



Financial Statements
December 31, 2018 and 2017

**North Dakota State University
Foundation and Alumni Association**

North Dakota State University Foundation and Alumni Association

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December 31, 2018 and 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Dakota State University Foundation and Alumni Association, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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 and Alumni Association as of December 31, 2018 and 2017 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, North Dakota State University Foundation and Alumni Association adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financials Statements of Not-For-Profit Entities*. Accordingly, the December 31, 2017 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota
May 7, 2019

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	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,463,185	\$ 5,956,232
Short-term investments	10,611,015	20,370,915
Receivables		
Current portion of unconditional promises to give	9,594,249	9,677,658
Interest	7,077	7,621
Current portion of contracts for deed and notes receivable	62,788	62,013
Bequest	284,363	199,248
Other	527,497	587,474
Prepaid expenses	229,526	157,161
	<u>30,779,700</u>	<u>37,018,322</u>
Property and Equipment		
Property and equipment, net of accumulated depreciation	3,179,941	3,313,767
Real estate held for university purposes, net of accumulated depreciation	<u>31,615,969</u>	<u>32,788,693</u>
	<u>34,795,910</u>	<u>36,102,460</u>
Other Assets		
Investments	223,961,702	218,020,102
Equity method investments	17,438,000	-
Contracts for deed and notes receivable, net of current portion	775,488	838,276
Cash restricted for capital projects	567,268	2,509,284
Split-interest trusts held by others, net	60,425	66,649
Beneficial interest in charitable trust held by others	911,651	1,005,650
Unconditional promises to give, net of current portion	<u>24,624,804</u>	<u>27,595,679</u>
	<u>268,339,338</u>	<u>250,035,640</u>
	<u>\$ 333,914,948</u>	<u>\$ 323,156,422</u>
Total assets		

See Notes to Financial Statements

North Dakota State University Foundation and Alumni Association
 Statements of Financial Position
 December 31, 2018 and 2017

	2018	2017 (Restated)
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,202,263	\$ 781,873
Cash and cash equivalents held for others	169,522	255,176
Investments held for others	119,482	133,494
Current portion of split-interest agreements	806,982	794,406
Current portion of notes and bonds payable	1,071,742	1,027,651
Other	17,404	83,915
Total current liabilities	3,387,395	3,076,515
Split-interest agreements, net of current portion	5,765,744	6,764,722
Notes and bonds payable, net of current portion	20,442,413	24,920,249
Total liabilities	29,595,552	34,761,486
Net Assets		
Without donor restrictions	30,207,031	33,118,605
With donor restrictions	274,112,365	255,276,331
Total net assets	304,319,396	288,394,936
Total liabilities and net assets	\$ 333,914,948	\$ 323,156,422

North Dakota State University Foundation and Alumni Association
 Statements of Activities
 Year Ended December 31, 2018

	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support			
Gifts and grants	\$ 39,769,956	\$ 868,227	\$ 40,638,183
Liabilities to income beneficiaries	(44,499)	(81,218)	(125,717)
	<u>39,725,457</u>	<u>787,009</u>	<u>40,512,466</u>
Investment income	10,881,387	3,405,010	14,286,397
Net realized and unrealized loss on investments	(14,377,714)	(2,151,152)	(16,528,866)
Net investment return	(3,496,327)	1,253,858	(2,242,469)
Change in value of split-interest agreements	307,037	23,939	330,976
Other income	49,789	1,098,560	1,148,349
	36,585,956	3,163,366	39,749,322
Net assets released from restrictions	(17,749,922)	17,749,922	-
Total revenue and other support	<u>18,836,034</u>	<u>20,913,288</u>	<u>39,749,322</u>
Expenses			
Program service			
Support to University	-	14,502,067	14,502,067
Alumni outreach	-	1,112,766	1,112,766
Total program expenses	-	15,614,833	15,614,833
Support service			
Administrative and general expenses	-	5,208,749	5,208,749
Fundraising and development	-	3,001,280	3,001,280
Total supporting services expenses	-	8,210,029	8,210,029
Total expenses and losses	-	23,824,862	23,824,862
Change in Net Assets	18,836,034	(2,911,574)	15,924,460
Net Assets, Beginning of Year	255,276,331	33,118,605	288,394,936
Net Assets, End of Year	<u>\$ 274,112,365</u>	<u>\$ 30,207,031</u>	<u>\$ 304,319,396</u>

North Dakota State University Foundation and Alumni Association
 Statements of Activities
 Year Ended December 31, 2017

	With Donor Restrictions (Restated)	Without Donor Restrictions (Restated)	Total
Revenue and Other Support			
Gifts and grants	\$ 46,020,523	\$ 665,503	\$ 46,686,026
Liabilities to income beneficiaries	(40,256)	-	(40,256)
	<u>45,980,267</u>	<u>665,503</u>	<u>46,645,770</u>
Investment income	7,129,818	3,517,918	10,647,736
Net realized and unrealized gain on investments	<u>17,804,474</u>	<u>1,987,146</u>	<u>19,791,620</u>
Net investment return	24,934,292	5,505,064	30,439,356
Change in value of split-interest agreements	(622,798)	(253,176)	(875,974)
Other income	<u>44,937</u>	<u>1,004,093</u>	<u>1,049,030</u>
	70,336,698	6,921,484	77,258,182
Net assets released from restrictions	<u>(11,821,600)</u>	<u>11,821,600</u>	<u>-</u>
Total revenue and other support	<u>58,515,098</u>	<u>18,743,084</u>	<u>77,258,182</u>
Expenses			
Program service			
Support to University	-	8,383,667	8,383,667
Alumni outreach	-	720,554	720,554
Total program expenses	<u>-</u>	<u>9,104,221</u>	<u>9,104,221</u>
Support service			
Administrative and general expenses	-	6,244,742	6,244,742
Fundraising and development	-	2,493,257	2,493,257
Total supporting services expenses	<u>-</u>	<u>8,737,999</u>	<u>8,737,999</u>
Total expenses and losses	<u>-</u>	<u>17,842,220</u>	<u>17,842,220</u>
Change in Net Assets	58,515,098	900,864	59,415,962
Net Assets, Beginning of Year	<u>196,761,233</u>	<u>32,217,741</u>	<u>228,978,974</u>
Net Assets, End of Year	<u>\$ 255,276,331</u>	<u>\$ 33,118,605</u>	<u>\$ 288,394,936</u>

North Dakota State University Foundation and Alumni Association
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Service			Management and General	Fundraising and Development	Total
	Support to University	Alumni Outreach	Total			
Scholarships and fellowships	\$ 5,032,772	\$ -	\$ 5,032,772	\$ -	\$ -	\$ 5,032,772
Departmental expenses	2,097,630	-	2,097,630	-	-	2,097,630
Building and equipment	6,392,669	-	6,392,669	-	-	6,392,669
Faculty support	816,000	-	816,000	-	-	816,000
Other support to NDSU	162,996	-	162,996	-	-	162,996
Purchase of auction items	-	-	-	-	138,993	138,993
Salaries and wages	-	392,253	392,253	1,124,923	1,400,012	2,917,188
Employee benefits	-	106,045	106,045	328,804	369,371	804,220
Payroll taxes	-	28,044	28,044	70,991	102,231	201,266
Employee recruiting	-	-	-	16,849	-	16,849
Dues and subscriptions	-	-	-	11,205	-	11,205
Printing and postage	-	45,015	45,015	9,188	22,986	77,189
Supplies	-	13,395	13,395	11,034	10,105	34,534
Donor relations	-	721	721	13,345	69,753	83,819
Advertising and marketing	-	2,960	2,960	659	3,813	7,432
Recognition gifts	-	15,222	15,222	10,840	26,486	52,548
Travel	-	21,797	21,797	76,574	213,091	311,462
Staff and non-staff expenses	-	20,233	20,233	4,764	3,242	28,239
Meetings	-	2,509	2,509	36,402	4,905	43,816
Training and development	-	-	-	63,561	-	63,561
Repairs and maintenance	-	4,831	4,831	29,002	33,834	67,667
Utilities	-	9,024	9,024	42,637	52,872	104,533
Computer and software	-	22,033	22,033	53,840	79,295	155,168
Equipment	-	15,241	15,241	42,282	55,427	112,950
Insurance	-	8,544	8,544	27,588	30,748	66,880
Credit card and bank charges	-	-	-	37,329	-	37,329
Income taxes	-	-	-	7,707	-	7,707
Accounting fees	-	-	-	44,663	-	44,663
Legal fees	-	-	-	54,503	-	54,503
Consulting and professional fees	-	206,095	206,095	18,650	170,706	395,451
Compliance fees	-	-	-	2,450	-	2,450
Interest	-	-	-	745,705	-	745,705
Life insurance premiums	-	-	-	3,639	-	3,639
Event expense	-	187,879	187,879	94,380	136,902	419,161
Miscellaneous	-	-	-	15,774	-	15,774
Farm expense	-	-	-	5,917	-	5,917
Rental property expense	-	-	-	400,918	-	400,918
Depreciation and depletion	-	10,925	10,925	1,802,626	76,508	1,890,059
	<u>\$ 14,502,067</u>	<u>\$ 1,112,766</u>	<u>\$ 15,614,833</u>	<u>\$ 5,208,749</u>	<u>\$ 3,001,280</u>	<u>\$ 23,824,862</u>

North Dakota State University Foundation and Alumni Association

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 15,924,460	\$ 59,415,962
Charges and credits to change in net assets not affecting cash		
Depreciation and depletion	1,890,059	1,903,113
Net realized and unrealized gains and losses on investments	16,528,866	(19,791,620)
Change in beneficial interest in charitable trust held by others	93,999	(537,830)
Contributed equity method investments	(17,438,000)	-
Change in cash surrender value of life insurance	17,729	(113,580)
Gifts to be held in perpetuity	(8,633,865)	(14,135,905)
Change in value of split-interest agreements	(913,545)	498,696
Gifts restricted for capital projects	(7,052,851)	(14,161,649)
Transfer from donor restricted fund to restricted for capital projects	(137,279)	47,500
Payments for capital projects	6,784,627	2,265,334
Loss on disposal of property and equipment	14,676	1,037,479
Change in value of split-interest trusts held by others	6,224	(6,808)
Change in cash and cash equivalents held for others	(85,654)	97,109
Changes in operating assets and liabilities		
Unconditional promises to give	864,187	(7,901,510)
Receivables - interest, grant, bequest, and other	(24,594)	(42,216)
Prepaid expenses	(72,365)	(4,741)
Accounts payable and accrued liabilities	420,390	318,983
Other	(66,511)	75,521
Net Cash from Operating Activities	8,120,553	8,963,838
Investing Activities		
Proceeds from the sale of investments and gifts	27,040,547	17,337,080
Proceeds from the sale of property and equipment	34,874	-
Purchases of investments, including real estate and equipment held for investments	(40,293,828)	(49,390,918)
Sale of assets restricted to capital projects	1,942,016	770,949
Payments for capital projects	(6,784,627)	(2,265,334)
Receipts on notes and contracts receivable	62,013	61,248
Property and equipment purchases	(19,190)	(68,547)
Net Cash used for Investing Activities	(18,018,195)	(33,555,522)

North Dakota State University Foundation and Alumni Association
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Financing Activities		
Gifts to be held in perpetuity	\$ 10,823,962	\$ 16,458,660
Gifts restricted for capital projects	7,052,851	14,161,649
Transfer from donor restricted fund to restricted for capital projects	137,279	(47,500)
Payments to beneficiaries of split-interest agreements	(269,832)	(416,913)
Proceeds from establishment of split-interest agreements	196,975	50,000
Principal payments on bonds and notes payable	(4,536,640)	(5,019,147)
Net Cash from Financing Activities	13,404,595	25,186,749
Net Change in Cash and Cash Equivalents	3,506,953	595,065
Cash and Cash Equivalents at Beginning of Year	5,956,232	5,361,167
Cash and Cash Equivalents at End of Year	\$ 9,463,185	\$ 5,956,232
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 749,824	\$ 643,085
Supplemental Schedule of Noncash Investing and Financing Activities		
Securities received as gifts	\$ 2,787,072	\$ 1,487,417
Investment in unconsolidated affiliates received as gift	\$ 17,438,000	\$ -
Issuance and capitalization of special assessments	\$ 102,895	\$ -

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The North Dakota State University Foundation and Alumni Association (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, 2018 and 2017, of \$284,363 and \$199,248 are receivable from the trusts of various estates.

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 statement 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, 2018 and 2017, the allowance was \$610,077 and \$1,006,445.

Conditional promises to give are only receivable upon the occurrence of uncertain future events and therefore are not recorded in the accompanying financial statements.

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 and amortization 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 or amortization 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, 2018 and 2017.

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.

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.

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

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially 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, 2018 and 2017, 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 statements of functional expenses present 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.

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 accounts receivable and 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 and the Investment Committee of the Foundation. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment 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 Pronouncements – Presentation of Financial Statements for Not-For-Profit Entities

As of January 1, 2018, the Foundation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Foundation's donor restricted endowment funds and underwater endowments. The ASU introduces a new disclosure to improve a financial statement user's ability to assess the Foundation's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Foundation has elected not to present comparative information for these amendments.

The Foundation has adopted this standard as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting.

Reclassifications

Reclassifications have been made to the December 31, 2017 financial information to make it conform to the current year presentation. On the statement of cash flows, \$2,322,755 of contributions to be held in perpetuity that had been received were reclassified from operating activities to financing activities. Also, \$1,487,417 of contributed securities that were converted to cash nearly immediately were reclassified from investing to operating activities. The reclassifications had no effect on previously reported operating results or changes in net assets.

Subsequent Events

The Foundation has evaluated subsequent events through May 7, 2019, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs and strives to maintain liquid financial assets sufficient to have 90 days cash on hand, or three months of average cash operating costs.

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:

	2018
Cash and cash equivalents	\$ 1,327,202
Short-term investments	3,548,149
Other receivables	527,464
Endowment spending-rate distributions	27,520
Financial assets available to meet cash needs for general expenditures within one year	\$ 5,430,335

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 \$3,812,612 are subject to an annual spending rate of 4.0% as described in Note 13. 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, 2018 were \$3,548,149.

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.

North Dakota State University Foundation and Alumni Association

Notes to Financial Statements

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Note 3 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at December 31, 2018 and 2017:

	2018	2017
Within one year	\$ 9,746,813	\$ 9,838,578
In one to five years	19,122,252	19,484,788
Over five years	7,427,500	10,661,570
	36,296,565	39,984,936
Less allowance for uncollectible promises to give	(610,077)	(1,006,445)
Less discount to net present value, .95%-5%	(1,467,435)	(1,705,154)
	\$ 34,219,053	\$ 37,273,337

Unconditional promises to give are presented as follows at December 31, 2018 and 2017 in the statements of financial position:

	2018	2017
Current portion of unconditional promises to give	\$ 9,594,249	\$ 9,677,658
Unconditional promises to give, net of current portion	24,624,804	27,595,679
	\$ 34,219,053	\$ 37,273,337

Note 4 - Investments

The composition of investments at December 31, 2018 and 2017 is detailed in the table below:

	2018	2017
Fixed income	\$ 73,768,812	\$ 77,401,099
Global equity	83,829,396	97,880,807
Global hedge funds	29,468,917	29,160,069
Government securities	99,677	354,549
Commodity funds	1,193,104	1,354,757
Private stock	-	8,000
Mineral interests	8,587	19,819
Private equity	35,636,217	26,362,598
Real estate funds	10,044,915	5,308,498
Cash surrender value of life insurance	523,092	540,821
	\$ 234,572,717	\$ 238,391,017
Short-term investments	\$ 10,611,015	\$ 20,370,915
Investments	223,961,702	218,020,102
	\$ 234,572,717	\$ 238,391,017

Note 5 - Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include 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 liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

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

December 31, 2018	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Fixed income	\$ 73,768,812	\$ 50,790,979	\$ 22,977,833	\$ -
Global equity	83,829,396	75,631,863	8,197,533	-
Government securities	99,677	-	99,677	-
Commodity funds	1,193,104	-	1,193,104	-
Mineral interests	8,587	-	-	8,587
Cash surrender value of life insurance	523,092	-	523,092	-
	\$ 159,422,668	\$ 126,422,842	\$ 32,991,239	\$ 8,587
Global hedge funds (at NAV)	29,468,917			
Private equity (at NAV)	35,636,217			
Real estate funds (at NAV)	10,044,915			
	\$ 234,572,717			
Split-interest trusts held by others, net	\$ 60,425	\$ -	\$ -	\$ 60,425
Beneficial interest in trust/assets held by others	\$ 911,651	\$ -	\$ -	\$ 911,651
Liabilities				
Obligations under split interest agreements	\$ 6,572,726	\$ -	\$ -	\$ 6,572,726

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December 31, 2017	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Fixed income	\$ 77,401,099	\$ 52,710,952	\$ 24,690,147	\$ -
Global equity	97,880,807	87,754,287	10,126,520	-
Government securities	354,549	-	354,549	-
Commodity funds	1,354,757	-	1,354,757	-
Private stock	8,000	-	8,000	-
Mineral interests	19,819	-	-	19,819
Cash surrender value of life insurance	540,821	-	540,821	-
	<u>177,559,852</u>	<u>\$ 140,465,239</u>	<u>\$ 37,074,794</u>	<u>\$ 19,819</u>
Global hedge funds (at NAV)	29,160,069			
Private equity (at NAV)	26,362,598			
Real estate funds (at NAV)	5,308,498			
	<u>\$ 238,391,017</u>			
Split-interest trusts held by others, net	<u>\$ 66,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,649</u>
Beneficial interest in trust/assets held by others	<u>\$ 1,005,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,005,650</u>
Liabilities				
Obligations under split-interest agreements	<u>\$ 7,559,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,559,128</u>

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 fixed income, global equity, government securities, commodity funds, private stock and cash surrender value of life insurance 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 mineral interests, 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.

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Securities that are not marketable and for which custodians cannot obtain pricing are carried at values estimated by the manager responsible for such securities under procedures reviewed by CommonFund and SEI investment management staff. Management of the Foundation has reviewed the valuation estimates as determined by CommonFund and SEI and determined the values assigned to be reasonable. Valuations take into consideration the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant. Investments in limited partnership or other investment funds are valued at the latest NAV made available by the fund manager prior to the valuation date. This value may not reflect the amount that could be realized in the short term upon sale of the interest owned by the fund.

Changes in value of split-interest agreement and beneficial interest are recorded within the change in value of split interest agreements on the statement of activities. Depletion is included within depreciation and depletion on the statement of functional expenses.

Following is a reconciliation of activity for the years ended December 31, 2018 and 2017 for assets measured at fair value based upon significant unobservable inputs (Level 3):

	Mineral Interests	Split Interest	Beneficial Interest	Total
Balance at December 31, 2016	\$ 31,052	\$ 59,841	\$ 467,820	\$ 558,713
Changes in value of split-interest agreement	-	6,808	-	6,808
Contributions to beneficial interest in trusts	-	-	496,191	496,191
Change in beneficial interest	-	-	41,639	41,639
Depletion	(11,233)	-	-	(11,233)
Balance at December 31, 2017	19,819	66,649	1,005,650	1,092,118
Changes in value of split-interest agreement	-	(6,224)	-	(6,224)
Contributions to beneficial interest in trusts	-	-	-	-
Change in beneficial interest	-	-	(93,999)	(93,999)
Depletion	(11,232)	-	-	(11,232)
Balance at December 31, 2018	\$ 8,587	\$ 60,425	\$ 911,651	\$ 980,663

Following is a reconciliation of activity for the years ended December 31, 2018 and 2017 for liabilities measured at fair value based upon significant unobservable inputs (Level 3):

Liabilities under split-interest agreements

Balance at December 31, 2016	\$ 7,427,345
Payments to beneficiaries of split-interest agreements	(416,913)
Proceeds from establishment of split-interest agreements	50,000
Changes in value of split-interest agreement	498,696
Balance at December 31, 2017	7,559,128
Payments to beneficiaries of split-interest agreements	(269,832)
Proceeds from establishment of split-interest agreements	196,975
Changes in value of split-interest agreement	(913,545)
Balance at December 31, 2018	\$ 6,572,726

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Investments in certain entities that calculate net asset value per share (or its equivalent) are as follows for the years ended December 31, 2018 and 2017:

December 31, 2018				
Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global hedge funds (1)	\$ 29,468,917	\$ -	Quarterly	95 Days
Private equity (2)	35,636,217	17,450,851	Ineligible	n/a
Real estate funds (2)	10,044,915	5,436,974	Ineligible	n/a
December 31, 2017				
Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global hedge funds (1)	\$ 29,160,069	\$ -	Quarterly	95 Days
Private equity (2)	26,362,598	29,082,619	Ineligible	N/A
Real estate funds (2)	5,308,498	5,632,718	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, 2018 and 2017:

	2018	2017
1.25% note receivable, due in annual installments of \$72,879, including interest, to April 2030, secured by land	\$ 807,226	\$ 869,239
8% note receivable, unsecured	31,050	31,050
	838,276	900,289
Less current portion	(62,788)	(62,013)
	\$ 775,488	\$ 838,276

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 62,788
2020	63,548
2021	64,368
2022	65,172
2023	65,987
Thereafter	<u>516,413</u>
	<u><u>\$ 838,276</u></u>

Note 7 - Real Estate Held for University Purposes

Real estate held for university purposes consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,331,998	\$ 3,061,998
Buildings and improvements	48,443,622	48,226,002
	<u>51,775,620</u>	<u>51,288,000</u>
Less accumulated depreciation	<u>(20,159,651)</u>	<u>(18,499,307)</u>
	<u><u>\$ 31,615,969</u></u>	<u><u>\$ 32,788,693</u></u>

Note 8 - Property and Equipment

Property and equipment consists of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 890,602	\$ 890,602
Buildings and improvements	3,753,697	3,753,697
Furniture and equipment	1,121,874	1,107,795
Computer software	132,538	132,538
	<u>5,898,711</u>	<u>5,884,632</u>
Less accumulated depreciation	<u>(2,718,770)</u>	<u>(2,570,865)</u>
	<u><u>\$ 3,179,941</u></u>	<u><u>\$ 3,313,767</u></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

The Foundation received these limited partnership interests as a charitable contribution during 2018. The Foundation received no distributions and no income was recognized during 2018.

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

	2018	2017
Assets	\$ 18,104,813	\$ -
Liabilities	\$ 23,459,657	-
Equity	(5,354,844)	-
Total liabilities and equity	\$ 18,104,813	\$ -
Total revenues	\$ 7,327,615	-
Total expenses	4,710,937	-
Net income	\$ 2,616,678	\$ -

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 2018 and 2017, totals \$2,821,743 and \$3,082,203 at December 31, 2018 and 2017.

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 2018 and 2017, totals \$3,750,983 and \$4,476,925 at December 31, 2018 and 2017.

Note 11 - Notes and Bonds Payable

	2018	2017
Variable rate note payable, 2.75% at December 31, 2018, interest payments due quarterly, \$1,000,000 principal payments due annually, to December 2023, secured by pledges receivable for the construction of the Sanford Health Athletic Complex (SHAC) (1)	\$ 8,076,241	\$ 11,582,503
4.89% bonds payable due in semi-annual installments of \$165,998, including interest, to December 2020, secured by equipment (2)	625,308	916,021
3.98% bond payable, due in semi-annual installments of varying amounts, to October 2030, secured by Renaissance Hall building and land (3)	3,960,000	4,210,000
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	2,285,000	2,765,000
3% to 4% term bonds, with varying sinking fund requirements beginning December 2024 through December 2036	6,365,000	6,365,000
Other debt	202,606	109,376
	21,514,155	25,947,900
Less current maturities	(1,071,742)	(1,027,651)
	\$ 20,442,413	\$ 24,920,249

- (1) A line of credit was issued to provide temporary 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 pledges for the construction of the SHAC outstanding of no less than 85% of the note balance at the end of each fiscal year.
- (2) The Foundation financed the construction and equipping of office space, locker rooms, meeting rooms, and related facilities in the Fargodome for use by NDSU through the sale of 15-year University Facilities Revenue Bonds issued by Cass County, North Dakota. The Foundation has leased the space in the Fargodome from the City of Fargo and has financed the leasehold improvements and furniture, fixtures and equipment with proceeds of the bonds. The leasehold improvements and furniture, fixtures and equipment have been 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. The space, the leasehold improvements, and the furniture, fixtures and equipment have been subleased to NDSU for rental equal to the sum of the annual Fargodome space rent plus the semi-annual principal and interest payments on the bonds plus all the costs incurred by the Foundation incident to the lease. NDSU's payments and/or bond principal will be reduced by contributions received by the Foundation for this project.
- (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 Bonds 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 variable rate bonds. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with real estate held for University purposes in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest 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.

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

Year Ending December 31,	Amount
2019	\$ 1,071,742
2020	1,102,023
2021	812,126
2022	687,688
2023	8,784,519
Thereafter	9,056,057
	\$ 21,514,155

Note 12 - Net Assets

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

	2018	2017
Subject to the Passage of Time or Specified Purpose		
Scholarships	\$ 18,884,787	\$ 25,754,496
NDSU departmental expenses	43,568,272	23,726,469
NDSU buildings and equipment	20,747,143	23,942,981
Foundation operations - time restriction	344,408	480,393
	83,544,610	73,904,339
	2018	2017
Endowments		
Scholarships	\$ 117,384,573	\$ 112,889,123
NDSU departmental expenses	70,454,358	65,562,257
NDSU buildings and equipment	126,250	126,250
Foundation operations	2,602,574	2,794,362
	190,567,755	181,371,992
Total endowments	190,567,755	181,371,992
	\$ 274,112,365	\$ 255,276,331

The Foundation's Executive Governing Board has chosen to place approximately \$3,813,000 and \$3,061,000 as of December 31, 2018 and 2017 in board designated endowments for Foundation operations, scholarships, and grants. Additionally, excess funds from operations are transferred to an operating reserve fund during the year to be used to support operations in subsequent years when income does not meet budgeted expenses. This account is shown as net assets without donor restrictions for reporting purposes. The operating reserve had approximately a \$3,548,000 and \$4,399,000 balance at December 31, 2018 and 2017.

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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, 2018 and 2017:

	2018	2017
Purpose restrictions accomplished		
Scholarships and grants paid	\$ 4,899,990	\$ 4,024,544
NDSU departmental expenses	2,880,206	1,992,561
NDSU building and equipment	6,392,669	2,108,526
Foundation operations	354,554	308,413
Endowment management fees	2,653,269	2,334,597
Gift fees	1,104,665	1,019,540
Direct investment expenses on real estate held for University purposes	122,652	81,960
Transfers	(669,316)	(59,774)
Depreciation on real estate held for University purposes	11,233	11,233
Total net assets released from restrictions	\$ 17,749,922	\$ 11,821,600

Note 13 - 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, 2018 and 2017 was \$235,677 and \$184,482.

Note 14 - Endowment

The Foundation's endowment (the Endowment) consists of approximately 1,200 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.

As of December 31, 2018 and 2017, endowment net asset composition by type of fund is as follows:

	At December 31, 2018		
	With Donor Restrictions	Without Donor Restrictions	Total
Donor-restricted endowment funds	\$ 204,360,088	\$ -	\$ 204,360,088
Board-designated endowment funds	-	3,812,612	3,812,612
	\$ 204,360,088	\$ 3,812,612	\$ 208,172,700
	At December 31, 2017		
	With Donor Restrictions (Restated)	Without Donor Restrictions	Total
Donor-restricted endowment funds	\$ 203,231,960	\$ -	\$ 203,231,960
Board-designated endowment funds	-	3,061,151	3,061,151
	\$ 203,231,960	\$ 3,061,151	\$ 206,293,111

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Changes in endowment net assets are as follows:

	For the Year Ending December 31, 2018		
	With Donor Restrictions	Without Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 203,231,960	\$ 3,061,151	\$ 206,293,111
Investment return:			
Investment income	10,222,003	-	10,222,003
Net appreciation/(depreciation) (realized and unrealized)	(14,216,881)	(120,717)	(14,337,598)
Contributions	14,762,014	1,026,627	15,788,641
Appropriation of endowment assets for expenditure	(9,639,008)	(154,449)	(9,793,457)
Endowment net assets, end of year	\$ 204,360,088	\$ 3,812,612	\$ 208,172,700
	For the Year Ending December 31, 2017		
	With Donor Restrictions (Restated)	Without Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 165,626,051	\$ 1,575,062	\$ 167,201,113
Investment return:			
Investment income	6,608,404	-	6,608,404
Net appreciation/(depreciation) (realized and unrealized)	16,911,894	1,641,317	18,553,211
Contributions	22,702,388	7,099	22,709,487
Appropriation of endowment assets for expenditure	(8,616,777)	(162,327)	(8,779,104)
Endowment net assets, end of year	\$ 203,231,960	\$ 3,061,151	\$ 206,293,111

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 on from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$30,889,436, fair values of \$29,803,161, and deficiencies of \$1,086,275 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 (eg. 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 a hybrid formula including 70% based on the prior year's distributions, increased (decreased) by an inflation (deflation) factor of CPI + 0.5%, and 30% based on 4.5% of the prior year's average quarterly market value (AQMV). The distribution allocation is determined by applying the rate thus determined (distribution amount / AQMV) to the AQMV of each individual endowed fund. The distribution rate, net of endowment management fees, was 4.00% and 3.88% for the years ended December 31, 2018 and 2017. 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 current operations. The remainder is retained to support future Foundation programs and to offset potential market declines.

Note 15 - 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.

North Dakota State University Foundation and Alumni Association

Notes to Financial Statements

December 31, 2018 and 2017

As of December 31, 2018 and 2017, the Foundation had the following accrued liabilities owed to NDSU:

	2018	2017
Program support	\$ 577,783	\$ -
Miscellaneous services	5,830	7,357
Building projects	-	205,602
	\$ 583,613	\$ 212,959

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 NDSU departmental expenses, building and equipment purchases on the statement of activities.

Miscellaneous Income

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, 2018 and 2017 totaled \$737,922 and \$620,339, which is recorded in other income on the statements of activities. As of December 31, 2018 and 2017, the Foundation had receivables related to these support services of \$368,961 and \$310,170, respectively, which is recorded within other receivables on the statements of financial position. As of December 31, 2018 and 2017, the Foundation also had other receivables of \$154,603 and \$269,449 from the University for various purposes.

Lease Income

NDSU 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, 2018 and 2017 are as follows:

	2018	2017
Barry and Klai Hall	\$ 782,788	\$ 781,042
Fargodome improvements	331,606	331,625
Renaissance Hall	412,726	412,409
	\$ 1,527,120	\$ 1,525,076

See Note 10 for discussion of future minimum rent payments related to these leases.

Note 16 - 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, 2018 and 2017, the outstanding pledges matched by the Challenge Grant were \$4,206,519 and \$8,946,528, respectively.

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

Ground Lease

In 2017, the Foundation entered into a development agreement and 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 these agreements operating leases. The land leased to the developer previously had multiple buildings located on it. This transaction resulted in a loss on disposal of the building structures of \$1,037,479 in 2017. The development agreement leases the land to the developer for the construction period beginning in January 2017 and ended August 2018 for a rental of \$11,250 per month. The Foundation also received \$500,000 from the developer in 2017 to reimburse development related expenses. 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.

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Notes to Financial Statements

December 31, 2018 and 2017

Note 17 - Restatement Resulting from Change in Accounting Policy

As disclosed in Note 1, the Foundation adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of December 31, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets, revenues, and expenses. Following is a summary of the effects of the change in accounting policy on the Foundation's December 31, 2017 net assets, revenue, and expenses.

The effects on the Foundation's statement of financial position and statement of activities as of December 31, 2017 are as follows:

	As Previously Reported	Change in Accounting Principle	As Restated
Statement of Financial Position			
Unrestricted net assets	\$ 33,118,605	\$ (33,118,605)	\$ -
Temporarily restricted net assets	181,371,992	(181,371,992)	-
Permanently restricted net assets	73,904,339	(73,904,339)	-
Net assets without donor restrictions	-	33,118,605	33,118,605
Net assets with donor restrictions	-	255,276,331	255,276,331
Statement of Activities			
Net assets, beginning of year			
Unrestricted net assets	\$ 32,217,741	\$ (32,217,741)	\$ -
Temporarily restricted net assets	30,343,273	(30,343,273)	-
Permanently restricted net assets	166,417,960	(166,417,960)	-
Net assets without donor restrictions	-	32,217,741	32,217,741
Net assets with donor restrictions	-	196,761,233	196,761,233
Net assets, beginning of year			
Unrestricted net assets	\$ 33,118,605	\$ (33,118,605)	\$ -
Temporarily restricted net assets	73,904,339	(73,904,339)	-
Permanently restricted net assets	181,371,992	(181,371,992)	-
Net assets without donor restrictions	-	33,118,605	33,118,605
Net assets with donor restrictions	-	255,276,331	255,276,331