



Financial Statements  
June 30, 2021

University of North Dakota Alumni  
Association and Foundation

University of North Dakota Alumni Association and Foundation

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June 30, 2021

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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, 2021, 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, 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited 2020 financial statements of the University of North Dakota Alumni Association and Foundation, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**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 audits 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 "Eide Sully LLP".

Fargo, North Dakota  
October 27, 2021

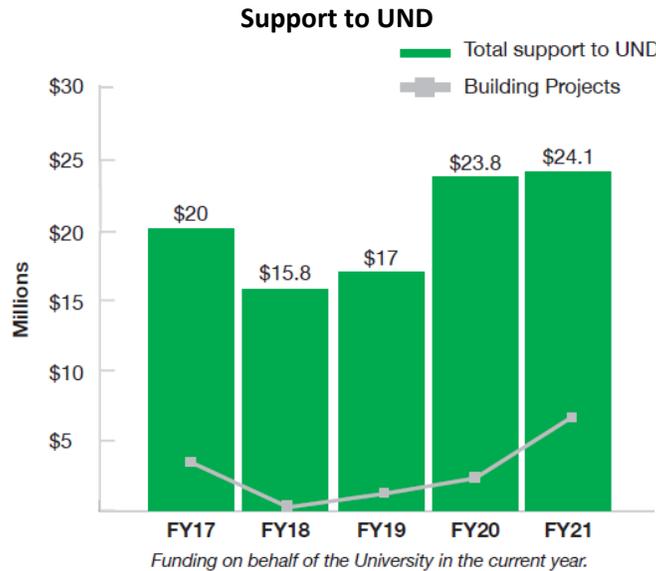
### Management’s Discussion and Analysis

#### Recap of Fiscal Year 2021

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, 2021. 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 Foundation supports University of North Dakota (University) students, faculty, alumni, and the greater community by providing resources for growth and development.

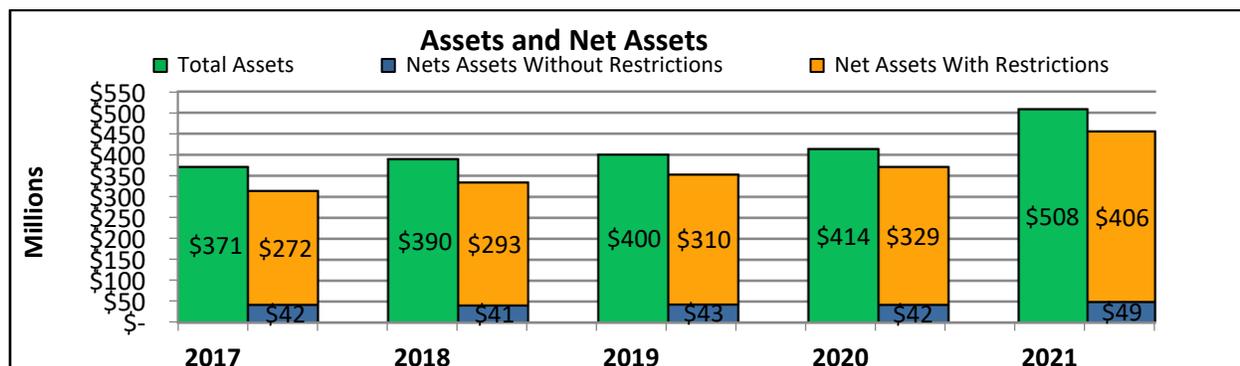
#### University Support

The Foundation provides funding for students, faculty, facilities, and programs at the University. In fiscal year 2021, the Foundation provided \$24.1 million in support to the University; up slightly from last year’s support of \$23.8 million. Support includes student scholarships, faculty salaries, facilities, and department support, as well as other expenditures that intend to further the mission of the University. Gift in Kind support decreased \$3.4M in fiscal year 2021 due to a large fiscal year 2020 contribution. Capital support was \$7 million in fiscal year 2021 up from \$2.4 million in 2020; this can vary significantly from year to year as building projects on campus can fluctuate. Scholarship support increased 3.6%; \$9.9 million in 2021, from \$9.5 million in 2020.



#### Assets and Net Assets

On June 30, 2021, the Foundation's assets total \$508 million, up from \$414 million last year. Foundation assets consist primarily of investments and contributions receivable. Investments make up approximately 85% of total assets. The Foundation classifies net assets as with restrictions or without restrictions in accordance with donor stipulations and time restrictions. Net assets without donor restrictions are available for priority needs spending. 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 FY22 include pledges for building projects and growth of the permanently restricted endowment through campaigns for increased student and faculty support.

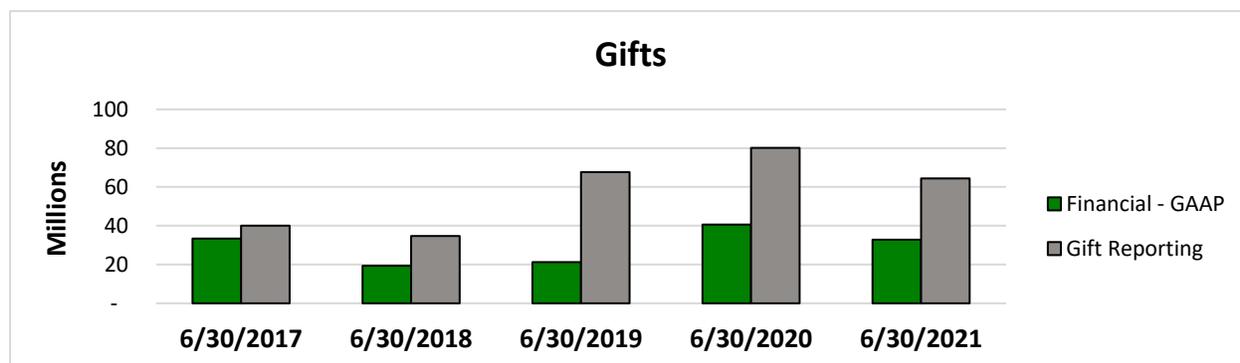


### Contributions (Pledges) Receivable

Contributions receivable on June 30, 2021 amounted to approximately \$41 million, \$35 million in net present value, up from \$37 million gross and \$32 million in net present value last year.

### 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 conditions have been met or the bequest is realized. GAAP accounting also requires pledges to be shown at NPV. In fiscal year 2021, the Foundation recognized \$32.8 million in contributions based on GAAP. The overall contribution income is down from \$40.6 million in the prior fiscal year.



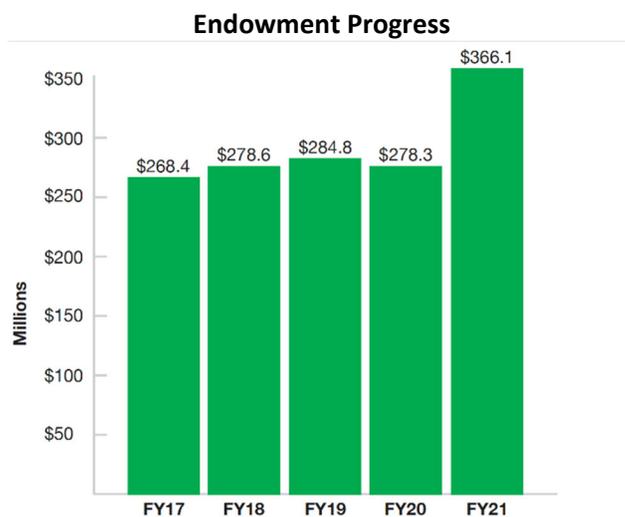
The Foundation reports its annual fundraising totals by using guidelines published by the Council for Advancement and Support of Education (CASE). CASE allows gross pledges and bequest contributions to be counted in fundraising totals. The organization varies from CASE as it reports North Dakota Matching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

Gift reporting from all the UND campus showed fundraising at \$64.4 million, which includes \$10.1 million in deferred gifts and \$33.7 million of gifts to other component units outside of the UND Foundation.

In fiscal year 2021, approximately 21% of the fundraising total was directed towards scholarships, 35% for academic programs and faculty, 7% for priority needs, and 37% directed towards capital projects.

## Endowments

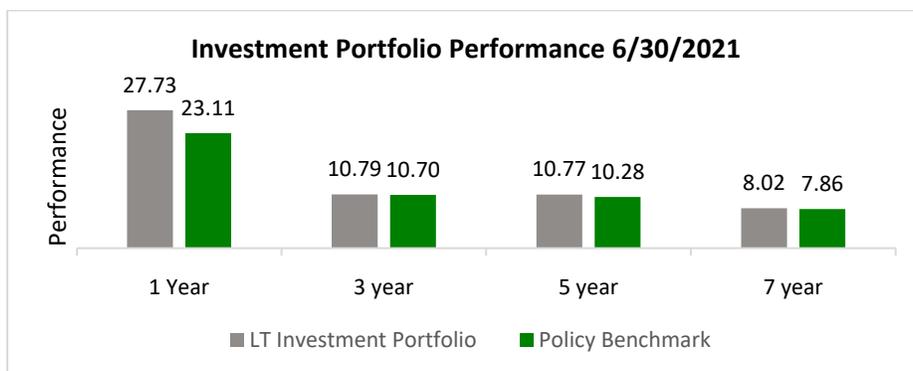
The Foundation manages over seventeen hundred endowed funds for the Foundation and other organizations, valued at \$366 million on June 30, 2021.



## Investment Portfolio Returns

Endowments managed by the Foundation are invested within a long-term investment portfolio and shown 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.

	<b>Annualized Return</b>			
	<u>1 Year</u>	<u>3 year</u>	<u>5 year</u>	<u>7 year</u>
LT Investment Portfolio	27.73	10.79	10.77	8.02
LT Investment Portfolio, Net	26.99	10.12	10.06	7.31
Policy Benchmark	23.11	10.70	10.28	7.86



**Liabilities**

Total liabilities are \$53 million, up from \$43 million in FY20; this includes the endowment portfolios we manage for the University and Center for Innovation Foundation which are included in the total assets. The increase is due to large increase in accounts payable for the Nistler CoBPA construction and the increase in value of the endowment portfolios managed for others.

# University of North Dakota Alumni Association and Foundation

Statement of Financial Position – Assets

June 30, 2021

(With Comparative Totals at June 30, 2020)

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 27,682,745	\$ 40,263,262
Other receivables	797,892	700,963
Contributions receivable, net	6,744,532	6,970,821
Prepaid expenses	361,866	100,806
Total current assets	35,587,035	48,035,852
Noncurrent Assets		
Receivables		
Other receivables	3,955,123	4,610,778
Contributions receivable, net	26,895,392	23,633,644
Total receivables	30,850,515	28,244,422
Investments		
Investments	356,871,701	262,488,564
Investments - held for others	4,127,348	3,374,928
Investments - held for University of North Dakota	18,842,685	15,259,104
Beneficial interest in trusts held by others	17,275,766	15,098,056
Charitable remainder trust account investments	20,901,427	17,679,102
Charitable gift annuity investments	6,454,383	5,770,428
Other investments	6,343,242	6,403,549
Total investments	430,816,552	326,073,731
Property and equipment		
Building, less accumulated depreciation	8,718,312	8,997,198
Furniture and equipment, less accumulated depreciation	175,599	213,536
Antiques and fine arts	1,606,708	1,605,508
Total property and equipment	10,500,619	10,816,242
Total noncurrent assets	472,167,686	365,134,395
Total assets	\$ 507,754,721	\$ 413,170,247

# University of North Dakota Alumni Association and Foundation

## Statement of Financial Position – Liabilities and Net Assets

June 30, 2021

(With Comparative Totals at June 30, 2020)

	2021	2020
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,788,291	\$ 295,396
Accrued expenses - salary and benefits	469,545	445,120
Refundable advance	-	789,000
Deferred revenue	2,397,021	1,913,668
Liabilities under charitable trusts and annuities	1,761,208	1,598,853
Current maturities of bonds and note payable	669,795	651,802
Total current liabilities	11,085,860	5,693,839
<b>Noncurrent Liabilities</b>		
Liabilities under charitable trusts and annuities	13,955,491	12,910,140
Bonds and note payable	4,344,645	4,963,494
Deposits held in custody for others	22,970,033	18,634,032
Total noncurrent liabilities	41,270,169	36,507,666
Total liabilities	52,356,029	42,201,505
<b>Net Assets</b>		
Without donor restrictions	48,991,482	42,057,208
With donor restrictions	406,407,210	328,911,534
Total net assets	455,398,692	370,968,742
Total liabilities and net assets	\$ 507,754,721	\$ 413,170,247

University of North Dakota Alumni Association and Foundation  
Statement of Activities  
Year Ended June 30, 2021  
(With Comparative Totals for Year Ended June 30, 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue, Gains and Other Support				
Gifts and bequests, including gifts under charitable remainder unitrusts	\$ 832,013	\$ 31,929,923	\$ 32,761,936	\$ 40,606,747
Operations, fees and miscellaneous	7,141,360	407,337	7,548,697	8,267,853
Net investment return	7,897,157	60,882,314	68,779,471	(2,212,466)
Change in split-interest agreements	157,629	4,994,576	5,152,205	836,782
Sub-totals	16,028,159	98,214,150	114,242,309	47,498,916
Net assets released from restrictions	20,718,474	(20,718,474)	-	-
Total revenue, gains and other support	36,746,633	77,495,676	114,242,309	47,498,916
Expenses				
Program services expense				
Scholarships	9,851,672	-	9,851,672	9,508,478
Support to benefit the University of North Dakota	14,468,797	-	14,468,797	14,456,297
Total program services expense	24,320,469	-	24,320,469	23,964,775
Supporting services expense				
General and administrative	2,628,920	-	2,628,920	2,496,986
Fundraising	2,862,970	-	2,862,970	2,938,628
Total supporting services expense	5,491,890	-	5,491,890	5,435,614
Total expenses	29,812,359	-	29,812,359	29,400,389
Change in Net Assets	6,934,274	77,495,676	84,429,950	18,098,527
Net Assets, Beginning of Year	42,057,208	328,911,534	370,968,742	352,870,215
Net Assets, End of Year	\$ 48,991,482	\$ 406,407,210	\$ 455,398,692	\$ 370,968,742

University of North Dakota Alumni Association and Foundation

Statement of Functional Expenses

Year Ended June 30, 2021

(With Comparative Totals for the year ended June 30, 2020)

	2021						2020 Total
	Program Services		Total Program Support	Supporting Services		Total	
	Scholarships	Support to Benefit the University		General and Administrative	Fundraising		
Scholarships	\$ 9,851,672	\$ -	\$ 9,851,672	\$ -	\$ -	\$ 9,851,672	\$ 9,508,478
Other support to UND							
Meetings and banquets	-	291,331	291,331	-	-	291,331	508,838
Instructional supplies and services	-	424,578	424,578	-	-	424,578	656,705
Travel and lodging	-	409,614	409,614	-	-	409,614	276,754
Fees and professional services	-	1,847,026	1,847,026	-	-	1,847,026	1,712,337
Stipends, salaries, and benefits	-	2,087,176	2,087,176	-	-	2,087,176	2,135,080
Building project	-	6,967,676	6,967,676	-	-	6,967,676	2,409,267
Interest	-	211,093	211,093	-	-	211,093	231,792
Other support to UND	-	958,892	958,892	-	-	958,892	5,183,658
Salaries and benefits	-	869,040	869,040	1,623,656	2,390,896	4,883,592	4,671,824
Depreciation	-	31,683	31,683	221,776	63,364	316,823	355,390
Contract services	-	25,947	25,947	86,452	68,836	181,235	222,509
Information technology	-	5,698	5,698	349,063	106,875	461,636	317,454
Postage and printing	-	260,226	260,226	19,678	96,555	376,459	352,474
Interest	-	-	-	(1,600)	-	(1,600)	1,600
Travel	-	6,848	6,848	-	37,008	43,856	217,602
Gorecki building and events	-	-	-	235,473	-	235,473	216,824
Meals and meetings	-	14,223	14,223	133	35,435	49,791	205,955
Promotional and advertising	-	40,558	40,558	1,155	23,027	64,740	37,578
Other	-	17,188	17,188	93,134	40,974	151,296	178,270
	<u>\$ 9,851,672</u>	<u>\$ 14,468,797</u>	<u>\$ 24,320,469</u>	<u>\$ 2,628,920</u>	<u>\$ 2,862,970</u>	<u>\$ 29,812,359</u>	<u>\$ 29,400,389</u>

# University of North Dakota Alumni Association and Foundation

Statement of Cash Flows

Year Ended June 30, 2021

(With Comparative Totals for Year Ended June 30, 2020)

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 84,429,950	\$ 18,098,527
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	316,823	355,390
Net (gain) loss on investments - realized and unrealized	(76,276,166)	(1,599,273)
Change in beneficial interest in funds held in trust	(6,826,676)	340,201
Change in life insurance cash value	(89,692)	(50,792)
Contributions restricted to endowment	(14,302,849)	(10,894,661)
Actuarial adjustment on annuities payable	1,207,706	(2,286,351)
Forgiveness of Paycheck Protection Program	(789,000)	-
Gifts of non-cash assets received	(1,200)	(6,501)
Effects on cash flows due to changes in		
Notes receivable	5,403	5,208
Other receivables	553,323	703,370
Prepaid expenses	(261,060)	150,840
Contributions receivable	(4,423,242)	(7,117,872)
Accounts payable	5,492,895	(262,024)
Refundable advance	-	789,000
Deferred revenue	483,353	1,463,874
Accrued expenses - salary and benefits	24,425	55,943
Net Cash used for Operating Activities	(10,456,007)	(255,121)
Cash flows from investing activities		
Sales of investments	29,789,872	34,343,490
Purchase of investments	(50,656,204)	(6,367,073)
Change in investments - annuities	(683,955)	284,312
Purchase of fixed assets	-	(75,420)
Change in deposits held for UND and others	4,336,001	(4,389,807)
Net Cash from (used for) Investing Activities	(17,214,286)	23,795,502
Cash flows from financing activities		
Contributions restricted for long-term purposes	15,690,632	10,716,849
Proceeds from issuance of note payable	50,001	-
Principal payments on bonds and notes payable	(650,857)	(627,898)
Net Cash from Financing Activities	15,089,776	10,088,951
Net Change in Cash and Cash Equivalents	(12,580,517)	33,629,332
Cash and Cash Equivalents at Beginning of Year	40,263,262	6,633,930
Cash and Cash Equivalents at End of Year	\$ 27,682,745	\$ 40,263,262
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 209,493	\$ 234,627

See Notes to Financial Statements

## **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, 2021. See Note 7 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 \$1,444,292 is \$175,599. 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 \$2,437,129 is \$8,718,312 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, 2021.

**Antiques and Fine Arts**

The Organization's collections capitalized since inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at fair value on the accession date. Gains or losses on the deaccession of collection items are classified on the statement of activities as support without donor restrictions or donor-restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and the organization is protecting and preserving essentially undiminished the service potential of the collection item. The Organization's collections are made up of antiques and fine arts that are held for public exhibition, education, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used for the acquisition of new collection items, the direct care of existing collections, or both. The Organization defines direct care expenditures as costs incurred to enhance the life, usefulness and quality of the collection. No collection items were deaccessioned during the year ended June 30, 2021.

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

The Organization acts as trustee for various 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 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 mostly 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**

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

A portion of the Organization's revenue is derived from service fees and cost-reimbursement contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

The Organization recognizes membership dues over the membership period, with amounts paid in advance being recorded as deferred revenue, and a contribution portion immediately.

### **Advertising Costs**

Advertising costs are expensed when incurred. For the years ended June 30, 2021, advertising costs were \$62,981.

### **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 stewardship and donor relations costs.

### **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, 2021. 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 Pronouncement**

The Organization has adopted the provisions of the Accounting Standards Update 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The ASU provides revisions and deletions to guidance regarding the disclosure requirements included in Topic 820, including eliminating and modifying existing disclosure requirements.

### **Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

### **Subsequent Events**

Subsequent events have been evaluated through October 27, 2021, the date the financial statements were available to be issued.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

## 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	\$ 27,682,745
Other receivables, current portion	797,892
Contributions receivable, current portion	6,744,532
Investments	356,871,701
Investments - held for others	4,127,348
Investments - held for University of North Dakota	<u>18,842,685</u>
Total financial assets	<u>415,066,903</u>
Less amounts not available for general expenditure in the next year:	
Deposits held in custody for others	22,970,033
Subject to expenditure for a specific purpose	57,042,682
Assets to be held in perpetuity	<u>313,959,503</u>
Total financial assets not available for general expenditure within the next year	<u>393,972,218</u>
Financial assets available for general expenditure within the next year	<u><u>\$ 21,094,685</u></u>

The Organization has entered into an agreement for a line of credit with a total available balance of \$1 million, expiring in October 2021. At June 30, 2021, the Organization has the full balance available to be drawn.

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 - Paycheck Protection Program

The Organization was granted a \$789,000 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner in April 2020. The Organization received loan forgiveness of 100% of the loan during the year ended June 30, 2021. The Organization has properly recorded the loan as a contribution revenue in the Statement of Activities.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

## Note 4 - Investments

The following investments were held as of June 30, 2021:

Endowment investments and funds held for others	
Cash equivalents	\$ 333,591
Equity securities	1,478,992
Equity mutual funds	183,074,752
Fixed income securities	505,020
Fixed income mutual funds	114,891,163
Hedge funds	29,000,611
Natural resource funds	1,036,350
Realty funds	18,705,521
Distressed debt funds	11,541,451
Private equity funds	19,274,283
Total endowment investments and funds held for others	379,841,734
Beneficial interest in trusts held by others	\$ 17,275,766
Charitable remainder trust accounts	
Cash equivalents	\$ 379,175
Equity mutual funds	10,535,750
Fixed income mutual funds	6,786,337
Realty funds	3,200,165
Total trust accounts	20,901,427
Charitable gift annuity investments	
Cash equivalents	\$ 110,113
Equity mutual funds	2,725,113
Fixed income securities	72,783
Fixed income mutual funds	2,580,837
Land and buildings	965,537
Total charitable gift annuity investments	6,454,383
Land	4,804,937
Buildings	530,001
Mineral interests	501,409
Life insurance, cash value	506,895
Total other investments	6,343,242
Total investments	\$ 430,816,552

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 5 - 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.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

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 as of June 30, 2021:

	Total	Level 1	Level 2	Level 3
Assets				
Investments, at fair value				
Money market funds	\$ 822,878	\$ 822,878	\$ -	\$ -
Fixed income mutual funds	124,258,338	124,258,338	-	-
Equity mutual funds	196,335,615	196,335,615	-	-
Fixed income securities	577,803	-	577,803	-
Equity securities	1,478,992	1,478,992	-	-
Beneficial interests in trusts held by others	17,275,766	-	-	17,275,766
Land	4,804,937	-	4,804,937	-
	<u>345,554,329</u>	<u>\$ 322,895,823</u>	<u>\$ 5,382,740</u>	<u>\$ 17,275,766</u>
Investments measured at net asset value				
Hedged funds	29,000,611			
Natural resource funds	1,036,350			
Private equity funds	19,274,283			
Realty funds	22,871,223			
Distressed debt funds	11,541,451			
Subtotal investments measured at net asset value	<u>83,723,918</u>			
	<u>429,278,247</u>			
Investments, at cost				
Mineral interests	501,409			
Buildings	530,001			
Life insurance, cash value	506,895			
Total investments	<u>\$ 430,816,552</u>			

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

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) for the year ended June 30, 2021:

	Balances, June 30, 2020	Net Realized and Unrealized Gains Included in Net Assets	Purchases	(Sales)	Balances, June 30, 2021
Assets					
Beneficial interest in trusts held by others	\$ 15,098,056	\$ 2,177,710	\$ -	\$ -	\$ 17,275,766
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, 2021.					\$ 1,781,846

The following table presents the range and weighted average of the unobservable inputs used to develop Level 3 fair value measurements for the year ended June 30, 2021:

	2021	Valuation Technique	Unobservable Input	Range (Weighted Avg.)
Beneficial interest in trusts held by others	\$ 17,275,766	Discount to present value	Risk-adjusted discount rate	

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.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

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, 2021	\$ 2,518,286	\$ 70,051	\$ 1,036,350	\$ 16,755,997
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	\$ 265,500	\$ 764,600	\$ 83,250	\$ 22,109,494
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, 2021

	Hedged Funds SEI Special Situations	Hedge Funds SEI Offshore Opportunities II	Distressed Debt SEI Structured Credit Fund	Realty Funds
Fair value June 30, 2021	\$ 18,111,404	\$ 10,889,207	\$ 11,471,400	\$ 22,871,223
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

University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

**Note 6 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2021:

Subject to the Passage of Time or Specific Purpose	
Capital improvement/facilities	\$ 36,280,041
Scholarships and student loans	15,616,963
Lectureships, professorships, chairs and faculty support	6,421,660
Research	3,124,561
College program support	24,874,194
Total subject to the passage of time or specific purpose	86,317,419
Endowments and Other Net Assets Held in Perpetuity	
Capital improvements/facilities	1,840,102
Scholarships and student loans	161,676,667
Lectureships, professorships, chairs, and faculty support	49,025,889
Research	9,170,689
College program support	98,376,444
Total endowments and other net assets held in perpetuity	320,089,791
	<b>\$ 406,407,210</b>

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, 2021 were \$20,718,474 and related to program support.

**Note 7 - Contributions Receivable**

Contributions receivable include the following unconditional promises to be collected as follows at June 30, 2021:

Within one year	\$ 6,742,703
In one to five years	15,170,857
Over five years	18,785,703
Gross unconditional promises to give	40,699,263
Less discount to net present value	(5,289,088)
Less allowance for uncollectible promises to give	(1,770,251)
Net contribution receivable	\$ 33,639,924

As of June 30, 2021, \$2,775,622 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, 2021, promises due in one year or more were discounted using historical interest rates ranging between 2.065% and 5.0%. Promises due in less than one year were not discounted.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

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Approximately \$23,921,300 of the total gross contribution receivable at June 30, 2021, represents amounts due from six donors.

In addition, the Organization has additional intentions to give not recorded in the financial statements which consist of remembrances under wills of approximately \$159,819,303.

## Note 8 - Other Receivables

The following summarizes the other receivables as of June 30, 2021:

UND lease receivable - EERC	\$ 2,930,000
UND lease receivable - Minot Family Practice	1,645,483
Other accounts receivable	140,431
Interest receivable	861
Note receivable	<u>36,240</u>
 Total other receivables	 <u><u>\$ 4,753,015</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, 2021 was \$2,930,000. The terms for the repayment are the same as the payment terms of the related bonds. See Note 11 for additional information.

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, 2021 is \$1,645,483. 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 11 for additional information.

At June 30, 2021, 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, 2021, 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.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

Following is a summary of the components of the Organization's net investment in direct financing leases at June 30, 2021:

Total minimum lease payments to be received	\$ 5,231,303
Less: unearned income	<u>(658,933)</u>
 Net investment in direct financing leases	 <u><u>\$ 4,572,370</u></u>

Minimum future lease payments and unearned income to be received as of June 30, 2021 are as follows:

Years Ending June 30,	Minimum Lease Payments	Unearned Income	Total
2022	824,268	(173,254)	\$ 651,014
2023	828,207	(149,743)	678,464
2024	825,382	(124,205)	701,177
2025	826,977	(97,814)	729,163
2026	831,188	(68,757)	762,431
Thereafter	<u>1,095,281</u>	<u>(45,160)</u>	<u>1,050,121</u>
	<u><u>\$ 5,231,303</u></u>	<u><u>\$ (658,933)</u></u>	<u><u>\$ 4,572,370</u></u>

## Note 9 - Endowment

The Organization's endowment consists of over 1,700 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, 2021, 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.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

The following table summarizes endowment net asset composition by type of fund as of June 30, 2021 (in thousands):

	At June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 283,734	\$ 283,734
Established with donor-restricted purpose contributions	-	18,911	18,911
Board-designated endowment			
Designated quasi endowment funds	31,484	-	31,484
Operating funds acting as endowment	11,419	-	11,419
	\$ 42,903	\$ 302,645	\$ 345,548

Change in endowment net assets for June 30, 2021 is as follows (in thousands):

	For the Year Ending June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 27,064	\$ 234,550	\$ 261,614
Net investment return	8,284	59,630	67,914
Contributions and collection of deferred gifts	8,754	16,495	25,249
Appropriation of endowment assets for expenditures	(1,199)	(8,030)	(9,229)
Other changes	-	-	-
Endowment net assets, end of year	\$ 42,903	\$ 302,645	\$ 345,548

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 June 30, 2021, funds with original gift values of \$18,002,726, fair values of \$17,097,695, and deficiencies of \$1,160,270. In accordance with donor agreements, these amounts are deducted from the net assets with donor restrictions.

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.

**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 3.75 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 10 - 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 \$341,000 for the year ended June 30, 2021.

**Note 11 - Long-Term Debt**

Long-term debt at June 30, 2021 consisted of the following:

	2021
Bonds - EERC	\$ 2,930,000
Bonds - Minot Family Practice	1,645,483
Notes - property purchase	388,955
Notes - COBPA	50,002
	\$ 5,014,440

Long-term debt principal payment requirements are as follows:

Year Ending June 30,	Amount
2022	\$ 669,795
2023	748,080
2024	721,663
2025	750,558
2026	784,775
Thereafter	1,339,569
	\$ 5,014,440

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 8 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 8 for related receivable from the University of North Dakota.

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.

The University of North Dakota Foundation is financing the remodel of the College of Business and Public Administration building in part with a bond agreement with First International Bank & trust, in an amount up to \$30,000,000. The interest rate is 2.39% until 2028. Interest only payments will be made quarterly, starting June 2021 until September 2022. Principal and interest payments are required quarterly starting December 2022 through 2032. The bonds are secured by pledged receivables received for the College of Business and Public Administration Building by the University of North Dakota Foundation. As of June 30, 2021, the balance drawn down on the bonds is \$50,002.

Interest expense incurred totaled \$211,093 for the year ending June 30, 2021. On the statement of activities, interest expense is included in program support for University of North Dakota.

#### **Note 12 - Short-Term Credit Arrangement**

The Organization has an unsecured \$1 million line of credit which expires on October 28, 2021. 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, 2021, there were no outstanding borrowings under this arrangement.

#### **Note 13 - 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 years ended June 30, 2021 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.

# University of North Dakota Alumni Association and Foundation

Notes to Financial Statements

June 30, 2021

Information pertaining to the Organization’s deferred gift agreements for the years ended June 30, 2021 is as follows:

Deferred gift contribution revenue	\$ 113,274
Annuities and charitable remainder trust payable related to new gifts	<u>36,726</u>
 Total funds received	 <u><u>\$ 150,000</u></u>
 Total deferred gift assets at fair value	 <u><u>\$ 32,160,747</u></u>
 Total deferred gift liabilities	 <u><u>\$ 15,716,699</u></u>

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 years ended June 30, 2021, the Organization did not receive gift income relating to funds held in trust by others.

## **Note 14 - 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 1.5% for the year ended June 30, 2021. 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 15 - 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 85% 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 16 - 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, 2021:

Due from UND	
Lease receivable (Note 8)	<u>\$ 4,575,483</u>
Due to UND	
Miscellaneous services and payments	<u>\$ 5,710,787</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, 2021, the University of North Dakota provided approximately \$1,504,496 of institutional support for event and database support, annual giving campaign, career development center, and shared positions. The Organization manages UND's endowment investments and charged them \$250,508 in investment management fees during the years ended June 30, 2021. 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, 2021 were \$1,958,135. Total gifts received from board members and officers during the years ended June 30, 2021 were \$507,757.

The Organization has other receivables from the University of North Dakota related to construction of EERC and Minot Center for Family Practice. See Note 8 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 2021 was \$4,500.

**Note 17 - Commitments and Contingencies****COVID-19 Pandemic**

During 2021, the world-wide coronavirus pandemic impacted national and global economies. The Organization is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Organization is not known.