



Financial Statements  
December 31, 2020 and 2019  
**North Dakota State University Foundation**

North Dakota State University Foundation

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December 31, 2020 and 2019

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## Independent Auditor's Report

To the Executive Governing Board  
North Dakota State University Foundation  
Fargo, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of North Dakota State University Foundation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota State University Foundation as of December 31, 2020 and 2019 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
April 30, 2021

# North Dakota State University Foundation

## Statements of Financial Position – Assets

December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 22,348,081	\$ 34,273,163
Short-term investments	32,502,209	26,559,681
Receivables		
Current portion of unconditional promises to give	13,115,567	14,517,528
Interest	5,969	6,544
Current portion of contracts for deed and notes receivable	64,368	63,548
Bequest	634,776	651,776
Other	964,537	109,834
Prepaid expenses	252,829	366,531
Total current assets	69,888,336	76,548,605
Property and Equipment		
Property and equipment, net of accumulated depreciation	3,258,854	3,305,821
Real estate held for University purposes, net of accumulated depreciation	28,805,341	30,074,278
	32,064,195	33,380,099
Other Assets		
Investments	294,867,492	255,008,433
Equity method investments	16,427,750	15,955,680
Contracts for deed and notes receivable, net of current portion	647,572	711,940
Cash restricted for capital projects	1,944,579	981,403
Split-interest trusts held by others, net	76,951	70,084
Beneficial interest in charitable trust held by others	1,154,631	1,042,314
Unconditional promises to give, net of current portion	33,823,670	42,830,161
	348,942,645	316,600,015
Total assets	\$ 450,895,176	\$ 426,528,719

North Dakota State University Foundation  
 Statements of Financial Position – Liabilities and Net Assets  
 December 31, 2020 and 2019

	2020	2019
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 2,039,501	\$ 2,140,050
Cash and cash equivalents held for others	45,226	44,616
Investments held for others	1,126,789	138,941
Current portion of split-interest agreements	688,736	660,284
Current portion of notes and bonds payable	813,889	1,102,835
Other	7,404	33,906
Total current liabilities	4,721,545	4,120,632
Split-interest agreements, net of current portion	8,213,931	6,314,921
Notes and bonds payable, net of current portion	22,744,930	22,303,770
Total liabilities	35,680,406	32,739,323
Net Assets		
Without donor restrictions	35,539,996	31,992,447
With donor restrictions	379,674,774	361,796,949
Total net assets	415,214,770	393,789,396
Total liabilities and net assets	\$ 450,895,176	\$ 426,528,719

North Dakota State University Foundation

Statements of Activities

Year Ended December 31, 2020

	With Donor Restrictions	Without Donor Restrictions	Total
Revenue and Other Support			
Gifts and grants	\$ 14,057,952	\$ 828,122	\$ 14,886,074
Liabilities to income beneficiaries	(655,960)	(190,704)	(846,664)
	<u>13,401,992</u>	<u>637,418</u>	<u>14,039,410</u>
Investment income	7,575,931	3,421,766	10,997,697
Net realized and unrealized gain on investments and real estate held for University purposes	<u>20,029,333</u>	<u>3,083,374</u>	<u>23,112,707</u>
Net investment return	<u>27,605,264</u>	<u>6,505,140</u>	<u>34,110,404</u>
Change in value of split-interest agreements	(895,770)	(225,080)	(1,120,850)
Other income	<u>109,496</u>	<u>1,706,482</u>	<u>1,815,978</u>
	40,220,982	8,623,960	48,844,942
Net assets released from restrictions	<u>(22,343,157)</u>	<u>22,343,157</u>	<u>-</u>
Total revenue and other support	<u>17,877,825</u>	<u>30,967,117</u>	<u>48,844,942</u>
Expenses			
Program services			
Support to University	-	18,126,259	18,126,259
Alumni outreach	-	894,424	894,424
Total program expenses	<u>-</u>	<u>19,020,683</u>	<u>19,020,683</u>
Support services			
Administrative and general expenses	-	5,061,797	5,061,797
Fundraising and development	-	3,337,088	3,337,088
Total supporting services expenses	<u>-</u>	<u>8,398,885</u>	<u>8,398,885</u>
Total expenses and losses	<u>-</u>	<u>27,419,568</u>	<u>27,419,568</u>
Change in Net Assets	17,877,825	3,547,549	21,425,374
Net Assets, Beginning of Year	<u>361,796,949</u>	<u>31,992,447</u>	<u>393,789,396</u>
Net Assets, End of Year	<u>\$ 379,674,774</u>	<u>\$ 35,539,996</u>	<u>\$ 415,214,770</u>

North Dakota State University Foundation

Statements of Activities

Year Ended December 31, 2019

	With Donor Restrictions	Without Donor Restrictions	Total
Revenue and Other Support			
Gifts and grants	\$ 87,184,848	\$ 795,204	\$ 87,980,052
Liabilities to income beneficiaries	(37,591)	(200,831)	(238,422)
	<u>87,147,257</u>	<u>594,373</u>	<u>87,741,630</u>
Investment income	10,570,623	3,189,832	13,760,455
Net realized and unrealized gain on investments	<u>20,901,808</u>	<u>2,717,843</u>	<u>23,619,651</u>
Net investment return	<u>31,472,431</u>	<u>5,907,675</u>	<u>37,380,106</u>
Change in value of split-interest agreements	(567,299)	(257,113)	(824,412)
Other income	<u>467,354</u>	<u>1,069,893</u>	<u>1,537,247</u>
	118,519,743	7,314,828	125,834,571
Net assets released from restrictions	<u>(30,835,159)</u>	<u>30,835,159</u>	<u>-</u>
Total revenue and other support	<u>87,684,584</u>	<u>38,149,987</u>	<u>125,834,571</u>
Expenses			
Program services			
Support to University	-	25,903,832	25,903,832
Alumni outreach	-	<u>1,359,388</u>	<u>1,359,388</u>
Total program expenses	-	<u>27,263,220</u>	<u>27,263,220</u>
Support services			
Administrative and general expenses	-	5,224,125	5,224,125
Fundraising and development	-	<u>3,877,226</u>	<u>3,877,226</u>
Total supporting services expenses	-	<u>9,101,351</u>	<u>9,101,351</u>
Total expenses and losses	-	<u>36,364,571</u>	<u>36,364,571</u>
Change in Net Assets	87,684,584	1,785,416	89,470,000
Net Assets, Beginning of Year	<u>274,112,365</u>	<u>30,207,031</u>	<u>304,319,396</u>
Net Assets, End of Year	<u>\$ 361,796,949</u>	<u>\$ 31,992,447</u>	<u>\$ 393,789,396</u>



North Dakota State University Foundation  
Statement of Functional Expenses  
Year Ended December 31, 2020

	Program Services			Administrative and General	Fundraising and Development	Total
	Support to University	Alumni Outreach	Total			
Scholarships and fellowships	\$ 6,524,690	\$ -	\$ 6,524,690	\$ -	\$ -	\$ 6,524,690
Departmental expenses	1,477,495	-	1,477,495	-	-	1,477,495
Building and equipment	7,323,140	-	7,323,140	-	-	7,323,140
Faculty support	2,778,395	-	2,778,395	-	-	2,778,395
Other support to NDSU	22,539	-	22,539	-	-	22,539
Purchase of auction items	-	-	-	-	98,849	98,849
Salaries and wages	-	475,682	475,682	1,184,800	1,778,043	3,438,525
Employee benefits	-	142,575	142,575	340,663	455,483	938,721
Payroll taxes	-	33,559	33,559	71,339	129,592	234,490
Employee recruiting	-	-	-	11,298	-	11,298
Dues and subscriptions	-	-	-	12,788	147	12,935
Printing and postage	-	25,721	25,721	13,028	26,549	65,298
Supplies	-	6,742	6,742	2,900	3,932	13,574
Donor relations	-	78	78	11,085	14,156	25,319
Advertising and marketing	-	550	550	1,329	5,197	7,076
Recognition gifts	-	7,532	7,532	8,606	44,922	61,060
Travel	-	17,698	17,698	52,469	96,450	166,617
Staff and non-staff expenses	-	6,878	6,878	3,830	283	10,991
Meetings	-	1,099	1,099	14,061	80	15,240
Training and development	-	-	-	44,215	-	44,215
Repairs and maintenance	-	11,436	11,436	34,309	40,031	85,776
Utilities	-	14,060	14,060	37,531	47,666	99,257
Computer and software	-	37,339	37,339	99,354	118,211	254,904
Equipment	-	22,771	22,771	46,718	72,008	141,497
Insurance	-	10,441	10,441	30,032	33,054	73,527
Credit card and bank charges	-	-	-	40,609	-	40,609
Income taxes	-	-	-	5,905	-	5,905
Accounting fees	-	-	-	50,916	-	50,916
Legal fees	-	-	-	75,687	-	75,687
Consulting and professional fees	-	2,234	2,234	6,732	220,074	229,040
Compliance fees	-	-	-	2,985	-	2,985
Interest	-	-	-	688,259	-	688,259
Life insurance premiums	-	-	-	5,088	-	5,088
Event expense	-	55,994	55,994	54,395	75,212	185,601
Miscellaneous	-	-	-	6,322	-	6,322
Farm expense	-	-	-	20,170	-	20,170
Rental property occupancy	-	-	-	199,281	-	199,281
Rental property real estate taxes	-	-	-	33,555	-	33,555
Rental property insurance	-	-	-	32,379	-	32,379
Depreciation and depletion	-	22,035	22,035	1,819,159	77,149	1,918,343
	<u>\$ 18,126,259</u>	<u>\$ 894,424</u>	<u>\$ 19,020,683</u>	<u>\$ 5,061,797</u>	<u>\$ 3,337,088</u>	<u>\$ 27,419,568</u>

North Dakota State University Foundation  
Statement of Functional Expenses  
Year Ended December 31, 2019

	Program Services			Administrative and General	Fundraising and Development	Total
	Support to University	Alumni Outreach	Total			
Scholarships and fellowships	\$ 5,938,595	\$ -	\$ 5,938,595	\$ -	\$ -	\$ 5,938,595
Departmental expenses	2,337,906	-	2,337,906	-	-	2,337,906
Building and equipment	15,346,329	-	15,346,329	-	-	15,346,329
Faculty support	1,818,552	-	1,818,552	-	-	1,818,552
Other support to NDSU	462,450	-	462,450	-	-	462,450
Purchase of auction items	-	-	-	-	143,342	143,342
Salaries and wages	-	439,783	439,783	1,166,025	1,567,383	3,173,191
Employee benefits	-	121,575	121,575	343,422	394,510	859,507
Payroll taxes	-	31,294	31,294	73,425	115,347	220,066
Employee recruiting	-	-	-	30,688	-	30,688
Dues and subscriptions	-	-	-	7,832	-	7,832
Printing and postage	-	45,270	45,270	8,250	16,288	69,808
Supplies	-	17,755	17,755	11,827	8,180	37,762
Donor relations	-	1,148	1,148	10,804	76,255	88,207
Advertising and marketing	-	1,193	1,193	6,544	21,810	29,547
Recognition gifts	-	20,533	20,533	2,129	20,653	43,315
Travel	-	34,400	34,400	68,460	222,511	325,371
Staff and non-staff expenses	-	20,604	20,604	9,649	-	30,253
Meetings	-	536	536	42,105	4,033	46,674
Training and development	-	-	-	80,564	-	80,564
Repairs and maintenance	-	7,708	7,708	38,556	46,264	92,528
Utilities	-	9,026	9,026	37,421	48,656	95,103
Computer and software	-	41,636	41,636	124,621	166,543	332,800
Equipment	-	13,387	13,387	32,223	53,614	99,224
Insurance	-	9,125	9,125	29,005	36,499	74,629
Credit card and bank charges	-	80	80	41,518	-	41,598
Income taxes	-	-	-	15,363	-	15,363
Accounting fees	-	-	-	51,837	-	51,837
Legal fees	-	-	-	27,573	-	27,573
Consulting and professional fees	-	224,742	224,742	41,056	143,524	409,322
Compliance fees	-	-	-	1,530	-	1,530
Interest	-	-	-	686,044	-	686,044
Life insurance premiums	-	-	-	5,268	-	5,268
Event expense	-	307,343	307,343	1,047	718,283	1,026,673
Miscellaneous	-	-	-	(14,026)	-	(14,026)
Farm expense	-	-	-	15,518	-	15,518
Rental property occupancy	-	-	-	358,671	-	358,671
Rental property real estate taxes	-	-	-	26,517	-	26,517
Rental property insurance	-	-	-	27,778	-	27,778
Depreciation and depletion	-	12,250	12,250	1,814,881	73,531	1,900,662
	<u>\$ 25,903,832</u>	<u>\$ 1,359,388</u>	<u>\$ 27,263,220</u>	<u>\$ 5,224,125</u>	<u>\$ 3,877,226</u>	<u>\$ 36,364,571</u>

# North Dakota State University Foundation

## Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
<b>Operating Activities</b>		
Change in net assets	\$ 21,425,374	\$ 89,470,000
Charges and credits to change in net assets not affecting cash		
Depreciation and depletion	1,918,343	1,900,662
Net realized and unrealized gains and losses on investments	(22,375,264)	(23,619,651)
Change in beneficial interest in charitable trust held by others	(112,317)	(130,663)
Contributed equity method investments	-	(6,261,000)
Change in cash surrender value of life insurance	51,934	(39,355)
Gifts to be held in perpetuity	(6,843,565)	(16,631,911)
Change in value of split-interest agreements	212,722	280,346
Gifts restricted for capital projects	(1,315,500)	(20,879,520)
Transfer from donor restricted fund to restricted for capital projects	38,950	57,238
Payments for capital projects	6,274,893	15,797,006
Loss (gain) on disposal of property and equipment	(737,443)	6,962
Change in value of split-interest trusts held by others	(6,867)	(9,659)
Change in cash and cash equivalents held for others	610	(124,906)
Changes in operating assets and liabilities		
Unconditional promises to give	3,879,286	(12,216,260)
Receivables - interest, grant, bequest, and other	(837,128)	50,783
Prepaid expenses	113,702	(137,005)
Accounts payable and accrued liabilities	(100,549)	937,787
Other	(26,502)	16,502
<b>Net Cash from Operating Activities</b>	<b>1,560,679</b>	<b>28,467,356</b>
<b>Investing Activities</b>		
Proceeds from the sale of investments	67,367,394	59,019,737
Proceeds from the sale of property and equipment	771,943	175,842
Purchases of investments, including real estate and equipment held for investments	(90,819,170)	(74,969,474)
Payments for capital projects	(6,274,893)	(15,797,006)
Receipts on notes and contracts receivable	63,548	62,788
Property and equipment purchases	(118,340)	(272,942)
<b>Net Cash used for Investing Activities</b>	<b>(29,009,518)</b>	<b>(31,781,055)</b>

North Dakota State University Foundation

Statements of Cash Flows – page 2  
 Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Financing Activities		
Gifts to be held in perpetuity	\$ 8,715,804	\$ 19,620,765
Gifts restricted for capital projects	5,972,427	6,978,290
Transfer from donor restricted fund to restricted for capital projects	(38,950)	(57,238)
Payments to beneficiaries of split-interest agreements	(121,078)	(99,445)
Proceeds from establishment of split-interest agreements	1,835,818	221,578
Issuance of notes payable	2,488,010	5,437,096
Principal payments on bonds and notes payable	<u>(2,365,098)</u>	<u>(3,563,234)</u>
Net Cash from Financing Activities	<u>16,486,933</u>	<u>28,537,812</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	(10,961,906)	25,224,113
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>35,254,566</u>	<u>10,030,453</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 24,292,660</u>	<u>\$ 35,254,566</u>
Cash and Cash Equivalents	\$ 22,348,081	\$ 34,273,163
Cash Restricted for Capital Projects	<u>1,944,579</u>	<u>981,403</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 24,292,660</u>	<u>\$ 35,254,566</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 691,396</u>	<u>\$ 690,321</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Investment in unconsolidated affiliates received as gift	<u>\$ -</u>	<u>\$ 6,261,000</u>
Issuance and capitalization of special assessments	<u>\$ 29,302</u>	<u>\$ 18,588</u>

**Note 1 - Principal Activity and Significant Accounting Policies****Organization**

The North Dakota State University Foundation (Foundation) is a North Dakota nonprofit corporation established to raise, manage, distribute, and steward private resources to support the various priorities of North Dakota State University (University). The Foundation's mission is to build enduring relationships that maximize advocacy and philanthropy to support the University.

**Cash and Cash Equivalents**

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Foundation are excluded from this definition.

**Bequest Receivables**

Bequest receivables as of December 31, 2020 and 2019, of \$634,776 and \$651,776 are receivable from the trusts of various estates. Bequest receivables are recorded at fair market value upon the notification of the donor's death.

**Promises to Give**

Unconditional promises to give are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in gifts and grant revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. As of December 31, 2020 and 2019, the allowance was \$924,405 and \$999,075.

Conditional promises to give are only receivable upon the occurrence of uncertain future events and therefore are not recorded in the accompanying financial statements. As of December 31, 2020 and 2019, the Foundation did not have any conditional promises to give.

**Property and Equipment**

Property and equipment additions over \$2,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	5-50 years
Office furniture and equipment	5-20 years
Computer software	3-5 years

When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2020 and 2019.

### **Real Estate Held for University Purposes**

Real estate held for University purposes represents property leased to the University and others intended for current University use or in support of the University. It is stated at the fair market value at the time of the gift or at cost if purchased. Depreciation is provided using the straight-line method over 15 to 31.5 years.

### **Investments**

The Foundation carries investments at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Certain funds have been pooled for ease of management and to achieve greater diversification in investments. Earnings on investments are allocated to individual accounts based on a unitization process. Investment income is reported in the statements of activities and consists of lease, interest and dividend income, less investment management, direct internal investment expenses, and custodial fees. Net realized and unrealized gain on investments consists of all realized and unrealized gains and losses on investments.

### **Equity Method Investments**

Investments in entities in which the Foundation has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Foundation's share of earnings and losses of those affiliates entities, net of any additional investments or distributions. The Foundation's share of net earnings or losses of the entities is included in other income.

The Foundation is considered the limited partner in these equity method investments. If no single partner controls the limited partnership, the general and limited partners shall apply the equity method of accounting to their interests, except for instances when a limited partner's interest is so minor that the limited partner may have virtually no influence over partnership operations and financial policies. No such instances exist for the years ended December 31, 2020 and 2019.

### **Cash Restricted for Capital Projects**

Cash restricted for capital projects consists of cash and highly liquid financial instruments that are restricted by donors for long-term capital project purposes.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Executive Governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve, capital repair reserve, property reserve, and board-designated endowment. The board designated capital repair reserve was \$43,484 and \$64,255 as of December 31, 2020 and 2019, and the board designated property reserve was \$546,950 and \$925,690 as of December 31, 2020 and 2019.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Revenue and Revenue Recognition**

The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

**Donated Services**

Many individuals, including board members, have contributed significant amounts of time to activities of the Foundation without compensation. Volunteers also donate services for periodic fundraising drives, such as the Bison Bidder's Bowl. During the years ended December 31, 2020 and 2019, the value of contributed services meeting the requirement for recognition in the financial statements was not material and has not been recorded.

### **Donated Assets**

Donated property, marketable securities and other non-cash donations are recorded as contributions at their estimated market value at the date of the donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Foundation reclassifies net assets with donor restrictions to net assets without donor restrictions when the restriction has been fulfilled.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include repairs and maintenance, depreciation, and utilities, which are allocated on a square footage basis, as well as salaries and wages, employee benefits, payroll taxes, printing and postage, supplies and equipment, computer and software, insurance, professional fees, and other expenses, which are allocated on the basis of estimates of time and effort.

### **Income Taxes**

The Foundation is a publicly supported organization under Internal Revenue Code Section 501(c)(3) and is classified as an organization which is not a private foundation. Accordingly, the Foundation is not subject to federal income taxes. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

### **Cash and Cash Equivalents Held for Others**

Cash and cash equivalents held for others consist of funds held and invested for various University departments and organizations.

### **Investments Held For Others**

Investments held for others represent the portion of charitable remainder unitrusts for which the Foundation holds the assets, but is not the beneficiary. See Note 5.



**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Financial Instruments and Credit Risk**

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from committed supporters of the University and the Foundation. Investments are made by diversified investment managers whose performance is monitored by management, the Investment Committee, and the Finance and Audit Committee of the Foundation. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management, the Investment Committee, and the Finance and Audit Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation and University.

**Beneficial Interests in Charitable Trusts Held by Others**

The Foundation has been named as an irrevocable beneficiary of perpetual charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Foundation has neither possession nor control over the assets of the trusts. At the date the Foundation receives notice of a beneficial interest, a donor restricted contribution is recorded in the statements of activities, and a beneficial interest in charitable trusts held by others is recorded in the statements of financial position at fair value of the assets contributed to the trust. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

**New Accounting Pronouncement**

In August 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-13 (ASU 2018-13), *Fair Value Measurement (Topic 802) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes certain disclosure requirements, including the valuation process for Level 3 fair value measurements, and adds certain quantitative disclosures around Level 3 fair value measurements. The provisions of ASU 2018-13 are required to be adopted retrospectively, with the exception of disclosure of range and weighted average of significant unobservable inputs used to develop Level 3 measurements, which can be adopted prospectively. The Foundation adopted ASU 2018-13 as of January 1, 2020.

**Reclassification**

Reclassifications have been made to the December 31, 2019 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

**Note 2 - Liquidity and Availability**

The Foundation regularly monitors liquidity required to meet its operating needs and strives to maintain liquid financial assets equal to 10% of total short-term investments.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 1,234,955	\$ 958,151
Short-term investments	5,299,383	3,800,247
Other receivables	750,127	102,189
Endowment spending-rate distributions	87,758	48,188
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,372,223</u>	<u>\$ 4,908,775</u>

Endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted funds are not available for general expenditure.

Board-designated endowments of \$4,227,973 and \$3,965,882, as of December 31, 2020 and 2019, are subject to an annual spending rate of 4.0% as described in Note 15. Although the Foundation does not intend to spend from these board-designated endowments (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation) these amounts could be made available if necessary.

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Annually, the Board designates any operating surpluses to its operating reserve. Cumulative amounts held in reserves as of December 31, 2020 and 2019 were \$5,299,383 and \$3,800,247.

The Finance & Audit Committee will make recommendations to the Board for the use of the operating reserve. There may be times in the operating cycle that it is necessary to use the funds for temporary cash flow purposes. The Chief Financial Officer may do so without action of the Board.

**Note 3 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 13,353,984	\$ 14,754,094
In one to five years	28,437,904	35,781,033
Over five years	8,371,952	10,880,207
	<u>50,163,840</u>	<u>61,415,334</u>
Less allowance for uncollectible promises to give	(924,405)	(999,075)
Less discount to net present value, .95%-5%	<u>(2,300,198)</u>	<u>(3,068,570)</u>
	<u>\$ 46,939,237</u>	<u>\$ 57,347,689</u>

Unconditional promises to give are presented as follows at December 31, 2020 and 2019 in the statements of financial position:

	<u>2020</u>	<u>2019</u>
Current portion of unconditional promises to give	\$ 13,115,567	\$ 14,517,528
Unconditional promises to give, net of current portion	<u>33,823,670</u>	<u>42,830,161</u>
	<u>\$ 46,939,237</u>	<u>\$ 57,347,689</u>

**Note 4 - Investments**

The composition of investments at December 31, 2020 and 2019 is detailed in the table below:

	<u>2020</u>	<u>2019</u>
Fixed income	\$ 99,162,500	\$ 89,142,207
Global equity	135,856,018	114,195,161
Global hedge funds	41,181,114	32,350,588
Government securities	101,192	101,291
Commodity funds	478,471	540,848
Private equity	41,763,839	36,201,748
Real estate funds	8,316,054	8,473,824
Cash surrender value of life insurance	510,513	562,447
	<u>\$ 327,369,701</u>	<u>\$ 281,568,114</u>
Short-term investments	\$ 32,502,209	\$ 26,559,681
Investments	294,867,492	255,008,433
	<u>\$ 327,369,701</u>	<u>\$ 281,568,114</u>

**Note 5 - Fair Value of Assets and Liabilities**

The Foundation has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the reporting date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability, either directly or indirectly. These included quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or the liability and market corroborated inputs. Level 3 inputs are unobservable inputs related to the asset or liability. In these situations, inputs are developed using the best information in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

A portion of the fixed income and global equity investments are classified within Level 1 because they are comprised of investments with readily determinable fair values based on daily redemption values. The remaining portion of the fixed income and global equity, as well as the government securities, commodity funds, private stock, cash surrender value of life insurance, and investments held for others are valued by custodians of the investments using pricing models based on credit quality, time to maturity, stated interest rates and market assumptions. These investments are classified within Level 2. The fair values of split interest trusts held by others, and beneficial interest in trust/assets held by others are determined by using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are classified within Level 3.

The Foundation uses Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, to estimate the values of the global hedge funds, private equity and real estate funds. The global hedge funds are valued at the close of each business day. The NAV in these funds is recalculated each business day. For co-mingled and pooled marketable investment funds, CommonFund and SEI determines their NAV by using a direct look through basis to the underlying direct assets holding. At this level, the underlying assets have a direct market reference price that is traceable. For certain private equity investments, NAV is estimated at the present value of expected future cash flows. For the private equity and real estate funds, NAV is determined with independent, third party valuations occurring monthly to every six months depending upon the investment type.

# North Dakota State University Foundation

Notes to Financial Statements

December 31, 2020 and 2019

The related fair values of these assets and liabilities as measured on a recurring basis are determined as follows:

<u>December 31, 2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>				
Investments				
Fixed income	\$ 99,162,500	\$ 68,847,249	\$ 30,315,251	\$ -
Global equity	135,856,018	124,636,224	11,219,794	-
Government securities	101,192	-	101,192	-
Commodity funds	478,471	-	478,471	-
Cash surrender value of life insurance	510,513	-	510,513	-
	<u>236,108,694</u>	<u>\$ 193,483,473</u>	<u>\$ 42,625,221</u>	<u>\$ -</u>
Global hedge funds (at NAV)	41,181,114			
Private equity (at NAV)	41,763,839			
Real estate funds (at NAV)	8,316,054			
	<u>\$ 327,369,701</u>			
Split-interest trusts held by others, net	<u>\$ 76,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,951</u>
Beneficial interest in trust/assets held by others	<u>\$ 1,154,631</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,154,631</u>
<b>Liabilities</b>				
Obligations under split interest agreements	<u>\$ 8,902,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,902,667</u>
Investments held for others	<u>\$ 1,126,789</u>	<u>\$ -</u>	<u>\$ 1,126,789</u>	<u>\$ -</u>
<b>December 31, 2019</b>				
<b>Assets</b>				
Investments				
Fixed income	\$ 89,142,207	\$ 65,608,270	\$ 23,533,937	\$ -
Global equity	114,195,161	105,474,481	8,720,680	-
Government securities	101,291	-	101,291	-
Commodity funds	540,848	-	540,848	-
Cash surrender value of life insurance	562,447	-	562,447	-
	<u>204,541,954</u>	<u>\$ 171,082,751</u>	<u>\$ 33,459,203</u>	<u>\$ -</u>
Global hedge funds (at NAV)	32,350,588			
Private equity (at NAV)	36,201,748			
Real estate funds (at NAV)	8,473,824			
	<u>\$ 281,568,114</u>			
Split-interest trusts held by others, net	<u>\$ 70,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,084</u>
Beneficial interest in trust/assets held by others	<u>\$ 1,042,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,042,314</u>
<b>Liabilities</b>				
Obligations under split interest agreements	<u>\$ 6,975,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,975,205</u>
Investments held for others	<u>\$ 138,941</u>	<u>\$ -</u>	<u>\$ 138,941</u>	<u>\$ -</u>

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2020 and 2019

Following is a reconciliation for Level 3 assets measured on a recurring basis:

	<u>Mineral Interests</u>	<u>Split Interest</u>	<u>Beneficial Interest</u>	<u>Total</u>
Balance at December 31, 2018	\$ 8,587	\$ 60,425	\$ 911,651	\$ 980,663
Changes in value of split-interest agreement	-	9,659	-	9,659
Change in beneficial interest	-	-	130,663	130,663
Depletion	<u>(8,587)</u>	<u>-</u>	<u>-</u>	<u>(8,587)</u>
Balance at December 31, 2019	<u>-</u>	<u>70,084</u>	<u>1,042,314</u>	<u>1,112,398</u>
Changes in value of split-interest agreement	-	6,867	-	6,867
Change in beneficial interest	<u>-</u>	<u>-</u>	<u>112,317</u>	<u>112,317</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 76,951</u>	<u>\$ 1,154,631</u>	<u>\$ 1,231,582</u>

Changes in value of split-interest agreement and beneficial interest are recorded within the change in value of split interest agreements on the statements of activities.

Following is a reconciliation for Level 3 liabilities measured on a recurring basis:

Liabilities under split-interest agreements

Balance at December 31, 2018	\$ 6,572,726
Payments to beneficiaries of split-interest agreements	(99,445)
Proceeds from establishment of split-interest agreements	221,578
Changes in value of split-interest agreement	<u>280,346</u>
Balance at December 31, 2019	<u>6,975,205</u>
Payments to beneficiaries of split-interest agreements	(121,078)
Proceeds from establishment of split-interest agreements	1,835,818
Changes in value of split-interest agreement	<u>212,722</u>
Balance at December 31, 2020	<u>\$ 8,902,667</u>

For the years ended December 31, 2020 and 2019, there were no transfers in or out of level 3.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2020 and 2019

The following table presents the range and weighted average of the unobservable inputs used to develop Level 3 fair value measurements for the years ended December 31, 2020 and 2019:

	2020	2019	Valuation Technique	Unobservable Input	Range (Weighted Avg.)
Split-interest trusts held by others	\$ 76,951	\$ 70,084	Discount to present value	Risk-adjusted discount rate	5.00%-5.00%
Beneficial interest in trust/assets held by others	1,154,631	1,042,314	Discount to present value	Risk-adjusted discount rate	5.00%-5.00%
Obligations under split interest agreements	8,902,667	6,975,205	Discount to present value	Risk-adjusted discount rate	5.00%-5.00%

Unobservable inputs were weighted by the relative fair value of the instruments.

Investments in certain entities that calculate net asset value per share (or its equivalent) are as follows for the years ended December 31, 2020 and 2019:

Investment Type	December 31, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global hedge funds (1)	\$ 41,181,114	\$ -	Quarterly	95 Days
Private equity (2)	41,763,839	16,262,030	Ineligible	n/a
Real estate funds (2)	8,316,054	5,337,226	Ineligible	n/a
Investment Type	December 31, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global hedge funds (1)	\$ 32,350,588	\$ -	Quarterly	95 Days
Private equity (2)	36,201,748	23,738,639	Ineligible	N/A
Real estate funds (2)	8,473,824	6,083,289	Ineligible	N/A

(1) Global Hedge Funds – this category includes investments in hedge funds and funds of hedge funds that invest in equity, debt, structured products and derivative securities. Debt securities include corporate debt, mortgage debt, and sovereign debt. The managers of these funds have the flexibility to change their exposure based on their view of particular securities and the overall market. The strategies of these funds include event-driven, relative value, arbitrage, and directional strategies.

(2) Real Estate and Private Equity Funds – this category includes direct investments in private capital, venture capital, distressed debt and real assets, generally through limited partnerships. The fair value of these investments has been estimated using the percentage share of the Foundation’s ownership interest in partner’s capital. Distributions from each fund are received when the underlying investments in the funds create distributable cash flow and when underlying investments are liquidated. These investments cannot be redeemed.



**Note 6 - Contracts for Deed and Notes Receivable**

Contracts for deed and notes receivable consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
1.25% note receivable, due in annual installments of \$72,879, including interest, to April 2030, secured by land	\$ 680,890	\$ 744,438
8% note receivable, unsecured	31,050	31,050
	<u>711,940</u>	<u>775,488</u>
Less current portion	(64,368)	(63,548)
	<u>\$ 647,572</u>	<u>\$ 711,940</u>

Maturities of the contracts for deed and notes receivable are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 64,368
2022	65,172
2023	65,987
2024	66,795
2025	67,647
Thereafter	<u>381,971</u>
	<u>\$ 711,940</u>

**Note 7 - Real Estate Held for University Purposes**

Real estate held for University purposes consists of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 3,257,073	\$ 3,206,572
Buildings and improvements	<u>48,827,470</u>	<u>48,772,371</u>
	52,084,543	51,978,943
Less accumulated depreciation	<u>(23,279,202)</u>	<u>(21,904,665)</u>
	<u>\$ 28,805,341</u>	<u>\$ 30,074,278</u>

**Note 8 - Property and Equipment**

Property and equipment consists of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 885,505	\$ 890,602
Buildings and improvements	3,871,664	3,886,632
Furniture and equipment	1,294,723	1,254,641
Computer software	126,748	132,538
	<u>6,178,640</u>	<u>6,164,413</u>
Less accumulated depreciation	<u>(2,919,786)</u>	<u>(2,858,592)</u>
	<u>\$ 3,258,854</u>	<u>\$ 3,305,821</u>

**Note 9 - Equity Method Investments**

Investments in the following limited partnerships are being recorded on the equity method:

- Limited partnership I – 33.56% limited partnership interest
- Limited partnership II – 33.69% limited partnership interest
- Limited partnership III – 31.73% Class A and 48.89% Class B limited partnership interest
- Limited partnership IV – 20.07% Class A and 1.05% Class B limited partnership interest
- Limited partnership V – 65.20% limited partnership interest
- Limited partnership VI – 16.95% limited partnership interest
- Limited partnership VII – 15.08% Class A and .85% Class B limited partnership interest

The Foundation received these limited partnership interests as a charitable contribution. Partnerships I through V were received in 2018 and VI and VII were received in 2019. Partnership V was liquidated during 2019 with the Foundation receiving \$6,847,775 in proceeds. The Foundation received \$789,882 and \$1,778,602 in distributions and recognized \$1,261,952 and \$883,057 of income during 2020 and 2019.

Summary financial statement information on equity method investments is as follows:

	<u>2020</u>	<u>2019</u>
Assets	<u>\$ 31,521,535</u>	<u>\$ 32,133,077</u>
Liabilities	<u>\$ 44,128,252</u>	<u>\$ 44,900,223</u>
Equity	<u>(12,606,717)</u>	<u>(12,767,146)</u>
Total liabilities and equity	<u>\$ 31,521,535</u>	<u>\$ 32,133,077</u>
Total revenues	<u>\$ 13,456,721</u>	<u>\$ 13,572,663</u>
Total expenses	<u>7,676,731</u>	<u>8,444,725</u>
Net income	<u>\$ 5,779,990</u>	<u>\$ 5,127,938</u>

**Note 10 - Liabilities for Split-Interest Agreements****Gift Annuity Agreements**

The Foundation has entered into gift annuity agreements, which provide that the Foundation shall pay periodic amounts to designated beneficiaries until their death. Payments continue even if the assets gifted or acquired as a result of a gift have been exhausted. The Foundation records these gifts at market value with a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amounts of the gifts are recorded as net assets with donor restrictions or without donor restrictions based on the donors' wishes. In subsequent years, the liability for future payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income. The estimated present value of future payments to be made under these agreements, discounted at 5% for 2020 and 2019, totals \$2,940,544 and \$2,935,438 at December 31, 2020 and 2019.

**Charitable Remainder Trusts**

Charitable remainder trusts consist of charitable remainder unitrusts and annuity trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to the Foundation, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. The trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the trust liability is recorded as net assets with donor restrictions until such amount is received via trust distribution and/or is expended in satisfaction of the restricted purpose stipulated by the trust agreement, if any, at which time net assets are released to net assets without donor restrictions or are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year.

Upon termination of the trust, the remaining liability is removed and recognized as income. The estimated present value of future investment income distributions to beneficiaries, discounted at 5% for 2020 and 2019, totals \$5,962,123 and \$4,039,767 at December 31, 2020 and 2019.

**Note 11 - Notes and Bonds Payable**

	<u>2020</u>	<u>2019</u>
1.5% line of credit, interest payments due quarterly, principal payments due annually starting in 2021, to December 2028 secured by promises to give receivable for the renovation and construction of the Aldevron Tower (1)	\$ 7,925,107	\$ 5,437,096
Variable rate note payable, 3.25% at December 31, 2020, interest payments due quarterly, \$1,000,000 principal payments due annually, to December 2023, secured by promises to give receivable for the construction of the Sanford Health Athletic Complex (SHAC) (2)	4,382,205	5,644,785
3.98% bond payable, due in semi-annual installments of varying amounts, to October 2030, secured by Renaissance Hall building and land (3)	3,430,000	3,700,000
University Facilities Revenue Refunding Bonds, Series 2012 secured by Barry and Klai Hall land and building (4)		
2% to 3% serial bonds, due in varying annual installments through December 2023	1,290,000	2,285,000
3% to 4% term bonds, with varying sinking fund requirements beginning December 2024 through December 2036	6,365,000	5,870,000
Other debt	166,507	149,519
4.89% bonds payable, paid in full	-	320,205
	<u>23,558,819</u>	<u>23,406,605</u>
	<u>(813,889)</u>	<u>(1,102,835)</u>
Less current maturities	<u>\$ 22,744,930</u>	<u>\$ 22,303,770</u>

(1) A line of credit was issued to provide financing for the renovation and construction of the Aldevron Tower at North Dakota State University. Available borrowings under this line of credit are \$10,000,000 with interest payments due quarterly. On June 30, 2021, this line of credit will convert to a note payable. Interest will continue to be paid quarterly. Principal payments between \$1,000,000 and \$1,500,000 must be paid by December 31 of each year through 2028. This line is secured by the promises to give receivable for the renovation and construction of the Aldevron Tower.

(2) A line of credit was issued to provide financing for the construction of the Sanford Health Athletic Complex (SHAC). On January 1, 2017, this line of credit converted to a note payable. Covenants for the note payable include the following provisions: 1) Total net assets of \$100,000,000 or more at the end of each fiscal year, 2) Total net assets without donor restrictions of no less than the outstanding balance of the note at the end of each fiscal year, and 3) the Foundation must have promises to give receivables for the construction of the SHAC outstanding of no less than 85% of the note balance at the end of each fiscal year.

- (3) The Foundation refinanced the outstanding debt acquired with the transfer of Renaissance Hall from Kilbourne Design Group, LLC through the sale of 20-year University Facilities Lease Revenue Bonds. JP Morgan Chase Bank, N.A. has loaned the bond proceeds to the Foundation for semi-annual payments of interest and varying principal amounts. The property is leased to NDSU for rental equal to the semi-annual principal and interest payments on the bonds plus all costs incurred by the Foundation incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The property is included with real estate held for University purposes in the financial statements.
- (4) The Foundation refinanced the outstanding debt associated with the Barry Hall business building project and Klai Hall architecture building project, through the sale of 25-year University Facility Revenue Bond issued by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installment of varying principal amounts on the various fixed rate bonds. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest and principal payments on the fixed rate bonds for the term of the bonds, plus all costs incurred by the Foundation incident to ownership of the property. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The property is included with real estate held for University purposes in the financial statements and the bonds have been recorded as a direct obligation of the Foundation.

Future principal payments of notes and bonds payable are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 813,889
2022	1,364,623
2023	1,960,172
2024	6,123,065
2025	2,016,580
Thereafter	<u>11,280,490</u>
	<u>\$ 23,558,819</u>

Under the terms of the loan agreements, the Foundation is required to maintain certain measures of non-financial and financial performance.

#### **Note 12 - Paycheck Protection Program (PPP)**

The Foundation was granted a \$797,000 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Foundation has elected to account for the funding as a conditional contribution by applying ASC 958-605, *Not-for Profit – Revenue Recognition*. The Foundation initially recorded the loan as a refundable advance and subsequently recognized contribution revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Foundation has recognized \$797,000 as other income for the year ended December 31, 2020.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2020 and 2019

**Note 13 - Net Assets**

Net assets with donor restrictions are restricted for the following purposes or periods.

	<u>2020</u>	<u>2019</u>
Subject to the Passage of Time or Specified Purpose		
Scholarships	\$ 41,830,040	\$ 32,889,774
NDSU departmental expenses	101,023,424	95,885,565
NDSU buildings and equipment	20,428,977	24,280,679
Foundation operations - time restriction	481,181	361,253
	<u>163,763,622</u>	<u>153,417,271</u>
Endowments Held in Perpetuity		
Scholarships	137,299,371	131,698,598
NDSU departmental expenses	75,834,919	73,914,431
NDSU buildings and equipment	126,250	126,250
Foundation operations	2,650,612	2,640,399
	<u>215,911,152</u>	<u>208,379,678</u>
Total endowments held in perpetuity	<u>215,911,152</u>	<u>208,379,678</u>
	<u>\$ 379,674,774</u>	<u>\$ 361,796,949</u>

The Foundation's Executive Governing Board has chosen to place approximately \$4,316,000 and \$3,966,000 as of December 31, 2020 and 2019 in board designated endowments for Foundation operations, scholarships, and grants.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Amounts released are as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished		
Scholarships and grants paid	\$ 6,373,456	\$ 5,792,632
NDSU departmental expenses	4,162,975	4,490,264
NDSU building and equipment	7,323,141	15,346,329
Foundation operations	511,601	646,260
Endowment management fees	3,045,072	2,855,640
Gift fees	1,030,206	1,615,922
Direct investment expenses on real estate held for University purposes	21,870	118,009
Transfers	(125,164)	(38,484)
Depletion of mineral interest rights	-	8,587
	<u>\$ 22,343,157</u>	<u>\$ 30,835,159</u>
Total net assets released from restrictions	<u>\$ 22,343,157</u>	<u>\$ 30,835,159</u>

**Note 14 - Employee Benefit Plans****Tax Deferred Annuity**

The Foundation has a tax deferred annuity plan under Internal Revenue Code section 403(b) which covers all eligible employees. The employees contribute to the plan through salary reductions. The Foundation makes no contributions toward the plan.

**Pension Plan**

The Foundation has a defined contribution pension plan covering all eligible employees. The Foundation contributes 9.5% of the eligible salary of each employee with six months to ten years of service, and 10% of the eligible salary of each employee with ten or more years of service. Total pension plan expense for the years ended December 31, 2020 and 2019 was \$302,801 and \$256,644.

**Note 15 - Endowment**

The Foundation's endowment (the Endowment) consists of approximately 1,400 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Executive Governing Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2020 and 2019

As of December 31, 2020 and 2019, endowment net asset composition by type of fund is as follows:

	<u>At December 31, 2020</u>		
	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 269,002,772	\$ -	\$ 269,002,772
Board-designated endowment funds	-	4,315,727	4,315,727
	<u>\$ 269,002,772</u>	<u>\$ 4,315,727</u>	<u>\$ 273,318,499</u>

  

	<u>At December 31, 2019</u>		
	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 244,670,242	\$ -	\$ 244,670,242
Board-designated endowment funds	-	3,965,882	3,965,882
	<u>\$ 244,670,242</u>	<u>\$ 3,965,882</u>	<u>\$ 248,636,124</u>

Changes in endowment net assets as of December 31, 2020 are as follows:

	<u>For the Year Ending December 31, 2020</u>		
	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 244,670,242	\$ 3,965,882	\$ 248,636,124
Investment return			
Investment income	6,043,076	-	6,043,076
Net appreciation/(depreciation) (realized and unrealized)	18,395,116	382,253	18,777,369
Contributions	10,778,712	142,356	10,921,068
Appropriation of endowment assets for expenditure	<u>(10,884,374)</u>	<u>(174,764)</u>	<u>(11,059,138)</u>
Endowment net assets, end of year	<u>\$ 269,002,772</u>	<u>\$ 4,315,727</u>	<u>\$ 273,318,499</u>



Changes in endowment net assets as of December 31, 2019 are as follows:

	For the Year Ending December 31, 2019		
	With Donor Restrictions	Without Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 204,360,088	\$ 3,812,612	\$ 208,172,700
Investment return			
Investment income	8,972,456	-	8,972,456
Net appreciation/(depreciation) (realized and unrealized)	20,993,147	539,014	21,532,161
Contributions	20,066,175	(228,029)	19,838,146
Appropriation of endowment assets for expenditure	(9,721,624)	(157,715)	(9,879,339)
Endowment net assets, end of year	<u>\$ 244,670,242</u>	<u>\$ 3,965,882</u>	<u>\$ 248,636,124</u>

#### Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020, funds with original gift values of \$370,039, fair values of \$354,083, and deficiencies of \$15,956 were reported in net assets with donor restrictions. At December 31, 2019, funds with original gift values of \$1,592,455, fair values of \$1,552,614, and deficiencies of \$39,841 were reported in net assets with donor restrictions.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and for scholarships supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds functioning as endowment. Under this policy, as approved by the Executive Governing Board, the endowment assets are invested in a manner that is expected to outperform a custom benchmark (the Policy Benchmark) consisting of the appropriate indices of each of the asset classes and their proportional weight in the portfolio while assuming a moderate level of investment risk. The Policy Benchmark is constructed by selecting appropriate indices (e.g. S&P 500, Russell 2000, MSCI World ex US, Barclays Capital US Aggregate Bond Index, etc.) and assigning beginning of the quarter weightings by asset class. The total return of the invested assets is expected to exceed the total return of the Policy Benchmark. Actual returns in any given year may vary from this goal.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### Distribution Policy and How the Investment Objectives Relate to Distribution Policy

The Foundation has a policy of appropriating for distribution each year an amount determined by applying the distribution rate to the average of the fair value of endowment investments for the 12 quarters then ended. The distribution rate, net of endowment management fees, was 4.00% for the years ended December 31, 2020 and 2019. In establishing this policy, the Foundation considered the long-term expected return on its endowment. The Foundation's distribution policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets in perpetuity as well as to provide additional growth through new gifts and investment return. The Board designates a portion of the Foundation's cumulative investment return for support of its mission. The remainder is retained to support future Foundation programs and to offset potential market declines.

### Note 16 - Related Party

#### Reimbursement of Expenses

Throughout the course of the year the Foundation, a component unit of North Dakota State University, owed the University for various expenses incurred on behalf of the Foundation. Such expenses include building projects and pledges for completed building projects.

As of December 31, 2020 and 2019, the Foundation had the following accrued liabilities owed to NDSU:

	2020	2019
Program support	\$ 1,114,515	\$ 569,945
Grants	110,073	179,265
Building projects	104,770	691,998
Miscellaneous services	1,371	10,687
Scholarships	-	60,625
	<u>\$ 1,330,729</u>	<u>\$ 1,512,520</u>

These amounts are recorded within accounts payable and accrued liabilities on the statements of financial position. The expenses related to building projects are included within support to University on the statement of activities.

**Other**

The Foundation provides meeting space rental and database support and communication services to the University for an annually negotiated fee. These revenues for the years ended December 31, 2020 and 2019 totaled \$830,546 and \$767,179, which is recorded in other income on the statements of activities. As of December 31, 2020 and 2019, the Foundation had receivables related to these support services of \$830,546 and \$0, respectively, which is recorded within other receivables on the statements of financial position. As of December 31, 2020 and 2019, the Foundation also had other receivables of \$104,268 and \$99,720 from the University for various purposes. The Foundation received contributions from board members in the amount of \$55,390 and \$212,254 for the years ended December 31, 2020 and 2019.

**Lease Income**

The University leases certain properties that are owned and financed by the Foundation. The revenues related to these arrangements are recorded within investment income on the statements of activities. The revenues for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Barry and Klai Hall	\$ 778,265	\$ 786,418
Fargodome improvements	331,567	331,587
Renaissance Hall	412,094	412,684
	\$ 1,521,926	\$ 1,530,689

See Note 11 for discussion of future minimum rent payments related to these leases.

**Note 17 - Commitments and Contingencies****North Dakota Higher Education Challenge Fund Grant**

In 2013, the Foundation began receiving matching funds from the North Dakota Higher Education Challenge Fund Grant (Challenge Grant) program. The program provides for a 50% match to qualified donations, subject to the approval of a specially appointed committee. According to the Challenge Grant legislation, if grant funds are provided on the basis of a monetary pledge, and if the amount forthcoming is less than the amount pledged, the Foundation is liable to the University for any shortfall. As of December 31, 2020 and 2019, the outstanding pledges matched by the Challenge Grant were \$1,931,667 and \$4,507,119, respectively.

Management is not aware of any specific uncollectible promises to give associated with the Challenge Grant program.

### **Ground Lease**

In 2018, the Foundation entered into a ground lease with a private developer to construct, operate, and manage student housing and retail on land the Foundation owns near the University. The Foundation considers this agreement an operating lease. The ground lease term is for 50 years after construction is substantially completed for a base rental of \$100,000 per year and a maximum rental of 5% of gross revenues derived from the property per year. The ownership of any building or structure constructed on the land passes to the Foundation at the end of the ground lease. The Foundation has the option to purchase the interest of the tenant in and to the project at certain times during the term of the ground lease. The process for electing this option and the price to be paid are set forth in the ground lease.

### **COVID-19 Pandemic**

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Foundation is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Foundation is not known.

### **Note 18 - Subsequent Events**

Subsequent events have been evaluated through April 30, 2021, the date the financial statements were issued.