



Financial Statements

December 31, 2021 and 2020

North Dakota State University Foundation

North Dakota State University Foundation

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of North Dakota State University Foundation (Foundation), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities of the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Eide Bailly LLP

Fargo, North Dakota

April 29, 2022

North Dakota State University Foundation

Statements of Financial Position – Assets

December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,917,880	\$ 22,348,081
Short-term investments	10,861,297	32,502,209
Receivables		
Current portion of unconditional promises to give	18,513,855	13,115,567
Interest	5,405	5,969
Current portion of contracts for deed and notes receivable	65,172	64,368
Bequest	293,308	634,776
Other	595,222	964,537
Prepaid expenses	314,490	252,829
	40,566,629	69,888,336
Property and Equipment		
Property and equipment, net of accumulated depreciation	3,117,327	3,258,854
Real estate held for University purposes, net of accumulated depreciation	26,996,798	28,805,341
	30,114,125	32,064,195
Other Assets		
Investments	494,107,955	294,867,492
Equity method investments	16,807,827	16,427,750
Contracts for deed and notes receivable, net of current portion	582,400	647,572
Cash restricted for capital projects	930,521	1,944,579
Split-interest trusts held by others, net	84,952	76,951
Beneficial interest in charitable trust held by others	1,252,250	1,154,631
Unconditional promises to give, net	46,423,630	33,823,670
	560,189,535	348,942,645
	\$ 630,870,289	\$ 450,895,176

North Dakota State University Foundation
 Statements of Financial Position – Liabilities and Net Assets
 December 31, 2021 and 2020

	2021	2020
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 2,409,695	\$ 2,039,501
Cash and cash equivalents held for others	41,130	45,226
Investments held for others	1,245,580	1,126,789
Current portion of split-interest agreements	1,056,980	688,736
Current portion of notes and bonds payable	736,580	813,889
Other	27,526	7,404
Total current liabilities	5,517,491	4,721,545
Split-interest agreements, net of current portion	8,413,105	8,213,931
Notes and bonds payable, net of current portion	20,213,647	22,744,930
Total liabilities	34,144,243	35,680,406
Net Assets		
Without donor restrictions	39,006,541	35,539,996
With donor restrictions	557,719,505	379,674,774
Total net assets	596,726,046	415,214,770
Total liabilities and net assets	\$ 630,870,289	\$ 450,895,176

North Dakota State University Foundation

Statements of Activities

Year Ended December 31, 2021

	With Donor Restrictions	Without Donor Restrictions	Total
Revenue and Other Support			
Gifts and grants	\$ 157,467,464	\$ 804,892	\$ 158,272,356
Liabilities to income beneficiaries	(280,810)	(251,726)	(532,536)
	<u>157,186,654</u>	<u>553,166</u>	<u>157,739,820</u>
Investment income	28,223,820	3,691,400	31,915,220
Net realized and unrealized gain on investments and real estate held for University purposes	<u>16,160,936</u>	<u>4,769,741</u>	<u>20,930,677</u>
Net investment return	<u>44,384,756</u>	<u>8,461,141</u>	<u>52,845,897</u>
Change in value of split-interest agreements	(995,769)	(195,053)	(1,190,822)
Other income	<u>733,118</u>	<u>1,014,476</u>	<u>1,747,594</u>
	201,308,759	9,833,730	211,142,489
Net assets released from restrictions	<u>(23,264,028)</u>	<u>23,264,028</u>	<u>-</u>
Total revenue and other support	<u>178,044,731</u>	<u>33,097,758</u>	<u>211,142,489</u>
Expenses			
Program services			
Support to University	-	19,002,909	19,002,909
Alumni outreach	-	903,155	903,155
Total program expenses	<u>-</u>	<u>19,906,064</u>	<u>19,906,064</u>
Support services			
Administrative and general expenses	-	5,640,918	5,640,918
Fundraising and development	-	4,084,231	4,084,231
Total supporting services expenses	<u>-</u>	<u>9,725,149</u>	<u>9,725,149</u>
Total expenses and losses	<u>-</u>	<u>29,631,213</u>	<u>29,631,213</u>
Change in Net Assets	178,044,731	3,466,545	181,511,276
Net Assets, Beginning of Year	<u>379,674,774</u>	<u>35,539,996</u>	<u>415,214,770</u>
Net Assets, End of Year	<u>\$ 557,719,505</u>	<u>\$ 39,006,541</u>	<u>\$ 596,726,046</u>

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 Functional Expenses
 Year Ended December 31, 2021

	Program Services			Administrative and General	Fundraising and Development	Total
	Support to University	Alumni Outreach	Total			
Scholarships and fellowships	\$ 7,190,149	\$ -	\$ 7,190,149	\$ -	\$ -	\$ 7,190,149
Departmental expenses	1,642,284	-	1,642,284	-	-	1,642,284
Building and equipment	6,826,005	-	6,826,005	-	-	6,826,005
Faculty support	3,322,419	-	3,322,419	-	-	3,322,419
Other support to NDSU	22,052	-	22,052	-	-	22,052
Purchase of auction items	-	-	-	-	131,239	131,239
Salaries and wages	-	443,979	443,979	1,277,294	2,094,029	3,815,302
Employee benefits	-	124,300	124,300	376,895	531,070	1,032,265
Payroll taxes	-	28,487	28,487	81,736	150,906	261,129
Employee recruiting	-	-	-	8,291	-	8,291
Dues and subscriptions	-	-	-	9,133	-	9,133
Printing and postage	-	20,767	20,767	7,097	90,833	118,697
Supplies	-	6,362	6,362	76,678	3,705	86,745
Donor relations	-	-	-	16,555	54,681	71,236
Advertising and marketing	-	6,400	6,400	538	8,869	15,807
Recognition gifts	-	1,820	1,820	213	59,212	61,245
Travel	-	5,668	5,668	15,450	97,768	118,886
Staff and non-staff expenses	-	18,969	18,969	16,270	153	35,392
Meetings	-	5,422	5,422	54,842	957	61,221
Training and development	-	-	-	33,452	100	33,552
Repairs and maintenance	-	9,371	9,371	37,483	28,112	74,966
Utilities	-	15,337	15,337	50,400	45,282	111,019
Computer and software	-	41,236	41,236	121,800	117,818	280,854
Equipment	-	21,906	21,906	48,699	62,587	133,192
Insurance	-	15,552	15,552	40,422	44,436	100,410
Credit card and bank charges	-	-	-	57,345	-	57,345
Income taxes	-	-	-	(89)	-	(89)
Accounting fees	-	-	-	56,551	-	56,551
Legal fees	-	-	-	26,363	-	26,363
Consulting and professional fees	-	-	-	12,169	289,695	301,864
Compliance fees	-	-	-	1,477	-	1,477
Interest	-	-	-	635,356	-	635,356
Bad debt expense	-	-	-	421,936	-	421,936
Life insurance premiums	-	-	-	4,366	-	4,366
Event expense	-	116,523	116,523	12,259	209,611	338,393
Conference services	-	-	-	48,818	-	48,818
Farm expense	-	-	-	7,832	-	7,832
Rental property occupancy	-	-	-	272,530	-	272,530
Rental property real estate taxes	-	-	-	24,231	-	24,231
Rental property insurance	-	-	-	32,105	-	32,105
Depreciation and depletion	-	21,056	21,056	1,754,421	63,168	1,838,645
	<u>\$ 19,002,909</u>	<u>\$ 903,155</u>	<u>\$ 19,906,064</u>	<u>\$ 5,640,918</u>	<u>\$ 4,084,231</u>	<u>\$ 29,631,213</u>

North Dakota State University Foundation
 Statements 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

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 181,511,276	\$ 21,425,374
Charges and credits to change in net assets not affecting cash		
Depreciation and depletion	1,838,645	1,918,343
Net realized and unrealized gains and losses on investments	(23,353,338)	(22,375,264)
Change in beneficial interest in charitable trust held by others	(97,619)	(112,317)
Contributed equity method investments	-	-
Change in cash surrender value of life insurance	(33,181)	51,934
Gifts to be held in perpetuity	(116,878,297)	(6,843,565)
Change in value of split-interest agreements	147,830	212,722
Gifts restricted for capital projects	(30,582,500)	(1,315,500)
Transfer from (to) donor restricted fund to restricted for capital projects	(4,997,388)	38,950
Payments for capital projects	6,015,085	6,274,893
Gain on disposal of property and equipment	(587,065)	(737,443)
Change in value of split-interest trusts held by others	(8,001)	(6,867)
Change in cash and cash equivalents held for others	(4,096)	610
Changes in operating assets and liabilities		
Unconditional promises to give	(1,945,557)	3,879,286
Receivables - interest, grant, bequest, and other	711,347	(837,128)
Prepaid expenses	(61,661)	113,702
Accounts payable and accrued liabilities	370,194	(100,549)
Other	20,122	(26,502)
Net Cash from Operating Activities	12,065,796	1,560,679
Investing Activities		
Proceeds from the sale of investments	72,457,606	67,367,394
Proceeds from the sale of property and equipment	820,065	771,943
Purchases of investments, including real estate and equipment held for investments	(226,931,924)	(90,819,170)
Payments for capital projects	(6,015,085)	(6,274,893)
Receipts on notes and contracts receivable	64,368	63,548
Property and equipment purchases	(26,920)	(118,340)
Net Cash used for Investing Activities	(159,631,890)	(29,009,518)

North Dakota State University Foundation

Statements of Cash Flows – page 2
 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Financing Activities		
Gifts to be held in perpetuity	\$ 117,071,119	\$ 8,715,804
Gifts restricted for capital projects	14,336,987	5,972,427
Transfer from (to) donor restricted fund to restricted for capital projects	4,997,388	(38,950)
Payments to beneficiaries of split-interest agreements	(90,275)	(121,078)
Proceeds from establishment of split-interest agreements	509,863	1,835,818
Issuance of notes payable	-	2,488,010
Principal payments on bonds and notes payable	<u>(2,703,247)</u>	<u>(2,365,098)</u>
Net Cash from Financing Activities	<u>134,121,835</u>	<u>16,486,933</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	(13,444,259)	(10,961,906)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>24,292,660</u>	<u>35,254,566</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 10,848,401</u>	<u>\$ 24,292,660</u>
Cash and Cash Equivalents	\$ 9,917,880	\$ 22,348,081
Cash Restricted for Capital Projects	<u>930,521</u>	<u>1,944,579</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 10,848,401</u>	<u>\$ 24,292,660</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 639,015</u>	<u>\$ 691,396</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Issuance and capitalization of special assessments	<u>\$ 94,655</u>	<u>\$ 29,302</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, 2021 and 2020, of \$293,308 and \$634,776 are receivable from the trusts of various estates. Bequest receivables are recorded at fair market value upon the notification of the donor's death. The Foundation records receivables from estates at the time it is notified of the death of a donor and there is no evidence that the provisions of the donor's will are to be contested.

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, 2021 and 2020, the allowance was \$1,188,926 and \$924,405.

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, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020.

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.

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. The Foundation has elected the fair value option for any gift annuity agreements entered in to. 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 2021 and 2020, totals \$3,049,668 and \$2,940,544 at December 31, 2021 and 2020.

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. The Foundation has elected the fair value option for any charitable remainder trusts entered in to. 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 2021 and 2020, totals \$6,420,417 and \$5,962,123 at December 31, 2021 and 2020.

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 \$191,548 and \$43,484 as of December 31, 2021 and 2020, and the board designated property reserve was \$540,449 and \$546,950 as of December 31, 2021 and 2020.

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, 2021 and 2020, 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 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 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.

Subsequent Events

Subsequent events have been evaluated through April 29, 2022, the date the financial statements were issued.

Note 2 - Liquidity and Availability

The Foundation regularly monitors liquidity for its operations and programmatic needs while also striving to maximize the investment of its available funds. It is the Foundation's policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation considers all expenditures related to ongoing fundraising operations and programmatic support of the University to be general expenditures. As such, donor restricted assets that can be used within one year are included in determining the financial assets that are available to meet cash needs for general expenditures within one year.

The following financial assets are considered unavailable for general expenditure within one year: assets that are illiquid or not convertible to cash within one year, trust assets, assets held for others, endowments and accumulated earnings net of the appropriation that will be made available within one year, and board designated endowments. The following table reflects the Foundation's financial assets available for general expenditure within one year as of December 31, 2021 and 2020, respectively. Spending from the endowment is described in Note 14 to these financial statements and are shown in the following tables as Appropriations from endowment portfolio.

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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,632,477	\$ 16,818,226
Cash restricted for capital projects	930,521	1,944,579
Short-term investments	10,861,297	25,009,189
Investments	16,815,931	-
Appropriations from endowment portfolio	10,472,312	9,220,919
Unconditional promises to give	17,074,929	11,627,506
Other receivables	<u>595,222</u>	<u>964,537</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 64,382,689</u>	<u>\$ 65,584,956</u>

Note 3 - Promises to Give**Unconditional Promises to Give**

Unconditional promises to give are estimated to be collected as follows at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 18,819,758	\$ 13,353,984
In one to five years	32,703,728	28,437,904
Over five years	<u>17,511,322</u>	<u>8,371,952</u>
	69,034,808	50,163,840
Less allowance for uncollectible promises to give	(1,188,926)	(924,405)
Less discount to net present value, .95%-5%	<u>(2,908,397)</u>	<u>(2,300,198)</u>
	<u>\$ 64,937,485</u>	<u>\$ 46,939,237</u>

Unconditional promises to give are presented as follows at December 31, 2021 and 2020 in the statements of financial position:

	<u>2021</u>	<u>2020</u>
Current portion of unconditional promises to give	\$ 18,513,855	\$ 13,115,567
Unconditional promises to give, net of current portion	<u>46,423,630</u>	<u>33,823,670</u>
	<u>\$ 64,937,485</u>	<u>\$ 46,939,237</u>

Approximately \$47,335,000 of the total gross unconditional pledges at December 31, 2021, represents amounts due from five donors.

Intentions to Give

The Foundation has additional intentions to give not recorded in the financial statements which consist of remembrances under wills of approximately \$160,470,000 at December 31, 2021.

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, 2021 and 2020, the outstanding pledges matched by the Challenge Grant were \$1,142,246 and \$1,931,667, respectively.

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

Note 4 - Investments

The composition of investments at December 31, 2021 and 2020 is detailed in the table below:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 102,283,875	\$ -
Fixed income	126,127,765	99,162,500
Global equity	165,150,260	135,856,018
Global hedge funds	44,183,046	41,181,114
Government securities	85	101,192
Commodity funds	-	478,471
Private equity	58,145,521	41,763,839
Real estate funds	8,535,006	8,316,054
Cash surrender value of life insurance	543,694	510,513
	<u>\$ 504,969,252</u>	<u>\$ 327,369,701</u>
Short-term investments	\$ 10,861,297	\$ 32,502,209
Investments	<u>494,107,955</u>	<u>294,867,492</u>
	<u>\$ 504,969,252</u>	<u>\$ 327,369,701</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 an 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, 2021 and 2020

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

<u>December 31, 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments				
Money market funds	\$ 102,283,875	\$ 102,283,875	\$ -	\$ -
Fixed income	126,127,765	93,776,720	32,351,045	-
Global equity	165,150,260	150,522,888	14,627,372	-
Government securities	85	-	85	-
Cash surrender value of life insurance	543,694	-	543,694	-
	<u>394,105,679</u>	<u>\$ 346,583,483</u>	<u>\$ 47,522,196</u>	<u>\$ -</u>
Global hedge funds (at NAV)	44,183,046			
Private equity (at NAV)	58,145,521			
Real estate funds (at NAV)	8,535,006			
	<u>\$ 504,969,252</u>			
Split-interest trusts held by others, net	<u>\$ 84,952</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,952</u>
Beneficial interest in trust/assets held by others	<u>\$ 1,252,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,252,250</u>
Liabilities				
Obligations under split interest agreements	<u>\$ 9,470,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,470,085</u>
Investments held for others	<u>\$ 1,245,580</u>	<u>\$ -</u>	<u>\$ 1,245,580</u>	<u>\$ -</u>
December 31, 2020				
Assets				
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>
Liabilities				
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>

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2021 and 2020

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

	Split Interest	Beneficial Interest	Total
Balance at December 31, 2019	\$ 70,084	\$ 1,042,314	\$ 1,112,398
Changes in value of split-interest agreement	6,867	-	6,867
Change in beneficial interest	-	112,317	112,317
Balance at December 31, 2020	76,951	1,154,631	1,231,582
Changes in value of split-interest agreement	8,001	-	8,001
Change in beneficial interest	-	97,619	97,619
Balance at December 31, 2021	\$ 84,952	\$ 1,252,250	\$ 1,337,202

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, 2019	\$ 6,975,205
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	212,722
Balance at December 31, 2020	8,902,667
Payments to beneficiaries of split-interest agreements	(90,275)
Proceeds from establishment of split-interest agreements	509,863
Changes in value of split-interest agreement	147,830
Balance at December 31, 2021	\$ 9,470,085

For the years ended December 31, 2021 and 2020, there were no transfers in or out of level 3.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020:

	2021	2020	Valuation Technique	Unobservable Input	Range (Weighted Avg.)
Split-interest trusts held by others	\$ 84,952	\$ 76,951	Discount to present value	Risk-adjusted discount rate	5.00%
Beneficial interest in trust/assets held by others	1,252,250	1,154,631	Discount to present value	Risk-adjusted discount rate	5.00%
Obligations under split interest agreements	9,470,085	8,902,667	Discount to present value	Risk-adjusted discount rate	5.00%

Investments in certain entities that calculate net asset value per share (or its equivalent) are as follows for the years ended December 31, 2021 and 2020:

Investment Type	December 31, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global hedge funds (1)	\$ 44,183,046	\$ -	Quarterly	95 Days
Private equity (2)	58,145,521	23,136,041	Ineligible	n/a
Real estate funds (2)	8,535,006	4,692,202	Ineligible	n/a
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

(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.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2021 and 2020

Note 6 - Contracts for Deed and Notes Receivable

Contracts for deed and notes receivable consist of the following at December 31, 2021 and 2020:

	2021	2020
1.25% note receivable, due in annual installments of \$72,879, including interest, to April 2030, secured by land	\$ 616,522	\$ 680,890
8% note receivable, unsecured	31,050	31,050
	647,572	711,940
Less current portion	(65,172)	(64,368)
	\$ 582,400	\$ 647,572

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

Years Ending December 31,	Amount
2022	\$ 65,172
2023	65,987
2024	66,795
2025	67,647
2026	68,492
Thereafter	313,479
	\$ 647,572

Note 7 - Real Estate Held for University Purposes

Real estate held for University purposes consists of the following at December 31, 2021 and 2020:

	2021	2020
Land	\$ 3,118,728	\$ 3,257,073
Buildings and improvements	48,827,470	48,827,470
	51,946,198	52,084,543
Less accumulated depreciation	(24,949,400)	(23,279,202)
	\$ 26,996,798	\$ 28,805,341

Note 8 - Property and Equipment

Property and equipment consists of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 885,505	\$ 885,505
Buildings and improvements	3,893,753	3,871,664
Furniture and equipment	1,281,075	1,294,723
Computer software	12,144	126,748
	<u>6,072,477</u>	<u>6,178,640</u>
Less accumulated depreciation	<u>(2,955,150)</u>	<u>(2,919,786)</u>
	<u>\$ 3,117,327</u>	<u>\$ 3,258,854</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 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 IV were received in 2018 and VI and VII were received in 2019. The Foundation received \$687,466 and \$789,882 in distributions and recognized \$1,067,543 and \$1,261,952 of income during 2021 and 2020.

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

	<u>2021</u>	<u>2020</u>
Assets	<u>\$ 32,541,177</u>	<u>\$ 31,521,535</u>
Liabilities	\$ 43,304,272	\$ 44,128,252
Equity	<u>(10,763,095)</u>	<u>(12,606,717)</u>
Total liabilities and equity	<u>\$ 32,541,177</u>	<u>\$ 31,521,535</u>
Total revenues	\$ 12,915,841	\$ 13,456,721
Total expenses	<u>8,168,110</u>	<u>7,676,731</u>
Net income	<u>\$ 4,747,731</u>	<u>\$ 5,779,990</u>

Note 10 - Notes and Bonds Payable

	<u>2021</u>	<u>2020</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)	\$ 7,294,366	\$ 7,925,107
Variable rate note payable, 3.25% at December 31, 2021, 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)	3,123,239	4,382,205
3.98% bond payable, due in semi-annual installments of varying amounts, to October 2030, secured by Renaissance Hall building and land (3)	3,150,000	3,430,000
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	770,000	1,290,000
3% to 4% term bonds, with varying sinking fund requirements beginning December 2024 through December 2036	6,365,000	6,365,000
Other debt	<u>247,622</u>	<u>166,507</u>
	20,950,227	23,558,819
Less current maturities	<u>(736,580)</u>	<u>(813,889)</u>
	<u>\$ 20,213,647</u>	<u>\$ 22,744,930</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. On June 30, 2021, this line of credit converted 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>
2022	\$ 736,580
2023	5,086,179
2024	1,743,699
2025	2,019,493
2026	1,795,700
Thereafter	<u>9,568,576</u>
	<u><u>\$ 20,950,227</u></u>

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

Note 11 - 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 was uncollateralized and was 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 recognized \$797,000 as other income for the year ended December 31, 2020.

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2021 and 2020

Note 12 - Net Assets

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

	<u>2021</u>	<u>2020</u>
Subject to the Passage of Time or Specified Purpose		
Scholarships	\$ 64,810,608	\$ 41,830,040
NDSU departmental expenses	90,808,390	101,023,424
NDSU buildings and equipment	52,723,362	20,428,977
Foundation operations - time restriction	771,910	481,181
	<u>209,114,270</u>	<u>163,763,622</u>
Endowments Held in Perpetuity		
Scholarships	207,281,666	137,299,371
NDSU departmental expenses	138,626,418	75,834,919
NDSU buildings and equipment	126,250	126,250
Foundation operations	2,570,901	2,650,612
	<u>348,605,235</u>	<u>215,911,152</u>
Total endowments held in perpetuity	<u>\$ 557,719,505</u>	<u>\$ 379,674,774</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished		
Scholarships and grants paid	\$ 4,938,037	\$ 6,373,456
NDSU departmental expenses	4,974,968	4,162,975
NDSU building and equipment	6,826,005	7,323,141
Foundation operations	700,565	511,601
Bad debt expense	421,936	-
Endowment management fees	3,762,533	3,045,072
Gift fees	1,639,984	1,030,206
Direct investment expenses on real estate held for University purposes	-	21,870
Transfers	-	(125,164)
	<u>\$ 23,264,028</u>	<u>\$ 22,343,157</u>
Total net assets released from restrictions	<u>\$ 23,264,028</u>	<u>\$ 22,343,157</u>

The Foundation's Executive Governing Board has chosen to place approximately \$4,961,000 and \$4,316,000 as of December 31, 2021 and 2020 in board designated endowments for Foundation operations, scholarships, and grants.

Net assets without donor restrictions consist of the following balances for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Cash and cash equivalents	\$ 1,411,781	\$ 804,753
Short-term investments	3,815,509	4,043,602
Receivables	493,036	764,566
Prepaid expenses	313,224	214,981
Property and equipment, net	19,535,401	20,534,549
Investments	<u>13,437,590</u>	<u>9,177,545</u>
Total net assets without donor restrictions	<u>\$ 39,006,541</u>	<u>\$ 35,539,996</u>

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, 2021 and 2020 was \$319,379 and \$302,801.

Note 14 - 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.

As of December 31, 2021 and 2020, endowment net asset composition by type of fund is as follows:

	At December 31, 2021		
	With Donor Restrictions	Without Donor Restrictions	Total
Donor-restricted endowment funds	\$ 432,065,389	\$ -	\$ 432,065,389
Board-designated endowment funds	-	4,960,667	4,960,667
	<u>\$ 432,065,389</u>	<u>\$ 4,960,667</u>	<u>\$ 437,026,056</u>
	At December 31, 2020		
	With Donor Restrictions	Without Donor Restrictions	Total
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>

North Dakota State University Foundation

Notes to Financial Statements

December 31, 2021 and 2020

Changes in endowment net assets as of December 31, 2021 are as follows:

	For the Year Ending December 31, 2021		
	With Donor Restrictions	Without Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 269,002,772	\$ 4,315,727	\$ 273,318,499
Investment return			
Investment income	25,792,436	-	25,792,436
Net appreciation/(depreciation) (realized and unrealized)	15,927,393	1,265,202	17,192,595
Contributions	133,633,276	598,640	134,231,916
Appropriation of endowment assets for expenditure	(8,527,956)	(134,056)	(8,662,012)
Endowment fees	(3,762,532)	(84,846)	(3,847,378)
Transfer to general unrestricted net assets	-	(1,000,000)	(1,000,000)
Endowment net assets, end of year	<u>\$ 432,065,389</u>	<u>\$ 4,960,667</u>	<u>\$ 437,026,056</u>

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

	For the Year Ending December 31, 2020		
	With Donor Restrictions	Without Donor Restrictions	Total
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	(7,839,302)	(108,164)	(7,947,466)
Endowment fees	(3,045,072)	(66,600)	(3,111,672)
Endowment net assets, end of year	<u>\$ 269,002,772</u>	<u>\$ 4,315,727</u>	<u>\$ 273,318,499</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, 2021, funds with original gift values of \$1,319,169, fair values of \$1,318,939, and deficiencies of \$230 were reported in net assets with donor restrictions. 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.

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, 2021 and 2020. 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 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.

As of December 31, 2021 and 2020, the Foundation had the following accrued liabilities owed to NDSU:

	<u>2021</u>	<u>2020</u>
Program support	\$ 1,383,497	\$ 1,114,515
Grants	212,073	110,073
Building projects	110	104,770
Miscellaneous services	<u>17,697</u>	<u>1,371</u>
	<u>\$ 1,613,377</u>	<u>\$ 1,330,729</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, 2021 and 2020 totaled \$837,176 and \$830,546, which is recorded in other income on the statements of activities. As of December 31, 2021 and 2020, the Foundation had receivables related to these support services of \$414,346 and \$830,546, respectively, which is recorded within other receivables on the statements of financial position. As of December 31, 2021 and 2020, the Foundation also had other receivables of \$105,862 and \$104,268 from the University for various purposes. The Foundation received contributions from board members in the amount of \$873,705 and \$55,390 for the years ended December 31, 2021 and 2020.

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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Barry and Klai Hall	\$ 789,904	\$ 778,265
Fargodome improvements	-	331,567
Renaissance Hall	<u>411,716</u>	<u>412,094</u>
	<u>\$ 1,201,620</u>	<u>\$ 1,521,926</u>

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

Note 16 - Gift and Endowment Fees

The Foundation has an operating agreement with the University wherein the University has delegated, and the Foundation has accepted, responsibility for development, advancement, acceptance and management of all gifts designated for the University. To support these related costs, the Foundation, in consultation with the University, assesses fees on gifts and endowed funds. A gift fee of 5% is assessed to cash gifts up to \$5,000,000 and 0.5% on the gift amount above \$5,000,000. This fee is reported as a component of net assets released from restriction in the statements of activities as detailed in Note 12. Endowed donations are invested and a per annum management fee of 1.89% is assessed on a quarterly basis based upon the beginning-of-quarter market value of that endowment within the investment portfolio. In rare circumstances, the President/CEO of the Foundation, in consultation with the CFO of the Foundation, can agree to alternate fee arrangements with donors. The fees are reflected as a component of net assets released from restriction in the statements of activities as detailed in Note 12 and Note 14.

Note 17 - Commitments and Contingencies**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.