

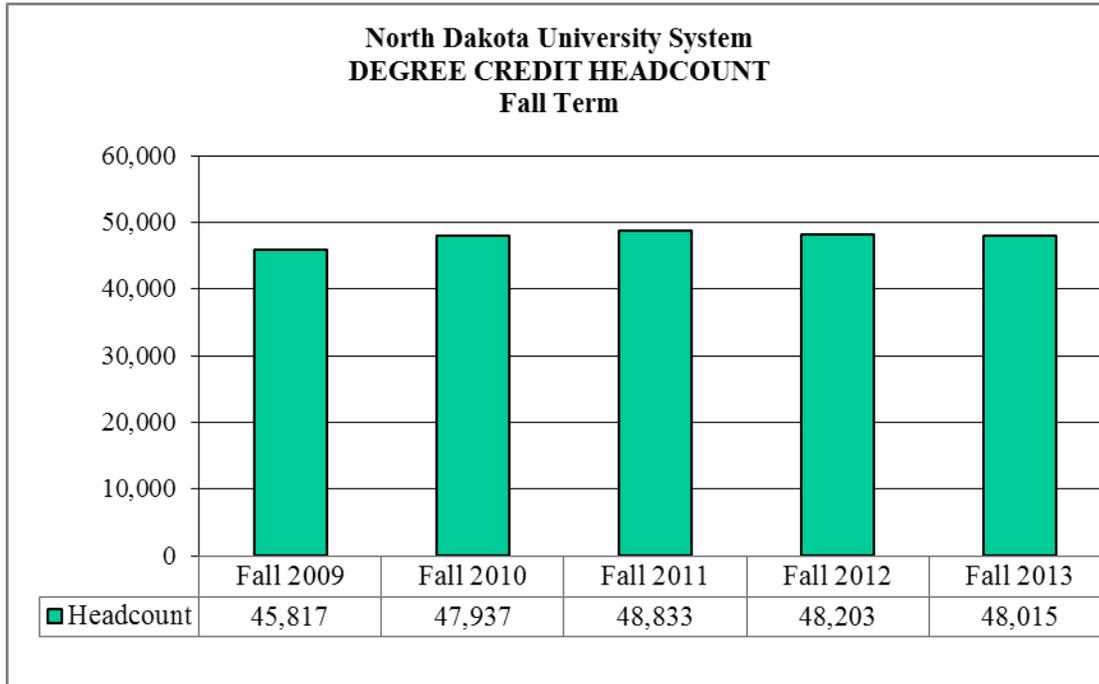
Long-term liabilities added in fiscal year 2014 totaled approximately \$58.2 million, including: revenue bonds totaling \$45.6 million for new construction and renovation projects, \$9.8 million in new notes payable, \$2.0 million in new capital leases for purchase of capital assets, \$278,000 in new special assessments for campus improvements and \$544,000 in compensated absences liability. Total debt retired in fiscal year 2014 was \$43.7 million, consisting primarily of capital lease payments of \$19.0 million and bond payments of \$22.6 million. At June 30, 2014, \$15.8 million of revenue is pledged as security for outstanding revenue bonds.

The viability ratio, calculated by dividing expendable net position by long-term debt, measures the System's ability to retire long-term debt using available current resources. The System's viability ratio at June 30, 2014 is 1.02 to 1. A ratio of 1 to 1 or greater is preferred. More detailed information about the System's long-term liabilities is presented in Notes 7 through 11 to the financial statements.

**OTHER HIGHLIGHTS**

**STUDENT ENROLLMENTS**

Annual FTE enrollment for fall 2013 was 38,326, a decrease of 1 percent over the previous fall enrollment. Annual Degree Credit Headcount enrollment for fall 2013 was 48,015. Degree credit headcount for the University System for the last five fall terms is as follows:



*Source: 2013 Fall Enrollment Report: Table 8B-Degree Credit Fall Enrollment Report*

Additional detailed enrollment data is contained in the 2013 Fall Enrollment Report at <http://www.ndus.edu/information/>.

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

### **JUNE 30, 2014**

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#### **STATE FUNDING**

The 2013 Legislative Assembly approved a state general fund appropriation for all entities of the North Dakota University System (including major capital projects) of \$1.01 billion for the 2013-15 biennium. This was an increase of \$317.3 million or 45.5 percent more than the 2011-13 adjusted appropriation. Of the total increases, \$85.2 million was included for base funding; \$48.0 million for one-time items and the remaining \$184.1 million one-time funding was for major capital projects. Excluding one-time items and major capital projects, the total general fund increase over 2011-13 was \$85.2 million or 12.2 percent for all NDUS entities. The System's appropriation (excluding ag extension and research centers) as a percentage of the state's total 2013-15 general fund budget was 13.2 percent, compared to 15.5 percent in 2011-13.

#### **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, 2014**

**STATEMENT OF NET POSITION**

	<u>Primary Institutions</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 149,766,669
Investments	89,977,651
Accounts receivable, net	24,654,333
Receivable from component units	6,479,791
Due from State General Fund	23,956,062
Grants and contracts receivables, net	36,762,903
Inventories	8,275,900
Notes receivable, net	7,903,768
Other assets	3,466,048
Total current assets	<u>\$ 351,243,125</u>
Noncurrent assets	
Restricted cash and cash equivalents	\$ 32,730,901
Restricted investments	9,359,219
Endowment investments	15,894,803
Notes receivable, net	27,948,694
Other long-term investments	88,807,490
Unamortized bond discount	412,774
Due from component units	613,951
Other noncurrent assets	765,168
Capital assets, net	1,038,957,943
Total noncurrent assets	<u>\$ 1,215,490,943</u>
Total assets	<u>\$ 1,566,734,068</u>
 <b>Deferred Outflows of Resources</b>	
Deferred outflows from refunding of debt	\$ 2,062,012
 <b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	\$ 37,408,817
Payable to component units	1,639,708
Accrued payroll	33,932,690
Unearned revenue	19,737,580
Deposits	5,035,983
Long-term liabilities--current portion	
Due to Component Units	2,880,149
Due to Others	12,861,419
Total current liabilities	<u>\$ 113,496,346</u>
Noncurrent liabilities	
Other noncurrent liabilities	\$ 4,134,085
Long-term liabilities	
Due to Component Units	47,685,178
Due to Others	283,042,051
Total noncurrent liabilities	<u>334,861,314</u>
Total liabilities	<u>\$ 448,357,660</u>
 <b>Deferred Inflows of Resources</b>	
Grant amounts received prior to meeting time requirements	\$ 230,680
 <b>NET POSITION</b>	
Invested in capital assets	\$ 750,677,216
Restricted for:	
Nonexpendable:	
Scholarships and fellowships	15,587,038
Expendable:	
Scholarships and fellowships	3,405,419
Research	10,478,358
Institutional	19,104,300
Loans	44,810,421
Capital projects	13,037
Debt service	14,819,602
Other	467,771
Unrestricted	260,844,578
Total net position	<u>\$ 1,120,207,740</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
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FASB Basis	STATEMENT OF FINANCIAL POSITION	Component Units
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$	45,694,560
Investments		38,237,330
Accounts receivable, net		7,490,584
Receivable from Primary Institution		2,979,857
Unconditional promises to give, net of allowance		4,953,920
Assets limited as to use		-
Inventories		997,808
Other assets		2,617,242
Total current assets	\$	<u>102,971,301</u>
Noncurrent assets		
Restricted cash and cash equivalents	\$	18,880,842
Investments		
Investments, net of current portion	368,767,236	
Investments, restricted	3,797,747	
Investments, temporarily restricted	4,056,511	
Investments, permanently restricted	4,283,707	
Investments held in trust	33,071,802	
Beneficial interest in trust	15,559,785	
Charitable gift annuity investments	4,885,257	
Investments held under split-interest agreements	1,806,271	
Charitable remainder trust account investments	22,471,786	
Endowment investments	11,856,944	
Real estate and equipment held for investment, net of accumulated depreciation	29,621,958	
Other long-term investments	9,821,562	
Total investments	\$	<u>510,000,566</u>
Contracts for deed and notes receivable, net of current portions	\$	1,131,546
Long term pledges receivable/ unconditional promises to give	51,076,153	
Other receivables	(1,715)	
Due from Primary Institution-Capital Leases	47,487,893	
Notes receivable, net	6,915,915	
Other noncurrent assets	2,578,264	
Capital assets, net	149,886,309	
Total noncurrent assets	<u>787,955,773</u>	
Total assets	\$	<u>890,927,074</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$	4,738,286
Payable to Primary Institution	11,079,530	
Accrued payroll	868,280	
Current portion of gift annuities and life income agreements	3,298,845	
Deferred revenue	6,614,055	
Other current liabilities	963,056	
Long-term liabilities--current portion	8,253,248	
Total current liabilities	<u>35,815,300</u>	
Noncurrent liabilities		
Deferred revenue	\$	-
Deposits	28,462,924	
Gift annuities and life income agreements, net of current portion	17,616,999	
Obligations under split-interest agreement	7,231,801	
Other noncurrent liabilities	281,945	
Long-term liabilities	82,511,078	
Total noncurrent liabilities	<u>136,104,747</u>	
Total liabilities	\$	<u>171,920,047</u>
<b>NET ASSETS</b>		
Temporarily restricted	\$	141,525,511
Permanently restricted	361,572,782	
Net investment in property and equipment	67,558,498	
Unrestricted	148,350,236	
Total net assets	\$	<u>719,007,027</u>
Total liabilities and net assets	\$	<u>890,927,074</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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 \$63,646,321 and bad debt allowance of \$1,439,850)	\$ 298,535,194
Local appropriations	694,640
Federal grants and contracts	118,411,226
State grants and contracts	12,702,193
Nongovernmental grants and contracts (net of bad debt allowance of \$96,039)	36,834,773
Sales and services of educational departments (net of bad debt allowance recapture of \$68,082)	100,671,468
Auxiliary enterprises (net of scholarship allowances of \$267,140 and bad debt allowance of \$383,396)	103,823,830
Other (net of bad debt allowance of \$102,087)	719,327
Total operating revenues	<u>\$ 672,392,651</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	\$ 724,439,680
Operating expenses	243,905,214
Data processing	18,635,134
Depreciation expense	57,948,483
Scholarships and fellowships	32,542,067
Cost of sales and services	32,326,601
Total operating expenses	<u>\$ 1,109,797,179</u>
Operating income (loss)	<u>\$ (437,404,528)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State appropriations	\$ 392,163,068
Federal appropriations	5,790,560
Federal grants and contracts (net of bad debt allowance of \$18,493)	39,106,904
Gifts	25,540,584
Endowment investment income	7,950,198
Interest on capital asset-related debt	(13,397,678)
Gain (loss) on disposal of capital assets	(1,757,292)
Insurance proceeds	465,698
Tax revenues	3,197,173
General and special grant expenditures	(4,344,148)
Other nonoperating revenues (expenses) (net of bad debt allowance of \$262,761)	(1,115,991)
Net nonoperating revenues (expenses)	<u>\$ 453,599,076</u>
Income before capital grants, gifts, and transfers	<u>\$ 16,194,548</u>
State appropriations-capital assets	\$ 48,950,316
Transfers to from Building Authority	(5,899,936)
Capital grants and gifts	18,703,629
Increase in net assets	<u>\$ 77,948,557</u>
<b>NET POSITION</b>	
Net position-beginning of year, as erstated	<u>\$ 1,042,259,183</u>
Net position--end of year	<u>\$ 1,120,207,740</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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**STATEMENT OF ACTIVITIES**

<b>FASB Basis</b>	<b>Component Units</b>
<b>Support and Revenue</b>	
Gift and contributions	\$ 57,024,526
Investment income	33,094,104
Net realized and unrealized gains (losses) on investment securities	24,020,070
Program and event income	57,831,101
Other income	19,888,322
Total support and revenue	<u>\$ 191,858,123</u>
<b>Expenses</b>	
Program services	\$ 40,159,797
Supporting services	70,464,121
Impairment Loss on Property	-
Fundraising expense	3,708,012
Total operating expenses	<u>\$ 114,331,930</u>
<b>Change in split-interest agreement</b>	<u>\$ 1,189,347</u>
<b>Change in Net Assets</b>	\$ 78,715,540
<b>Net Assets, Beginning of Year, as restated</b>	<u>\$ 640,291,487</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 719,007,027</u></u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
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**STATEMENT OF CASH FLOWS**

	<b>Primary Institution</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student tuition and fees	\$ 296,775,621
Grants and contracts	172,167,804
Payments to suppliers	(283,991,697)
Payments to employees	(723,723,354)
Payments for scholarships and fellowships	(32,542,067)
Loans issued to students	(6,058,981)
Collection of loans to students	6,062,783
Auxiliary enterprise charges	103,530,826
Sales and service of educational departments	100,298,932
Cash received/(paid) on deposits	(562,794)
Other receipts (payments)	(1,244,753)
Net cash used by operating activities	<u>\$ (369,287,680)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State appropriations	\$ 388,184,200
Federal appropriations	5,790,560
Grants and gifts received for other than capital purposes	62,996,703
Grants given for other than capital purposes	(4,344,148)
Principal paid on advances from Bank of North Dakota	-
Direct lending receipts	158,991,039
Direct lending disbursements	(158,366,254)
Agency fund cash increase/(decrease)	(1,655,477)
Tax revenues	3,197,173
Other nonoperating revenues (expenses)	-
Net cash flows provided by noncapital financing activities	<u>\$ 454,793,796</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from issuance of debt	\$ 55,533,914
Transfers to Building Authority	(5,899,936)
Capital appropriations	43,630,172
Capital grants and gifts received	15,462,958
Proceeds from sale of capital assets	2,044,166
Purchases of capital assets	(108,673,588)
Insurance proceeds	278,482
Principal paid on capital debt and lease	(32,437,075)
Deposits with capital debt payment trustees	(10,021,470)
Deferred gain (loss) on refunding of debt	1,746
Interest paid on capital debt and lease	(11,650,094)
Net cash used by capital and related financing activities	<u>\$ (51,730,725)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sales and maturities of investments	\$ 106,583,079
Interest on investments	6,154,324
Purchase of investments	(87,415,015)
Net cash provided by investing activities	<u>\$ 25,322,388</u>
Net increase (decrease) in cash	\$ 59,097,779
CASH - BEGINNING OF YEAR	<u>123,399,791</u>
CASH - END OF YEAR	<u>\$ 182,497,570</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ (437,404,525)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation expense	57,948,483
Other nonoperating revenues (expenses)	(1,255,246)
Change in assets and liabilities	
Accounts receivable adjusted for interest receivable	8,897,356
Due from Other NDUS institutions	
Grant & contract receivables	3,359,248
Inventories	108,770
Notes receivable	1,109,019
Other assets	233,999
Accounts payable and accrued liabilities adjusted for interest payable	(2,608,325)
Net change in deferred outflows	-
Net change in deferred inflows	230,680
Accrued payroll	1,152,476
Compensated absences	(436,150)
Deferred revenue	592,288
Deposits	(1,215,759)
Net cash provided (used) by operating activities	<u>\$ (369,287,685)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>	
Assets acquired through capital lease	\$ 1,177,200
Assets acquired through special assessment	-
Expenses paid by capital lease/special assessments	1,006,820
Gifts of capital assets	242,838
Net increase (decrease) in value of investments	58,866
Total non-cash transactions	<u>\$ 2,485,724</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

FASB BASIS	BSC		DSU		NDSU		NDSU		UND	
	Foundation		Foundation		Development		Research &		Aerospace	
	June 30, 2014	December 31, 2013	December 31, 2013	December 31, 2013	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014		
<b>Assets</b>										
Current assets										
Cash and cash equivalents	\$ 310,962	\$ 1,564,824	\$ 6,409,856	\$ 2,363,145	\$ 12,148,329					
Investments	-	8,083,233	11,929,616	-	7,417,367					
Accounts receivable, net	20,030	49,080	4,859,803	67,481	1,823,663					
Receivable from Primary Institution	224,644	-	-	-	-					
Unconditional promises to give, net of allowance	134,239	201,248	-	2,500	-					
Inventories	-	8,364	57,332	-	113,243					
Other assets	37,767	5,719	1,227,545	24,762	281,772					
Total current assets	\$ 727,642	\$ 9,912,468	\$ 24,484,152	\$ 2,457,888	\$ 21,784,374					
Noncurrent assets										
Restricted cash and cash equivalents	-	\$ 30,732	\$ 16,599,934	\$ -	\$ -					
Investments:										
Investments, net of current portion	10,260,460	-	121,357,627	-	-					
Investments, restricted	-	-	-	-	-					
Investments, temporarily restricted	-	-	-	-	-					
Investments, permanently restricted	-	-	-	-	-					
Investments held in trust	4,490,452	-	-	-	-					
Beneficial interest in trust	1,702,208	-	-	-	-					
Charitable gift annuity investments	-	-	-	-	-					
Investments held under split-interest agreement	-	1,806,271	-	-	-					
Charitable remainder trust account investments	-	-	-	-	-					
Endowment investments	-	-	-	-	-					
Real estate and equipment held for investment, net of accumulated depreciation	135,541	-	41,932,421	-	-					
Other long-term investments	83,963	-	-	-	1,440,000					
Total investments	\$ 16,672,624	\$ 1,837,003	\$ 163,290,048	\$ -	\$ 1,440,000					
Contracts for deed and notes receivable, net of current portions	\$ -	\$ -	\$ 1,131,546	\$ -	\$ -					
Long term pledges										
receivable/unconditional promises to give	648,513	863,467	17,392,223	8,000	-					
Other receivables	-	-	-	-	-					
Receivable from Primary Institution	1,643,758	-	-	-	-					
Notes receivable, net	-	-	-	6,490,000	-					
Other noncurrent assets	270,827	372,764	558,813	368,876	449,077					
Capital assets, net	11,031,865	11,128,065	3,527,935	24,523,086	23,434,652					
Total noncurrent assets	\$ 30,267,587	\$ 14,201,299	\$ 202,500,499	\$ 31,389,962	\$ 25,323,729					
Total assets	\$ 30,995,229	\$ 24,113,767	\$ 226,984,651	\$ 33,847,850	\$ 47,108,103					
<b>LIABILITIES</b>										
Current liabilities										
Accounts payable and accrued liabilities	\$ 206,067	\$ 373,489	\$ 681,707	\$ 200,847	\$ 322,759					
Payable to Primary University	57,688	-	1,861,862	-	1,712,127					
Accrued payroll	-	81,226	-	10,151	466,589					
Current portion of gift annuities and life income agreements	235,708	-	840,553	-	-					
Deferred revenue	-	-	6,500	-	4,126,944					
Other current liabilities	-	624,804	256,313	-	-					
Long-term liabilities-current portion	220,494	2,819,428	1,325,959	1,094,633	483,596					
Total current liabilities	\$ 719,957	\$ 3,898,947	\$ 4,972,894	\$ 1,305,631	\$ 7,112,015					
Noncurrent liabilities										
Deposits	\$ -	\$ -	\$ -	\$ -	\$ -					
Gift annuities and life income agreements, net of current portion	2,680,680	-	-	-	-					
Obligations under split-interest agreement	-	853,442	6,378,359	-	-					
Other noncurrent liabilities	281,945	-	-	-	-					
Long-term liabilities	1,769,842	8,036,757	18,612,340	25,987,847	2,824,367					
Total noncurrent liabilities	\$ 4,732,467	\$ 8,890,199	\$ 24,990,699	\$ 25,987,847	\$ 2,824,367					
Total liabilities	\$ 5,452,424	\$ 12,789,146	\$ 29,963,593	\$ 27,293,478	\$ 9,936,382					
<b>NET ASSETS</b>										
Temporarily restricted	\$ 747,469	\$ 884,771	\$ 59,938,114	\$ 10,500	\$ 7,084,105					
Permanently restricted:	14,436,757	12,095,531	98,276,054	-	-					
Net investment in property and equipment	-	-	-	-	-					
Unrestricted	10,358,579	(1,655,681)	38,806,890	6,543,872	30,087,616					
Total net assets	\$ 25,542,805	\$ 11,324,621	\$ 197,021,058	\$ 6,554,372	\$ 37,171,721					
Total liabilities and net assets	\$ 30,995,229	\$ 24,113,767	\$ 226,984,651	\$ 33,847,850	\$ 47,108,103					

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**FINANCIAL STATEMENTS**  
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**STATEMENT OF FINANCIAL POSITION - MAJOR COMPONENT UNITS - Continued**

FASB BASIS	RE Arena, Inc UND Arena Services, Inc. UND Sports		Total Major Component Units	Non-major Component Units	Reclassifications	Total Component Units
	UND Alumni Association & UND Foundation June 30, 2014	Facilities, Inc. Arena Holdings & Affiliates May 31, 2014				
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 4,211,759	\$ 5,786,421	\$ 32,795,296	\$ 12,899,264	\$ -	\$ 45,694,560
Investments	-	491,347	27,921,563	10,315,767	-	38,237,330
Accounts receivable, net	-	617,392	7,437,449	205,793	(152,658)	7,490,584
Due from Primary Institution	-	-	224,644	62,414	2,692,799	2,979,857
Unconditional promises to give, net of allowance	3,930,800	-	4,268,787	685,133	-	4,953,920
Inventories	-	810,708	989,647	8,161	-	997,808
Other assets	1,131,198	109,313	2,818,076	423,819	(624,653)	2,617,242
Total current assets	\$ 9,273,757	\$ 7,815,181	\$ 76,455,462	\$ 24,600,351	\$ 1,915,488	\$ 102,971,301
Noncurrent assets						
Restricted cash and cash equivalents	\$ -	\$ 1,715,345	\$ 18,346,011	\$ 534,831	\$ -	\$ 18,880,842
Investments:						
Investments, net of current portion	198,476,225	-	330,094,312	38,672,924	-	368,767,236
Investments, restricted	-	3,797,747	3,797,747	-	-	3,797,747
Investments, temporarily restricted	-	-	-	4,056,511	-	4,056,511
Investments, permanently restricted	-	-	-	4,283,707	-	4,283,707
Investments held in trust	28,462,924	-	32,953,376	118,426	-	33,071,802
Beneficial interest in trust	12,759,716	-	14,461,924	1,097,861	-	15,559,785
Charitable gift annuity investments	4,885,257	-	4,885,257	-	-	4,885,257
Investments held under split-interest agreement	-	-	1,806,271	-	-	1,806,271
Charitable remainder trust account investments	22,471,786	-	22,471,786	-	-	22,471,786
Endowment investments	-	-	-	11,856,944	-	11,856,944
Real estate and equipment held for investment, net of accumulated depreciation	-	-	42,067,962	5,348,709	(17,794,713)	29,621,958
Other long-term investments	6,737,744	-	8,261,707	1,559,855	-	9,821,562
Total investments	\$ 273,793,652	\$ 3,797,747	\$ 460,800,342	\$ 66,994,937	\$ (17,794,713)	\$ 510,000,566
Contracts for deed and notes receivable, net of current portions	\$ -	\$ -	\$ 1,131,546	\$ -	\$ -	\$ 1,131,546
Long term pledges	-	-	-	-	-	-
receivable/unconditional promises to give	31,289,921	-	50,202,124	874,029	-	51,076,153
Other receivables	7,970,994	-	7,970,994	-	(7,972,709)	(1,715)
Receivable from Primary Institution	-	-	1,643,758	481,753	45,362,382	47,487,893
Notes receivable, net	65,868	-	6,555,868	360,047	-	6,915,915
Other noncurrent assets	-	-	2,020,357	557,907	-	2,578,264
Capital assets, net	13,319,163	67,544,762	154,509,528	16,887,229	(21,510,448)	149,886,309
Total noncurrent assets	\$ 326,439,598	\$ 73,057,854	\$ 703,180,528	\$ 86,690,733	\$ (1,915,488)	\$ 787,955,773
Total assets	\$ 335,713,355	\$ 80,873,035	\$ 779,635,990	\$ 111,291,084	\$ -	\$ 890,927,074
\$ -						
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued liabilities	\$ 352,099	\$ 2,375,171	\$ 4,512,139	\$ 626,319	\$ (400,172)	\$ 4,738,286
Payable to Primary University	-	1,118,831	4,750,508	3,633,030	2,695,992	11,079,530
Accrued payroll	309,613	-	867,579	701	-	868,280
Current portion of gift annuities and life income agreements	2,166,488	-	3,242,749	56,096	-	3,298,845
Deferred revenue	-	4,358,372	8,491,816	418,059	(2,295,820)	6,614,055
Other current liabilities	-	-	881,117	81,939	-	963,056
Long-term liabilities--current portion	1,310,748	513,349	7,768,207	485,041	-	8,253,248
Total current liabilities	\$ 4,138,948	\$ 8,365,723	\$ 30,514,115	\$ 5,301,185	\$ -	\$ 35,815,300
Noncurrent liabilities						
Deposits	\$ 28,462,924	\$ -	\$ 28,462,924	\$ -	\$ -	\$ 28,462,924
Gift annuities and life income agreements, net of current portion	14,507,583	-	17,188,263	428,736	-	17,616,999
Obligations under split-interest agreement	-	-	7,231,801	-	-	7,231,801
Other noncurrent liabilities	-	-	281,945	-	-	281,945
Long-term liabilities	10,281,866	2,501,996	70,015,015	12,496,063	-	82,511,078
Total noncurrent liabilities	\$ 53,252,373	\$ 2,501,996	\$ 123,179,948	\$ 12,924,799	\$ -	\$ 136,104,747
Total liabilities	\$ 57,391,321	\$ 10,867,719	\$ 153,694,063	\$ 18,225,984	\$ -	\$ 171,920,047
<b>NET ASSETS</b>						
Temporarily restricted	\$ 48,580,682	\$ -	\$ 117,245,641	\$ 24,279,870	\$ -	\$ 141,525,511
Permanently restricted	186,441,093	-	311,249,435	50,323,347	-	361,572,782
Net investment in property and equipment	-	67,544,762	67,544,762	13,736	-	67,558,498
Unrestricted	43,300,259	2,460,554	129,902,089	18,448,147	-	148,350,236
Total net assets	\$ 278,322,034	\$ 70,005,316	\$ 625,941,927	\$ 93,065,100	\$ -	\$ 719,007,027
Total liabilities and net assets	\$ 335,713,355	\$ 80,873,035	\$ 779,635,990	\$ 111,291,084	\$ -	\$ 890,927,074

**NORTH DAKOTA UNIVERSITY SYSTEM**  
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**STATEMENT OF ACTIVITIES, Major Component Units**

**FASB BASIS**

	<b>BSC</b>		<b>DSU</b>		<b>NDSU</b>		<b>NDSU</b>		<b>UND</b>	
	<b>Foundation</b>		<b>Foundation</b>		<b>Development</b>		<b>Research &amp;</b>		<b>Aerospace</b>	
	<b>June 30, 2014</b>		<b>(unaudited)</b>		<b>Foundation</b>		<b>Technology</b>		<b>Foundation</b>	
	<b>June 30, 2014</b>		<b>December 31, 2013</b>		<b>December 31, 2013</b>		<b>Park</b>		<b>June 30, 2014</b>	
<b>Support and revenue</b>										
Gifts and contributions	\$	2,018,467	\$	1,625,950	\$	15,432,984	\$	385,890	\$	1,099,125
Investment income		318,003		151,151		8,974,004		-		230,128
Net realized and unrealized gains (losses) on investment securities		1,523,840		535,848		14,746,954		-		-
Program and event income		50,303		184,609		-		113,000		34,520,219
Other income		427,418		810,687		1,088,981		2,869,854		422,760
<b>Total support and revenue</b>	<b>\$</b>	<b>4,338,031</b>	<b>\$</b>	<b>3,308,245</b>	<b>\$</b>	<b>40,242,923</b>	<b>\$</b>	<b>3,368,744</b>	<b>\$</b>	<b>36,272,232</b>
<b>Expenses</b>										
Program Services	\$	1,291,343	\$	316,552	\$	8,439,762	\$	1,028,980	\$	476,316
Supporting services		814,290		2,201,575		8,067,994		1,648,965		32,201,851
Fund raising expense		76,506		171,830		-		-		-
<b>Total expenses</b>	<b>\$</b>	<b>2,182,139</b>	<b>\$</b>	<b>2,689,957</b>	<b>\$</b>	<b>16,507,756</b>	<b>\$</b>	<b>2,677,945</b>	<b>\$</b>	<b>32,678,167</b>
Change in split-interest agreement	\$	266,318	\$	-	\$	(720,035)	\$	-	\$	-
<b>Change in Net Position</b>	<b>\$</b>	<b>2,422,210</b>	<b>\$</b>	<b>618,288</b>	<b>\$</b>	<b>23,015,132</b>	<b>\$</b>	<b>690,799</b>	<b>\$</b>	<b>3,594,065</b>
<b>Net Position, Beginning of Year, as Restated</b>	<b>\$</b>	<b>23,120,595</b>	<b>\$</b>	<b>10,706,333</b>	<b>\$</b>	<b>174,005,926</b>	<b>\$</b>	<b>5,863,573</b>	<b>\$</b>	<b>33,577,656</b>
<b>Net Position, End of Year</b>	<b>\$</b>	<b>25,542,805</b>	<b>\$</b>	<b>11,324,621</b>	<b>\$</b>	<b>197,021,058</b>	<b>\$</b>	<b>6,554,372</b>	<b>\$</b>	<b>37,171,721</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
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**STATEMENT OF ACTIVITIES, Major Component Units - Continued**

	UND Alumni Association & UND Foundation June 30, 2014	RE Arena, Inc UND Arena Services, Inc. UND Sports Facilities, Inc. Arena Holdings Charitable LLC & Affiliates May 31, 2014	Total Major Component Units	Non-Major Component Units	Total Component Units
<b>Support and revenue</b>					
Gifts and contributions	\$ 20,631,163	\$ -	\$ 41,193,579	\$ 15,830,947	\$ 57,024,526
Investment income	21,523,105	-	31,196,391	1,897,713	33,094,104
Net realized and unrealized gains (losses) on investment securities	-	-	16,806,642	7,213,428	24,020,070
Program and event income	7,210,900	8,192,313	50,271,344	7,559,757	57,831,101
Other income	-	1,423,820	7,043,520	12,844,802	19,888,322
Total support and revenue	<u>\$ 49,365,168</u>	<u>\$ 9,616,133</u>	<u>\$ 146,511,476</u>	<u>\$ 45,346,647</u>	<u>\$ 191,858,123</u>
<b>Expenses</b>					
Program Services	\$ 16,245,748	\$ 1,106,607	\$ 28,905,308	\$ 11,254,489	\$ 40,159,797
Supporting services	2,439,720	9,499,396	56,873,791	13,590,330	70,464,121
Fund raising expense	2,969,662	-	3,217,998	490,014	3,708,012
Total expenses	<u>\$ 21,655,130</u>	<u>\$ 10,606,003</u>	<u>\$ 88,997,097</u>	<u>\$ 25,334,833</u>	<u>\$ 114,331,930</u>
Change in split-interest agreement	\$ 1,643,064	\$ -	\$ 1,189,347	\$ -	\$ 1,189,347
<b>Change in Net Assets</b>	<u>\$ 29,353,102</u>	<u>\$ (989,870)</u>	<u>\$ 58,703,726</u>	<u>\$ 20,011,814</u>	<u>\$ 78,715,540</u>
<b>Net Assets, Beginning of Year, as Res</b>	<u>\$ 248,968,932</u>	<u>\$ 70,995,186</u>	<u>\$ 567,238,201</u>	<u>\$ 73,053,286</u>	<u>\$ 640,291,487</u>
<b>Net Assets, End of Year</b>	<u>\$ 278,322,034</u>	<u>\$ 70,005,316</u>	<u>\$ 625,941,927</u>	<u>\$ 93,065,100</u>	<u>\$ 719,007,027</u>

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

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

### **REPORTING ENTITY**

The North Dakota State Board of Higher Education (Board) is the governing body for North Dakota's eleven publicly supported colleges and universities. In addition to these eleven institutions, the Board 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 Board was established in 1939 when the voters of North Dakota approved an initiated measure to add Article VIII to the State Constitution. The Board consists of eight voting members. The Governor, with the advice and consent of the Senate, appoints seven of the eight voting members. The eighth member is a full-time resident student appointed by the Governor. A ninth member is a faculty member (non-voting) selected by the statewide Council of College Faculties. The Board is an entity of the executive branch of the government of the State of North Dakota. The colleges and universities governed by the Board are collectively known and referred to as the North Dakota University System hereafter referred to as the University System. The Board appoints a Commissioner of Higher Education (Chancellor) to serve as the chief executive officer of the Board and of the University System. The Chancellor and the Chancellor's staff must have their principal office in the State Capitol per the North Dakota Constitution. This office is referred to as the University System Office. The North Dakota Legislature appropriates funds it deems necessary and as required by law for those agencies and institutions authorized to exist by the constitution and statutes. Separate general ledgers are maintained for the 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 State Board of Higher Education. Each entity receives a separate appropriation from the North Dakota Legislature as provided by North Dakota Constitutional Article VIII, S 6(6)(e) and state statute.

#### **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:

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**NOTES TO THE FINANCIAL STATEMENTS**

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North Dakota State University Main Research Center  
Dickinson Research Extension Center  
Central Grasslands Research Extension Center  
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 net asset

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**NOTES TO THE FINANCIAL STATEMENTS**

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statement 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.

The **Mystic Athletic Club (BSC)** is considered a blended component unit. Although it is a legally separate entity, the Mystic Athletic Club is reported as if it were part of the primary institution because the board is comprised of BSC employees and its sole purpose is to provide support for the athletic programs at BSC. Complete financial statements may be obtained at the entity's administrative office at Bismarck State College, Athletic Department, 1601 Edwards Avenue, Bismarck, ND 58501.

**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 State Board of Higher Education 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 15 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 fund-raising 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

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**NOTES TO THE FINANCIAL STATEMENTS**

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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.

**Dickinson State University Foundation, Inc.**, was organized in 1952 as a non-profit corporation to provide an avenue through which alumni and friends of the University may contribute financially to the University. Gifts, grants, and bequests to the foundation benefit present and future students by providing scholarship assistance and the funding of special projects. The foundation is managed by a 26-member board of directors comprised of leading citizens, both alumni and friends of DSU as well as one ex-officio member that is an officer/employee of DSU. Complete financial statements for the Foundation may be obtained at Dickinson State University Foundation, 230 Eighth Ave West, Dickinson, ND 58601.

**North Dakota State University Development Foundation** is an incorporated, nonprofit organization developed solely for the benefit of NDSU. The foundation is approved by the IRS as a charitable, tax-exempt organization and designated by the University as the repository for private giving to the University. Its purpose is to raise, manage, and disburse contributions for the benefit of NDSU. The foundation is managed by a board of trustees comprised of 60 elected alumni and friends of the university as well as four ex-officio members – the president of NDSU, the president and vice president of the Alumni Association and the executive director of the Development Foundation and Alumni Foundation. In fiscal year 2012, the foundation changed their fiscal year end from June 30 to December 31. Foundation financial statements and footnote disclosures are presented as of December 31, 2013. Complete financial statements for North Dakota State University Development Foundation may be obtained at the entity's administrative office at 1241 N. University Drive, Fargo, ND 58102.

**NDSU Research & Technology Park, Inc.**, is a nonprofit organization established in 1999 to promote an economic environment dedicated to applied research and technology discovery for the benefit of NDSU, its faculty and staff and students and the citizens of North Dakota. The majority of the Park's board of directors (7 of 10) works in private industry. Vacancies are filled by a majority vote of the board. Officers of NDSU fill the remaining three positions. The President of NDSU serves as president of the board of directors and has control over final building plans for any new building at the Park. Complete financial statements for NDSU Research & Technology Park, Inc. may be obtained at the entity's administrative office at 1854 NDSU Research Circle North, Fargo, ND 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 Foundation's principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is governed by a board of directors consisting of five to seven 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 4251 University Ave Box 9023, Grand Forks, ND 58202-9023.

**The Alumni Association of the University of North Dakota** and the **University of North Dakota Foundation** are nonprofit organizations utilizing a common board of directors and administration

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**NOTES TO THE FINANCIAL STATEMENTS**

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organized exclusively for the benefit of the University of North Dakota ("UND"). The administrative offices for the organizations are maintained on the University of North Dakota Campus.

The Alumni Association of the University of North Dakota was incorporated in 1915 and the UND Foundation was incorporated in 1978 to replace the Alumni Association Development Fund. The Foundation receives, holds and manages contributions from alumni and private sources and engages in development activities on behalf of UND. The Alumni Association of the University of North Dakota is organized to keep alumni connected to each other and to UND and to support the growth and enrichment of the University. The organizations are supported primarily through donor contributions and earnings on investments.

These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice-presidents. The board of directors consists of 23 voting members, 21 whom are alumni of UND, and 4 ex-officio members that are officers of UND. Complete combined financial statements for the Alumni Association of the University of North Dakota and UND Foundation, may be obtained at the entity's administrative offices at 3501 University Ave Stop 8157, Grand Forks, ND 58202-8157.

**RE Arena Inc. (REA), UND Arena Services Inc. (UAS), UND Sports Facilities Inc. 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. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, N.D. known as the Ralph Engelstad Arena Sports Complex (including the Ralph Engelstad Arena, the Olympic Arena, and the Betty Engelstad Sioux Center.) The complex is used primarily for UND athletics and activities. UND Sports Facilities, Inc. (UNDSF) is the sole member of Arena Holdings Charitable LLC. 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 Arena Holdings Charitable LLC. Arena Holdings Charitable, LLC is the lessee of the land from UND and is the title holder of the complex. At the conclusion of the original 30 year lease (2030), the complex shall vest with UND. UAS and AHC have 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 Manager. The remaining four board members are also board members of UAS and AHC, with no UND employee represented on the board. 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 four 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**

**Dakota College of Bottineau Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to DCB. The Logrollers, a legally separate organization, operates as an entity within the Foundation. The foundation and Logrollers are managed by the same eight-member board of directors comprised of leading citizens, both alumni and friends of the college as well as two ex-officio members that are officers of DCB. However, each entity has separate committees that direct each organization's activities. Complete combined financial statements for Dakota College at Bottineau Development Foundation and Logrollers may be obtained at the entity's administrative offices at 105 Simrall Boulevard, Bottineau, ND 58318.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**Lake Region Community College Foundation** was established in 1959 to provide a permanent structure through which support for Lake Region State College could be channeled. The work and the resources of the foundation are managed by a 27-member board of directors elected by the foundation membership to serve three-year terms. Complete financial statements for the Community College Foundation may be obtained at the entity's administrative office at 1801 College Drive North, Devils Lake, ND 58301-1598.

**Mayville State University Foundation** was established to act primarily as a fund-raising organization to supplement the resources that are available to MaSU. The foundation is managed by a 15-member board of directors comprised of leading citizens, both alumni and friends of the university as well as ex-officio members that are officers/employees of MaSU. The Comet Athletic Club, a legally separate non-profit organization, operates as an entity within the foundation. The Club's purpose is to promote, support, and encourage interest and participation in MaSU sports. Their financial activity is reflected in the foundation's financial statements. Complete financial statements for Mayville State University Foundation may be obtained at the entity's administrative office at 330 3<sup>rd</sup> Street Northeast, Mayville, ND 58257.

**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 a 17 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.

**North Dakota State University Research Foundation** is a legally separate, non-profit 501(c)(3) organization created to provide support to NDSU in its mission by enabling NDSU faculty to enhance their involvement in research, technology transfer, and business endeavors. Through linkages with public and private businesses and industries, the foundation facilitates the commercialization of research technologies developed by NDSU faculty and staff. The foundation is managed by an 11-member board of directors, comprised of five NDSU employees and six individuals who are not employed by NDSU. Complete financial statements for the Research Foundation may be obtained at the entity's administrative office at 1735 NDSU Research Park Drive, Suite 124, Fargo, ND 58108-6050.

**North Dakota State University Team Makers Club** was established in 1950 by a group of local business leaders who recognized the need for a community-based support group to benefit NDSU Bison Athletics. Team Makers is a legally separate, non-profit 501(c)(3) organization to provide financial support, promotion and spirit for NDSU student-athletes and the NDSU Athletics Department in order to achieve excellence. The foundation is managed by board of directors comprised of 11 voting

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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members, of which one is an employee of NDSU. Complete financial statements for the NDSU Team Makers may be obtained at the entity's administrative office at NDSU Team Makers, Dept. 1200, PO Box 6050, Fargo ND 58108-6050.

**University of North Dakota Center for Innovation Foundation** has a mission to foster entrepreneurship statewide as well as support the Center for Innovation and the Department of Entrepreneurship within the College of Business and Public Administration. The Foundation is governed by a board of directors comprised of seven voting members, two non-voting trustee emeritus, and four non-voting members who are officers of UND plus the Director of the Center for Innovation. Complete financial statements for the Center for Innovation Foundation may be obtained at the entity's administrative office at 4200 James Ray Drive, Grand Forks ND 58203.

**The University of North Dakota Research Foundation** was formed in 2006 to assist the University of North Dakota to advance its research agenda, to commercialize its university innovations and discoveries, and to create economic opportunities for Grand Forks and the State of North Dakota. The Foundation works with UND to build successful and strategic partnerships between the university and private companies, resulting in mutual gains for each. Complete financial statements for the University of North Dakota Research Foundation may be obtained at the entity's administrative office at 4201 James Ray Drive, Grand Forks ND 58202.

**Valley City State University Foundation** was established to support Valley City State University by involving alumni and friends of the university in activities and private giving that meet the university's needs and advance its welfare. The foundation is managed by a 19 member Board of Directors comprised of leading citizens, both alumni and friends of the university, as well as two ex-officio nonvoting members that are officers of VCSU. Complete financial statements for Valley City State University Foundation may be obtained at the entity's administrative office at 101 College Street SW, Valley City, ND 58072.

**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 PO Box 1286, 501 18<sup>th</sup> Street East, Williston, ND 58802-1286.

**JOINT VENTURES**

**Tri-College University**

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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for use in connection with specific programs at NDSU are the responsibility of the university. As of June 30, 2014, Tri-College University had net position of approximately \$649,498 and is not considered a financial burden to NDSU. The financial activity of this organization is not reflected in the accompanying financial statements. Complete audited financial statements for Tri-College University may be obtained at the entity's administrative office at North Dakota State University, Renaissance Hall, 650 NP Avenue 100, Fargo, ND 58102.

**INSIGNIFICANT COMPONENT UNITS**

The following organizations are component units of the University System but have been deemed insignificant due to small total assets and revenues balances. Entities in this category had less than 0.3% each in total assets and less than 0.5% each in total revenues when compared to total assets and revenues of 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, 2014 were:

BSC:	National Alumni Association 1255 Schafer Street PO Box 5587 Bismarck, ND 58506-5587	DSU:	The Blue Hawk Booster Club 620 Villard St W Dickinson, ND 58601-5128
MaSU:	Mayville Mutual Aid Corporation 330 3 <sup>rd</sup> Street NE Mayville, ND 5825	MiSU:	Alumni Association, Inc. Minot State University 500 University Ave W. Minot, ND 58707  Beaver Boosters, Inc. Minot State University 500 University Ave W Minot, ND 58707
NDSU:	Alliance for Arts & Humanities 221 Minard Hall, Albrecht Blvd PO Box 6050 Fargo, ND 58108-6050  RSVP Enterprise Dept. 2020 Box 6050 Fargo, ND 58108-6050  NDSU 4H Foundation FLC 219, Dept. 7280 PO Box 6050 Fargo, ND 58108	UND:	EERC Foundation Energy & Environmental Research Center University of North Dakota 5 North 23 <sup>rd</sup> Street, Stop 9018 Grand Forks, ND 58202-9018  Law School Foundation 215 Centennial Drive Stop 9003 Grand Forks, ND 58502-9003  The Fellows of the University of North Dakota 264 Centennial Drive Twamley Hall Grand Forks, ND 58502
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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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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.

**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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

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

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

**CASH AND CASH EQUIVALENTS**

This classification includes cash on-hand, cash in-bank, regular and money market savings accounts, and certificates of deposit and time saving certificates (original maturity of 3 months or less). For purposes of the Statement of Cash Flows, the University 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. 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

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**NOTES TO THE FINANCIAL STATEMENTS**

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part of investment income. Investments are classified as Investments, if the maturity date is more than three months to one year, or as Other Long-term Investments, if the maturity date is more than one-year from the date of the financial statements. Investments restricted by bond covenants or invested from bond proceeds are classified as Restricted Investments. Investments held by endowment funds are classified as Endowment Investments.

**RECEIVABLES**

Accounts receivables include tuition, fees, food service, room and board charges and apartment rent; accrued interest on investments; 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-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.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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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 campuses, except UND and NDSU, use the ½ year convention.

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

**DEPOSITS**

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

**COMPENSATED ABSENCES**

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

**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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

gifted value of buildings, equipment, land improvements and infrastructure, less accumulated depreciation and related outstanding debt.

**RESTATEMENT OF BEGINNING NET POSITION**

	<b>Primary Institution</b>
<b>Net Position, beginning of the year, as previously reported</b>	<b>\$ 1,041,903,419</b>
<u>Prior period adjustments:</u>	
Change in accounting method	(3,630,613)
Correction of error	3,986,377
<b>Net Position, beginning of the year, as restated</b>	<b><u>\$ 1,042,259,183</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**

In fiscal year 2014, the North Dakota University System adopted GASB No. 65, Items Previously Reported as Assets and Liabilities. This statement requires certain items that were previously reported as assets and liabilities to be reported as outflows of resources or inflows of resources in the year incurred or received. Additionally, the statement requires costs related to the issuance of debt to be recognized as an expense in the period incurred rather than recorded as a deferred charge and amortized. The statement was adopted retroactively and resulted in a restatement of prior period net position of \$3.6 million.

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27." The statement is effective for periods beginning after June 15, 2014.

In January 2013, the GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This statement is effective for periods beginning after December 15, 2013.

In April, 2013, the GASB issued Statement No. 70, "Accounting and Financial Guarantees." This statement is effective for periods beginning after June 15, 2013.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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In November 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68." This statement is effective for periods beginning after June 15, 2014.

The effect GASB statements 68, 69, 70 and 71 will have on future financial statements has not yet been determined.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**LIMITATIONS**

**Primary Institution**

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 Board 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 reported on the Statement of Net Position as follows:

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount	Bank Balance
Cash deposits-BND	\$ 174,366,255	\$ 181,445,009
CDs-BND	171,358,176	171,358,176
Cash deposits-Other	7,910,652	8,486,514
CDs-Other	312,933	312,933
<b>Total Bank Deposits</b>	<b>\$ 353,948,016</b>	<b>\$ 361,602,632</b>
Cash on hand	\$ 220,663	
Amounts credit risked as deposits but reported as investments	(171,671,109)	
<b>Cash &amp; Cash Equivalents per Statement of Net Position</b>	<b>\$ 182,497,570</b>	

**Custodial Credit Risk**

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

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

**Investments**

Investments are reported at fair value (market) and reported on the Statement of Net Position as of June 30, 2014, as follows:

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

Investment Type	Market Value	Maturities			
		Less than 1 year	1 year to 5 years	6 years to 10 years	More than 10 years
US Strips	\$ 68,422	\$ -	\$ 68,422	\$ -	\$ -
Corporate Bonds	-	-	-	-	-
Mutual Bond Funds	5,032,429	1,175,530	979,992	2,876,907	-
GICs	237,375	-	-	-	237,375
Money Market Mutual funds	4,374,908	4,374,908	-	-	-
Other	733,838	733,838	-	-	-
<b>Debt Securities Subtotal</b>	<b>\$ 10,446,972</b>	<b>\$ 6,284,276</b>	<b>\$ 1,048,414</b>	<b>\$ 2,876,907</b>	<b>\$ 237,375</b>
Stocks	\$ 1,620,595				
Equity Mutual Funds	14,432,447				
Certificates of Deposit - BND	171,358,176				
Certificates of Deposit - non-BND	312,933				
Other	5,868,040				
<b>Equity Securities Subtotal</b>	<b>\$ 193,592,191</b>				
<b>Total Investments per the Statement of Net Position</b>	<b>\$ 204,039,163</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. Campuses choose terms based on maximizing their return within the limits of their cash flow needs. Campuses 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, 2014, 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	A	BBB	B	Not Rated	
Mutual Bond Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,032,429	\$ 5,032,429
Guaranteed Investment Contracts	-	237,375	-	-	-	-	237,375
Money market mutual funds	4,362,398	-	12,509	-	-	1	4,374,908
Other	-	-	83,628	-	-	718,632	802,260
<b>Total</b>	<b>\$ 4,362,398</b>	<b>\$ 237,375</b>	<b>\$ 96,137</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,751,062</b>	<b>\$10,446,972</b>

NOTE 3 – RECEIVABLES

Receivables at June 30, 2014 consist of the following amounts:

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

	Current	NonCurrent	Total
Student & General	\$31,329,646		\$ 31,329,646
Interest Receivable	284,233		284,233
Allowance for doubtful Accts	(6,959,545)		(6,959,545)
Accounts Receivable, net	<u>\$24,654,334</u>		<u>\$ 24,654,334</u>
Grants & Contracts Receivable	\$31,909,660		\$ 31,909,660
Appropriations - Other	0		0
Due from Other State Agencies	4,853,244		4,853,244
Allowance for Doubtful G&C Rec	0		0
Grants & Contracts Receivable, net	<u>\$36,762,904</u>		<u>\$ 36,762,904</u>
Student	\$ 9,668,840	\$34,591,848	\$ 44,260,688
Allowance for Doubtful Notes	(1,765,072)	(6,643,154)	(8,408,226)
Notes Receivable, net	<u>\$ 7,903,768</u>	<u>\$27,948,694</u>	<u>\$ 35,852,462</u>

NOTE 4 – ENDOWMENT FUNDS

The endowment funds reported herein are institutional funds under the terms of the gift instrument and are not wholly expendable by the institution. NDCC Section 59-21 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to the investment of endowments governed by a gift instrument. NDUS SBHE policy 810 stipulates endowment funds shall be invested according to the intent of the donor provided such intent is consistent with applicable laws. Absent terms expressing donor intent in a gift instrument, NDUS institution officers initially shall deposit the funds in institution accounts at the Bank of North Dakota. Thereafter, the funds may be invested according to NDCC 59-21. Subject to the intent of the donor, NDUS institution officers are delegated authority to manage and invest these institutional funds as provided by UPMIFA. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in managing and investing an institutional fund, the needs of the institution and the fund to make distributions and to preserve capital must be considered. Given the flexibility in NDCC 59-21-02, campuses have differing policies with respect to spending investment income and net appreciation on endowment funds. UND changed investment managers in September 2013, designating the University of North Dakota Foundation as agent for investment management and fiduciary oversight for UND endowment. The payout is calculated using the average balance of the last four quarters multiplied by 4 percent. MaSU, NDSU, VCSU 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, 2014:

		Reflected in net position as:
Mayville State University	\$ 3,207	Expendable scholarships & fellowships
North Dakota State University	149,292	Expendable scholarships & fellowships
University of North Dakota	935,168	Non-expendable scholarships & fellowships
Williston State College	2,227	Non-expendable scholarships & fellowships
Total NDUS	<u>\$ 1,089,894</u>	

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land 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 does 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, 2014 are approximately \$131.1 million and \$2.7 million, respectively.

NOTE 5 – CAPITAL AND INTANGIBLE ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 15,539,607	\$ -	\$ -	\$ 281,000	\$ 15,820,607
Construction in progress	129,021,071	55,206,294	-	(96,121,204)	88,106,161
<b>Total non-depreciable capital assets</b>	<b>\$ 144,560,678</b>	<b>\$ 55,206,294</b>	<b>\$ -</b>	<b>\$ (95,840,204)</b>	<b>\$ 103,926,768</b>
Land improvements/infrastructure	\$ 187,356,456	\$ 4,360,270	\$ 16,271	\$ (3,842,864)	\$ 187,857,590
Buildings	1,051,782,522	23,725,716	4,757,572	97,283,445	1,168,034,111
Furniture, fixtures, and equipment	283,409,551	22,220,304	20,064,921	7,251,618	292,816,552
Intangibles:					
Computer Software	23,350,340	408,338	5,074	-	23,753,604
Websites	837,704	66,399	-	-	904,103
Other	1,007,407	299,021	-	-	1,306,428
Library materials	108,033,434	4,696,876	4,270,699	-	108,459,612
<b>Total depreciable capital assets</b>	<b>\$ 1,655,777,414</b>	<b>\$ 55,776,924</b>	<b>\$ 29,114,537</b>	<b>\$ 100,692,199</b>	<b>\$ 1,783,131,999</b>
Less accumulated depreciation and amortization					
Land improvements/infrastructure	\$ 81,288,445	\$ 4,785,319	\$ -	\$ (116,461)	\$ 85,957,303
Buildings	460,186,869	27,017,092	3,459,031	34,890	483,779,820
Furniture, fixtures, and equipment	173,037,655	19,648,624	15,504,779	81,571	177,263,070
Intangibles					
Computer Software	13,993,707	1,761,712	3,284	-	15,752,135
Websites	334,666	131,431	-	-	466,098
Other	130,409	89,569	-	-	219,978
Library materials	84,418,388	4,514,736	4,270,703	-	84,662,422
<b>Total accumulated depreciation and amortization</b>	<b>\$ 813,390,139</b>	<b>\$ 57,948,483</b>	<b>\$ 23,237,796</b>	<b>\$ -</b>	<b>\$ 848,100,825</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 842,387,275</b>	<b>\$ (2,171,559)</b>	<b>\$ 5,876,740</b>	<b>\$ 100,692,199</b>	<b>\$ 935,031,175</b>
<b>Capital assets, net</b>	<b>\$ 986,947,953</b>	<b>\$ 53,034,735</b>	<b>\$ 5,876,740</b>	<b>\$ 4,851,995</b>	<b>\$ 1,038,957,943</b>

**June 30, 2014**  
**NOTES TO THE FINANCIAL STATEMENTS**

Construction in progress for the year ended June 30, 2014 was as follows:

	Amount Authorized	Expended (CIP Asset)	Expended (Non capitalized)	Authorized Balance
Bismarck State College	\$ 29,160,626	\$ 7,029,038	\$ 181,777	\$ 21,949,811
Dakota College of Bottineau	1,919,700	663,781	-	1,255,919
Lake Region State College	5,876,057	3,875,237	77,867	1,922,953
Mayville State University	7,798,650	1,153,010	-	6,645,640
Minot State University	47,610,522	24,734,251	-	22,876,271
North Dakota State College of Science	10,226,657	2,241,380	-	7,985,277
North Dakota State University	88,387,290	15,824,741	-	72,562,549
University of North Dakota	190,468,448	25,410,790	-	165,057,658
Valley City State University	4,676,398	519,118	-	4,157,280
Williston State College	20,386,172	6,654,823	-	13,731,349
<b>Total NDUS</b>	<b>\$ 406,510,520</b>	<b>\$ 88,106,169</b>	<b>\$ 259,644</b>	<b>\$ 318,144,707</b>

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

Accounts payable and accrued liabilities consisted of the following at June 30, 2014:

Accounts Payable	\$ 20,350,310
Due to other state agencies	10,387,436
Due to Other Funds	485,525
Sales Tax Payable	15,481
Accrued Interest	2,731,036
Contractor Payable/Retainage	3,321,773
Other liabilities	117,258
<b>Total Payables &amp; Accrued Liabilities</b>	<b>\$ 37,408,819</b>

**NOTE 7 – LONG-TERM LIABILITIES**

The changes in long-term liabilities during fiscal year 2014 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds Payable	\$ 196,546,401	\$ 45,625,000	\$ 21,287,901	\$ 220,883,500	\$ 6,651,500	\$ 214,232,000
Bonds Payable to Component Units	27,020,000	-	1,335,000	25,685,000	1,390,000	24,295,000
Notes Payable	10,039,264	9,800,000	707,248	19,132,016	725,067	18,406,949
Notes Payable to Component Units	478,356	-	74,858	403,498	40,329	363,169
Capital Leases	32,529,014	1,368,233	13,600,541	20,296,706	3,215,894	17,080,814
Capital Leases with Component Units	29,266,716	599,450	5,389,338	24,476,828	1,449,819	23,027,009
Special Assessments	3,967,881	278,826	297,566	3,949,142	280,919	3,668,224
Compensated Absences	32,078,268	544,176	980,339	31,642,106	1,988,040	29,654,064
<b>Total</b>	<b>\$ 331,925,900</b>	<b>\$ 58,215,686</b>	<b>\$ 43,672,791</b>	<b>\$ 346,468,795</b>	<b>\$ 15,741,568</b>	<b>\$ 330,727,229</b>

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

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**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 campuses, as of June 30, 2014 is presented below and the detail is presented in the Supplementary Information section following these notes.

	Original Balances	Interest Rates	Balances Outstanding
Bismarck State College	\$ 11,400,000	2.0 - 5.35%	\$ 10,195,000
Lake Region State College	1,050,000	3.0 - 5.125%	370,000
Mayville State University	6,465,000	1.55 - 6.63%	4,980,000
Minot State University	17,299,000	0.0 - 6.60%	13,610,000
North Dakota State College of Science	9,000,000	3.76 - 5.50%	8,735,000
North Dakota State University	108,695,000	1.50 - 6.5%	95,245,000
University of North Dakota	101,420,000	0.75 - 5.0%	98,707,500
Valley City State University	9,425,000	2.8 - 7.05%	5,925,000
Williston State College	2,046,000	3.0 - 6.9%	8,801,000
Total Bonds Payable	\$ 266,800,000		\$ 246,568,500

**Industrial Commission Bonds**

For the 2013-2015 biennium, the North Dakota University System Office received an appropriation of \$10.4 million to act as the fiscal agent for the campuses on bond payments to the Industrial Commission. During fiscal year 2014, the North Dakota University System Office paid \$5.6 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 another bond issue. Under an advanced refunding arrangement, refunding bonds are issued, and the net proceeds plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds. As a result, trust account assets and liabilities for the defeased bonds are not included in the University 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 \$1.850 million of Facilities Revenue Bonds (Series 2013) with an interest rate ranging from 2.0 percent to 3.25 percent. The bonds were used to recall \$1.766 million of outstanding Series 2003 Housing and Auxiliary Revenue bonds. The bonds were refunded to reduce

June 30, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

total debt service payments over the next 20 years by approximately \$124,000.

**North Dakota State University**

North Dakota State University issued \$8.505 million of Housing and Auxiliary Revenue Refunding Bonds (Series 2014) with an interest rate of 2.0 percent to 4.0 percent. The bonds were used to recall \$8.505 million of outstanding Series 2004 Housing and Auxiliary Revenue bonds. The bonds were refunded to reduce total debt service payments over the next 20 years by approximately \$1.6 million.

**Scheduled Maturities of Bonds Payable**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,041,500	\$ 10,726,550	\$ 18,768,050
2016	8,461,500	10,546,978	19,008,478
2017	8,766,500	10,238,410	19,004,910
2018	9,081,500	9,902,942	18,984,442
2019	9,292,500	9,555,826	18,848,326
2020 - 2024	50,352,500	41,869,541	92,222,041
2025 - 2029	56,027,500	30,626,718	86,654,218
2030 - 2034	57,950,000	17,636,105	75,586,105
2035 - 2039	28,050,000	6,335,806	34,385,806
2040 - 2044	10,545,000	1,157,019	11,702,019
	<u>\$ 246,568,500</u>	<u>\$ 148,595,894</u>	<u>\$ 395,164,394</u>

**NOTE 9 – NOTES PAYABLE**

**Energy Performance Contracts**

Dickinson State University, Mayville State University and Williston State College have individual notes payable to GE Capital Public Finance, Inc., for energy improvements through a performance contract. Lake Region State College has a note with Banc of America Public Capital Corp. 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 2014. Details of the notes are as follows:

<u>Institution</u>	<u>Original Balance</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding Balance June 30, 2014</u>
Dickinson State University	10,949	July 2016	9.90%	7,610
Lake Region State College	4,881,045	June 2027	3.27%-5.15%	4,377,186
Mayville State University	7,280,185	August 2012 - December 2024	4.97% - 5.25%	5,123,121
Williston State College	500,000	September 2023	5.00%	403,498
University of North Dakota	9,800,000	October 2023	5.38%	9,624,099
Total Notes Payable	\$ 22,472,179			\$ 19,535,514

**June 30, 2014**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Scheduled Maturities of Notes Payable**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 765,396	\$ 1,015,970	\$ 1,781,365
2016	822,727	980,125	1,802,852
2017	879,340	941,173	1,820,513
2018	943,841	899,472	1,843,313
2019	1,012,380	854,606	1,866,985
2020 - 2024	13,534,455	3,152,270	16,686,725
2025 - 2029	1,577,376	123,177	1,700,553
	<u>\$ 19,535,514</u>	<u>\$ 7,966,792</u>	<u>\$ 27,502,306</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 rates with maturities to 2039.

<b>Carrying Value of Assets Held Under Capital Leases</b>		
	<b>Carrying Value</b>	<b>Accumulated Depreciation</b>
Land improvements/infrastructure	\$ 560,015	\$ 135,406
Buildings	55,434,043	10,367,207
Furniture, fixtures, and equipment	26,976,092	16,727,739
Total	<u>\$ 82,970,149</u>	<u>\$ 27,230,353</u>

**Scheduled Maturities of Capital Leases**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 4,665,713	\$ 1,725,033	\$ 6,390,746
2016	4,295,929	1,542,677	5,838,606
2017	4,002,612	1,366,574	5,369,186
2018	5,721,654	1,199,124	6,920,778
2019	3,269,117	964,645	4,233,762
2020 - 2024	11,252,698	3,224,471	14,477,169
2025 - 2029	6,504,895	1,438,557	7,943,453
2030 - 2034	3,320,918	634,698	3,955,616
2035 - 2039	1,740,000	106,400	1,846,400
	<u>\$ 44,773,535</u>	<u>\$ 12,202,180</u>	<u>\$ 56,975,715</u>

**NOTE 11 – OTHER LONG-TERM LIABILITIES**

**SPECIAL ASSESSMENTS**

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

**Scheduled Maturities of Special Assessments**

Fiscal Year	PRIMARY INSTITUTION		Total
	Principal	Interest	
2015	\$ 280,919	\$ 188,656	\$ 469,575
2016	276,348	170,526	446,875
2017	272,013	157,706	429,720
2018	254,976	144,509	399,485
2019	255,204	133,759	388,963
2020 - 2024	1,077,342	506,512	1,583,854
2025 - 2029	721,222	299,382	1,020,605
2030 - 2034	655,055	136,539	791,593
2035 - 2039	156,062	9,399	165,461
	<u>\$ 3,949,142</u>	<u>\$ 1,746,989</u>	<u>\$ 5,696,131</u>

**Compensated Absences**

The compensated absences liability of the institutions at June 30, 2014 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, 2014 and 2013 totaled \$31.6 million and \$32.1 million, respectively. Leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.

**NOTE 12 – RETIREMENT BENEFITS**

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

**NORTH DAKOTA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM (NDPERS)**

NDPERS is a cost-sharing multiple-employer defined benefit pension plan. The plan provides retirement, disability and death benefits for those employees who participate in this plan. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50 percent of the employee's accrued normal

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100 percent 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0 percent of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7 percent of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The NDUS has implemented a salary reduction agreement and is currently contributing the employees share. The NDUS is required to contribute 7.12 percent of each participant's salary as the employer's share. In addition to the 7.12 percent employer contribution the employer is required to contribute 1.14 percent of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The NDUS required and actual contributions to NDPERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$10.5 million, \$9.2 million, and \$8.0 million, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

**TIAA-CREF RETIREMENT PLAN**

**Description of Plan**

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

**Funding Policy**

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

June 30, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

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)	0 thru 12	0.0%	8.33%*
	or		
	less than 3	0.0%	0.0%
	3 to less than 6	0.0%	4.0%
	6 yrs and over	0.0%	8.0%

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

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The North Dakota University System has no further liability once annual contributions are made. The University System contributed \$40.8 million and \$35.6 million to TIAA-CREF during the fiscal years ending June 30, 2014 and 2013, respectively.

**NOTE 13 – POST-EMPLOYMENT BENEFITS**

**STATE GROUP HEALTH PLAN**

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

There are approximately 882 retired University System employees receiving these benefits and 3,362 active employees with retiree health credit. The actuarially determined required employer contribution of \$1.130 million for the year ended June 30, 2014 is 1.14 percent of the covered payroll. The University System's actual and required contributions for the fiscal years ending June 30, 2014, 2013 and 2012 were \$1.130 million, \$1.088 million, and \$1.033 million, respectively.

As of June 30, 2014 there was \$92.0 million in net position available for benefits under the state retiree health insurance credit plan. The actuarially accrued liability was \$116.6 million and the underfunded actuarially accrued liability was \$38.7 million at June 30, 2014.

**TERMINATION BENEFITS**

**Early Retirement Agreements**

When early retirement is deemed to be in the mutual benefit of an employee and the University System, the Board has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, the chancellor, vice chancellors, other system office professional staff, presidents, executive deans, vice president, provosts, deans, and other officers responsible for a major unit of an institution who report directly to a president, vice president, provost, or executive dean who are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2014, fifteen employees elected early retirement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100 percent of the employee's final contract salary if the sum of the employee's age and total years of employment equals 70 or greater. Payments will be pursuant to the approved agreement, but cannot be made until at least 90 days after the date of Early Retirement Agreement. During the fiscal year ended June 30, 2014, 38 University System employees elected to participate in this option. Policy 703.1 also allows the early retirement agreements to retain the retiree on the applicable group health and life insurance plan. Payment by the institution of premiums is negotiable. Total cost to the institutions for these termination benefits will be \$408,362 over the term of the contracts. Amounts payable to employees at June 30, 2014 for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were \$414,404, assuming health insurance premium increases ranging from 7 percent to 15 percent and a discount rate of 0.05 percent.

Under the Phased Retirement Option, retirement is over a period of time. The percentage of workload each year is negotiated. The campus may pay all or any part of the retirement contributions on the current salary or any part of the individual's salary until the individual terminates all employment. During the fiscal year ended June 30, 2014, nine University System employees participated in this option. Total cost to the institutions for these termination benefits will be \$345,000 over the term of the contracts. Amounts payable to employees at June 30, 2014 for outstanding contract buyouts and future health and life premiums adjusted for projected health insurance premium increases and discounted to the present were \$375,000, assuming health insurance premium increases ranging from 7 percent to 15 percent and a discount rate of 0.05 percent.

**Severance Agreements**

In fiscal year 2014, institutions paid \$500,304 to four employees under separate employment separation agreements.

**NOTE 14 – CONSTRUCTION COMMITMENTS AND FINANCING**

The campuses have contracted for various construction projects as of June 30, 2014. Estimated costs To complete the various projects and the sources of anticipated funding are as follows:

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

Campus	Contracts Awarded	Expended Through 6/30/2014	Total Cost To Complete	Funding for Remaining Costs			
				Federal Sources	State Sources	Institutional Funds	Other Sources
BSC	\$ 21,086,192	\$ 6,867,289	\$ 14,218,903		\$ 11,197,037	\$ 419,500	\$ 2,602,366
DCB	1,168,200	518,163	650,037		592,332	57,705	
DSU	98,324	-	98,324		91,566	6,758	
LRSC	5,370,222	3,871,642	1,498,580		1,498,580		
MaSU	2,607,910	1,066,654	1,541,256			1,541,256	
MiSU	8,220,188	2,474,836	5,745,352		2,142,380	3,602,972	
NDSCS	8,924,992	2,603,175	6,321,817		5,094,926	900,000	326,891
NDSU	87,621,568	44,133,580	43,487,988		6,439,988	1,880,021	35,167,979
UND	50,151,136	33,350,871	16,800,265	-	6,544,934	1,228,079	9,027,251
VCSU	10,631,891	10,027,256	604,635		451,758		152,877
WSC	21,748,125	8,821,001	12,927,124	-	7,900,930	1,093,500	3,932,694
<b>Total</b>	<b>\$ 217,628,748</b>	<b>\$ 113,734,468</b>	<b>\$ 103,894,281</b>	<b>\$ -</b>	<b>\$ 41,954,431</b>	<b>\$ 10,729,791</b>	<b>\$ 51,210,058</b>

NOTE 15 – COMPONENT UNITS

Major Component Units Investments

Investments are reported at fair value (market) and reported on the Statement of Net Position as follows:

As of June 30, 2014, the major component units had investments as shown below:

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	\$ 639,408	\$ 31,272	\$ 407,940	\$ 98,445	\$ 101,751
US Agencies	528,102	-	55,965	-	472,137
Corporate Bonds	1,467,021	303,499	592,765	443,706	127,051
Mutual Bond Funds	82,832,547	13,829,949	11,234,929	44,504,076	13,263,593
Money Market Mutual Funds	292,523	292,523	-	-	-
Other	14,104,389	589,344	128,520	12,939,831	446,694
Subtotal	\$ 99,863,990	\$ 15,046,587	\$ 12,420,119	\$ 57,986,058	\$ 14,411,226
Equity Mutual Funds	217,350,827				
Trust Funds	-				
Investment in Real Estate	51,186,355				
Commodity Hedge and Limited Partnerships	39,704,802				
Stocks	12,000,256				
Certificate of Deposits	17,198,277				
Life income and annuity funds	-				
Other	51,417,399				
Total Investments per the Statement of Financial Position	\$ 488,721,906				

Interest Rate Risk

North Dakota State University Development Foundation'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's investment policy limits the average maturity of the portfolio to between four and seven years with a maximum maturity for any one fixed income security of ten years.

Custodial Credit Risk

As of June 30, 2014, REA Arena, Inc., had approximately \$4.4 million in pledged collateral, in lieu of

June 30, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

FDIC insurance. The major component units had no investments that were not registered in the name of the component unit.

**Major Component Units Capital Assets**

Capital asset activity for the major component units for the year ended June 30, 2014 was as follows:

	Beginning				Ending
	Balance-Restated	Additions	Retirements	Transfers	Balance
Land	\$ 3,642,301	\$ 21,574	\$ 1	\$ -	\$ 3,663,874
Construction in progress	241,106	376,750	116,019	(125,087)	376,750
<b>Total non-depreciable capital assets</b>	<b>\$ 3,883,407</b>	<b>\$ 398,324</b>	<b>\$ 116,020</b>	<b>\$ (125,087)</b>	<b>\$ 4,040,624</b>
Land improvements/infrastructure	\$ 1,434,783	\$ -	\$ -	\$ -	\$ 1,434,783
Buildings	182,597,119	1,961,881	-	125,087	184,684,087
Furniture, fixtures, and equipment	41,486,664	5,694,770	5,129,161	-	42,052,273
<b>Total depreciable capital assets</b>	<b>\$ 225,518,566</b>	<b>\$ 7,656,651</b>	<b>\$ 5,129,161</b>	<b>\$ 125,087</b>	<b>\$ 228,171,143</b>
Less accumulated depreciation					
Land improvements/infrastructure	\$ 611,758	\$ 57,453	\$ -	\$ -	\$ 669,211
Buildings	54,246,346	4,595,060	-	-	58,841,406
Furniture, fixtures, and equipment	18,054,155	2,700,998	2,563,531	-	18,191,622
<b>Total accumulated depreciation</b>	<b>\$ 72,912,259</b>	<b>\$ 7,353,511</b>	<b>\$ 2,563,531</b>	<b>\$ -</b>	<b>\$ 77,702,239</b>
<b>Total depreciable capital assets, net</b>	<b>\$ 152,606,307</b>	<b>\$ 303,141</b>	<b>\$ 2,565,630</b>	<b>\$ 125,087</b>	<b>\$ 150,468,905</b>
<b>Capital assets, net</b>	<b>\$ 156,489,714</b>	<b>\$ 701,465</b>	<b>\$ 2,681,650</b>	<b>\$ -</b>	<b>\$ 154,509,529</b>

**MAJOR COMPONENT UNITS BONDS PAYABLE**

Bonds payable for the major component units at June 30, 2014 was as follows:

<b>Component Unit</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Balance Outstanding</b>
BSC Foundation	2022-2032	4.5 - 5.25%	\$ 1,738,090
Dickinson State University Foundation	2017-2024	1.0 - 6.0%	4,160,040
NDSU Development Foundation	2020-2038	2.0 - 4.89%	18,829,374
NDSU Research & Technology Park, Inc.	2022-2032	4.0 - 4.75%	19,975,000
UND Alumni Foundation	2018-2027	0.75 - 4.2%	11,092,613
<b>Total Component Unit Bonds Payable</b>			<b>\$ 55,795,117</b>

**June 30, 2014**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Scheduled Maturities of Major Component Bonds Payable**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,057,518	\$ 786,925	\$ 1,844,443
2015	3,674,354	2,188,295	5,862,649
2016	3,291,943	2,070,616	5,362,559
2017	3,439,128	1,931,101	5,370,229
2018	6,212,698	1,784,808	7,997,506
2019	3,623,822	1,538,794	5,162,616
2020 - 2024	14,898,434	5,861,611	20,760,045
2025 - 2029	11,183,827	3,053,791	14,237,618
2030 - 2034	7,048,130	985,883	8,034,013
2035 - 2039	1,365,263	86,339	1,451,602
	<u>\$ 55,795,117</u>	<u>\$ 20,288,163</u>	<u>\$ 76,083,280</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</u>	<u>Balance Outstanding</u>
BSC Foundation	1.25%	2017	\$ 252,246
DSU Foundation	3.5 - 5.5%	2014-2020	6,696,145
NDSU Development Foundation	0%	2017	913,951
NDSU Research & Tech Park, Inc.	3.0%	2017	267,749
UND Alumni Association & UND Foundation	4.35%	2036	500,000
UND Aerospace Foundation	2.05-4.25%	2016-2019	1,707,690
RE, Arena, Inc	3.0%	2020	3,015,345
<b>Total Component Unit Notes Payable</b>			<u><u>\$ 13,353,126</u></u>

**June 30, 2014**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,080,394	\$ 226,036	\$ 3,306,430
2015	1,461,177	386,503	1,847,680
2016	2,221,980	330,049	2,552,029
2017	1,078,566	289,916	1,368,482
2018	4,049,638	207,763	4,257,401
2019	748,294	40,573	788,867
2020 - 2024	383,066	86,907	469,973
2025 - 2029	117,022	59,723	176,745
2030 - 2034	145,397	31,348	176,745
2035 - 2039	67,592	3,106	70,698
	<u>\$13,353,126</u>	<u>\$ 1,661,924</u>	<u>\$15,015,050</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 51,567	\$ 74,773	\$ 126,340
2016	54,024	72,315	126,339
2017	56,599	69,741	126,340
2018	59,296	67,044	126,340
2019	62,121	64,218	126,339
2020 - 2024	357,937	273,760	631,697
2025 - 2029	451,750	179,947	631,697
2030 - 2034	506,979	61,548	568,527
	<u>\$ 1,600,273</u>	<u>\$ 863,346</u>	<u>\$ 2,463,619</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 Universities is as follows:

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

<table border="0"> <tr> <td>Primary University Due from Component Units - Current</td> <td style="text-align: right;">\$ 6,479,791</td> </tr> <tr> <td>Primary University Due from Component Units - Non-Current</td> <td style="text-align: right;">613,951</td> </tr> <tr> <td>Total Due from Component Units</td> <td style="text-align: right;"><u>\$ 7,093,742</u></td> </tr> <tr> <td>Timing Differences:</td> <td></td> </tr> <tr> <td>Transactions with Component Units having fiscal year ends other than June 30th</td> <td style="text-align: right;">4,296,429</td> </tr> <tr> <td>Transactions in transit at June 30, 2014</td> <td style="text-align: right;">179,883</td> </tr> <tr> <td>Other differences</td> <td style="text-align: right;"><u>(490,523)</u></td> </tr> <tr> <td>Component Unit Payable to Primary University</td> <td style="text-align: right;"><u>\$11,079,531</u></td> </tr> </table>	Primary University Due from Component Units - Current	\$ 6,479,791	Primary University Due from Component Units - Non-Current	613,951	Total Due from Component Units	<u>\$ 7,093,742</u>	Timing Differences:		Transactions with Component Units having fiscal year ends other than June 30th	4,296,429	Transactions in transit at June 30, 2014	179,883	Other differences	<u>(490,523)</u>	Component Unit Payable to Primary University	<u>\$11,079,531</u>		<table border="0"> <tr> <td>Primary University Due to Component Units - Current</td> <td style="text-align: right;">\$ 1,639,708</td> </tr> <tr> <td>Primary University Long Term Liability to Component Unit - Current Portion</td> <td style="text-align: right;">2,880,149</td> </tr> <tr> <td>Primary University Long Term Liability to Component Unit - Non-Current Portion</td> <td style="text-align: right;"><u>47,685,178</u></td> </tr> <tr> <td>Total Due to Component Units</td> <td style="text-align: right;">\$52,205,035</td> </tr> <tr> <td>Timing Differences:</td> <td></td> </tr> <tr> <td>Transactions with Component Units having fiscal year ends other than June 30th</td> <td style="text-align: right;">(4,623)</td> </tr> <tr> <td>Transactions in transit at June 30, 2013</td> <td style="text-align: right;">(1,283,754)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;"><u>(448,908)</u></td> </tr> <tr> <td>Total Receivable from Primary University</td> <td style="text-align: right;"><u>\$50,467,750</u></td> </tr> <tr> <td>Component Unit Current Receivable from Primary University - Current</td> <td style="text-align: right;">\$ 2,979,857</td> </tr> <tr> <td>Component Unit Non-Current Receivable from Primary University - Current</td> <td style="text-align: right;"><u>47,487,893</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$50,467,750</u></td> </tr> </table>	Primary University Due to Component Units - Current	\$ 1,639,708	Primary University Long Term Liability to Component Unit - Current Portion	2,880,149	Primary University Long Term Liability to Component Unit - Non-Current Portion	<u>47,685,178</u>	Total Due to Component Units	\$52,205,035	Timing Differences:		Transactions with Component Units having fiscal year ends other than June 30th	(4,623)	Transactions in transit at June 30, 2013	(1,283,754)	Other	<u>(448,908)</u>	Total Receivable from Primary University	<u>\$50,467,750</u>	Component Unit Current Receivable from Primary University - Current	\$ 2,979,857	Component Unit Non-Current Receivable from Primary University - Current	<u>47,487,893</u>		<u>\$50,467,750</u>
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**BEGINNING COMPONENT UNIT NET ASSET RESTATEMENTS**

Net assets, beginning of the year, as previously reported	\$ 640,712,038
Prior period adjustments:	
Correction of error	(420,551)
Net assets, beginning of the year, as restated	<u>\$ 640,291,487</u>

June 30, 2014

**NOTES TO THE FINANCIAL STATEMENTS**

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**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. Under this addendum, the additional amount of rent through September 30, 2015 is tied to the debt service retirement of \$228,000.

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.

	<u>BSC</u>	<u>BSC Foundation</u>
NECE Building	\$ 6,421,322	\$ 15,846,116
Accumulated depreciation	<u>(1,099,254)</u>	<u>(2,641,015)</u>
Net Value of NECE Building	<u>\$ 5,322,068</u>	<u>\$ 13,205,101</u>

**Dickinson State University Foundation**

**Arbitration:**

The Dickinson State University Foundation (DSUF) has 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 is 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 are 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.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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

If DSUF is unable to meet this obligation as well as its ongoing operating expenses, creditors may seek to collect from and possibly foreclose on the assets of DSUF.

**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 are 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.

Therefore, the balances presented for DSUF in this report are 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.

The impact of the arbitration and the state of the financial records on DSUF's ability to provide funds going forward to Dickinson State University for scholarships and student-related programs is unknown.

**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 be the receiver through June 2015. The court order included the following:

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

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

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

On November 1, 2000, RTP entered into a \$6.5 million lease agreement with the City of Fargo to finance the construction of laboratory and research facilities and all equipment and furnishings located on property owned by the city. The agreement assigned to NDSU all of RTP's obligations under the lease, including but not limited to the payment of all rent, maintenance, and repair of the facility, maintenance of all insurance required under the lease, and restrictions of use of the facility as set forth

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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

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

The audited financial statements of RTP for fiscal year 2014 report these transactions as an operating lease and report the related capital assets and related debt as assets and debt of RTP.

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

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

**Other Transactions**

During fiscal 2014 NDSU made other payments to the RTP that were unrelated to the building leases for Research #1 & #2. These payments consist of the following: 1) \$30,521 for an operating lease for lab space and miscellaneous charges in the RTP's Technology Incubator Building, 2) \$110,540 for grant sub-awards, 3) \$70,000 for event sponsorship. Also, during fiscal year 2014, the RTP paid NDSU a total of \$33,628 as reimbursement of NDSU operating expenses.

**NDSU Development Foundation**

**NDSU Equine Center**

Effective January 1, 2003, NDSU and the NDSU Development Foundation (NDSUDF) entered into a ten-year lease agreement with an option for an additional ten year term to facilitate the construction of an Equine Science Center. Under the agreement, NDSU is to pay rent to the NDSUDF for use of the premises. The amount of the rent is tied to the \$4.355 million debt service retirement plus necessary insurance and taxes incurred by the NDSUDF.

On November 4, 2013, the 10 year call date on the original bonds, NDSU retired the debt early with a final payment of \$2.949 million. Upon retirement of the debt, the ownership of the property was transferred to NDSU and the agreement is terminated.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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Aircraft

Effective June 28, 2007, NDSU and the NDSUDF entered into a \$2.348 million, ten-year, lease agreement for the purchase of an aircraft. Under the agreement, NDSU is to pay rent to the NDSUDF for use of the aircraft. The amount of the rent is equal to the amount of the principal and interest payments on the loan, for the life of the loan.

On October 21, 2013, NDSU and the NDSUDF sold the aircraft to a third party for \$1.35 million and used the proceeds to retire the outstanding debt (\$1.089 million; including interest to date). With this asset sale and debt retirement, the agreement is terminated.

Fargodome Lease and Improvements

In fiscal year 2006, the NDSUDF financed the construction and equipping of office space, locker rooms, meetings rooms, and related facilities in the Fargodome for use by NDSU through the sale of revenue bonds issued by Cass County. The NDSUDF has leased the space in the Fargodome from the City of Fargo and subleased the space, furniture, fixtures and equipment to NDSU. Under the agreement, NDSU will pay rent to the NDSUDF for use of the premises. The amount of the rent is tied to the \$3.5 million debt service retirement plus the Fargodome annual space rent and all costs incurred by the NDSUDF incident to the lease, less any contributions received by the NDSUDF for the project. Under this agreement in fiscal year 2014, the NDSUDF paid the debt service and other fees on behalf of NDSU in the amount of \$336,436.

The facility is included in long-term investments and the debt is included in long-term liabilities on the financial reports of the NDSUDF. NDSU has also recorded a capital asset and a capital lease payable, reflected as "Due to Component Units" by NDSU, of \$1.830 million as of June 30, 2014. Since the NDSUDF is a discretely presented component unit of the University System and the component unit and the University System are reporting the same assets and debt for the Fargodome improvements, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate due from primary institution.

Renaissance Hall

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

Under this refinanced debt issuance and lease agreement, as approved by the State Board of Higher Education on December 16, 2010, the property is leased to NDSU for rent equal to the semi-annual principal and interest on the bonds, plus all costs incurred by the NDSUDF incident to ownership of the

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. NDSU paid the NDSUDF \$431,359 in fiscal year 2014 under this agreement. As of June 30, 2014 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$5.005 million.

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

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

In May 2012, the NDSUDF refinanced the original bonds issued in November 2007. As a result new leases were executed. Under the terms of the new leases, NDSU pays and recognizes a liability for entire amount of the previously issued bonds, including the portion originally planned to be paid from the collections of pledges. During fiscal year 2014, NDSU paid \$819,098 to the NDSUDF under the new leases for debt service, property taxes and insurance on Barry Hall & Klai Hall. During fiscal year 2014, the NDSUDF paid \$319,305 to NDSU from the collection of pledges. NDSU has an option to acquire the property upon full payment of the bonds. As of June 30, 2014 the outstanding balance on the bonds, reflected as "Due to Component Units" by NDSU, is \$10.96 million and the portion payable by the NDSUDF to NDSU for the collection of pledges is recognized by NDSU as a current & non-current "Due from Component Units" for \$913,951.

**Other Transactions**

NDSU also has agreements in place with the NDSUDF for maintenance of the University's alumni records, for use and insurance on certain land and buildings and for lease of a vehicle. Amounts paid by NDSU under these agreements as of June 30, 2014 totaled \$500,000. In addition, the NDSUDF may contract with NDSU for materials and personnel in the service and utility areas and will reimburse NDSU based on separate agreements.

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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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**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 \$21.449 million in fiscal year 2014. 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 statements of activities.

Aerospace recorded revenue for service and hangar, CRJ, 360-degree tower, and aircraft rental to UND of \$4,199 million in fiscal year 2014, which is included in training and support services revenue in the statements of activities.

As of June 30, 2014, Aerospace recorded accounts payable to UND of \$1.712 million for reimbursable costs and services. As of June 30, 2014, Aerospace had recorded accounts receivable from UND of \$75,627 which are included in accounts receivable in the statements of financial position.

Aerospace employees also have the ability, as do UND employees, to rent UND planes for personal use. Aerospace and UND employees are charged directly by UND. These costs do not flow through Aerospace, but are paid to UND directly by the employee.

Aerospace 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 15 years of the sublease, UND will pay Aerospace'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 Aerospace in the construction of the hangar.

**RE Arena, Inc.**

RE Arena Inc. and the UND, enter into an annual operating agreement from July 1 to June 30. 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.

Gross tickets sales were \$4.297 million of which RE Arena, Inc. recognized revenue of \$2.234 million with a net due to UND \$2.062 million.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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Gross ticket sales for the next athletic season year are recorded in deferred revenue at gross by RE Arena, Inc. for a total of \$2.227 million. RE Arena, Inc. recognized net sponsorship (advertising) revenue of \$729,435 and the net due UND in sponsorship (advertising) income of \$410,307.

RE Arena, Inc. recognizes box office revenue on a cost reimbursement basis, for ticket facility fees, credit card fees and payment plan fees and expenses. The total cost that the UND Athletic Department reimbursed RE Arena, Inc. for managing and administering the box office on their behalf was \$191,216. In addition, RE Arena, Inc. allocated \$500,000 of net income to the UND Athletic Department for the year ended May 31, 2014.

RE Arena, Inc. expensed \$1.034 million to UND for utilities, maintenance staff, phone service and other expenses. At the end of the fiscal year RE Arena, Inc. owes UND \$1.119 million for the annual operating agreement and monthly services.

RE Arena Inc.'s fiscal year end is May 31<sup>st</sup>. There may be timing differences in certain account balances between RE Arena and UND as a result of the different fiscal year ends.

**UND Alumni Association and UND Foundation**

UND is providing payment for leasehold improvements done to the lower level of the Gorecki Alumni Center for establishing space for UND Admissions. The payments are \$169,472 for a period of five years. UND is also leasing space in the Gorecki Alumni Center in the amount of \$75,000. Additionally 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, 2014, UND provided approximately \$1.114 million of institutional support for event and database support, annual giving campaign and campaign contributions, and Director of Development support. UND Alumni Association and UND Foundation (the Organizations) manage UND's endowment investments and charged them \$463,344 in investment management fees during the year ended June 30, 2014. These fees and support are reported as operations, fees and miscellaneous revenue on the statement of activities.

The Organizations have entered into direct-financing lease agreements with UND. On July 24, 2002, the Organizations issued \$8.6 million of tax-exempt 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. The Organizations recorded a receivable from UND of \$8.6 million due under the direct-financing lease arrangement. The EERC bonds were refinanced as taxable bonds on October 18, 2012. The balance as of June 30, 2014 was \$5.71 million. The terms for the repayment are the same as the payment terms of the related bonds.

On October 24, 2003, the Organizations 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 Organizations recorded a receivable from UND of \$4.4 million due under the direct-financing lease agreement. The balance as of June 30, 2014 is \$2.793 million. The terms for the repayment are the same as the payment terms of the related bonds. During fiscal year ended June 2014, the Organizations received payment of principal and interest of \$149,681 and \$122,319, respectively. The interest income is included in operations, fees and miscellaneous income on the statement of activities.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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In 2008, the Organizations issued bonds to finance the UND School of Medicine construction of the Human Patient Simulation Center. The facility is being leased to UND for a period of five years for a total amount of \$206,810 which is equivalent to finance the costs of the construction. The bonds were paid in full in fiscal year 2014. In fiscal year 2014, the Organizations received \$41,362 with the remaining annual lease payment of \$41,362 expected in fiscal year 2015.

**NON-MAJOR COMPONENT UNITS**

**NDSU Research Foundation**

Revenues from research fees & royalties received from patents and other intellectual property or know-how are first used to cover expenses incurred in patenting, licensing, collection, and other expenses related to the technology. After these expenses have been paid, the net research fee (royalty) income is divided so that at least 30 percent of the net proceeds will be paid to those responsible for the invention, and 70% is distributed by negotiation between the department, college, and the NDSU Research Foundation (NDSURF). Once NDSU's share of the revenue distribution has been determined, the monies are transferred from the NDSURF to NDSU.

During fiscal year 2014, the NDSURF distributed license fee and royalty revenue of \$808,071 to NDSU. NDSURF recognizes an operating expense and NDSU recognizes operating revenue (Sales & Services of Educational Departments) because of this revenue distribution.

**Mayville State University Foundation**

The Mayville State University Foundation (MaSUF) has an agreement with MaSU for administrative services. Under this agreement, MaSUF paid MaSU \$182,082 during fiscal year 2014.

**North Dakota State College of Science Foundation**

For the year ended June 30, 2014, NDSCS paid the Foundation \$174,000 for the rental of the Skills & Technology Training Center building.

**University of North Dakota Research Foundation**

UND is considered a related party to the University of North Dakota Research Foundation (UNDRF). As of June 30, 2014 a majority of the UNDRF's board of directors were employed by the University.

During 2014, UND provided contributed services of \$28,807 to UNDRF, as identified on the statement of activities. UND's Microbiology and Immunology department and the Basic Science were tenants of the UNDRF building with monthly rent payments of \$12,313 and \$5,624 respectively, excluding tenant reimbursements.

The land for the UNDRF's research building was provided by UND under a thirty year ground lease. The annual rent under the lease is one dollar. The UNDRF recognized a contribution for the fair value at the date of lease. During 2014, the remaining temporarily restricted net assets of \$36,910 related to the long-term use of the land were released to unrestricted net assets.

During the year ended June 30, 2013, the UNDRF's Board of Directors decided to pursue a sale of the UNDRF's facility to UND. Prior to June 30, 2013, UND received legislative authority from the North Dakota State Board of Higher Education and approval from North Dakota University System Chancellor to purchase the facility. UND obtained an appraisal dated November 19, 2012 estimating the fair value of the facility, including furniture, fixtures and other personal property to be \$9.8 million. As a result of

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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the appraised value and offer from UND, it was determined that the property owned by UNDRF was impaired and the carrying value of the UNDRF's property and equipment was reduced to \$9.8 million as of June 30, 2013. On July 12, 2013, the University offered to purchase the UNDRF's building, including all furniture, fixtures, and other personal property for \$9.8 million. UNDRF accepted the offer on July 29, 2013 contingent on verification and review of UND's appraisal report, approval of the sale from the North Dakota Attorney General's office and UND securing acceptable financing. Approval from the North Dakota Attorney General's office was received on September 13, 2013. The sale of the building to UND was completed on September 16, 2013. No gain or loss is recognized on the sale transaction in fiscal year 2014, as the impaired carrying value of the property sold was the same as the sale price.

As of June 30, 2013, all property and equipment owned by UNDRF was considered property held for sale. In September 2013, the property held for sale was sold to the UND.

**University of North Dakota Center for Innovation Foundation**

The University of North Dakota Center for Innovation Foundation's (UNDCIF) building is located on land leased from the UND. The lease expires in 2045, but can be extended for periods of ten years. If the UNDCIF does not renew the lease, the building will become property of UND. UNDCIF received notice in fiscal year 2013 of a proposed increase in rates for the property and adjacent parking lots. Negotiations regarding rates and terms have continued during fiscal year 2014.

In 2009, UNDCIF entered into an agreement with UND to purchase hot water transported via pipeline for the purpose of backup heat for the Ina Mae Rude Entrepreneur Center. The agreement terminates on June 30, 2045 and may be terminated with a one year notice. Annual required payments through 2024 are \$3,000 in addition to the unit cost of the steam sold. In 2013 no steam was purchased by the UNDCIF.

UNDCIF has no employees, but rather utilizes UND employees and independent contractors for operations. UNDCIF has entered into a service and maintenance agreement with the UND related to housekeeping and maintenance of the Ina Mae Rude Entrepreneur Center through June 30, 2016. Approximately \$26,000 is included in occupancy expenses on the statement of activities related to these services for 2013, respectively.

The Foundation has also entered into an agreement with University of North Dakota for certain other salaries and services for which the Foundation paid the University \$40,000 in 2013. The agreement also requires the Foundation provide office space in the Ina Mae Rude Entrepreneur facility for University of North Dakota staff and interns, for which \$109,700 has been reported as revenue on the statement of activities in 2013, respectively. The revenue consists of \$61,500 paid by the University to the Foundation for the use of space in 2013, respectively, and \$48,200 of in-kind contribution to the University each year respectively. In addition, the Foundation has reported expenses of \$69,154 on the statement of activities related to services provided to tenants by University employees in 2013.

During 2013, UNDCIF also recognized in kind contribution revenue from the UND Center for Innovation department in the amount of \$133,903 for the value of management staffing salaries and benefits

provided to the UNDCIF by the Center's employees. The same amount is also recognized as an operating expense (administrative staffing provided by UND Center for Innovation department) for the same period.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Valley City State University Foundation**

The Valley City State University Foundation (VCSUF) has a memorandum of Agreement with VCSU for administrative services. Under this agreement, the VCSUF paid VCSU approximately \$100,844 during fiscal year 2014.

**Williston State College Foundation**

In fiscal year 2012, WSC and the Williston State College Foundation (WSCF) entered into an arrangement whereby the WSCF lent WSC \$500,000 for a dormitory geothermal heating project. The note has an eleven year term and a 5 percent fixed annual interest rate.

On November 1, 2013, WSCF entered into a lease agreement with WSC. WSCF is leasing a bus, it had purchased, 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.

WSCF leased two semis to WSC for \$9,000 per quarter maturing on June 30, 2013. Effective July 1, 2013, the payments were reduced to \$4,500 per quarter on a quarter to quarter basis. The total payments paid to the WSCF in fiscal year 2014 were \$13,500.

WSCF leases five trailer homes with a cost of \$153,997 and a carrying amount of \$96,964 to WSC for \$12,500 per quarter. The lease matured September 30, 2013 and has continued on a quarter to quarter basis. The total payments paid to the WSCF as of June 30, 2014 were \$62,500.

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. Funds are reimbursed to WSC and are recorded as expenses by the Foundation. The amount reimbursed for the years ending June 30, 2014 was \$567,252. As of June 30, 2014, the outstanding amount owed to WSC was \$31,649.

**NOTE 16 – ON-BEHALF PAYMENTS**

On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third party recipient for the employees of another legally separate entity. On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends. The amount of on-behalf payments for fringe benefits and salaries for fiscal year ended June 30, 2014 is \$25,800. There were no on-behalf payments made as contributions to a pension plan for which the System is not legally responsible.

**June 30, 2014**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 17 – PLEDGED REVENUES**

<b>Pledged Revenue Required for Future Principal and Interest on Existing Bonds</b>			
	<b>\$</b>	<b>356,812,581</b>	
<b>Term of Commitment</b>	<b>ranging from 2017 to 2044</b>		
<b>Percentage of Revenue Pledged</b>	<b>4%</b>		
<b>Current Year Pledged Revenue, by source:</b>	<b>Pledged Revenue</b>	<b>Recognized Revenue</b>	<b>% of Pledged Revenue to Recognized Revenue</b>
<b>Net revenues from auxiliaries</b>	<b>\$ 11,391,023</b>	<b>\$ 103,823,830</b>	<b>11%</b>
<b>Student Fees</b>	<b>4,301,472</b>	<b>298,535,194</b>	<b>1%</b>
<b>Other</b>	<b>87,714</b>	<b>-</b>	<b>0%</b>
<b>Total</b>	<b>\$ 15,780,209</b>	<b>\$ 402,359,024</b>	<b>4%</b>
<b>Current Year Principal and Interest Paid</b>	<b>\$</b>	<b>15,780,209</b>	

**NOTE 18 – FUNCTIONAL EXPENSE CLASSIFICATION**

The System reports operating expenses using the “natural classification” on the Statement of Revenues, Expenses and Changes in Net Position. Operating expenses for the year ending June 30, 2014, using the “functional classification” are presented below:

<b>Operating Expense</b>	
Instruction	\$ 368,706,805
Academic Support	77,103,810
Student Services	90,063,558
Institutional Support	119,493,116
Physical Plant	79,289,265
Scholarships and Fellowships	26,399,314
Auxiliary Enterprises	98,529,773
Public Service	60,189,523
Research	132,073,532
Depreciation	57,948,483
Total	<u>\$1,109,797,179</u>

**NOTE 19 – OPERATING LEASES**

The campuses are obligated under certain leases for equipment, vehicles and facility rental, which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2014, amounted to \$6.8 million.

Future minimum lease payments at June 30, 2014 are as follows:

Fiscal Year	Future Minimum Lease Payments
2015	\$ 4,736,156
2016	3,041,968
2017	2,406,979
2018	1,985,064
2019	897,099
2020 - 2024	1,647,694
2025 - 2029	726,371
2030 - 2034	726,371
2035 - 2039	141,803
	<b>\$ 16,309,505</b>

**NOTE 20 – 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 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.

**Minard Hall**

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

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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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and classroom space. Since that time NDSU has been periodically updating the State Board of Higher Education and the Legislative Assembly's Budget Section, as information becomes available.

In November & December of 2011, the State Board of Higher Education and Legislative Assembly's Budget Section approved NDSU to incur additional costs of \$4.874 million due to the collapse. The State Board of Higher Education approved a \$4.874 million increase with the intent that up to this amount (less any recovered from insurance or legal action) be ultimately funded by a state general fund deficiency appropriation per NDCC 48-01-.2-25. The Budget Section's approval indicated the additional funding come from insurance proceeds, legal settlements, and other available funds.

In 2014, a contractor made a claim against NDSU for additional compensation which it believes is owed by NDSU. The contractor rejected the initial sum of \$137,000 and proceeded with contractually mandated mediation. During mediation, the contractor demanded an additional sum of \$450,000 but the claim was not settle during mediation. In August 2014, the contractor filed a lawsuit against NDSU, the North Dakota Board of Higher Education and the State of North Dakota for unspecified damages.

As of June 30, 2014, total costs charged to the Minard Hall project are \$22.2 million. This total is comprised of the following: \$17.9 million for construction costs on Phase I, II, III (\$18.0 million legislative authority) and \$4.2 million for collapse related costs (\$4.9 million budget section authority). As of the reporting date f, NDSU is pursuing litigation against multiple parties in order to recoup the damages incurred as a result of the collapse.

**NOTE 21 – RISK MANAGEMENT**

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

There have been no significant reductions in insurance coverage from the prior year and settled claims from these risks have not exceeded insurance coverage in any of the past three years.

**RISK MANAGEMENT FUND**

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

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

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

**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

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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and Tornado Fund. The State Bonding Fund currently provides the University System with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

**Risk Management Workers Compensation Program**

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

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

Workforce Safety & Insurance (WSI) continues to determine the level of compensation an injured worker and his or her care provider are entitled to receive; and will determine experience rates, dividends, assessments, and the premiums payable by State entities for workers compensation coverage. Effective July 1, 2001, workers compensation premiums are paid to the Risk Management Division rather than to WSI.

**NOTE 22 – ASBESTOS SETTLEMENT**

During fiscal year 1999, the University System settled an asbestos lawsuit against W.R. Grace & Co. The Chancellor has designated the dollars for asbestos related projects at the campuses. The expenditures for NDSU and UND at June 30, 2014 were \$324,000 and \$1.042 million respectively.

**NOTE 23 – FLOOD DAMAGES**

Minot State University experienced significant flooding in fiscal year 2011. As a result, Minot State University received a deficiency appropriation from the Emergency Commission in June 2013 for \$51,696 under the provisions of NDCC 54-16-13. Total expenses incurred in fiscal year 2014 and cumulatively since fiscal year 2011 are \$944,856 and \$2,295,366, respectively. FEMA reimbursed received in fiscal year 2014 and cumulatively since fiscal year 2011 are \$7,730 and \$371,306, respectively. A remaining deficiency of \$1.788 million existed at June 30, 2014.

**NOTE 24– DEFICIT NET POSITION BALANCES > \$100,000**

As of June 30, 2014 the institutions listed below had the following reportable net asset balance deficits greater than \$100,000.

June 30, 2014

NOTES TO THE FINANCIAL STATEMENTS

<u>Institution</u>	<u>Fund</u>	<u>Description</u>	<u>Deficit Balance</u>
Mayville State University	10000	Food Services	\$ 148,462
			\$ 148,462
Minot State University	10232	University Heights Housing	\$ 681,348
	10241	Scoreboard Advertising	650,608
	24100	Flood 2011	144,878
			\$ 1,476,834
North Dakota State School of Science	18010-18040	Outreach Activity	\$ 101,314
			\$ 101,314
North Dakota State University	28100	Minard Building Collapse	\$ 4,764,181
		Total NDSU	\$ 4,764,181
University of North Dakota	22364	EERC Cost of Litigation	\$ 945,615
	21546/22024	EERC Fiscal Year End Carryover	1,738,249
	22064/22066	EERC Sick Leave	808,389
	22430	Citation Cost Center Aerospace	197,611
		Total UND	\$ 3,689,864
Williston State College	00523	Residence Hall Revenue	\$ 276,280
	10595	Men's Basketball	104,243
	10605	Men's Baseball	131,628
	10615	Men's Hockey	244,564
	10520	Nelson Hall	194,150
	31400	Institutional Support	203,291
	31800	Physical Plant	242,554
	51510	Athletic Scholarships	143,440
		Total WSC	\$ 1,540,150
North Dakota University System Office	30010	Administration	\$ 593,730
North Dakota University System Office	20400	Enterprise Services - Core Technology Services	1,424,091
		Total North Dakota University System Office	\$ 2,017,821
Total University System			\$ 13,738,626

**MAYVILLE STATE UNIVERSITY**

The deficit is the result of lower housing occupancy which correlates with reduced revenue for food services. The reduced revenue was compounded by an increase in food costs and bad debt expense.

**MINOT STATE UNIVERSITY**

Fund 10232 - The deficit in the University Heights Housing fund represents the recording of a payable to a local fund for the payment of debt. The payable is offset by a corresponding receivable in the local fund. As revenue is collected, the cash will be transferred to the local fund to repay the debt. The

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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repayment schedule is contingent upon how much revenue is collected each year. Housing funds are reviewed on a quarterly basis.

Fund 10241 – Scoreboard Advertising: Funds from advertising contracts will be used to offset the purchase cost and installation of the scoreboard. Annual advertising revenue will continually reduce the fund net position deficit each year until fiscal year 2020 when it is expected to reach a positive balance.

Fund 24100 – Flood 2011 was used to capture expenses associated with emergency and restorative work caused by the flood of 2011 and not reimbursed by FEMA. The deficit will continue to increase as projects are completed and it is expected to be covered through a deficiency appropriation. The deficit has been partially covered through a deficiency appropriation from the 2013 legislative session with the balance to be requested in the 2015 session.

**NORTH DAKOTA STATE SCHOOL OF SCIENCE**

A reorganization plan has been implemented for Outreach activity that will reduce costs and increase revenues. The deficit is expected to be eliminated within two years.

**NORTH DAKOTA STATE UNIVERSITY**

These are costs related to the additional project authorization of \$4.874 million approved by the SBHE. The costs include collapse related change orders, department relocation, forensic and legal costs. In November 2011, the SBHE authorized NDSU to carry a deficit fund balance and authorized NDSU to take any necessary action, including litigation, to seek recovery of damages, expenses, and costs resulting from the collapse, with any recovery being used to offset the ongoing costs of Minard Hall or, if the project is complete at the time of recovery, to reimburse the State of ND for the costs of the project to the extent that recovery dollars are available, following consultation with the Chancellor. Recovery efforts are ongoing.

**UNIVERSITY OF NORTH DAKOTA**

Fund 22364 – EERC Legal Costs had an original balance of \$1.846 million at June 30, 2008. This balance represented the aggregate of costs incurred relative to ongoing litigation. The deficit will be retired through the comprehensive plan outlined for the EERC and is expected to be eliminated no later than fiscal year 2023.

Fund 21546 – EERC Fiscal Year End Carryover – The estimated fiscal year 2015 budget projects a deficit of \$943,958. External consultants were hired to perform an assessment and the University will continue to monitor and analyze for opportunities for additional cost savings opportunities as well as opportunities to preserve capacity and expertise.

Fund 22430 – Citation Cost Center Aerospace deficit is the result of reductions in federal research spending. As a result, the Citation has been underutilized and fixed cost expenditures have resulted in deficits. The plan to reduce the deficit includes continuing to shift a greater portion of work effort and salaries to Flight Operations. Contracts are being pursued with previous project sponsors. The Odegard School will continue to transfer money to reduce the deficit, but fiscal year 2015 could see an increase in deficit if additional contracts aren't received. In the unlikely event that revenue sources continue to decline, sale of the Citation platform will commence and proceeds should be sufficient to cover any associated fund deficits.

**June 30, 2014**

**NOTES TO THE FINANCIAL STATEMENTS**

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**WILLISTON STATE COLLEGE**

Athletics - Fundraising goals of the Booster Club have not been met for the past couple of years. Additionally, the Hockey team has had added expenditures for travel to national championship games for the past three years. Turnover in the athletic director and hockey coach positions have made it difficult to follow through on pledges of support. Over the past couple years coaching salaries have shifted from auxiliary funding to appropriated funding. The current reorganization with a full time athletic director will permit the department to focus on fundraising and budget monitoring.

The fiscal year 2015 budget was reduced approximately 20 percent. The Athletic budget will be closely monitored. The Foundation and Booster Club has agreed to gift money to WSC in order to eliminate the deficit by June 30, 2015.

Fund 00523/10520 – Residence Hall Revenue and Nelson Hall – The deficits will be eliminated by transfers that will be made in fiscal year 2015. Overall, housing funds have a positive net position balance of \$53,000 at June 30, 2015.

Fund 31400 – Institutional Support – The deficits will be eliminated by transfers from institutional collections that will be made in fiscal year 2015.

Fund 31800 – Physical Plant - The deficits will be eliminated by transfers from institutional collections that will be made in fiscal year 2015.

**NORTH DAKOTA UNIVERSITY SYSTEM OFFICE**

Fund 30010- Administration – The deficit of \$593,730 resulted from an accrual at fiscal year-end of \$578,699 to record the severance liability incurred for the former NDUS Chancellor and \$56,532 for the former NDUS General Counsel. The liability related to the former Chancellor includes salary, payroll taxes, retirement contributions, health and life insurance and long-term disability through June 30, 2015. The liability related to the former General Counsel is for health insurance premiums. The vast majority of the deficit will be eliminated by June 30, 2015. Funds have been set aside during the 13-15 biennium to cover contractual agreements.

Fund 20400 – Enterprise Services – Core Technology Services (CTS) – This fund is used to account for the costs of IT services CTS provides to the University of North Dakota. At June 30, 2014, the costs exceeded the amount of reimbursement received from the University of North Dakota in fiscal year 2014. It is expected that the remaining costs will be reimbursed and the deficit will be eliminated in fiscal 2015.

**NOTE 25 – Subsequent Events**

**DICKINSON STATE UNIVERSITY FOUNDATION**

As further discussed in footnote 15, on October 28, 2014 an arbitrator issued a final arbitration award relating to the DSUF

**NORTH DAKOTA STATE UNIVERSITY**

On November 20, 2014, NDSU received authorization from the North Dakota State Board of Higher Education to issue housing and auxiliary facilities revenue refunding bonds, not to exceed \$24.0 million with an interest rate not to exceed 5 percent, provided the present value of the debt service savings is not less than 3 percent. The bonds are expected to be issued in the first quarter of 2015.

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**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**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	\$ 5,682,385	\$ 6,485,291	\$ 1,037,772	\$ 5,193,643	\$ 3,108,333	\$ 3,766,442	\$ 16,237,457
Investments	-	3,561,000	-	9,655,000	-	483,466	687,400
Accounts receivable, net	-	843,793	354,906	403,519	520,804	544,172	1,321,955
Receivable from component units	-	56,903	-	6	9,512	16,741	556,165
Due from other NDUS institutions	3,637,697	150,015	-	66,773	129,384	49,250	165,453
Due from State General Fund	5,997,364	800,661	-	11,300	978,129	-	67,987
Grants and contracts receivable, net	-	2,503,513	306,913	352,413	700,260	261,614	1,527,786
Inventories	-	756,846	161,604	388,245	329,207	257,421	-
Notes receivable, net	-	104,699	42,408	234,474	72,255	184,988	600,871
Other assets	6,318	313,496	15,612	86,943	17,239	100,063	65,621
Total current assets	\$ 15,323,764	\$ 15,576,217	\$ 1,919,215	\$ 16,392,316	\$ 5,865,123	\$ 5,664,157	\$ 21,230,695
Noncurrent assets							
Restricted cash and cash equivalent	\$ -	\$ 2,392,772	\$ -	\$ -	\$ 51,134	\$ 196,073	\$ 13
Restricted investments	-	405,000	-	-	105,000	482	1,129,535
Endowment investments	-	-	-	-	-	17,000	40,000
Notes receivable, net	-	376,899	153,023	844,066	239,799	325,336	2,163,024
Other long-term investments	-	-	-	-	-	-	-
Unamortized bond discount	-	47,872	-	-	-	47,380	-
Due from component unit	-	-	-	-	-	-	-
Other noncurrent assets	-	-	-	-	-	-	-
Capital assets, net	8,139,589	45,211,314	6,244,825	31,870,453	14,156,399	25,378,404	81,954,354
Total noncurrent assets	\$ 8,139,589	\$ 48,433,857	\$ 6,397,848	\$ 32,714,519	\$ 14,552,332	\$ 25,964,675	\$ 85,286,926
Total assets	\$ 23,463,353	\$ 64,010,074	\$ 8,317,063	\$ 49,106,835	\$ 20,417,455	\$ 31,628,832	\$ 106,517,621
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflows from refunding of debts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,797	\$ -
Total deferred outflows of resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,797	\$ -
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 8,957,272	\$ 3,296,606	\$ 96,221	\$ 506,114	\$ 1,484,919	\$ 518,068	\$ 1,129,774
Payable to component units	-	25,631	-	-	12,500	13,465	-
Accrued payroll	1,242,170	1,567,487	249,782	1,063,874	489,708	792,040	2,144,809
Unearned revenue	-	763,773	38,940	97,192	926,749	256,570	652,024
Deposits	(843,723)	553,194	276,543	166,924	189,715	221,710	663,502
Long-term liabilities - current portion							
Due to Component Units	-	224,646	-	-	-	-	-
Due to Others	(6,595)	603,062	25,288	54,822	385,922	918,078	432,527
Total current liabilities	\$ 9,349,124	\$ 7,034,399	\$ 686,774	\$ 1,888,926	\$ 3,489,513	\$ 2,719,931	\$ 5,022,636
Noncurrent liabilities							
Other noncurrent liabilities	\$ 43,307	\$ 117,547	\$ -	\$ 20,994	\$ -	\$ 31,556	\$ 72,922
Long-term liabilities							
Due to Component Units	-	1,643,755	-	-	-	-	-
Due to Others	1,634,282	11,735,988	196,506	642,686	4,948,984	10,202,098	14,506,596
Total noncurrent liabilities	\$ 1,677,589	\$ 13,497,290	\$ 196,506	\$ 663,680	\$ 4,948,984	\$ 10,233,654	\$ 14,579,518
Total liabilities	\$ 11,026,713	\$ 20,531,689	\$ 883,280	\$ 2,552,606	\$ 8,438,497	\$ 12,953,585	\$ 19,602,154
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Grant amounts received prior to meeting timing requirements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total deferred inflows of resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET POSITION</b>							
Invested in capital assets	\$ 8,202,001	\$ 33,306,170	\$ 5,526,167	\$ 31,800,354	\$ 9,266,679	\$ 14,723,412	\$ 68,211,560
Restricted for:							
Nonexpendable:							
Scholarships and fellowships.	-	-	-	-	-	17,524	40,000
Expendable:							
Scholarships & fellowships	-	209,808	12,925	12,250	-	4,208	846,042
Research	-	-	-	-	-	-	-
Institutional	-	61,805	208,185	186,394	25,593	332,173	865,687
Loans	-	498,910	250,556	1,207,055	343,595	545,202	3,137,763
Capital projects	-	-	-	-	-	(282,215)	-
Debt service	(14,028)	456,607	2,664	-	232,314	324,555	883,796
Other	102,229	-	-	-	-	-	-
Unrestricted	4,146,438	8,945,085	1,433,286	13,348,176	2,110,777	3,033,185	12,930,619
Total net position	\$ 12,436,640	\$ 43,478,385	\$ 7,433,783	\$ 46,554,229	\$ 11,978,958	\$ 18,698,044	\$ 86,915,467

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**COMBINING STATEMENT OF NET POSITION**

	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	\$ 15,071,207	\$ 49,520,102	\$ 38,490,361	\$ 3,385,864	\$ 1,787,812	\$ -	\$ 149,766,669
Investments	271,477	15,982,352	58,428,006	908,950	-	-	89,977,651
Accounts receivable, net	1,411,534	6,482,855	11,998,220	655,278	(97,551)	214,849	24,654,334
Receivable from component units	-	784,179	4,540,289	28,846	487,150	-	6,479,791
Due from other NDUS institutions	310,396	2,393,126	3,901,576	42,153	1,938	(10,847,761)	-
Due from State General Fund	206,587	8,832,731	5,507,535	297,994	1,255,774	-	23,956,062
Grants and contracts receivable, net	1,920,306	15,617,075	12,980,701	166,266	491,013	(64,956)	36,762,904
Inventories	345,457	1,717,420	4,075,287	168,951	75,462	-	8,275,900
Notes receivable, net	322,900	1,449,465	4,695,163	143,462	53,083	-	7,903,768
Other assets	154,512	512,737	2,110,273	83,232	-	-	3,466,046
Total current assets	<u>\$ 20,014,376</u>	<u>\$ 103,292,042</u>	<u>\$ 146,727,411</u>	<u>\$ 5,880,996</u>	<u>\$ 4,054,681</u>	<u>\$ (10,697,868)</u>	<u>\$ 351,243,125</u>
Noncurrent assets							
Restricted cash and cash equivalent	\$ -	\$ 4,339,295	\$ 25,409,345	\$ 57,999	\$ 284,270	\$ -	\$ 32,730,901
Restricted investments	-	3,131,125	3,827,000	234,119	526,958	-	9,359,219
Endowment investments	-	412,278	14,570,498	802,827	52,200	-	15,894,803
Notes receivable, net	1,161,138	5,126,102	16,904,304	490,008	164,995	-	27,948,694
Other long-term investments	-	61,242,687	26,664,803	900,000	-	-	88,807,490
Unamortized bond discount	-	97,715	219,807	-	-	-	412,774
Due from component unit	-	613,951	-	-	-	-	613,951
Other noncurrent assets	-	765,168	-	-	-	-	765,168
Capital assets, net	39,438,267	335,384,315	387,930,688	21,413,638	41,835,697	-	1,038,957,943
Total noncurrent assets	<u>\$ 40,599,405</u>	<u>\$ 411,112,636</u>	<u>\$ 475,526,445</u>	<u>\$ 23,898,591</u>	<u>\$ 42,864,120</u>	<u>\$ -</u>	<u>\$ 1,215,490,943</u>
Total assets	<u>\$ 60,613,781</u>	<u>\$ 514,404,678</u>	<u>\$ 622,253,856</u>	<u>\$ 29,779,587</u>	<u>\$ 46,918,801</u>	<u>\$ (10,697,868)</u>	<u>\$ 1,566,734,068</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred outflows from refunding of debts	\$ -	\$ 1,062,278	\$ 976,937	\$ -	\$ -	\$ -	\$ 2,062,012
Total deferred outflows of resources	<u>\$ -</u>	<u>\$ 1,062,278</u>	<u>\$ 976,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,062,012</u>
<b>LIABILITIES</b>							
Current liabilities							
Accounts payable and accrued liabilities	\$ 1,117,793	\$ 12,630,546	\$ 15,388,841	\$ 656,226	\$ 1,671,340	\$ (10,044,901)	\$ 37,408,819
Payable to component units	186,356	1,282,726	119,030	-	-	-	1,639,708
Accrued payroll	1,673,987	10,776,416	12,319,141	1,024,132	589,142	-	33,932,688
Unearned revenue	277,517	6,886,911	9,258,009	492,836	87,059	-	19,737,580
Deposits	303,251	1,653,621	2,623,195	84,676	35,698	(892,323)	5,035,983
Long-term liabilities - current portion							
Due to Component Units	-	1,940,753	624,653	-	90,097	-	2,880,149
Due to Others	365,056	3,899,065	5,754,421	187,013	242,760	-	12,861,419
Total current liabilities	<u>\$ 3,923,960</u>	<u>\$ 39,070,038</u>	<u>\$ 46,087,290</u>	<u>\$ 2,444,883</u>	<u>\$ 2,716,096</u>	<u>\$ (10,937,224)</u>	<u>\$ 113,496,346</u>
Noncurrent liabilities							
Other noncurrent liabilities	\$ 24,950	\$ 582,560	\$ 3,232,447	\$ -	\$ 7,802	\$ -	\$ 4,134,085
Long-term liabilities							
Due to Component Units	-	35,881,165	9,508,156	-	652,102	-	47,685,178
Due to Others	9,706,811	94,349,720	119,734,430	6,492,827	8,891,123	-	283,042,051
Total noncurrent liabilities	<u>\$ 9,731,761</u>	<u>\$ 130,813,445</u>	<u>\$ 132,475,033</u>	<u>\$ 6,492,827</u>	<u>\$ 9,551,027</u>	<u>\$ -</u>	<u>\$ 334,861,314</u>
Total liabilities	<u>\$ 13,655,721</u>	<u>\$ 169,883,483</u>	<u>\$ 178,562,323</u>	<u>\$ 8,937,710</u>	<u>\$ 12,267,123</u>	<u>\$ (10,937,224)</u>	<u>\$ 448,357,660</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Grant amounts received prior to meeting timing requirements	\$ -	\$ 230,680	\$ -	\$ -	\$ -	\$ -	\$ 230,680
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 230,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,680</u>
<b>NET POSITION</b>							
Invested in capital assets	\$ 30,666,485	\$ 215,796,822	\$ 285,648,784	\$ 15,238,639	\$ 32,290,143	\$ -	\$ 750,677,216
Restricted for:							
Nonexpendable:							
Scholarships and fellowships	900	414,351	14,570,498	486,969	56,796	-	15,587,038
Expendable:							
Scholarships & fellowships	-	153,819	1,586,876	354,141	225,350	-	3,405,419
Research	-	6,371,440	4,106,918	-	-	-	10,478,358
Institutional	240,135	1,616,989	14,875,688	763,460	(71,809)	-	19,104,300
Loans	3,863,003	7,029,996	27,069,767	630,849	233,725	-	44,810,421
Capital projects	-	295,252	-	-	-	-	13,037
Debt service	-	8,458,246	3,670,690	234,070	570,688	-	14,819,602
Other	-	-	-	365,542	-	-	467,771
Unrestricted	12,187,537	105,215,878	93,139,249	2,768,207	1,346,785	239,356	260,844,578
Total net position	<u>\$ 46,958,060</u>	<u>\$ 345,352,793</u>	<u>\$ 444,668,470</u>	<u>\$ 20,841,877</u>	<u>\$ 34,651,678</u>	<u>\$ 239,356</u>	<u>\$ 1,120,207,740</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

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

	<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>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$63,646,321 and bad debt allowance of \$1,439,850)	\$ 6,400,121	\$ 12,255,832	\$ 1,313,107	\$ 5,894,390	\$ 3,500,797	\$ 3,973,830	\$ 14,741,543
Local Appropriations	-	-	-	-	-	-	694,640
Federal grants and contracts	499,112	6,481,414	229,099	934,568	1,274,669	2,658,715	5,326,629
State grants and contracts	-	1,899,131	235,609	130,858	1,428,469	351,254	1,502,916
Nongovernmental Grants and contracts (net of bad debt allowance of \$96,039)	15,800	10,712	2,500	284,858	13,416	50,000	320,129
Sales and services of educational departments (net of bad debt allowance recapture of \$68,082)	3,750,083	4,076,581	123,919	503,220	1,101,760	855,417	1,573,569
Auxiliary enterprises (net of scholarship allowance of \$267,140 and bad debt allowance of \$383,396)	-	4,165,580	1,478,461	3,061,664	1,438,401	2,295,768	4,330,493
Other (net of bad debt allowance of \$102,087)	-	8,769	6,673	58,015	7,862	(23,219)	74,230
Total operating revenues	<u>\$ 10,665,116</u>	<u>\$ 28,898,019</u>	<u>\$ 3,389,368</u>	<u>\$ 10,867,573</u>	<u>\$ 8,765,374</u>	<u>\$ 10,161,765</u>	<u>\$ 28,564,149</u>
<b>OPERATING EXPENSES</b>							
Salaries	\$ 17,253,972	\$ 27,212,702	\$ 5,618,973	\$ 18,184,047	\$ 10,647,399	\$ 12,445,745	\$ 36,876,446
Operating Expenses	9,797,323	14,249,097	2,359,260	7,140,550	3,616,639	4,147,693	14,489,967
Data Processing	5,402,129	855,096	144,523	383,854	448,130	152,341	453,745
Depreciation expense	1,427,797	2,205,516	329,808	1,538,340	925,562	1,239,641	3,249,885
Scholarships and fellowships	20,248,778	2,317,984	442,988	324,226	427,217	473,668	1,275,533
Cost of sales and services	-	2,080,810	412,311	537,035	634,704	869,511	620
Total operating expenses	<u>\$ 54,129,999</u>	<u>\$ 48,921,205</u>	<u>\$ 9,307,863</u>	<u>\$ 28,108,052</u>	<u>\$ 16,699,651</u>	<u>\$ 19,328,599</u>	<u>\$ 56,346,196</u>
Operating Income (Loss)	<u>\$ (43,464,883)</u>	<u>\$ (20,023,186)</u>	<u>\$ (5,918,495)</u>	<u>\$ (17,240,479)</u>	<u>\$ (7,934,277)</u>	<u>\$ (9,166,834)</u>	<u>\$ (27,782,047)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	64,765,947	15,369,704	3,945,846	13,278,624	5,979,612	7,038,000	21,395,105
Federal appropriations	-	-	-	-	-	-	-
Federal grant and contracts (net of bad debt allowance of \$18,493)	-	3,331,492	1,102,853	1,601,402	1,237,653	1,349,260	3,248,833
Gifts	-	1,384,374	285,631	1,244,510	536,990	1,104,033	1,614,330
Endowment Investment Income	-	13,501	13,385	41,532	7,349	127,364	(89,965)
Interest on capital asset-related debt	-	(530,430)	(2,108)	(985)	(198,140)	(594,505)	(830,429)
Gain (loss) on disposal of capital assets	-	(76,394)	(2,972)	1,000	(1,692)	(3,804)	(20,391)
Insurance proceeds	-	-	-	50,000	-	-	-
Tax revenues	-	-	-	-	-	186,763	-
General and special grant expenditures	(13,703,425)	-	-	-	-	-	-
Other nonoperating revenues (expenses) (net of bad debt allowance of \$262,761)	858,515	(121,914)	2,935	243	322	(527,673)	(1,104)
Net nonoperating revenues (expenses)	<u>\$ 51,921,037</u>	<u>\$ 19,370,333</u>	<u>\$ 5,345,570</u>	<u>\$ 16,216,326</u>	<u>\$ 7,562,094</u>	<u>\$ 8,679,438</u>	<u>\$ 25,316,379</u>
Income (loss) before capital grants, gifts and transfers	\$ 8,456,154	\$ (652,853)	\$ (572,925)	\$ (1,024,153)	\$ (372,183)	\$ (487,396)	\$ (2,465,668)
State appropriations - capital assets	\$ -	\$ 2,124,975	\$ 359,486	\$ 366,829	\$ 4,082,278	\$ 1,022,396	\$ 1,950,302
Transfer to Building Authority	(5,614,449)	-	-	-	-	-	-
Inter-institutional transfers	(4,110,351)	-	-	-	-	-	-
Capital grants and gifts	-	700,262	-	1,130	166,950	572,051	697,063
Increase (decrease) in net assets	<u>\$ (1,268,646)</u>	<u>\$ 2,172,384</u>	<u>\$ (213,439)</u>	<u>\$ (656,194)</u>	<u>\$ 3,877,045</u>	<u>\$ 1,107,051</u>	<u>\$ 181,697</u>
<b>NET POSITION</b>							
Net position-beginning of year, as restated	\$ 13,705,286	\$ 41,306,001	\$ 7,647,222	\$ 47,210,423	\$ 8,101,913	\$ 17,590,993	\$ 86,733,770
Net position-end of year	<u>\$ 12,436,640</u>	<u>\$ 43,478,385</u>	<u>\$ 7,433,783</u>	<u>\$ 46,554,229</u>	<u>\$ 11,978,958</u>	<u>\$ 18,698,044</u>	<u>\$ 86,915,467</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

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

	<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>OPERATING REVENUES</b>							
Student tuition and fees (net of scholarship allowances of \$63,646,321 and bad debt allowance of \$1,439,850)	\$ 8,020,436	\$ 106,491,251	\$ 128,806,561	\$ 5,868,548	\$ 1,287,370	\$ (18,592)	\$ 298,535,194
Local Appropriations	-	-	-	-	-	-	694,640
Federal grants and contracts	1,203,151	44,726,127	56,672,361	810,287	801,313	(3,206,219)	118,411,226
State grants and contracts	803,043	8,328,337	10,888,226	110,084	572,602	(13,548,336)	12,702,193
Nongovernmental Grants and contracts (net of bad debt allowance of \$96,039)	17,000	11,880,324	23,964,338	253,078	46,950	(24,332)	36,834,773
Sales and services of educational departments (net of bad debt allowance recapture of \$68,082)	3,321,310	35,920,553	47,831,285	450,175	3,538,218	(2,374,622)	100,671,468
Auxiliary enterprises (net of scholarship allowance of \$267,140 and bad debt allowance of \$383,396)	5,511,194	42,560,463	34,243,346	3,177,679	1,940,711	(379,930)	103,823,830
Other (net of bad debt allowance of \$102,087)	172,810	861,352	697,245	15,997	4,165	(1,164,572)	719,327
Total operating revenues	<u>\$ 19,048,944</u>	<u>\$ 250,768,407</u>	<u>\$ 303,103,362</u>	<u>\$ 10,685,848</u>	<u>\$ 8,191,329</u>	<u>\$ (20,716,603)</u>	<u>\$ 672,392,651</u>
<b>OPERATING EXPENSES</b>							
Salaries	\$ 26,695,163	\$ 254,955,104	\$ 289,172,631	\$ 14,758,790	\$ 10,491,339	\$ 127,369	\$ 724,439,680
Operating Expenses	10,192,275	87,101,118	87,222,682	5,658,957	5,002,891	(7,073,238)	243,905,214
Data Processing	798,258	4,695,984	4,566,386	711,785	212,848	(189,945)	18,635,134
Depreciation expense	2,705,487	20,714,843	21,384,633	913,404	1,313,567	-	57,948,483
Scholarships and fellowships	1,229,326	3,115,800	6,511,334	225,037	627,773	(4,677,597)	32,542,067
Cost of sales and services	854,514	9,626,280	16,015,799	534,532	771,824	(11,339)	32,326,601
Total operating expenses	<u>\$ 42,475,023</u>	<u>\$ 380,209,129</u>	<u>\$ 424,873,465</u>	<u>\$ 22,802,505</u>	<u>\$ 18,420,242</u>	<u>\$ (11,824,750)</u>	<u>\$ 1,109,797,179</u>
Operating Income (Loss)	<u>\$ (23,426,079)</u>	<u>\$ (129,440,722)</u>	<u>\$ (121,770,103)</u>	<u>\$ (12,116,657)</u>	<u>\$ (10,228,913)</u>	<u>\$ (8,891,853)</u>	<u>\$ (437,404,528)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
State appropriations	18,940,000	122,486,870	101,623,783	10,303,497	7,036,080	-	392,163,068
Federal appropriations	-	5,790,560	-	-	-	-	5,790,560
Federal grant and contracts (net of bad debt allowance of \$18,493)	3,094,558	10,748,270	11,369,543	1,227,832	795,208	-	39,106,904
Gifts	635,253	7,489,167	9,079,004	136,515	2,258,845	(228,068)	25,540,584
Endowment Investment Income	376,630	2,554,108	4,443,080	376,724	86,490	-	7,950,198
Interest on capital asset-related debt	14,066	(5,521,863)	(4,893,760)	(269,687)	(569,837)	-	(13,397,678)
Gain (loss) on disposal of capital assets	(30,911)	(954,381)	(625,962)	4,338	(46,123)	-	(1,757,292)
Insurance proceeds	1,508	190,479	196,211	27,500	-	-	465,698
Tax revenues	-	114,913	2,895,497	-	-	-	3,197,173
General and special grant expenditures	-	-	-	-	-	9,359,277	(4,344,148)
Other nonoperating revenues (expenses) (net of bad debt allowance of \$262,761)	(209,180)	(32,530)	(954,319)	42,905	(174,191)	-	(1,115,991)
Net nonoperating revenues (expenses)	<u>\$ 22,821,924</u>	<u>\$ 142,865,593</u>	<u>\$ 123,133,077</u>	<u>\$ 11,849,624</u>	<u>\$ 9,386,472</u>	<u>\$ 9,131,209</u>	<u>\$ 453,599,076</u>
Income (loss) before capital grants, gifts and transfers	\$ (604,155)	\$ 13,424,871	\$ 1,362,974	\$ (267,033)	\$ (842,441)	\$ 239,356	\$ 16,194,548
State appropriations - capital assets	\$ 4,233,005	\$ 7,083,135	\$ 19,139,744	\$ 1,891,310	\$ 6,696,856	\$ -	\$ 48,950,316
Transfer to Building Authority	-	(285,487)	-	-	-	-	(5,899,936)
Inter-institutional transfers	-	24,746	4,085,605	-	-	-	-
Capital grants and gifts	436,941	6,612,857	6,883,081	-	2,633,294	-	18,703,629
Increase (decrease) in net assets	<u>\$ 4,065,791</u>	<u>\$ 26,860,122</u>	<u>\$ 31,471,404</u>	<u>\$ 1,624,277</u>	<u>\$ 8,487,709</u>	<u>\$ 239,356</u>	<u>\$ 77,948,557</u>
<b>NET POSITION</b>							
Net position-beginning of year, as restated	\$ 42,892,269	\$ 318,492,671	\$ 413,197,066	\$ 19,217,600	\$ 26,163,969	\$ -	\$ 1,042,259,183
Net position-end of year	<u>\$ 46,958,060</u>	<u>\$ 345,352,793</u>	<u>\$ 444,668,470</u>	<u>\$ 20,841,877</u>	<u>\$ 34,651,678</u>	<u>\$ 239,356</u>	<u>\$ 1,120,207,740</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**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	\$ 6,408,769	\$ 12,165,937	\$ 1,285,370	\$ 6,183,843	\$ 4,004,605	\$ 4,010,238	\$ 13,965,683
Grants and contracts	514,912	7,401,563	646,999	1,300,859	2,502,376	3,027,461	7,589,177
Payments to suppliers	(11,077,001)	(16,497,208)	(2,995,432)	(8,579,391)	(2,619,127)	(4,754,545)	(14,533,053)
Payments to employees	(16,890,442)	(27,110,624)	(5,628,559)	(18,078,273)	(10,646,487)	(12,328,984)	(37,057,024)
Payments for scholarships and fellowships	(20,248,778)	(2,317,984)	(442,988)	(324,226)	(427,217)	(473,668)	(1,275,533)
Loans issued to students	-	(123,307)	(41,858)	(286,248)	(54,660)	(85,400)	(459,745)
Collection of loans to students	-	89,137	46,630	197,828	53,187	80,227	435,700
Auxiliary enterprise charges	-	4,138,809	1,456,283	3,097,115	1,430,122	2,287,765	4,313,178
Sales and service of educational departments	2,237,656	4,140,748	71,413	459,005	1,021,702	902,751	1,070,744
Cash received/(paid) on deposits	(1,058,237)	(24,124)	425,478	118,686	(11,758)	(8,733)	41,521
Other receipts (payments)	(3,764,447)	16,665	33,613	49,779	1,213,207	(100,249)	342,263
Net cash provided (used) by operating activities	\$ (43,877,568)	\$ (18,120,388)	\$ (5,143,051)	\$ (15,861,023)	\$ (3,534,050)	\$ (7,443,137)	\$ (25,567,089)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 60,795,666	\$ 15,369,704	\$ 3,945,846	\$ 13,278,624	\$ 5,979,612	\$ 7,038,000	\$ 21,395,105
Federal appropriations	-	-	-	-	-	-	-
Grants and gifts received for other than capital purposes	-	4,707,182	1,388,484	2,845,912	578,215	2,453,293	4,879,881
Grants given for other than capital purposes	(13,703,425)	-	-	-	-	-	-
Advances from Bank of North Dakota	-	-	-	-	-	-	-
Principal paid on advances from Bank of North Dakota	-	-	-	-	-	-	-
Direct Lending Receipts	-	8,925,588	2,269,010	4,255,976	2,279,282	3,797,999	9,326,541
Direct Lending Disbursements	-	(8,878,953)	(2,269,010)	(4,267,650)	(2,139,742)	(3,774,574)	(9,324,259)
Agency fund cash increase/(decrease)	(852,502)	(109,271)	(85,045)	24,174	(44,855)	(30,900)	9,031
Tax revenues	-	-	-	-	-	186,763	-
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-
Net cash flows provided (used) by noncapital financing activities	\$ 46,239,739	\$ 20,014,250	\$ 5,249,285	\$ 16,137,036	\$ 6,652,512	\$ 9,670,581	\$ 26,286,299
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,850,000	\$ -
Transfers to Building Authority	(5,614,449)	-	-	-	-	-	-
Capital appropriations	-	1,336,310	359,486	459,447	3,202,018	1,022,396	2,043,816
Capital grants and gifts received	-	645,259	-	-	166,950	572,052	697,061
Proceeds from sale of capital assets	-	-	-	1,000	-	-	-
Purchases of capital assets	(1,268,220)	(5,831,937)	(601,202)	(497,298)	(5,301,396)	(1,841,169)	(5,049,394)
Insurance proceeds	-	-	-	50,000	-	-	-
Principal paid on capital debt and lease	(1,915,719)	(715,871)	(25,399)	(3,339)	(343,127)	(1,009,995)	(335,830)
Deposits with capital debt payment trustees	-	-	-	-	-	(1,766,470)	-
Deferred gain (loss) on refunding of debt	-	-	-	-	-	-	-
Interest paid on capital debt and lease	(34,861)	(530,668)	(2,108)	(985)	(198,140)	(626,952)	(829,481)
Net cash provided (used) by capital and related financing activities	\$ (8,833,249)	\$ (5,096,907)	\$ (269,223)	\$ 8,825	\$ (2,473,695)	\$ (1,800,138)	\$ (3,473,828)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 3,255,000	\$ -	\$ -	\$ -	\$ -	\$ 2,268,446
Interest on investments	-	13,501	13,448	41,675	7,349	127,364	55,986
Purchase of investments	-	(3,255,000)	-	-	-	(8,592)	-
Net cash provided (used) by investing activities	\$ -	\$ 13,501	\$ 13,448	\$ 41,675	\$ 7,349	\$ 118,772	\$ 2,324,432
Net increase (decrease) in cash	\$ (6,471,078)	\$ (3,189,544)	\$ (149,541)	\$ 326,513	\$ 652,116	\$ 546,078	\$ (430,186)
CASH - BEGINNING OF YEAR	\$ 12,153,464	\$ 12,067,609	\$ 1,187,313	4,867,129	2,507,349	\$ 3,416,437	16,667,656
CASH - END OF YEAR	\$ 5,682,386	\$ 8,878,065	\$ 1,037,772	\$ 5,193,642	\$ 3,159,465	\$ 3,962,515	\$ 16,237,470

**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>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ (43,464,883)	\$ (20,023,187)	\$ (5,918,494)	\$ (17,240,479)	\$ (7,934,276)	\$ (9,166,834)	\$ (27,782,045)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	-	-	-	-	-	-	-
Depreciation expense	1,427,797	2,205,516	329,808	1,538,340	925,562	1,239,641	3,249,885
Other nonoperating revenues (expenses)	(3,762,956)	(184,605)	3,040	(19,958)	1,196,750	(76,717)	(198,727)
Change in assets and liabilities							
Accounts receivable adjusted for interest receivable	(1,503,779)	(182,048)	(49,138)	112,338	(75,828)	59,761	(713,570)
Grant & contract receivables	-	(989,695)	179,791	(49,425)	(214,177)	(32,508)	(255,137)
Inventories	-	146,241	6,958	724	(15,443)	(9,672)	-
Notes receivable	-	(3,423)	9,528	(32,231)	23,654	51,030	118,888
Other assets	(1,491)	379,253	23,900	11,722	8,595	50,219	730,980
Accounts payable and accrued liabilities adjusted for interest payable	4,122,451	326,864	(136,337)	(478,723)	2,068,211	208,085	8,653
Net change in deferred outflows	-	-	-	-	-	-	-
Net change in deferred inflows	-	-	-	-	-	-	-
Accrued payroll	217,993	80,077	40,402	69,458	527	83,304	(253,072)
Compensated absences	145,536	22,000	(49,989)	36,316	385	33,458	72,494
Deferred revenue	-	126,743	(8,000)	72,208	493,750	125,832	(586,958)
Deposits	(1,058,237)	(24,125)	425,478	118,686	(11,758)	(8,733)	41,521
Net cash provided (used) by operating activities	<u>\$ (43,877,568)</u>	<u>\$ (18,120,389)</u>	<u>\$ (5,143,052)</u>	<u>\$ (15,861,024)</u>	<u>\$ (3,534,048)</u>	<u>\$ (7,443,135)</u>	<u>\$ (25,567,089)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>							
Assets acquired through capital lease	\$ -	\$ 474,965	\$ -	\$ -	\$ -	\$ -	\$ 7,485
Assets acquired through special assessment	-	-	-	-	-	-	-
Expenses paid by capital lease/special assessment	-	114,871	-	-	-	455,650	-
Gifts of capital assets	-	55,005	-	3,060	-	-	-
Net increases (decrease) in value of investments	-	-	-	-	-	-	(105,563)
Total non-cash transactions	<u>\$ -</u>	<u>\$ 644,841</u>	<u>\$ -</u>	<u>\$ 3,060</u>	<u>\$ -</u>	<u>\$ 455,650</u>	<u>\$ (98,078)</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**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	\$ 7,974,561	\$ 104,161,601	\$ 129,571,969	\$ 5,825,480	\$ 1,236,157	\$ (18,592)	\$ 296,775,621
Grants and contracts	1,689,258	68,910,754	91,795,488	1,236,501	2,331,343	(16,778,887)	172,167,804
Payments to suppliers	(11,212,115)	(104,161,511)	(102,670,732)	(6,344,720)	(5,821,384)	7,274,522	(283,991,697)
Payments to employees	(26,761,797)	(255,261,150)	(288,794,256)	(14,644,789)	(10,393,600)	(127,369)	(723,723,354)
Payments for scholarships and fellowships	(1,229,326)	(3,115,800)	(6,511,334)	(225,037)	(627,773)	4,677,597	(32,542,067)
Loans issued to students	(240,350)	(1,199,468)	(3,408,373)	(112,506)	(47,066)	-	(6,058,981)
Collection of loans to students	316,744	1,220,400	3,488,942	98,036	35,952	-	6,062,783
Auxiliary enterprise charges	5,483,684	42,351,732	34,326,870	3,194,323	1,830,875	(379,930)	103,530,826
Sales and service of educational departments	2,929,195	36,251,078	48,757,165	867,718	3,964,379	(2,374,622)	100,298,932
Cash received/(paid) on deposits	(78,882)	177,693	145,550	(115,453)	(174,535)	-	(562,794)
Other receipts (payments)	(410,033)	39,283	2,943,516	(98,302)	(345,476)	(1,164,572)	(1,244,753)
Net cash provided (used) by operating activities	\$ (21,539,061)	\$ (110,625,388)	\$ (90,355,195)	\$ (10,318,749)	\$ (8,011,128)	\$ (8,891,853)	\$ (369,287,680)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
State appropriations	\$ 18,940,000	\$ 122,444,163	\$ 101,623,783	\$ 10,337,617	\$ 7,036,080	\$ -	\$ 388,184,200
Federal appropriations	-	5,790,560	-	-	-	-	5,790,560
Grants and gifts received for other than capital purposes	3,729,811	18,159,048	20,303,901	1,364,347	3,054,053	(467,424)	62,996,703
Grants given for other than capital purposes	-	-	-	-	-	9,359,277	(4,344,148)
Advances from Bank of North Dakota	-	-	-	-	-	-	-
Principal paid on advances from Bank of North Dakota	-	-	-	-	-	-	-
Direct Lending Receipts	-	53,187,283	69,245,831	4,005,755	1,697,774	-	158,991,039
Direct Lending Disbursements	-	(52,888,895)	(69,226,230)	(4,005,755)	(1,591,186)	-	(158,366,254)
Agency fund cash increase/(decrease)	588,601	13,162	(891,275)	(48,912)	(227,685)	-	(1,655,477)
Tax revenues	-	114,913	2,895,497	-	-	-	3,197,173
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-
Net cash flows provided (used) by noncapital financing activities	\$ 23,258,412	\$ 146,820,234	\$ 123,951,507	\$ 11,653,052	\$ 9,969,036	\$ 8,891,853	\$ 454,793,796
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Proceeds from issuance of debt	\$ -	\$ 8,448,914	\$ 45,235,000	\$ -	\$ -	\$ -	\$ 55,533,914
Transfers to Building Authority	-	(285,487)	-	-	-	-	(5,899,936)
Capital appropriations	4,568,343	7,441,879	15,500,604	1,739,571	5,956,302	-	43,630,172
Capital grants and gifts received	436,942	6,739,501	3,571,902	-	2,633,291	-	15,462,958
Proceeds from sale of capital assets	-	1,385,783	655,800	7,218	(5,635)	-	2,044,166
Purchases of capital assets	(6,397,412)	(26,513,903)	(46,245,982)	(1,390,650)	(7,735,025)	-	(108,673,588)
Insurance proceeds	1,508	190,479	8,995	27,500	-	-	278,482
Principal paid on capital debt and lease	(313,529)	(8,691,734)	(15,786,532)	(2,866,835)	(429,165)	-	(32,437,075)
Deposits with capital debt payment trustees	-	(8,255,000)	-	-	-	-	(10,021,470)
Deferred gain (loss) on refunding of debt	-	-	1,746	-	-	-	1,746
Interest paid on capital debt and lease	136,265	(5,426,340)	(3,302,984)	(269,687)	(564,153)	-	(11,650,094)
Net cash provided (used) by capital and related financing activities	\$ (1,567,883)	\$ (24,965,908)	\$ (361,451)	\$ (2,752,883)	\$ (144,385)	\$ -	\$ (51,730,725)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from sales and maturities of investments	\$ -	\$ 13,181,421	\$ 87,250,000	\$ 628,212	\$ -	\$ -	\$ 106,583,079
Interest on investments	476,630	2,304,805	2,650,215	376,724	86,627	-	6,154,324
Purchase of investments	-	(11,167,492)	(72,250,006)	(733,925)	-	-	(87,415,015)
Net cash provided (used) by investing activities	\$ 476,630	\$ 4,318,734	\$ 17,650,209	\$ 271,011	\$ 86,627	\$ -	\$ 25,322,388
Net increase (decrease) in cash	\$ 628,098	\$ 15,547,672	\$ 50,885,070	\$ (1,147,569)	\$ 1,900,150	\$ -	\$ 59,097,779
CASH - BEGINNING OF YEAR	14,443,109	38,311,725	13,014,636	4,591,432	171,932	-	123,399,791
CASH - END OF YEAR	\$ 15,071,207	\$ 53,859,397	\$ 63,899,706	\$ 3,443,863	\$ 2,072,082	\$ -	\$ 182,497,570

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**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)	\$ (23,426,076)	\$ (129,440,721)	\$ (121,770,104)	\$ (12,116,657)	\$ (10,228,914)	\$ (8,891,853)	\$ (437,404,525)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities							
Depreciation expense	2,705,487	20,714,843	\$ 21,384,633	913,404	1,313,567	-	57,948,483
Other nonoperating revenues (expenses)	(428,331)	80,732	\$ 2,591,602	(106,425)	(349,646)	-	(1,255,241)
Change in assets and liabilities							
Accounts receivable adjusted for interest receivable	(428,573)	(494,088)	\$ 770,966	249,496	384,542	10,767,277	8,897,356
Grant & contract receivables	(333,936)	3,745,287	270,563	63,052	910,478	64,956	3,359,248
DCB	(196)	17,562	(54,629)	(9,484)	26,710	-	108,770
Notes receivable	143,136	139,063	610,559	44,983	3,832	-	1,109,019
Other assets	(37,952)	(902,801)	(345,330)	141,455	175,450	-	233,999
Accounts payable and accrued liabilities adjusted for interest payable	422,085	(3,875,715)	4,708,259	349,051	(151,942)	(10,179,266)	(2,608,325)
	-	-	-	-	-	-	-
	-	230,680	-	-	-	-	230,680
Accrued payroll	91,671	465,999	214,703	85,211	56,203	-	1,152,476
Compensated absences	(158,305)	(772,044)	163,673	28,789	41,537	-	(436,150)
Deferred revenue	(9,186)	(711,877)	954,361	153,829	(18,414)	-	592,288
Deposits	(78,882)	177,693	145,550	(115,453)	(174,535)	(652,967)	(1,215,759)
Net cash provided (used) by operating activities	<u>\$ (21,539,059)</u>	<u>\$ (110,625,388)</u>	<u>\$ (90,355,194)</u>	<u>\$ (10,318,748)</u>	<u>\$ (8,011,133)</u>	<u>\$ (8,891,853)</u>	<u>\$ (369,287,680)</u>
<b>SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS</b>							
Assets acquired through capital lease	\$ -	\$ 263,523	\$ 56,227	\$ -	\$ 375,000	\$ -	\$ 1,177,200
Assets acquired through special assessment	-	-	-	-	-	-	-
Expenses paid by capital lease/special assessm	-	138,009	298,290	-	-	-	1,006,820
Gifts of capital assets	-	170,673	14,100	-	-	-	242,838
Net increases (decrease) in value of investmen	(100,000)	264,429	-	-	-	-	58,866
Total non-cash transactions	<u>\$ (100,000)</u>	<u>\$ 836,634</u>	<u>\$ 368,617</u>	<u>\$ -</u>	<u>\$ 375,000</u>	<u>\$ -</u>	<u>\$ 2,485,724</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**Statement of Financial Position -- Non-major Component Units**

<b>FASB BASIS</b>	<b>Dakota College of Bottineau Foundation June 30, 2014</b>	<b>Lake Region Community College Foundation June 30, 2014</b>	<b>MaSU Alumni Foundation June 30, 2014</b>	<b>MiSU Development Foundation June 30, 2014</b>	<b>NDSCS Foundation June 30, 2014</b>	<b>NDSU Research Foundation June 30, 2014</b>
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 407,888	\$ 34,002	\$ -	\$ 826,168	\$ 2,473,885	\$ 174,392
Investments	86,394	-	-	-	10,129,373	-
Accounts receivable, net	-	-	13,465	360	45,000	-
Receivable from Primary Institution	-	-	-	-	-	-
Unconditional promises to give, net of allowance	-	30,456	36,000	134,917	242,103	-
Inventories	-	-	-	-	-	-
Other assets	-	-	8,994	25,297	-	8,106
Total current assets	<u>\$ 494,282</u>	<u>\$ 64,458</u>	<u>\$ 58,459</u>	<u>\$ 986,742</u>	<u>\$ 12,890,361</u>	<u>\$ 182,498</u>
<b>Noncurrent assets</b>						
Restricted cash and cash equivalents	\$ -	\$ -	\$ 534,831	\$ -	\$ -	\$ -
<b>Investments:</b>						
Investments, net of current portion	2,130,316	2,696,011	4,914,055	17,058,483	-	-
Investments, temporarily restricted	-	-	-	-	-	-
Investments, permanently restricted	-	-	-	-	-	-
Investments held in trust	-	-	-	-	-	-
Beneficial interest in trust	-	1,097,861	-	-	-	-
Endowment investments	-	2,887,904	-	-	-	5,899,427
Real estate and equipment held for investment, net of accumulated depreciation	-	-	-	5,348,709	-	-
Other long-term investments	16,857	-	-	-	-	150
Total investments	<u>2,147,173</u>	<u>\$ 6,681,776</u>	<u>\$ 4,914,055</u>	<u>\$ 22,407,192</u>	<u>\$ -</u>	<u>\$ 5,899,577</u>
Long term pledges receivable/unconditional promises to g	-	\$ 34,924	\$ 76,844	\$ 425,940	\$ 189,000	\$ -
Notes receivable, net	-	-	-	343,764	-	-
Receivable from Primary Institution	-	-	-	-	-	-
Other noncurrent assets	-	-	88,815	162,997	-	-
Capital assets, net	-	-	13,736	-	1,849,063	6,671
Total noncurrent assets	<u>\$ 2,147,173</u>	<u>\$ 6,716,700</u>	<u>\$ 5,628,281</u>	<u>\$ 23,339,893</u>	<u>\$ 2,038,063</u>	<u>\$ 5,906,248</u>
Total assets	<u>\$ 2,641,455</u>	<u>\$ 6,781,158</u>	<u>\$ 5,686,740</u>	<u>\$ 24,326,635</u>	<u>\$ 14,928,424</u>	<u>\$ 6,088,746</u>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	\$ -	\$ 9,512	\$ 27,913	\$ 10,679	\$ 37,408	\$ 51,939
Payable to university	20,275	-	-	458,077	-	-
Accrued payroll and life income agreements	-	-	11,089	701	44,069	-
Deferred revenue	-	-	-	-	45,000	-
Other current liabilities	-	-	-	-	-	-
Long-term liabilities--current portion	-	-	6,251	178,556	55,496	-
Total current liabilities	<u>20,275</u>	<u>9,512</u>	<u>45,253</u>	<u>692,082</u>	<u>137,904</u>	<u>\$ 51,939</u>
<b>Noncurrent liabilities</b>						
Gift annuities and life income agreements, net of current portion	\$ -	\$ -	\$ 85,280	\$ 325,307	\$ -	\$ -
Long-term liabilities	-	-	365,191	3,241,348	1,778,266	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>450,471</u>	<u>3,566,655</u>	<u>1,778,266</u>	<u>-</u>
Total liabilities	<u>\$ 20,275</u>	<u>\$ 9,512</u>	<u>\$ 495,724</u>	<u>\$ 4,258,737</u>	<u>\$ 1,916,170</u>	<u>\$ 51,939</u>
<b>NET ASSETS</b>						
Temporarily restricted	\$ 275,602	\$ 1,992,011	\$ 1,491,604	\$ 2,036,573	\$ 2,586,295	\$ -
Permanently restricted	2,147,173	3,985,765	3,849,004	16,027,983	10,296,262	-
Net investment in property and equipment	-	-	13,736	-	-	-
Unrestricted	198,405	793,870	(163,328)	2,003,342	129,697	6,036,807
Total net assets	<u>\$ 2,621,180</u>	<u>\$ 6,771,646</u>	<u>\$ 5,191,016</u>	<u>\$ 20,067,898</u>	<u>\$ 13,012,254</u>	<u>\$ 6,036,807</u>
Total liabilities and net assets	<u>\$ 2,641,455</u>	<u>\$ 6,781,158</u>	<u>\$ 5,686,740</u>	<u>\$ 24,326,635</u>	<u>\$ 14,928,424</u>	<u>\$ 6,088,746</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**Statement of Financial Position -- Non-major Component Units - continued**

<b>FASB BASIS</b>	<b>NDSU Team Makers Club December 31, 2013</b>	<b>UND Center for Innovation December 31, 2013</b>	<b>UND Research Foundation June 30, 2014</b>	<b>VCSU Foundation June 30, 2014</b>	<b>WSC Foundation June 30, 2014</b>	<b>Total Non-major Component</b>
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 3,040,471	\$ 623,435	\$ 252,386	\$ 1,414,294	\$ 3,652,343	\$ 12,899,264
Investments	-	-	-	-	100,000	10,315,767
Accounts receivable, net	79,744	52,601	10,169	-	4,454	205,793
Due from Primary Institutions	-	-	-	-	62,414	62,414
Unconditional promises to give, net of allow:	71,265	-	-	164,392	6,000	685,133
Inventories	3,241	4,920	-	-	-	8,161
Other assets	2,969	300,768	2,330	4,354	71,001	423,819
Total current assets	<u>\$ 3,197,690</u>	<u>\$ 981,724</u>	<u>\$ 264,885</u>	<u>\$ 1,583,040</u>	<u>\$ 3,896,212</u>	<u>\$ 24,600,351</u>
<b>Noncurrent assets</b>						
Restricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 534,831
<b>Investments:</b>						
Investments, net of current portion	2,042,624	-	-	-	9,831,435	38,672,924
Investments, temporarily restricted	-	-	-	4,056,511	-	4,056,511
Investments, permanently restricted	-	-	-	4,283,707	-	4,283,707
Investments held in trust	-	-	-	-	118,426	118,426
Beneficial interest in trust	-	-	-	-	-	1,097,861
Endowment investments	-	3,069,613	-	-	-	11,856,944
Real estate and equipment held for investment, net of accumulated depreciation	-	-	-	-	-	5,348,709
Other long-term investments	-	380,958	-	7,000	1,154,890	1,559,855
Total investments	<u>\$ 2,042,624</u>	<u>\$ 3,450,571</u>	<u>\$ -</u>	<u>\$ 8,347,218</u>	<u>\$ 11,104,751</u>	<u>\$ 66,994,937</u>
Long term pledges						
receivable/unconditional promises to	\$ -	\$ -	\$ -	\$ 147,321	\$ -	\$ 874,029
Notes receivable, net	-	16,283	-	-	-	360,047
Receivable from Primary Institution	-	-	-	-	481,753	481,753
Other noncurrent assets	-	303,273	-	2,822	-	557,907
Capital assets, net	9,909	3,238,016	-	18,279	11,751,555	16,887,229
Total noncurrent assets	<u>\$ 2,052,533</u>	<u>\$ 7,008,143</u>	<u>\$ -</u>	<u>\$ 8,515,640</u>	<u>\$ 23,338,059</u>	<u>\$ 86,690,733</u>
Total assets	<u>\$ 5,250,223</u>	<u>\$ 7,989,867</u>	<u>\$ 264,885</u>	<u>\$ 10,098,680</u>	<u>\$ 27,234,271</u>	<u>\$ 111,291,084</u>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	\$ 125,761	\$ 119,580	\$ 10,106	\$ 6,712	\$ 226,709	\$ 626,319
Payable to university	3,072,395	-	20,198	27,466	34,619	3,633,030
Accrued payroll	-	-	-	938	-	701
and life income agreements	-	-	-	-	-	56,096
Deferred revenue	9,650	363,409	-	-	-	418,059
Other current liabilities	72,058	-	9,827	54	-	81,939
Long-term liabilities--current portion	-	-	-	61,415	183,323	485,041
Total current liabilities	<u>\$ 3,279,864</u>	<u>\$ 482,989</u>	<u>\$ 40,131</u>	<u>\$ 96,585</u>	<u>\$ 444,651</u>	<u>\$ 5,301,185</u>
<b>Noncurrent liabilities</b>						
Gift annuities and life income						
agreements, net of current portion	\$ -	\$ -	\$ -	\$ 18,149	\$ -	\$ 428,736
Long-term liabilities	218,869	91,534	-	11,752	6,789,103	12,496,063
Total noncurrent liabilities	<u>\$ 218,869</u>	<u>\$ 91,534</u>	<u>\$ -</u>	<u>\$ 29,901</u>	<u>\$ 6,789,103</u>	<u>\$ 12,924,799</u>
Total liabilities	<u>\$ 3,498,733</u>	<u>\$ 574,523</u>	<u>\$ 40,131</u>	<u>\$ 126,486</u>	<u>\$ 7,233,754</u>	<u>\$ 18,225,984</u>
<b>NET ASSETS</b>						
Temporarily restricted	\$ -	\$ 779,730	\$ -	\$ 5,575,283	\$ 9,542,772	\$ 24,279,870
Permanently restricted	-	3,216,140	-	4,283,727	6,517,293	50,323,347
Net investment in property and equipment	-	-	-	-	-	13,736
Unrestricted	1,751,490	3,419,474	224,754	113,184	3,940,452	18,448,147
Total net assets	<u>\$ 1,751,490</u>	<u>\$ 7,415,344</u>	<u>\$ 224,754</u>	<u>\$ 9,972,194</u>	<u>\$ 20,000,517</u>	<u>\$ 93,065,100</u>
Total liabilities and net assets	<u>\$ 5,250,223</u>	<u>\$ 7,989,867</u>	<u>\$ 264,885</u>	<u>\$ 10,098,680</u>	<u>\$ 27,234,271</u>	<u>\$ 111,291,084</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

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

**FASB BASIS**

	<b>Dakota College of Bottineau Foundation June 30, 2014</b>	<b>Lake Region Community College Foundation June 30, 2014</b>	<b>MaSU Alumni Foundation June 30, 2014</b>	<b>MiSU Development Foundation June 30, 2014</b>	<b>NDSU Foundation June 30, 2014</b>	<b>NDSU Research Foundation June 30, 2014</b>
<b>Support and revenue</b>						
Gifts and contributions	\$ 375,873	\$ 1,068,569	\$ 835,138	\$ 3,399,612	\$ 1,223,997	\$ -
Investment income	41,066	108,349	102,888	205,631	318,662	108,179
Net realized and unrealized gains (losses) on investment securities	16,746	661,572	495,637	1,853,493	1,042,133	937,086
Program and event income	121,000	-	309,422	-	32,108	-
Other income	-	282,396	5,296	1,909,209	863,565	2,025,473
<b>Total support and revenue</b>	<b>\$ 554,685</b>	<b>\$ 2,120,886</b>	<b>\$ 1,748,381</b>	<b>\$ 7,367,945</b>	<b>\$ 3,480,465</b>	<b>\$ 3,070,738</b>
<b>Expenses</b>						
Program Services	\$ 207,937	\$ 545,236	\$ 1,402,592	\$ -	\$ 1,018,543	\$ -
Supporting services	95,826	299,470	47,398	1,649,665	388,438	2,003,064
Fund raising expense	-	59,320	55,598	-	-	-
<b>Total expenses</b>	<b>\$ 303,763</b>	<b>\$ 904,026</b>	<b>\$ 1,505,588</b>	<b>\$ 1,649,665</b>	<b>\$ 1,406,981</b>	<b>\$ 2,003,064</b>
Change in Net Assets	\$ 250,922	\$ 1,216,860	\$ 242,793	\$ 5,718,280	\$ 2,073,484	\$ 1,067,674
<b>Net Assets, Beginning of Year</b>	<b>\$ 2,370,258</b>	<b>\$ 5,554,786</b>	<b>\$ 4,948,223</b>	<b>\$ 14,349,618</b>	<b>\$ 10,938,770</b>	<b>\$ 4,969,133</b>
<b>Net Assets, End of Year</b>	<b>\$ 2,621,180</b>	<b>\$ 6,771,646</b>	<b>\$ 5,191,016</b>	<b>\$ 20,067,898</b>	<b>\$ 13,012,254</b>	<b>\$ 6,036,807</b>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**STATEMENT OF ACTIVITIES, Non-Major Component Units - continued**

	NDSU Team Makers Club December 31, 2013	UND Center for Innovation December 31, 2013	UND Research Foundation June 30, 2014	VCSU Foundation June 30, 2014	WSC Foundation June 30, 2014	Total
<b>Support and revenue</b>						
Gifts and contributions	\$ 3,431,410	\$ 1,313,354	\$ 28,807	\$ 3,501,751	\$ 652,436	\$ 15,830,947
Investment income	316,882	45,591	24	350,136	300,305	1,897,713
Net realized and unrealized gains (losses) on investment securities	-	419,138	-	930,427	857,196	7,213,428
Program and event income	425,519	61,053	-	125,218	6,485,437	7,559,757
Other income	58,338	475,275	159,052	381,531	6,684,667	12,844,802
Total support and revenue	<u>\$ 4,232,149</u>	<u>\$ 2,314,411</u>	<u>\$ 187,883</u>	<u>\$ 5,289,063</u>	<u>\$ 14,980,041</u>	<u>\$ 45,346,647</u>
<b>EXPENSES</b>						
Program Services	\$ 3,180,891	\$ 1,724,036	\$ -	\$ 715,382	\$ 2,459,872	\$ 11,254,489
Supporting services	439,607	383,976	325,007	257,994	7,699,885	13,590,330
Fund raising expense	71,335	-	-	303,761	-	490,014
Total expenses	<u>\$ 3,691,833</u>	<u>\$ 2,108,012</u>	<u>\$ 325,007</u>	<u>\$ 1,277,137</u>	<u>\$ 10,159,757</u>	<u>\$ 25,334,833</u>
Change in Net Assets	<u>\$ 540,316</u>	<u>\$ 206,399</u>	<u>\$ (137,124)</u>	<u>\$ 4,011,926</u>	<u>\$ 4,820,284</u>	<u>\$ 20,011,814</u>
Net Assets, Beginning of Year	<u>\$ 1,211,174</u>	<u>\$ 7,208,945</u>	<u>\$ 361,878</u>	<u>\$ 5,960,268</u>	<u>\$ 15,180,233</u>	<u>\$ 73,053,286</u>
Net Assets, End of Year	<u>\$ 1,751,490</u>	<u>\$ 7,415,344</u>	<u>\$ 224,754</u>	<u>\$ 9,972,194</u>	<u>\$ 20,000,517</u>	<u>\$ 93,065,100</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**SCHEDULE OF BONDS PAYABLE - Primary Institution**

<u>Issue</u>	<u>Original Balance</u>	<u>Interest Rate</u>	<u>Installments</u>	<u>Balance Outstanding</u>
<b>Bismarck State College</b>				
2005 Housing & Auxiliary Facilities, due through 2030, collateralized by net revenues of housing & auxiliary system and College Fee, interest rate fixed.	\$ 4,400,000	3.4-5.35%	\$90,000 to \$710,000	\$ 3,460,000
2012 Housing & Auxiliary Facilities, due through 2033, collateralized by net revenues of housing & auxiliary system and College Fee, interest rate fixed.	7,000,000	2.0 - 4.0%	\$265,000 to \$475,000	6,735,000
Total BSC	<u>\$ 11,400,000</u>			<u>\$ 10,195,000</u>
<b>Lake Region State College</b>				
2004 Housing & Auxiliary Facilities Improvement Revenue Bonds due through the year 2017, collateralized by auxiliary services net revenues, facility usage fees and HUD interest subsidy, interest rate fixed.	\$ 1,050,000	3.0 - 5.125%	\$55,000 to \$100,000	\$ 370,000
Total LRSC	<u>\$ 1,050,000</u>			<u>\$ 370,000</u>
<b>Mayville State University</b>				
2013 Facilities Revenue Bonds, due through the year 2024, collateralized by the student fees, sales tax and earnings, interest rate fixed.	\$ 1,850,000	2.0-3.25%	\$181,516 to \$213,413	\$ 1,850,000
2010 Facilities Revenue Bonds, due through the year 2030, collateralized by the Housing and Facilities revenue, student fees, federal interest subsidy related to the bond interest payments and earnings on funds created under the indenture.	3,665,000	1.55-6.63%	\$173,923 to \$265,602	3,130,000
Total MaSU	<u>\$ 5,515,000</u>			<u>\$ 4,980,000</u>
<b>Minot State University</b>				
2006 Student Services Facilities Revenue Bonds due through 2030, collateralized by net revenues from auxiliary housing, interest rate fixed.	\$ 5,000,000	4.0-5.25%	\$125,000 to \$290,000	\$ 4,025,000
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	2.0-6.6%	\$135,000 to \$1,415,000	9,585,000
Total MiSU	<u>\$ 15,000,000</u>			<u>\$ 13,610,000</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	3.76%	\$265,000 to \$545,000	\$ 8,735,000
Total NDSCS	<u>\$ 9,000,000</u>			<u>\$ 8,735,000</u>
<b>North Dakota State University</b>				
2005 Housing & Auxiliary Facilities Revenue Bonds, due through 2035, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	\$ 18,700,000	4.25-5.0%	\$1,200,000	\$ 16,150,000
2006A Housing & Auxiliary Facilities Revenue Bonds, due through 2036, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	9,990,000	4.25-5.0%	\$630,000	8,455,000
2006B Housing & Auxiliary Facilities Revenue Bonds, due through 2029, collateralized by net revenues of housing and auxiliary system, interest rate fixed.	2,845,000	4.25-5.0%	\$225,000	2,315,000
2007B Research & Tech Park Refunding callable Revenue Bonds Maturity June 30 2023, collateralized by lease revenue, fixed rate.	18,100,000	4.0-6.5%	\$805,000 to \$1,330,000	16,485,000
2007A Research & Tech Park Refunding callable Revenue Bonds Maturity June 30 2022, collateralized by lease revenue, fixed rate	4,735,000	4.0 - 4.125%	\$220,000 to \$510,000	3,490,000

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**SCHEDULE OF BONDS PAYABLE - Primary Institution (continued)**

Issue	Original Balance	Interest Rate	Installments	Balance Outstanding
2007 Housing & Auxiliaries Facilities Revenue Bonds, fixed rate Maturity 2037, collateralized by Auxiliary revenue.	12,000,000	4.5-5.0%	\$735,237 to \$791,897	10,710,000
2009 Housing & Auxiliaries Facilities Revenue Bonds, Maturity July 29, 2039, collateralized by Auxiliary revenue.	26,245,000	1.5-4.8%	\$1,715,000	24,225,000
2012 Housing & Auxiliaries Facilities Revenue Bonds, Maturity April 1, 2027, collateralized by housing and auxiliary revenue.	5,730,000	2.0-3.0%	\$455,956 to \$465,450	5,075,000
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	2.0-4.0%	\$575,237 to \$581,250	\$ 8,340,000
<b>Total NDSU</b>	<u>\$ 106,685,000</u>			<u>\$ 95,245,000</u>
<b>University of North Dakota</b>				
2036, collateralized by net housing and auxiliary facilities system, debt service grants, & bond indenture earnings, fixed rate.	\$ 40,050,000	3.5-5%	\$85,000 to \$2,875,000	\$ 39,285,000
2009 Aerospace Hanger Revenue Bonds due through 2029, collateralized by revenue from flight operations and proceeds from any casualty insurance payments.	1,500,000	4.25%	\$73,016 to \$133,054	1,142,500
2012 Housing & Auxiliaries Facilities Revenue Bonds, Maturity April 1, 2027, collateralized by housing and auxiliary revenue.	17,360,000	2-5%	\$220,000 to \$1,115,000	17,135,000
2012 EERC Revenue Bonds, maturity June 1, 2027, variable interest rate	6,405,000	0.75-4.2%	\$325,000 to \$540,000	5,710,000
2013 Housing & Auxiliaries Facilities Revenue Bonds Maturity April 1, 2034 collateralized by net housing & auxiliary facilities system revenue	8,130,000	2.0%-4.1%	\$300,000 to \$560,000	8,130,000
2014 Housing & Auxiliaries Facilities Revenue Bonds Maturity April 1, 2044 collateralized by net housing & auxiliary facilities system revenue	27,305,000	3.0%-4.0%	\$475,000 to \$1,465,000	27,305,000
<b>Total UND</b>	<u>\$ 100,750,000</u>			<u>\$ 98,707,500</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	2.8-7.05%	\$25,000 to \$380,000	\$ 3,360,000
2013 Housing & Auxiliary Facilities Revenue Bonds due through 2033, collateralized by net housing and auxiliary facilities system, interest rate fixed.	2,565,000	3-4%	\$40,000 to \$185,000	\$ 2,565,000
<b>Total VCSU</b>	<u>\$ 5,995,000</u>			<u>\$ 5,925,000</u>
<b>Williston State College</b>				
1979 Student Housing Revenue Bonds, due through 2019, collateralized by net revenues and income from Nelson Hall and apartments, interest rate fixed.	\$ 546,000	3.0%	\$1,000 to \$20,000	\$ 41,000
2010 Housing and Auxiliary Services, matures 2041	1,500,000	6.9%	\$150,000	8,760,000
<b>Total WSC</b>	<u>\$ 2,046,000</u>			<u>\$ 8,801,000</u>
<b>Total Bonds Payable</b>	<u>\$ 257,441,000</u>			<u>\$ 246,568,500</u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

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

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

	<b>Bismarck State College</b>	<b>Dakota State College</b>	<b>Dickinson State University</b>	<b>Lake Region State College</b>	<b>Mayville State University</b>	<b>Minot State University</b>
Operating Revenues	\$ 4,311,024	\$ -	\$ -	\$ 1,510,666	\$ 2,111,823	\$ 482,823
Operating Expenses	4,119,069	-	-	1,628,656	1,954,313	1,624,507
Net Operating Revenues	<u>\$ 191,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (117,990)</u>	<u>\$ 157,510</u>	<u>\$ (1,141,684)</u>
Pledged Fees	\$ 615,378	\$ -	\$ -	\$ 71,993	\$ 79,138	\$ 1,088,673
Non Operating Revenue	376,200	-	-	230,687	131,342	1,146,066
Investment Income	2,752	-	-	5,486	-	37,157
Debt Service Grants				11,581	56,045	192,345
Capitalized Interest	-	-	-	-		
Net Revenue Available for Debt Retirement	<u><u>\$ 1,186,285</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 201,757</u></u>	<u><u>\$ 424,035</u></u>	<u><u>\$ 1,322,557</u></u>
Current year Debt Service						
Principal	\$ 385,000	\$ -	\$ -	\$ 80,000	\$ 145,000	\$ 295,000
Interest	<u>395,571</u>	<u>-</u>	<u>-</u>	<u>20,514</u>	<u>184,463</u>	<u>805,611</u>
Total Debt Service	<u><u>\$ 780,571</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,514</u></u>	<u><u>\$ 329,463</u></u>	<u><u>\$ 1,100,611</u></u>

**NORTH DAKOTA UNIVERSITY SYSTEM**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

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

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

	<u>North Dakota State College of Science</u>	<u>North Dakota State University</u>	<u>University of North Dakota</u>	<u>Valley City State University</u>	<u>Williston State College</u>	<u>Total</u>
Operating Revenues	\$ 5,422,188	\$ 42,560,463	\$ 34,343,265	\$ 2,885,728	\$ 759,009	\$ 94,386,989
Operating Expenses	4,030,658	35,553,977	32,626,144	2,356,680	414,565	84,308,569
Net Operating Revenues	<u>\$ 1,391,530</u>	<u>\$ 7,006,486</u>	<u>\$ 1,717,121</u>	<u>\$ 529,048</u>	<u>\$ 344,444</u>	<u>\$ 10,078,420</u>
Pledged Fees	\$ 341,458	\$ 5,534,489	\$ 3,734,361	\$ 117,959	\$ 90,000	\$ 11,673,450
Non Operating Revenue	2,448,891	3,816,814	3,800,440	577,849	98,310	12,626,599
Investment Income	1,089	8,981	102,252	24	13	157,754
Debt Service Grants				93,413	239,255	592,638
Capitalized Interest	-	-	-	-	-	-
Net Revenue Available for Debt Retirement	<u>\$ 4,182,968</u>	<u>\$ 16,366,770</u>	<u>\$ 9,354,174</u>	<u>\$ 1,318,293</u>	<u>\$ 772,022</u>	<u>\$ 35,128,861</u>
Current year Debt Service						
Principal	\$ 270,000	\$ 2,145,000	\$ 2,960,000	\$ 45,000	\$ 220,000	\$ 6,545,000
Interest	<u>308,132</u>	<u>3,451,911</u>	<u>2,793,615</u>	<u>274,034</u>	<u>574,382</u>	<u>8,808,233</u>
Total Debt Service	<u>\$ 578,132</u>	<u>\$ 5,596,911</u>	<u>\$ 5,753,615</u>	<u>\$ 319,034</u>	<u>\$ 794,382</u>	<u>\$ 15,353,233</u>