



Financial Statements
June 30, 2019

University of North Dakota Alumni
Association and Foundation

University of North Dakota Alumni Association and Foundation

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June 30, 2019

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Independent Auditor's Report

Board of Directors
University of North Dakota Alumni Association and Foundation
Grand Forks, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of University of North Dakota Alumni Association and Foundation (Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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 the University of North Dakota Alumni Association and Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 and Note 16 to the financial statements, University of North Dakota Alumni Association and Foundation adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the beginning of year net assets has been restated to adopt this standard. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Management's Discussion and Analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Fargo, North Dakota
October 4, 2019



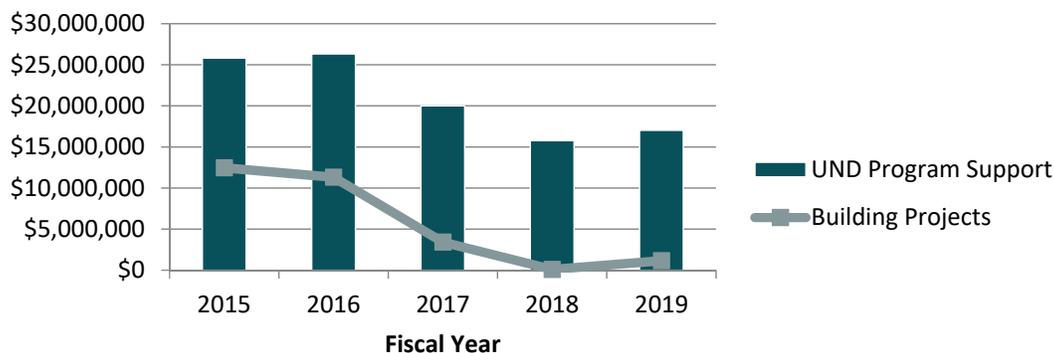
Management’s Discussion and Analysis Recap of Fiscal Year 2019

The following discussion and analysis presents an overview of the financial performance of the UND Alumni Association and Foundation (Foundation) for the five years **ended June 30, 2019**. It should be read in conjunction with the related financial statements and footnotes. The financial statements, footnotes, and this discussion and analysis were prepared by management and are the responsibility of management. The UND Alumni Association and Foundation supports University of North Dakota students, faculty, alumni and the greater community by providing resources for growth and development.

University Support

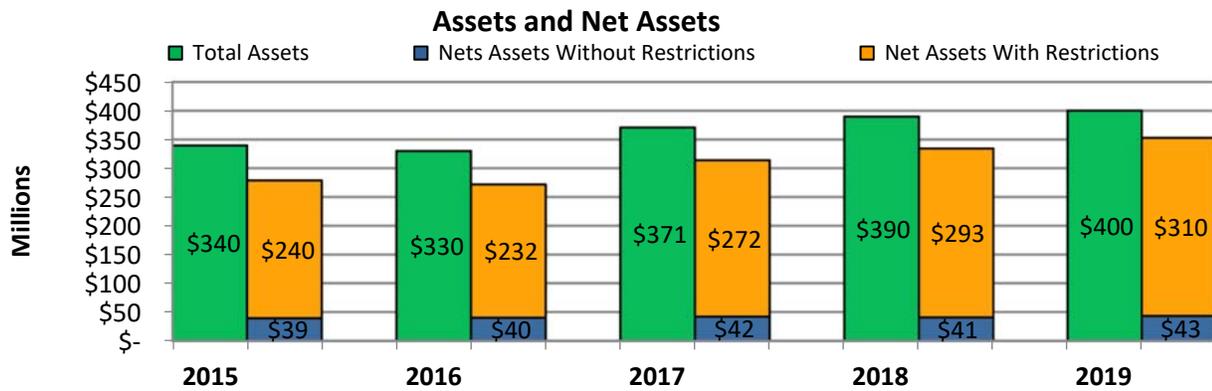
The Foundation provides funding for students, faculty and programs at the University. In fiscal year 2019, UND program support provided \$17 million in support for the University; up from last year’s support of \$16 million. Support includes student scholarships, faculty salaries, capital project, as well other expenditures that intend to further the mission of the University. Capital support was \$1.1 million in Fiscal year 2019 up from \$100,000 in 2018; this can vary significantly from year to year, as building projects on campus can fluctuate. Scholarship support increased 8%; \$8 million in 2019, from \$7.4 million in 2018.

UND Program Support



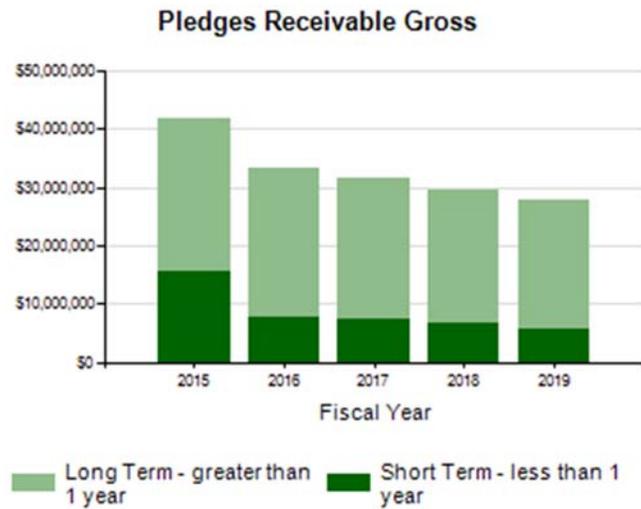
Assets and Net Assets

At June 30, 2019, the Foundation's assets total \$400 million, up from \$390 million last year. Foundation assets consist primarily of investments and contributions receivable. Investments make up approximately 88% of total assets. The Foundation classifies net assets as without restrictions and with restrictions in accordance with donor stipulations and time restrictions. Net assets without restrictions are available for internal Foundation operations. Net assets with restrictions represent assets received with a donor restriction that will be satisfied in the future by the University or are restricted by donors and are invested by the Foundation in perpetuity. Goals for the upcoming year FY20 includes pledges for building projects and growth of the endowment through campaigns for increased student and faculty support.



Contributions (Pledges) Receivable

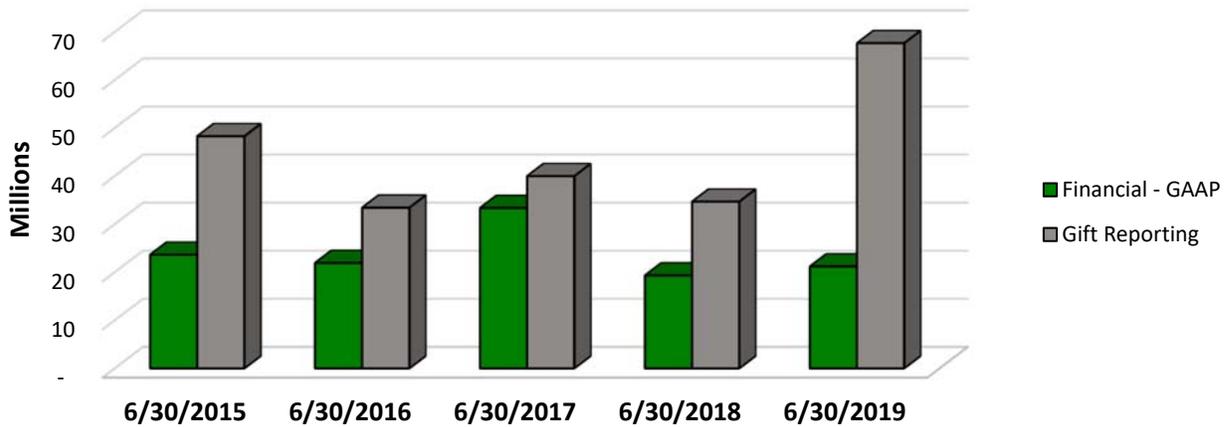
Contributions receivable at June 30, 2019 amounted to approximately \$29 million, \$25 million in net present value, down from \$30 million gross and \$24 million in net present value last year. Our peak receivables were \$48 million at the end of FY13.



Fundraising

The Foundation reports on fundraising in two ways. The financial statements reflect contributions according to generally accepted accounting principles (GAAP). GAAP does not recognize bequest contributions as revenue until the bequest is realized. In fiscal year 2019, the Foundation recognized \$21.1 million in contributions based on GAAP. The overall contribution income is up from \$19.3 million in the prior fiscal year.

Gifts



The Foundation also reports its annual fundraising totals by using guidelines published by the Council for Advancement and Support of Education (CASE). CASE allows conditional and bequest contributions to be counted in fundraising totals. The organization varies from CASE as it reports North Dakota Matching grants in its gift reporting totals.

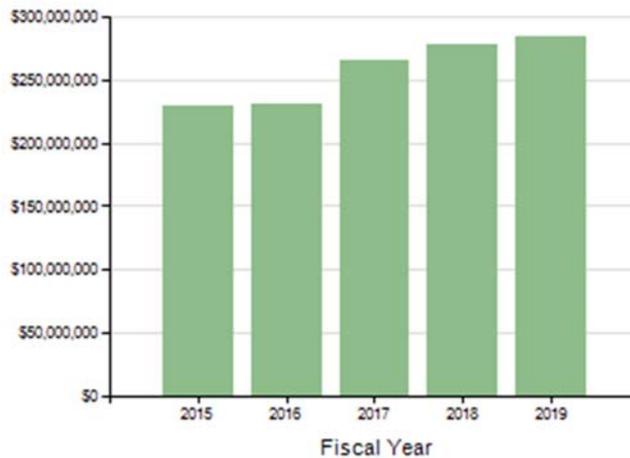
Gift reporting from all of the UND campus showed fundraising at \$68 million, which includes \$22.8 million in deferred gifts and \$7.5 million of gifts to other component units outside of the UND Foundation.

In fiscal year 2019, approximately 18% of the fundraising total was directed towards scholarships, 6% for academic programs and faculty, 30% for priority needs, and 46% directed towards capital projects.

Endowments

The Foundation manages over sixteen hundred endowed funds, for the Foundation and other organizations, valued at approximately \$285 million at June 30, 2019.

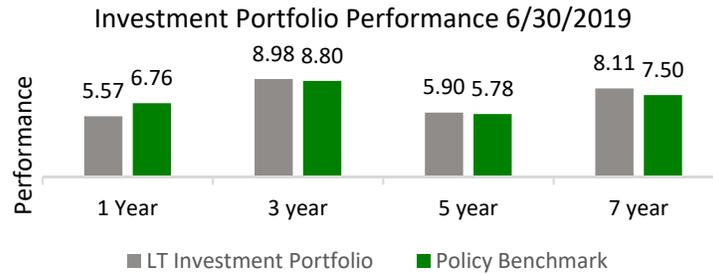
Endowment Progress



Investment Portfolio Returns

Endowments managed by the Foundation are invested within a long-term investment portfolio and are net of fees. The following chart depicts the one, three, five, and seven year return on this portfolio. The portfolio is well-diversified and expected to outperform the policy benchmark with less volatility (risk) over long-term market cycles. There is a focus on diversification and risk management in order to provide more consistent streams of investment performance through market cycles.

	<u>Annualized Returns</u>			
	1 Year	3 Year	5 Year	7 Year
LT Investment Portfolio	5.57	8.98	5.90	8.11
LT Investment Portfolio, Net	4.93	8.26	5.19	7.41
Policy Benchmark	6.76	8.80	5.78	7.50



Liabilities

Total liabilities are \$47 million, down from \$55 million in FY18; this includes the endowment portfolios we manage for the University and Center for Innovation Foundation which are included in the total assets.

University of North Dakota Alumni Association and Foundation

Statement of Financial Position – Assets

June 30, 2019

Assets

Current Assets

Cash and cash equivalents	\$ 6,633,930
Other receivables	771,528
Contributions receivable, net	6,391,823
Prepaid expenses	251,646

Total current assets	14,048,927
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Noncurrent Assets

Receivables

Other receivables	5,248,791
Contributions receivable, net	16,916,958

Total receivables	22,165,749
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Investments

Investments	264,770,742
Investments - held for others	3,493,348
Investments - held for University of North Dakota	19,530,491
Beneficial interest in trusts held by others	15,508,900
Charitable remainder trust account investments	18,589,642
Charitable gift annuity investments	6,054,740
Other investments	25,070,232

Total investments	353,018,095
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Property and equipment

Building, less accumulated depreciation	9,276,084
Furniture and equipment, less accumulated depreciation	215,120
Antiques and fine arts	1,605,008

Total property and equipment	11,096,212
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Total noncurrent assets	386,280,056
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Total assets	\$ 400,328,983
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University of North Dakota Alumni Association and Foundation

Statement of Financial Position – Liabilities and Net Assets

June 30, 2019

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 557,420
Accrued expenses - salary and benefits	389,177
Deferred revenue	449,794
Liabilities under charitable trusts and annuities	1,670,337
Current maturities of bonds and note payable	629,087

Total current liabilities	3,695,815
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Noncurrent Liabilities

Liabilities under charitable trusts and annuities	15,125,007
Bonds and note payable	5,614,107
Deposits held in custody for others	23,023,839

Total noncurrent liabilities	43,762,953
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Total liabilities	47,458,768
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Net Assets

Without donor restrictions	43,046,237
With donor restrictions	309,823,978

Total net assets	352,870,215
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Total liabilities and net assets	\$ 400,328,983
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University of North Dakota Alumni Association and Foundation

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Gains and Other Support			
Gifts and bequests, including gifts under charitable remainder unitrusts	\$ 943,868	\$ 20,243,214	\$ 21,187,082
Operations, fees and miscellaneous	7,358,398	755,351	8,113,749
Net investment return	2,220,210	7,599,973	9,820,183
Change in split-interest agreements	21,847	2,124,141	2,145,988
	<u>10,544,323</u>	<u>30,722,679</u>	<u>41,267,002</u>
Sub-totals	10,544,323	30,722,679	41,267,002
Net assets released from restrictions	14,398,076	(14,398,076)	-
	<u>24,942,399</u>	<u>16,324,603</u>	<u>41,267,002</u>
Total revenue, gains and other support			
Expenses			
Program services expense			
Scholarships	8,017,534	-	8,017,534
Support to benefit the University of North Dakota	9,008,629	-	9,008,629
	<u>17,026,163</u>	<u>-</u>	<u>17,026,163</u>
Total program services expense			
Supporting services expense			
General and administrative	2,518,379	-	2,518,379
Fundraising	3,115,095	-	3,115,095
	<u>5,633,474</u>	<u>-</u>	<u>5,633,474</u>
Total supporting services expense			
	<u>22,659,637</u>	<u>-</u>	<u>22,659,637</u>
Total expenses			
Change in Net Assets	2,282,762	16,324,603	18,607,365
Net Assets, Beginning of Year, as Restated	40,763,475	293,499,375	334,262,850
Net Assets, End of Year	<u>\$ 43,046,237</u>	<u>\$ 309,823,978</u>	<u>\$ 352,870,215</u>

University of North Dakota Alumni Association and Foundation
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services		Total Program Support	Supporting Services		Total
	Scholarships	Support to Benefit the University		General and Administrative	Fundraising	
Scholarships	\$ 8,017,534	\$ -	\$ 8,017,534	\$ -	\$ -	\$ 8,017,534
Other support to UND						
Meetings and banquets	-	815,420	815,420	-	-	815,420
Instructional supplies and services	-	683,836	683,836	-	-	683,836
Travel and lodging	-	548,670	548,670	-	-	548,670
Fees and professional services	-	1,551,458	1,551,458	-	-	1,551,458
Stipends, salaries, and benefits	-	1,575,948	1,575,948	-	-	1,575,948
Building project	-	1,151,766	1,151,766	-	-	1,151,766
Other support to UND	-	1,173,327	1,173,327	-	-	1,173,327
Salaries and benefits	-	820,852	820,852	1,406,497	2,103,579	4,330,928
Depreciation	-	46,244	46,244	323,710	92,489	462,443
Contract services	-	-	-	75,446	332,082	407,528
Information technology	-	12,801	12,801	350,457	21,812	385,070
Postage and printing	-	210,852	210,852	4,022	79,315	294,189
Interest	-	252,975	252,975	-	-	252,975
Travel	-	5,634	5,634	143	242,534	248,311
Gorecki building and events	-	399	399	247,274	-	247,673
Meals and meetings	-	86,277	86,277	260	106,088	192,625
Promotional and advertising	-	28,632	28,632	3,534	45,659	77,825
Other	-	43,538	43,538	107,036	91,537	242,111
	<u>\$ 8,017,534</u>	<u>\$ 9,008,629</u>	<u>\$ 17,026,163</u>	<u>\$ 2,518,379</u>	<u>\$ 3,115,095</u>	<u>\$ 22,659,637</u>

University of North Dakota Alumni Association and Foundation

Statement of Cash Flows
Year Ended June 30, 2019

Cash Flows from Operating Activities	
Change in net assets	\$ 18,607,365
Adjustments to reconcile changes in net assets to net cash flows from operating activities	
Depreciation	462,443
Loss on write off of annuities and fine arts	47,115
Net (gain) loss on investments - realized and unrealized	(13,312,654)
(Increase) decrease in beneficial interest in funds held in trust	(1,527,739)
(Increase) decrease in life insurance cash value	(15,981)
Actuarial adjustment on annuities payable	(1,306,433)
Gifts of non-cash assets received	(13,425)
Effects on cash flows due to changes in	
Notes receivable	5,020
Other receivables	546,427
Prepaid expenses	(16,131)
Contributions receivable for operations	(3,563,390)
Accounts payable	353,162
Deferred revenue	(1,238,565)
Accrued expenses - salary and benefits	30,263
	<u> </u>
Net Cash from (used for) Operating Activities	<u>(942,523)</u>
Cash flows from investing activities	
Sales of investments	28,329,545
Purchase of investments	(30,763,044)
Change in investments - annuities	266,933
Purchase of fixed assets	(64,721)
Change in deposits held for UND and others	(4,297,680)
	<u> </u>
Net Cash from (used for) Operating Activities	<u>(6,528,967)</u>
Cash flows from financing activities	
Contributions restricted for long-term purposes	3,363,910
Principal payments on bonds and notes payable	(1,033,870)
	<u> </u>
Net Cash from (used for) Operating Activities	<u>2,330,040</u>
Net Change in Cash and Cash Equivalents	(5,141,450)
Cash and Cash Equivalents at Beginning of Year	<u>11,775,379</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 6,633,929</u></u>
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest	<u><u>\$ 252,974</u></u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The UND Alumni Association and Foundation (the "Organization") is a nonprofit organization organized exclusively for the benefit of the University of North Dakota ("UND"). The administrative office for the Organization is located on the University of North Dakota Campus.

The UND Alumni Association and Foundation fosters connections, inspires generosity, and advances the University of North Dakota. The organization receives, holds and manages contributions from alumni and private sources and engages in development activities on behalf of the University of North Dakota. The Organization is supported primarily through donor contributions and earnings on investments. The accounting policies of the Organization reflect practices common to nonprofit organizations and conform to accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Organization considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Investment Pool

The cash balances from various funds are directly invested or pooled and invested. Earnings and market value adjustments from pooled investments have been allocated to the participating funds.

Contributions Receivable and Other Receivables

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years 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. Changes in present value discounts on long-term receivables are included in contribution revenues.

An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written-off when deemed uncollectible. The Organization determines a receivable is past due if there is a balance due greater than 90 days. Receivables are generally unsecured. No allowance for other receivables was deemed necessary at June 30, 2019. See Note 6 for information regarding an allowance for uncollectible contributions receivable.

Property and Equipment

Property and equipment additions over \$10,000 are recorded at cost, or if donated, at fair value on the date of the donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. The cost of the furniture and equipment less accumulated depreciation of \$1,329,851 is \$215,120. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting 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 Organization constructed an Alumni Center on the UND campus, which houses their staff and the University admissions offices. The cost for the building less accumulated depreciation of \$1,879,357 is \$9,276,084 and is being depreciated over 40 years.

The carrying values of property and equipment are reviewed 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. There were no indicators of asset impairment during the year ended June 30, 2019.

Antiques and Fine Arts

The Organization has elected to recognize contributions of antiques and fine arts in the financial statements although they are held for public exhibition in furtherance of educational and public service purposes rather than for financial gain. Antiques and fine arts collections are valued at the appraised value at the date of the gift.

Assets Held and Liabilities Under Split-Interest Agreements**Charitable Trusts**

The Organization acts as trustee for various revocable and irrevocable 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, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace the Organization as the beneficiary of the trust, assets are recorded and placed in trust at fair value, with an equal and offsetting liability until such time that distributions are received from the trust in accordance with its terms. If the trust is irrevocable, 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 a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature 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.

Charitable Gift Annuities

Under charitable gift annuity contracts, the Organization receives immediate and unrestricted title to contributed assets and agree to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The 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 annuity liability is recorded as a contribution with or without donor restrictions, depending on donor stipulations. 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.

Beneficial Interests in Charitable Trusts Held by Others

The Organization has been named as an irrevocable beneficiary of several 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. The Organization has neither possession nor control over the assets of the trusts. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions 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 using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with 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.

Beneficial Interests in Perpetual Trusts

The Organization has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Organization; however, the Organization will never receive the assets of the trusts. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statements of activities and a beneficial interest in perpetual trust is recorded in the statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets 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 and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, net assets with donor restrictions are released to net assets without donor restrictions; net assets with donor restrictions in perpetuity are transferred to the endowment.

Deferred Revenue

Deferred revenue consists of advance payments for Champions Club memberships related to the next year.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statement of financial position. Net investment income is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Asset

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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 governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization 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.

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. Membership dues, are comprised of an exchange element based on the benefits received, and a contribution element for the difference. The Foundation recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. 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 substantially met.

Advertising Costs

Advertising costs are expensed when incurred. For the year ended June 30, 2019, advertising costs were \$77,824.

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 occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Program Services Expenses – Includes grants and scholarships, fellowships, facilities and programs; as well as Alumni Association support to UND through publications, mailings and events.

General and Administrative – Includes salaries and expenses categorized as administrative including human resources, financial department and advancement services functions.

Fundraising – Includes salaries and expenses for the fundraising efforts including campaign, development personnel, direct mail and phone-a-thon expenses.

Estimates

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

Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of June 30, 2019. The Organization's tax returns are subject to review and examination by federal and state authorities. There are no audits of the Organization's tax returns currently in progress.

New Accounting Pronouncements – Presentation of Financial Statements for Not-For-Profit Entities

As of July 1, 2018, the Organization 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 Organization’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 Organization’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. The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

Subsequent Events

The Organization has evaluated subsequent events through October 4, 2019, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

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:

Financial Assets	
Cash and cash equivalents	\$ 6,633,930
Other receivables, current portion	771,528
Contributions receivable, current portion	6,391,823
Investments	264,770,742
Investments - held for others	3,493,348
Investments - held for University of North Dakota	19,530,491
Certificates of deposit	18,039,476
Total financial assets	<u>319,631,338</u>
Less amounts not available for general expenditure in the next year:	
Deposits held in trust for others	23,023,839
Subject to expenditure for a specific purpose	42,797,438
Assets to be held in perpetuity	243,505,695
Total financial assets not available for general expenditure within the next year	<u>309,326,972</u>
Financial assets available for general expenditure within the next year	<u>\$ 10,304,366</u>

The Foundation has entered into an agreement for a line of credit with a total available balance of \$1 million, expiring in October 2019. At June 30, 2019, the Foundation has the full balance available to be drawn.

University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2019

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and appropriated. Donor-restricted endowment funds are not available for general expenditure. As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

Note 3 - Investments

The following investments were held as of June 30, 2019:

Endowment investments and funds held for others	
Cash equivalents	\$ 639,458
Equity securities	1,012,031
Equity mutual funds	135,251,773
Fixed income securities	516,570
Fixed income mutual funds	82,336,109
Hedge funds	25,191,781
Natural resource funds	1,670,432
Realty funds	17,561,364
Distressed debt funds	10,736,640
Private equity funds	12,878,423
Total endowment investments and funds held for others	287,794,581
Beneficial interest in trusts held by others	
	\$ 15,508,900
Charitable remainder trust accounts	
Cash equivalents	\$ 628,710
Equity securities	-
Equity mutual funds	9,181,410
Fixed income mutual funds	6,068,559
Realty funds	2,710,963
Total trust accounts	18,589,642
Charitable gift annuity investments	
Cash equivalents	\$ 215,520
Equity mutual funds	3,375,848
Fixed income securities	-
Fixed income mutual funds	2,463,372
Land and buildings	-
Total charitable gift annuity investments	6,054,740
Certificates of Deposit	
	18,039,476
Land	
	5,638,937
Buildings	
	530,001
Mineral interests	
	495,407
Life insurance, cash value	
	366,411
Total other investments	25,070,232
Total investments	\$ 353,018,095

The Organization's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the equity, international equity, emerging markets, hedge funds, fixed-income, commodities, real estate venture funds, natural resources, global distressed funds and private equity markets. This strategy provides the Organization with a long-term asset mix that is most likely to meet the Organization's long-term return goals with the appropriate level of risk.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Alternative investments include private equity funds, hedged funds, natural resource funds, realty funds, and distressed debt funds. The underlying assets of alternative investments range from marketable securities to complex and/or illiquid investments. The alternative investments were entered into to diversify the Organization's portfolio, to provide predictability in overall earnings and to provide market neutral holdings.

Through the Organization's alternative investments, the Organization is indirectly involved in investment activities that may include securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, the Organization's risk with respect to such transactions is limited to its capital balance in each investment. These interests have varying degrees of liquidity.

Note 4 - Fair Value Measurements

Certain assets 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 can be accessed 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, inputs are developed using the best information available in the circumstances.

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

A significant portion of investment assets are classified within Level 1 because they comprise open-end mutual funds, equity securities, and money market funds, with readily determinable fair values based on daily redemption values. The fixed income securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2. Investments in land are classified as Level 2 based on recent appraisals which included analysis of market data on sales of comparable properties. The fair value of beneficial interest in trusts held by others is based on the fair value of the trusts' assets. These are considered to be Level 3 measurements.

The Organization uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The following table summarizes assets measured at fair value on a recurring basis by classification within the fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Assets				
Investments, at fair value				
Money market funds	\$ 1,483,688	\$ 1,483,688	\$ -	\$ -
Fixed income mutual funds	90,868,040	90,868,040	-	-
Equity mutual funds	147,809,031	147,809,031	-	-
Fixed income securities	516,570	-	516,570	-
Equity securities	1,012,031	1,012,031	-	-
Beneficial interests in trusts held by others	15,508,900	-	-	15,508,900
Land	5,638,937	-	5,638,937	-
	<u>262,837,197</u>	<u>\$ 241,172,790</u>	<u>\$ 6,155,507</u>	<u>\$ 15,508,900</u>
Investments measured at net asset value				
Hedged funds	25,191,781			
Natural resource funds	1,670,432			
Private equity funds	12,878,423			
Realty funds	20,272,327			
Distressed debt funds	10,736,640			
Subtotal investments measured at net asset value	<u>70,749,603</u>			
Total assets at fair value	<u>333,586,800</u>			
Investments, at cost				
Certificates of Deposit	18,039,476			
Mineral interests	495,407			
Buildings	530,001			
Life insurance, cash value	366,411			
Total investments	<u>\$ 353,018,095</u>			

University of North Dakota Alumni Association and Foundation

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June 30, 2019

The following table presents a reconciliation of the statement of financial position for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Balances, June 30, 2018	Net Realized and Unrealized Gains Included in Net Assets	Purchases	(Sales)	Balances, June 30, 2019
Assets					
Beneficial interest in trusts held by others	\$ 15,053,917	\$ 1,870,335	\$ 50,000	\$ (1,465,352)	\$ 15,508,900
The amount of total gain for the period included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at June 30, 2019.					\$ 1,100,200

The Organization uses the net asset value (“NAV”) as a practical expedient to determine fair value of all underlying investments which do not have a readily determinable fair value and are in investment companies or similar entities that report their investment assets at fair values.

The following tables list alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category:

	Commonfund Private Equity Funds	Commonfund Distressed Debt Funds	Commonfund Natural Resources Funds	SEI Private Equity Funds
Fair value June 30, 2019	\$ 2,840,461	\$ 642,990	\$ 1,670,432	\$ 10,037,962
Significant investment strategy	Venture and buyout in the U.S. and international	Distressed asset funds and credit strategies, global	Oil, gas and other natural resource related	Venture and buyout in the U.S. and international
Remaining life	1 to 5 years	1 year	3 to 5 years	7 to 10 years
Dollar amount of unfunded commitments	\$ 300,750	\$ 764,600	\$ 93,750	\$ 16,022,923
Timing to draw down commitments	1 to 5 years	1 year	1 to 5 years	3 to 5 years
Redemption terms	NA	NA	NA	NA
Redemption restrictions	NA	NA	NA	NA
Redemption restrictions in place at year end	NA	NA	NA	NA

University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2019

	Hedged Funds SEI Special Situations	Hedge Funds SEI Offshore Opportunities II	Distressed Debt SEI Structured Credit Fund	Realty Funds
Fair value June 30, 2019	\$ 15,208,690	\$ 9,983,091	\$ 10,093,650	\$ 20,272,327
Significant investment strategy	Hedge FOF with concentrated directional exposure	Hedge FOF with limited betas to equity, duration and credit	Collateralized debt obligations and other structured credit	Private Real Estate Fund of Funds
Remaining life	NA	NA	NA	NA
Dollar amount of unfunded commitments	\$ -	\$ -	\$ -	\$ -
Timing to draw down commitments	NA	NA	NA	NA
Redemption terms	Semi-annual with 10% holdback	Quarterly with 10% holdback	Quarterly with 10% holdback	Quarterly with 10% holdback
Redemption restrictions	2 year Lock up	1 year Lock up	2 year Lock up	NA
Redemption restrictions in place at year end	Semi-Annual Tender	Quarterly Tender	Quarterly Tender	Quarterly Tender

Note 5 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2019:

Subject to the Passage of Time or Specific Purpose	
Capital improvement/facilities	\$ 15,141,565
Scholarships and student loans	14,743,529
Lectureships, professorships, chairs and faculty support	5,528,808
Research	2,786,233
College program support	21,123,027
Total subject to the passage of time or specific purpose	59,323,162
Endowments and Other Net Assets Held in Perpetuity	
Capital improvements/facilities	1,420,895
Scholarships and student loans	121,751,309
Lectureships, professorships, chairs, and faculty support	39,841,731
Research	7,147,367
College program support	80,339,514
Total endowments and other net assets held in perpetuity	250,500,816
	\$ 309,823,978

University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2019

Net assets released from net assets with donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the year ended June 30, 2019 were \$14,398,076 related to program support.

Note 6 - Contributions Receivable

Contributions receivable include the following unconditional promises to be collected as follows at June 30, 2019:

Within one year	\$ 6,547,816
In one to five years	13,297,801
Over five years	<u>9,019,839</u>
Gross unconditional promises to give	28,865,456
Less discount to net present value	(4,380,633)
Less allowance for uncollectible promises to give	<u>(1,176,042)</u>
Net contribution receivable	<u>\$ 23,308,781</u>

As of June 30, 2019, \$3,763,667 of contributions receivable have been matched by the State of North Dakota. The Organization is liable for any shortfall in the collection of those pledges.

At June 30, 2019, promises due in one year or more were discounted using historical interest rates ranging between 2.065% and 3.31%. Promises due in less than one year were not discounted.

Approximately \$15,500,000 of the total gross contribution receivable at June 30, 2019, represents amounts due from five donors.

In addition, the Organization has additional intentions to give not recorded in the financial statements which consist of remembrances under wills of approximately \$151,000,000.

Note 7 - Other Receivables

The following summarizes the other receivables as of June 30, 2019:

UND lease receivable - EERC	\$ 3,775,000
UND lease receivable - Minot Family Practice	2,043,997
Other accounts receivable	104,819
Interest receivable	49,652
Note receivable	<u>46,851</u>
 Total other receivables	 <u><u>\$ 6,020,319</u></u>

The Organization has entered into direct-financing lease agreements with the University of North Dakota.

On July 24, 2002, the Foundation issued \$8,595,000 of tax-exempt bonds to finance the construction of an office building and the renovation of an existing building for the Energy and Environmental Research Center (EERC) of the University of North Dakota. The Organization recorded a receivable from UND of \$8,595,000 due under the direct-financing lease arrangement. The EERC bonds were refinanced as taxable bonds on October 18, 2012. The balance as of June 30, 2019 was \$3,775,000. The terms for the repayment are the same as the payment terms of the related bonds. See Note 10 for additional information. During fiscal year ended June 30, 2019, the Organization recorded payment of principal and interest of \$405,000 and \$157,153, respectively.

On October 24, 2003, the Foundation issued \$4,400,000 of tax-exempt lease revenue bonds to finance the purchase of land and the construction of a facility for the Minot Center for Family Practice in Minot, ND. The Organization recorded a receivable from UND of \$4,400,000 due under the direct-financing lease agreement. The balance as of June 30, 2019 is \$2,043,997. The terms for the repayment are the same as the payment terms of the related bonds. The Foundation refinanced the bond as of April 2018. The bond matures as of April 1, 2028. See Note 10 for additional information.

At June 30, 2019, lease receivables represented less than 1.5% of total assets. The Organization would consider payments not received by the date established in the lease agreement to be past due. At June 30, 2019, no payments on the lease receivables were past due. An allowance for doubtful accounts is not considered necessary based on prior collection experience with UND and underlying collateral security.

Following is a summary of the components of the Organization's net investment in direct financing leases at June 30, 2019:

Total minimum lease payments to be received	\$ 6,888,523
Less: unearned income	<u>(1,069,526)</u>
 Net investment in direct financing leases	 <u><u>\$ 5,818,997</u></u>

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Notes to Financial Statements

June 30, 2019

Minimum future lease payments and unearned income to be received as of June 30, 2019 are as follows:

Years Ending June 30,	Minimum Lease Payments	Unearned Income	Total
2020	\$ 827,176	\$ (215,308)	\$ 611,868
2021	829,103	(195,285)	633,818
2022	824,268	(173,254)	651,014
2023	828,208	(149,743)	678,465
2024	825,383	(124,205)	701,178
Thereafter	2,754,385	(211,731)	2,542,654
	<u>\$ 6,888,523</u>	<u>\$ (1,069,526)</u>	<u>\$ 5,818,997</u>

Note 8 - Endowment

The Organization's endowment consists of over 1,500 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization 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 unless there are explicit donor stipulations to the contrary. At June 30, 2019, there were no such donor stipulations. As a result of this interpretation, net assets with donor restrictions are classified at (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts), and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Notes to Financial Statements

June 30, 2019

The following table summarizes endowment net asset composition by type of fund as of June 30, 2019 (in thousands):

	At June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 217,540	\$ 217,540
Board-designated endowment			
Established with donor-restricted purpose contributions	-	16,006	16,006
Designated quasi endowment funds	27,466	-	27,466
Operating funds acting as endowment	3,463	-	3,463
	\$ 30,929	\$ 233,546	\$ 264,475

Change in endowment net assets for June 30, 2019 is as follows (in thousands):

	For the Year Ending June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 31,588	\$ 222,811	\$ 254,399
Net investment return	1,397	7,323	8,720
Contributions and collection of deferred gifts	(332)	10,597	10,265
Appropriation of endowment assets for expenditures	(1,174)	(7,419)	(8,593)
Other changes	(550)	234	(316)
Endowment net assets, end of year	\$ 30,929	\$ 233,546	\$ 264,475

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original contribution value. The long-term goal is to achieve a rate of growth sufficient to meet the Organization’s spending needs, while maintaining the inflation-adjusted principal of the endowment funds. As language of this nature has been incorporated into each of the donor agreements, the net earnings after endowment distributions on the endowment funds have been added or deducted from the net assets with donor restrictions. Funds with deficiencies resulted from unfavorable market fluctuations and continued appropriation deemed prudent by the Board of Directors. As of June 30, 2019, there were 488 donor restricted endowment funds with balances below the original contribution value amounting to \$7,224,390. In accordance with donor agreements, these amounts are deducted from the net assets with donor restrictions. The Organization has evaluated these funds and reduced appropriations where deemed prudent.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs 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 Organization must hold in perpetuity or for a donor- specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are expected to outperform a custom benchmark (the Allocation Index) consisting of the appropriate indices of each asset class and their proportional weighting in the portfolio. The Allocation Index is constructed by selecting appropriate indices (e.g., S&P 500, Russell 2000, MSCI EAFE, 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 Allocation Index.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization 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 Organization targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with UPMIFA, the Organization considers the following factors 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 Organization 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 Organization
7. The investment policies of the Organization

The Organization has an endowment distribution policy that determines a spending rate annually, currently set at four percent applied to the average of the fair value of endowment investments for the 12 quarters then ended, respectively. In establishing this policy, the Organization considered the long-term expected return on its endowment.

Note 9 - Retirement Plans

The Organization operates a Tax-Deferred Group Retirement defined contribution plan for all full-time employees. The cost of the retirement plan is paid currently and was approximately \$284,000 for the year ended June 30, 2019.

Note 10 - Long-Term Debt

Long-term debt at June 30, 2019 consisted of the following:

Bonds - EERC	\$ 3,775,000
Bonds - Minot Family Practice	2,043,997
Notes - property purchase	<u>424,197</u>
	<u><u>\$ 6,243,194</u></u>

Long-term debt principal payment requirements are as follows:

Year Ending June 30,	Amount
2020	\$ 629,087
2021	651,801
2022	669,796
2023	698,079
2024	721,663
Thereafter	<u>2,872,768</u>
	<u><u>\$ 6,243,194</u></u>

On July 24, 2002, the University of North Dakota Foundation issued \$8,595,000 of tax-exempt lease revenue bonds to finance construction of an office building and the renovation of an existing building for the Energy and Environmental Research Center (EERC) of the University of North Dakota. On October 18, 2012, the University of North Dakota Foundation issued Taxable Refunding Lease Revenue Bonds, Series 2012 in the amount of \$6,405,000 to refund its outstanding Lease Revenue Bonds, Series 2002. The Organization also amended the related lease agreement with the University of North Dakota. Interest accrues on the bonds at rates from .75% to 4.20% depending upon the maturity. Annual principal and semiannual interest payments are due through 2027. The bonds are secured by a lease with the University of North Dakota. See Note 7 for related receivable from the University of North Dakota.

On October 24, 2003, the University of North Dakota Foundation issued \$4,400,000 of tax-exempt lease revenue bonds to finance the purchase of land and construction of a facility for occupancy by the Minot Center for Family Practice in Minot, ND. The center is a component of the School of Medicine & Health Sciences at UND. In June 2008, the \$3,680,000 remaining balance of the 2003 bonds was refinanced with Lease Revenue Refunding Bonds, Series 2008. In April 2018, the \$2,218,000 remaining balance of the 2008 bonds was refinanced with Lease Revenue Refunding Bonds, Series 2018. The interest rate is fixed at 3.50% until 2028. Payments of \$133,333 are required semi-annually through 2028. The bonds are secured by a lease with the University of North Dakota. See Note 7 for related receivable from the University of North Dakota.

The University of North Dakota Foundation issued tax exempt bonds, Series 2013A in the amount of \$4,000,000 on September 30, 2013 to monetize a portion of the pledges for the Athletic Complex to facilitate construction. The interest rate was fixed at 3.15%. The bonds were paid in full as of June 30, 2019.

The University of North Dakota Foundation purchased property through a contract for deed in the amount of \$500,000 on June 5, 2014. The interest rate is fixed at 4.35%. Monthly payments are required through 2036.

Interest expense incurred totaled \$252,975 for the year ending June 30, 2019. On the statement of activities, interest expense is included in program support for University of North Dakota.

Note 11 - Short-Term Credit Arrangement

The Organization has an unsecured \$1 million line of credit which expires on October 25, 2019. Borrowings under this line of credit bear interest at the Wall Street Journal prime rate. Principal and interest payments are payable on the first day of the month following an advance. In addition, the agreement requires the Organization to comply with certain financial covenants. At June 30, 2019, there were no outstanding borrowings under this arrangement.

Note 12 - Split Interest Agreements

The Organization has arrangements with donors classified as charitable lead trusts, charitable remainder trusts and charitable gift annuities. In general, under these arrangements the Organization receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. For donors residing in California and Florida, state law specifies and limits the types of investments of required gift annuity reserves. These guidelines are followed and a separate reserve for California and Florida annuity monies is maintained.

The Organization invests and administers the related assets and make distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the Organization as net assets with or without donor restrictions, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the Organization or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The Organization used interest rates ranging from 1.2% to 10.2% for the year ended June 30, 2019 in making the calculations. The amount designated to third party beneficiaries is recorded as another liability and is calculated based on the net value of the asset.

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Information pertaining to the Organization’s deferred gift agreements for the year ended June 30, 2019 is as follows:

Deferred gift contribution revenue	\$	38,593
Annuities and charitable remainder trust payable related to new gifts		11,407
Total funds received	\$	50,000
Total deferred gift assets at fair value	\$	29,449,319
Total deferred gift liabilities	\$	16,795,344

Beneficial Interest in Trusts Held by Others – The assets of agreements for which the Organization is not the trustee are disclosed separately on the statement of financial position as beneficial interest in trusts held by others. During the year ended June 30, 2019, the Organization did not receive gift income relating to funds held in trust by others.

Note 13 - Development Reinvestment and Investment Fee

The Organization provides many of the development functions for the University of North Dakota. To support the cost of raising funds, the Organization assesses a development reinvestment fee at the inception of non-endowed donations (with some exceptions) which is reported as operations, fees and miscellaneous revenue in the statement of activities.

Endowed deposits are invested and a per annum management fee is assessed on a quarterly basis based upon the quarter-end market value of that endowment within the investment portfolio. This rate is established by the UND Alumni Association and Foundation Board of Directors and was 1.65% for the year ended June 30, 2019. The fees are reflected on the statement of activities as a fee charged to investment earnings within the net assets with donor restrictions and as operations revenue without donor restrictions. Endowments managed for the University are charged a similar fee.

Note 14 - Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, accounts receivable and notes. Approximately 75% of total investments are managed by SEI. The Organization places substantially all of their cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution. Cash and cash equivalents in excess of FDIC and similar coverage is subject to the usual risks of balances in excess of these limits. Investments, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to reduce credit risk. Concentration of credit risk with respect to the notes receivable and lease receivables is limited due to the Organization holding a secured position in these agreements.

Note 15 - Other Related Party Transactions

The Organization, a component unit of the University of North Dakota, reported the following other receivables due from UND and accounts payable due to UND as of June 30, 2019:

Due from UND	
Lease receivable (Note 7)	<u>\$ 5,818,997</u>
Due to UND	
Miscellaneous services and payments	<u>\$ 462,695</u>

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

During the year ended June 30, 2019, the University of North Dakota provided approximately \$1,478,000 of institutional support for event and database support, annual giving campaign and shared positions. The Organization manages UND's endowment investments and charged them \$387,594 in investment management fees during the year ended June 30, 2019. These fees and support are reported as operations, fees and miscellaneous revenue on the statement of activities.

Pledges receivable from board members and officers at June 30, 2019 were \$1,066,166. Total gifts received from board members and officers during the year ended June 30, 2019 were \$861,445.

The Organization has other receivables from the University of North Dakota related to construction of EERC and Minot Center for Family Practice. See Note 7 for additional information.

The Organization is leasing 45,000 square feet of land for the Gorecki Alumni Center from the University of North Dakota. Starting in 2016 the rate is \$0.10 per square foot per year. The cost in 2019 was \$4,500.

Note 16 - Restatement Resulting from Change in Accounting Policy

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

University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2019

The effect on the Organization's beginning of year net assets as reported in the statement of activities is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net Assets, Beginning of Year			
Unrestricted	\$ 40,763,475	\$ (40,763,475)	\$ -
Temporarily restricted	49,612,948	(49,612,948)	-
Permantly restricted	243,886,427	(243,886,427)	-
Net assets without donor restrictions	-	40,763,475	40,763,475
Net assets with donor restrictions	-	293,499,375	293,499,375