

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND
FOUNDATION**

Grand Forks, North Dakota

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Year Ending June 30, 2016

**THE UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of University of North Dakota Alumni Association and Foundation (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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 Organization as of June 30, 2016, 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.

Other Matters

Other Information

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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baker Tilly Vichow Krause, LLP

Minneapolis, Minnesota
October 14, 2016

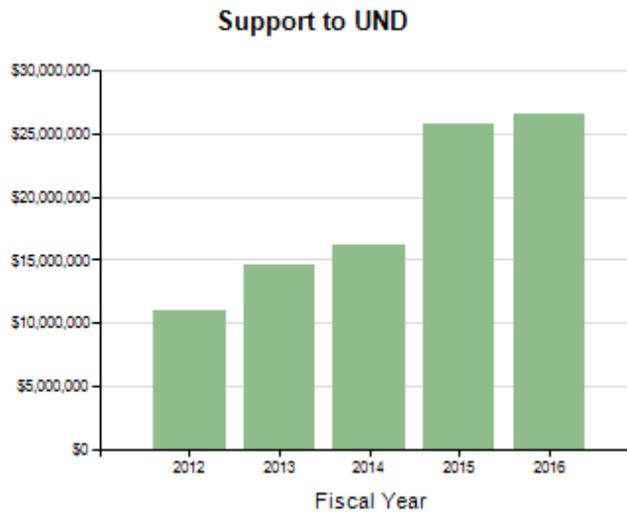
MANAGEMENT'S DISCUSSION AND ANALYSIS Recap of Fiscal Year 2016

OVERVIEW

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, 2016**. 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

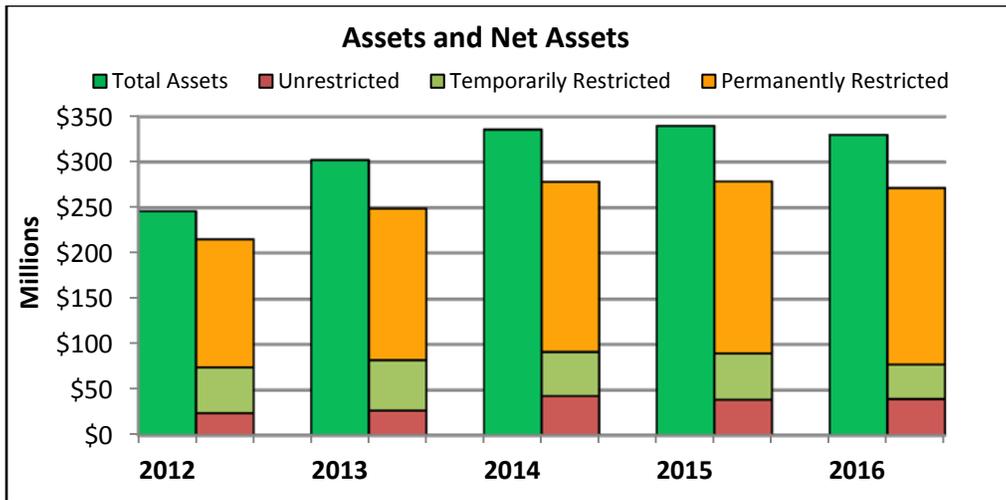
The Foundation provides funding for students, faculty and programs at the University. In fiscal year 2016, the Foundation provided \$26.3 million in support to the University of which \$23.6 million was direct support; this was our highest support year ever. Total support includes student scholarships, faculty salaries, equipment purchases, as well other expenditures that to further the mission of the University. Capital support included was \$12.3 million in 2016; this can vary significantly from year to year, as building projects on campus can fluctuate. Scholarship support increased 9%; \$5.9 million in 2016, from \$5.4 million in 2015.



Assets and Net Assets

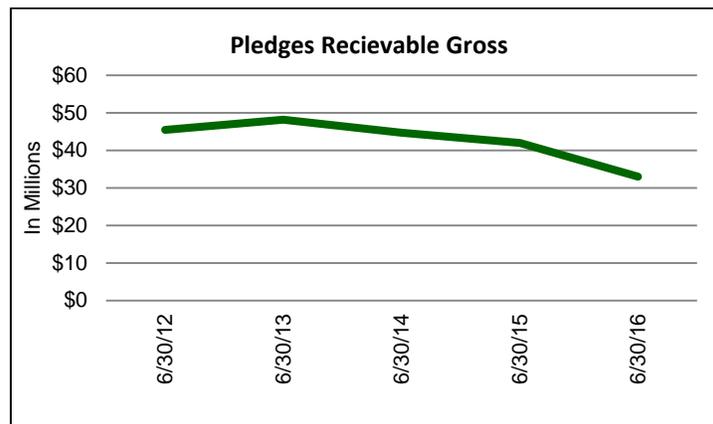
At June 30, 2016, the Foundation's assets total \$330 million, down from \$340 million last year. Foundation assets consist primarily of investments and contributions receivable. Investments make up approximately 84% of total assets. The Foundation classifies net assets as unrestricted, temporarily restricted, or permanently restricted in accordance with donor stipulations and time restrictions.

Unrestricted net assets are available for internal Foundation operations. Temporarily restricted net assets represent assets received with a donor restriction that will be satisfied in the future by the University. Permanently restricted assets are restricted by donors and are invested by the Foundation in perpetuity. As illustrated below, a majority of the Foundation's assets are permanently restricted. Goals for the upcoming year FY17 includes growth of the permanently restricted endowment through campaigns for enhanced Student and Faculty support.



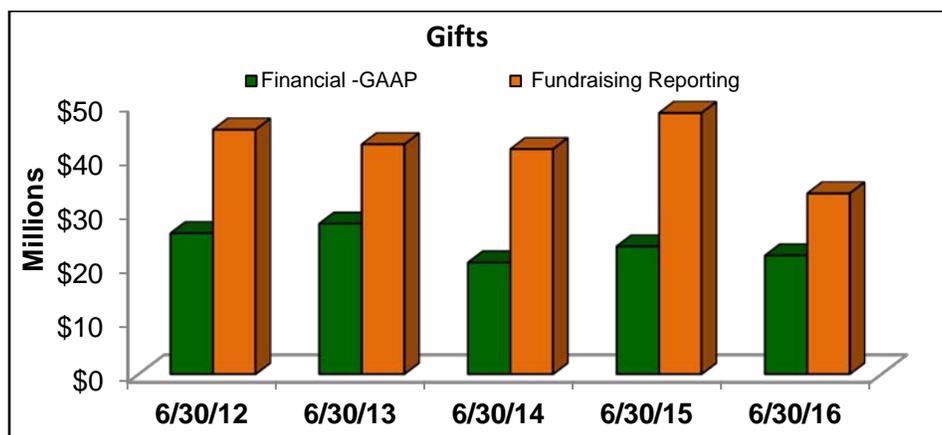
Contributions Receivable

Contributions receivable at June 30, 2016 amounted to approximately \$33 million gross and \$27 million net of discount to present value, down from \$42 million gross and \$35 million in net present value last year. Our peak receivables were \$48 million gross 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 has differences from fundraising, the most significant difference is that GAAP income does not recognize bequest contributions as revenue until the bequest is realized. In fiscal year 2016, the Foundation recognized \$21.9 million in contributions based on GAAP, including \$2.9 million from the North Dakota Challenge grant program. The overall contribution income is down from \$23.6 million in the prior fiscal year.



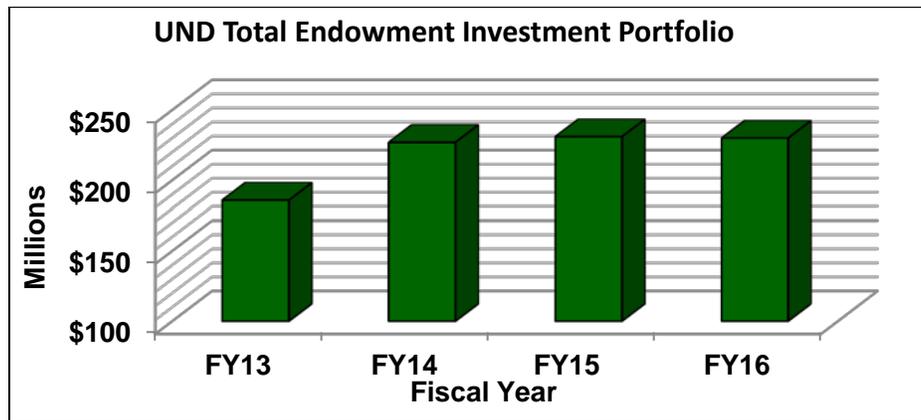
The Foundation also reports its annual fundraising totals by using guidelines published by the Council for Advancement and Support of Education (CASE). CASE allows conditional and bequest contributions to be counted in fundraising totals. The organization varies from CASE as it reports North Dakota Matching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

Fundraising reporting from all of the UND campus showed results at \$33.4 million, which includes \$10.8 million in deferred gifts and \$2.9 million of gifts outside the UND Foundation. Grants included in the fundraising totals from the North Dakota Match program total \$3.3 million which adds to endowment.

In fiscal year 2016, approximately 31% of the fundraising total was directed towards academic programs and faculty, 60% for scholarships, and 9% directed towards capital projects.

Endowments

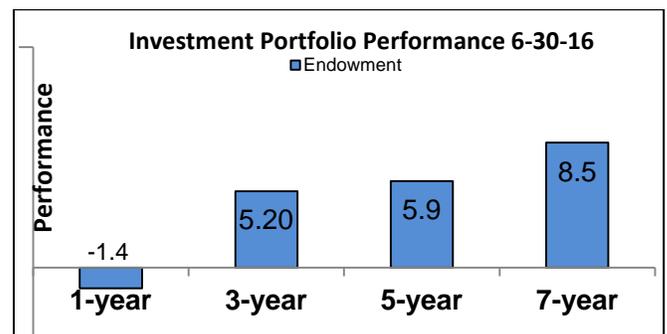
The Foundation manages over fourteen hundred endowed funds, valued at approximately \$230 million at June 30, 2016.



Investment Portfolio Returns

Endowments managed by the Foundation are invested within a long-term investment portfolio. The following chart depicts the one-, three-, five-, and seven-year return on this portfolio. Our performance currently equals the one year and has outperformed a traditional benchmark (S&P 75% and US Bond aggregate of 25%) in the five-year period. The portfolio is well-diversified and expected to outperform the policy benchmark with less volatility (risk) over long-term market cycles. The portfolio outperformed its policy; target weighted (diversified) benchmark for five and seven-year periods. Investment results for this fiscal year will not support the payout distributions from the endowments, and individual balances will decrease for the fiscal year end.

	Annualized Return			
	1-year	3-year	5-year	7-year
Long-Term Investment Portfolio	-1.4	5.2	5.90	8.5
Traditional Index (75%E/25%F)	-1.4	5.7	5.2	8.8
Policy Benchmark	.7	5.4	4.5	8.0



Liabilities

Total liabilities are \$58 million; this includes the endowment portfolios we manage for the University and Center for Innovation Foundation which are included in the total assets. This is down from \$61 million last fiscal year.

**UNIVERSITY OF NORTH DAKOTA ALUMNI ASSOCIATION
AND FOUNDATION**

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,934,899	\$ 8,528,179
Other receivables	2,703,987	1,126,384
Contributions receivable, net	5,422,104	8,299,682
Prepaid expenses	221,004	204,891
Total Current Assets	13,281,994	18,159,136
NONCURRENT ASSETS		
Receivables		
Other receivables	6,997,444	7,576,713
Contributions receivable, net	20,681,984	25,400,639
Total Receivables	27,679,428	32,977,352
Investments		
Investments	205,355,422	203,000,196
Investments - held for others	2,998,997	3,194,290
Investments - held for UND	22,106,318	24,379,211
Beneficial interest in trusts held by others	13,652,694	11,996,850
Charitable remainder trust account investments	18,978,441	20,837,786
Charitable gift annuity investments	6,067,499	4,592,718
Other investments	7,315,516	7,630,545
Total Investments	276,474,887	275,631,596
Property and Equipment		
Building, less accumulated depreciation	10,112,741	10,391,627
Furniture and equipment, less accumulated depreciation	712,189	906,104
Antiques and fine arts	1,674,604	1,674,604
Total Property and Equipment	12,499,534	12,972,335
Total Noncurrent Assets	316,653,849	321,581,283
TOTAL ASSETS	\$ 329,935,843	\$ 339,740,419
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,256,707	\$ 3,821,729
Accrued expenses - salary and benefits	326,757	328,393
Liabilities under charitable trusts and annuities	1,721,821	1,990,167
Current maturities of bonds and note payable	1,369,302	1,326,118
Total Current Liabilities	6,674,587	7,466,407
NONCURRENT LIABILITIES		
Liabilities under charitable trusts and annuities	17,783,285	16,007,532
Bonds and note payable	8,584,958	9,955,046
Deposits held in custody for others	25,105,315	27,573,501
Total Noncurrent Liabilities	51,473,558	53,536,079
Total Liabilities	58,148,145	61,002,486
NET ASSETS		
Unrestricted	40,130,573	39,140,216
Temporarily restricted	38,060,478	51,034,628
Permanently restricted	193,596,647	188,563,089
Total Net Assets	271,787,698	278,737,933
TOTAL LIABILITIES AND NET ASSETS	\$ 329,935,843	\$ 339,740,419

See accompanying notes to financial statements.

**UNIVERSITY OF NORTH DAKOTA ALUMNI ASSOCIATION
AND FOUNDATION**

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE, GAINS AND OTHER SUPPORT					
Gifts and bequests, including gifts under charitable remainder unitrusts	\$ 642,048	\$ 7,726,162	\$ 13,556,337	\$ 21,924,547	\$ 23,630,474
Operations, fees and miscellaneous	6,751,065	698,621	180,630	7,630,316	7,739,458
Investment income, net	(618,758)	5,389,142	(7,075,455)	(2,305,071)	2,838,084
Change in split-interest agreements	(118,218)	(582,270)	(2,073,004)	(2,773,492)	(2,876,352)
Sub-totals	6,656,137	13,231,655	4,588,508	24,476,300	31,331,664
Reclassification of donor restrictions	-	(659,219)	659,219	-	-
Net assets released from restrictions	25,760,755	(25,546,586)	(214,169)	-	-
Total Revenue, Gains and Other Support	<u>32,416,892</u>	<u>(12,974,150)</u>	<u>5,033,558</u>	<u>24,476,300</u>	<u>31,331,664</u>
EXPENSES					
Program support					
Direct support to University of North Dakota	23,609,858	-	-	23,609,858	23,212,409
Other support to benefit University of North Dakota	2,716,233	-	-	2,716,233	2,597,680
Operations	2,431,495	-	-	2,431,495	2,558,003
Fundraising	2,668,949	-	-	2,668,949	2,547,673
Total Expenses	<u>31,426,535</u>	<u>-</u>	<u>-</u>	<u>31,426,535</u>	<u>30,915,765</u>
CHANGE IN NET ASSETS	990,357	(12,974,150)	5,033,558	(6,950,235)	415,899
NET ASSETS - Beginning of Year	<u>39,140,216</u>	<u>51,034,628</u>	<u>188,563,089</u>	<u>278,737,933</u>	<u>278,322,034</u>
NET ASSETS - END OF YEAR	<u>\$ 40,130,573</u>	<u>\$ 38,060,478</u>	<u>\$ 193,596,647</u>	<u>\$ 271,787,698</u>	<u>\$ 278,737,933</u>

See accompanying notes to financial statements.

**UNIVERSITY OF NORTH DAKOTA ALUMNI ASSOCIATION
AND FOUNDATION**

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (6,950,235)	\$ 415,899
Adjustments to Reconcile Change in Net Assets to Net Cash Flows		
From Operating Activities		
Depreciation	472,801	472,152
Loss on disposal of arts, antiques, property and equipment	-	395,030
Net (gain) loss on investments - realized and unrealized	113,653	(5,736,461)
(Increase) decrease in beneficial interest in funds held in trust	(1,649,227)	191,110
Gifts to others of investments and other non-cash assets to UND	-	526,000
(Increase) decrease in life insurance cash value	(11,720)	(9,188)
Actuarial adjustment on annuities payable	(210,137)	370,769
Gifts of non-cash assets received	(704,000)	(2,042,360)
Contributions restricted for long-term purposes	(13,603,468)	(7,928,322)
Contributions under split interest agreements	(710,258)	(24,093)
Effects on Cash Flows Due to Changes in		
Notes receivable	26,347	(95,546)
Other receivables	(1,024,682)	363,713
Prepaid expenses	(16,113)	(8,095)
Contributions receivable for operations	4,101,127	(1,372,386)
Accounts payable	(565,022)	3,635,757
Accrued expenses - salary and benefits	(1,636)	18,780
Net Cash Flows From Operating Activities	(20,732,570)	(10,827,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	34,002,853	18,632,656
Purchases of investments	(31,120,069)	(13,587,044)
Change in investments - annuities	(1,474,781)	292,539
Change in deposits held for UND and others	(2,468,186)	(889,423)
Purchases of property and equipment	-	(791,677)
Net Cash Flows From Investing Activities	(1,060,183)	3,657,051
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	17,098,573	10,821,108
Proceeds from issuance of split-interest agreements, net of payments	2,427,803	976,952
Proceeds from issuance of bonds and notes payable	-	1,000,000
Principal payments on bonds and notes payable	(1,326,903)	(1,311,450)
Net Cash Flows From Financing Activities	18,199,473	11,486,610
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,593,280)	4,316,420
CASH AND CASH EQUIVALENTS - Beginning of Year	8,528,179	4,211,759
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,934,899	\$ 8,528,179
SUPPLEMENTAL DISCLOSURE OF CASH FLOW STATEMENT		
Interest paid	\$ 387,309	\$ 422,737

See accompanying notes to financial statements.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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 maintained on the University of North Dakota Campus.

The University of North Dakota Alumni Association merged with the UND Foundation effective September 15, 2014. The process of formally merging the two 501 (3) (c) organizations (the Alumni Association and the Foundation) was the final step in integrating the operations, leadership and strategic growth of the two organizations as they support UND. The UND Foundation was built, in large part, on the foundation of an engaged and generous alumni base thanks to the UND Alumni Association.

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. The more significant accounting policies are summarized below:

Net Asset Classifications: For the purposes of financial reporting, the Organization classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the Organization are classified in the accompanying financial statements in the categories that follow:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to follow a spending rate policy using earnings for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are transferred to UND or donor restrictions have been satisfied.

Income and net gains/losses on investments of endowment and similar funds are reported as follows:

- > as increases or decreases in permanently restricted net assets if the terms of the gift require that earnings be adjusted to the principal of a permanent endowment fund and also to preserve the purchasing power of a permanently restricted gift against inflation, as stipulated in the terms of the gift;
- > as increases or decreases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the use of the income; and
- > as increases or decreases in unrestricted net assets in all other cases.

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 - 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, 2016. See Note 5 for information regarding an allowance for uncollectible contributions receivable.

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. Contributions receivable restricted for endowment or the Organization's capital projects are considered to be noncurrent assets. Changes in present value discounts on long-term receivables are included in contribution revenues.

Beneficial Interest in Trusts Held by Others - Contribution revenue and a beneficial interest in the trust are recognized at the date the trusts are established for the present value of estimated future payments to be received. Perpetual trusts are valued based upon the current market value of the assets contributed to the trusts which approximates the fair value of the beneficial interest in the trusts.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Property and equipment are stated at cost at the date of acquisition less accumulated depreciation. The cost of the equipment less accumulated depreciation of \$1,097,608 is \$712,189. The Organization depreciates assets on the straight-line basis over estimated useful lives ranging from three to seven years. Normal repair and maintenance expenses are charged to operations as incurred. The Organization capitalizes property and equipment additions in excess of \$5,000.

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 \$1,042,699 is \$10,112,741 and is being depreciated over 40 years.

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 gift.

Liabilities under Charitable Trusts and Annuities - Liabilities under charitable trusts and annuities represent the Organization's liability under annuity contracts with donors and irrevocable charitable remainder trusts for which the Organization serves as the trustee. Assets held under these agreements are included in investments. See Note 2.

Deposits Held in Custody for Others - The Organization acts as trustee for funds transferred from various organizations for investment management and administrative purposes. The funds are to be distributed back to these organizations as they request them. The Organization recognizes the funds as a liability in the statement of financial position.

Income Tax Status - 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, 2016. 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.

Contributions - Contributions consist of gifts and bequests, including gifts under charitable remainder unitrusts and matching grants. In 2016, \$2,848,799 of matching contributions were received from the State of North Dakota. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Advertising Expenses - Advertising costs are expensed when incurred. For the year ended June 30, 2016, advertising costs were \$16,293.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Certain expenses have been allocated among the programs and supporting services benefited.

Program Support to University of North Dakota - Includes grants and scholarships, fellowships, facilities and programs; as well as Alumni Association support to UND through publications, mailings and events.

Scholarships	\$ 5,913,422
Other distributions and contributions to UND	17,696,436
Total direct support to UND	23,609,858
Alumni relations	1,337,025
Other support to benefit UND	1,379,208
Total other support to benefit UND	2,716,233
Total Program Support	\$ 26,326,091

Operations - 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 phonathon expenses.

Comparative Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class nor do the notes to the financial statements include 2015 information. Such presentation does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pronouncements - In May 2015, FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirements. For non-public business entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with early application permitted. The Organization elected to adopt the guidance in fiscal 2016. The adoption of the standard did not have a significant impact on the Organization's statement of financial position or results of operations.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The Organization elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The Organization is assessing the impact the remainder of this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 2 - INVESTMENTS

The following investments were held as of June 30, 2016:

Endowment investments and funds held for others	
Cash equivalents	\$ 248,002
Equity securities	688,626
Equity mutual funds	108,966,222
Fixed income securities	612,244
Fixed income mutual funds	65,925,020
Hedged funds	21,428,717
Natural resource funds	2,302,286
Realty funds	14,122,178
Distressed debt funds	8,792,040
Private equity funds	<u>7,375,402</u>
Total endowment investments and funds held for others	<u>230,460,737</u>
Beneficial interest in trusts held by others	<u>13,652,694</u>
Charitable remainder trust accounts	
Land and buildings	402,298
Money market fund	218,276
Fixed income securities	11,140
Fixed income mutual funds	7,530,206
Equity securities	392,711
Equity mutual funds	<u>10,423,810</u>
Total trust accounts	<u>18,978,441</u>
Charitable gift annuity investments	
Money market fund	156,174
Fixed income securities	1,732,556
Fixed income mutual funds	466,694
Equity securities	2,233,245
Equity mutual funds	<u>1,478,830</u>
Total charitable gift annuity investments	<u>6,067,499</u>
Land	5,442,677
Buildings	929,936
Mineral interests	498,190
Life insurance, cash value	<u>444,713</u>
Total other investments	<u>7,315,516</u>
Total Investments	<u>\$ 276,474,887</u>

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.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 2 - INVESTMENTS (CONTINUED)

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 3 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes 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, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the entity's own data.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

- > Investments in cash equivalents (consisting of money market funds), mutual funds and equity securities for which quoted prices are readily available or that trade with sufficient frequency and volume to enable the Organization to obtain pricing information on an ongoing basis.

Level 2 - Level 2 assets include:

- > Investments in fixed income securities (comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds and corporate bonds and notes) for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.
- > Investments in land are classified as Level 2 based on recent appraisals which included analysis of market data on sales of comparable properties.

Level 3 - Level 3 assets include:

- > Beneficial interest in trusts held by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the Organization has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the Organization's beneficial interest is estimated to approximate the fair value of the trusts' assets.

There have been no changes in the techniques and inputs used at June 30, 2016.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Valuation Techniques and Inputs (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based upon the lowest level of input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the assets or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investments in privately-held investment funds are measured at fair value using the net asset value per share (or its equivalent) of such investment funds as a practical expedient for fair value. The Organization has estimated the fair value of privately-held investment funds by using the net asset value provided by the investee as of June 30. The Organization adopted FASB issued ASU 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* during fiscal 2016. Under the new guidance, investments measured using the net asset value per share (or its equivalent) practical expedient are not classified in the fair value hierarchy.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Investments, at fair value				
Cash equivalents	\$ 622,452	\$ 622,452	\$	\$
Fixed income mutual funds	73,921,920	73,921,920		
Equity mutual funds	120,868,862	120,868,862		
Fixed income securities	2,355,940		2,355,940	
Equity securities	3,314,582	3,314,582		
Beneficial interest	13,652,694			13,652,694
Land	5,844,975		5,844,975	
Total investments by valuation hierarchy	<u>220,581,425</u>	<u>\$ 198,727,816</u>	<u>\$ 8,200,915</u>	<u>\$ 13,652,694</u>
Investments measured at net asset value				
Hedged funds	21,428,717			
Private equity funds	7,375,402			
Realty funds	14,122,178			
Distressed debt funds	8,792,040			
Natural resources funds	<u>2,302,286</u>			
Subtotal investments measured at net asset value	<u>54,020,623</u>			
 Total Assets at Fair Value	 <u>274,602,048</u>			
Investments, at cost				
Mineral interests	498,190			
Buildings	929,936			
Life insurance, cash value	<u>444,713</u>			
 Total Investments	 <u>\$ 276,474,887</u>			

**UNIVERSITY OF NORTH DAKOTA
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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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) (in thousands):

	Balances, June 30, 2015	Net Realized and Unrealized Gains (Losses) Included in Net Assets	Purchases	(Sales)	Balances, June 30, 2016
Assets					
Beneficial interest in trusts held by others	\$ 11,997	\$ (714)	\$ 2,370	\$ -	\$ 13,653
Totals	\$ 11,997	\$ (714)	\$ 2,370	\$ -	\$ 13,653

The amount of total loss for the period included in change in net assets attributable to the change in unrealized losses relating to financial instruments still held at June 30, 2016. \$ (714)

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2016	\$4,406,470	\$1,460,775	\$2,302,286	\$2,968,932
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 6 years	1 to 2 years	4 to 6 years	4 to 6 years
Dollar amount of unfunded commitments	\$526,000	\$764,600	\$363,625	\$5,961,109
Timing to draw down commitments	1 to 6 years	1 year	1 to 6 years	1 to 2 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
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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Hedged Funds SEI Special Situations	Hedged Funds SEI Offshore Opportunities II	Distressed Debt SEI Structured Credit Fund	Realty Funds SEI Core Property Fund
Fair value June 30, 2016	\$12,542,687	\$8,886,030	\$7,331,265	\$14,122,178
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	\$0	\$0	\$0	\$0
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
As of and for the Year Ended June 30, 2016

NOTE 4 - RESTRICTIONS AND LIMITATIONS ON NET ASSETS BALANCES

At June 30, 2016 the Organization's restricted net assets were allocated as follows:

Temporarily restricted net assets consist of the following at June 30:

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	\$ 8,539,561
Scholarships and student loans	8,497,569
Lectureships, professorships, chairs, and faculty support	3,871,145
Research	1,169,407
College program support	13,802,260
Deferred gift arrangements	<u>2,180,536</u>

Total Temporarily Restricted Net Assets \$ 38,060,478

Permanently restricted net assets are to support the following at June 30:

Capital improvement/facilities	\$ 5,287,543
Scholarships and student loans	75,414,710
Lectureships, professorships, chairs, and faculty support	20,143,863
Research	12,221,191
College program support	63,436,055
Deferred gift arrangements	<u>17,093,285</u>

Total Permanently Restricted Net Assets \$ 193,596,647

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the year ended June 30, 2016 were \$25,720,613 related to program support and \$40,142 related to the Alumni Center.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to be collected at June 30, 2016:

In one year or less	\$ 7,678,898
Between one year and five years	13,296,969
More than five years	<u>12,309,908</u>
Gross unconditional promises to give	33,285,775
Less: Discount to net present value	(5,811,182)
Allowance for uncollectible promises to give	<u>(1,370,505)</u>

Net Contributions Receivable \$ 26,104,088

As of June 30, 2016, \$11,084,284 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.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 5 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

At June 30, 2016, promises due in one year or more were discounted using historical interest rates ranging between 2.065% and 5%. Promises due in less than one year were not discounted.

Approximately \$17.6 million of the total gross contribution receivable at June 30, 2016, 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 \$101,000,000.

NOTE 6 - OTHER RECEIVABLES

The following summarizes the other receivables as of June 30, 2016:

UND lease receivable - EERC	\$ 4,960,000
UND lease receivable - Minot Family Practice	2,475,359
Other accounts receivable	2,117,848
Interest receivable	6,851
Notes receivable	<u>141,373</u>
Total Other Receivables	<u>\$ 9,701,431</u>

Lease receivables – 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, 2016 was \$4,960,000. The terms for the repayment are the same as the payment terms of the related bonds. Total payment of principal and interest subsequent to June 30, 2016 are: 2017 - \$560,209; 2018 - \$562,028; 2019 - \$562,153; 2020 - \$560,509; 2021 - \$562,436, thereafter - \$3,365,368. See Note 9 for additional information. During fiscal year ended June 30, 2016, the Organization recorded payment of principal and interest of \$375,000 and \$181,959, respectively. The interest income is included in operations, fees and miscellaneous income on the statement of activities.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 6 - OTHER RECEIVABLES (CONTINUED)

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, 2016 is \$2,475,359. The terms for the repayment are the same as the payment terms of the related bonds. Total payment of principal and interest subsequent to June 30, 2016 are: 2017 - \$272,000; 2018 - \$2,400,413; see Note 9 for additional information. During fiscal year ended June 30, 2016, the Organization received payment of principal and interest of \$162,423 and \$109,577, respectively. The interest income is included in interest and dividends income on the statement of activities.

At June 30, 2016, lease receivables represented 2% 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, 2016, 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.

NOTE 7 - ENDOWMENT

The Organization's endowment consists of over 1,400 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.

Interpretation of Relevant Law - The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing flexibility in making expenditure decisions from donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the donor gift instrument.

The following table summarizes endowment net asset composition by type of fund as of June 30, 2016 (in thousands).

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 164,209	\$ 164,209
Board designated endowments -				
Established with donor-restricted				
purpose contributions	-	6,723	-	6,723
Designated quasi endowment funds	24,948	-	-	24,948
Operating funds acting as endowment	9,475	-	-	9,475
Total Endowment Net Assets	\$ 34,423	\$ 6,723	\$ 164,209	\$ 205,355

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 7 - ENDOWMENT (CONTINUED)

Change in endowment net assets for June 30, 2016 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	\$ 41,235	\$ 6,912	\$ 154,853	\$ 203,000
Investment return				
Investment income	1,949	331	7,445	9,725
Investment management fees	(844)	(148)	(3,080)	(4,072)
Net appreciation (realized and unrealized)	(2,460)	(389)	(5,783)	(8,632)
Total investment return	(1,355)	(206)	(1,418)	(2,979)
Contributions and collection of deferred gifts	338	232	13,304	13,874
Contributions from ND matching grant	-	-	2,871	2,871
Appropriation of endowment assets for expenditures	(1,428)	(215)	(5,368)	(7,011)
Other changes:				
Reduction of operating endowment	(4,367)	-	-	(4,367)
Changes in designation or donor restrictions	-	-	(33)	(33)
Endowment net assets, June 30, 2016	\$ 34,423	\$ 6,723	\$ 164,209	\$ 205,355

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 permanently restricted net assets. Funds with deficiencies resulted from unfavorable market fluctuations and continued appropriation deemed prudent by the Board of Directors. As of June 30, 2016, there were 800 donor restricted endowment funds with balances below the original contribution value amounting to \$12,732,240. In accordance with donor agreements, these amounts are deducted from the permanently restricted net assets. There were also 59 quasi-endowment fund with balances below original gift amount amounting to \$3,630,051. 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.

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 7 - ENDOWMENT (CONTINUED)

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 4 quarters ended, respectively. In establishing this policy, the Organization considered the long-term expected return on its endowment.

NOTE 8 - 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 approximated \$266,510 for the year ended June 30, 2016.

NOTE 9 - LONG-TERM DEBT

Long-term debt at June 30, 2016 consisted of the following:

Bonds – EERC	\$ 4,960,000
Bonds - Minot Family Practice	2,475,359
Bond - High Performance Center	2,047,264
Notes - Property purchase	<u>471,637</u>
Total	<u><u>\$ 9,954,260</u></u>

**UNIVERSITY OF NORTH DAKOTA
ALUMNI ASSOCIATION AND FOUNDATION**

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Long-term debt principal payment requirements are as follows:

Year Ending June 30:

2017	\$ 1,369,302
2018	3,542,032
2019	843,730
2020	432,238
2021	448,003
Thereafter	<u>3,318,955</u>
Total	<u>\$ 9,954,260</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 6 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. The interest rate is fixed at 4.15% until 2018. Payments of \$136,000 are required semi-annually through 2018. The bonds are secured by a lease with the University of North Dakota. See Note 6 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 is fixed at 3.15%. Payments are required semi-annually through 2018. The bonds are unsecured.

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 \$387,309 for the year ending June 30, 2016. On the statement of activities, interest expense is allocated as follows: \$387,282 for program support for University of North Dakota and \$27 for operations.

**UNIVERSITY OF NORTH DAKOTA
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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

NOTE 10 - SHORT-TERM CREDIT ARRANGEMENT

The Organization has an unsecured \$2 million line of credit which expires on December 1, 2016. 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, 2016, there were no outstanding borrowings under this arrangement.

NOTE 11 - 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, state law specifies and limits the types of investments of required gift annuity reserves. These guidelines are followed and a separate reserve for California 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 unrestricted, temporarily restricted or permanently restricted net assets, 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 11.2% for the year ended June 30, 2016 in making the calculations. The amount designated to third party beneficiaries is recorded as an other liability and is calculated based on the net value of the asset.

Information pertaining to the Organization's deferred gift agreements for the year ended June 30, 2016 is as follows:

Deferred gift contribution revenue	\$ 786,660
Annuities and charitable remainder trust payable related to new gifts	<u>1,230,165</u>
Total Funds Received	<u>\$ 2,016,825</u>
Total Deferred Gift Assets at Fair Value	<u>\$ 25,045,940</u>
Total Deferred Gift Liabilities	<u>\$ 19,505,106</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 year ended June 30, 2016, the Organization received gift income of \$743,522 relating to funds held in trust by others.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - DEVELOPMENT REINVESTMENT AND INVESTMENT FEE

The Organization provides much 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 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 1.75% for the year ended June 30, 2016. The fees are reflected on the statement of activities as a fee charged to investment earnings within the temporarily and permanently restricted net assets and as unrestricted operations revenue. For the fiscal year ending in 2017, the investment management fee will be 1.75%. Endowments managed for the University are charged a similar fee.

NOTE 13 - 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 80% 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 14 - 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, 2016:

Due from UND:	
Lease receivable (see Note 6)	\$ 7,435,359
Miscellaneous services	15,363
Due to UND:	
Building projects	3,028,448
Miscellaneous services and payments	88,720

The University of North Dakota is providing payment for leasehold improvements done to the lower level of the Gorecki Alumni Center for establishing space for UND Admissions. The payments are \$169,472 for a period of 5 years. The University of North Dakota is also 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.

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NOTE 14 - OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended June 30, 2016, the University of North Dakota provided approximately \$1,121,000 of institutional support for event and database support, annual giving campaign and shared positions. The Organization manages UND's endowment investments and charged them \$404,446 in investment management fees during the year ended June 30, 2016. These fees and support are reported as operations, fees and miscellaneous revenue on the statement of activities.

As of June 30, 2016, one member of the Organization's board of directors was also a director of a financial institution the Organization conducts business with. As of June 30, 2016, accounts at the financial institution consist of \$25,045,940 in trust and gift annuity accounts; a line of credit as disclosed in Note 10, \$5,343,364 of deposit and investment accounts and \$6,585,397 of 403(b) plan assets. Transactions involving the financial institution are handled in accordance with the Organization's conflict of interest policy.

Pledges receivable from board members and officers at June 30, 2016 were \$1,521,468. Total gifts received from board members and officers during the year ended June 30, 2016 were \$267,432.

The Organization has other receivables from the University of North Dakota related to construction of EERC and Minot Center for Family Practice. See Note 6 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 2016 was \$4,500.

NOTE 15 - SUBSEQUENT EVENTS

On October 13, 2016, the Board of Directors approved issuance of up to \$5 million in bonds related to construction of the Collaborative Energy Center.

The Organization has evaluated subsequent events through October 14, 2016 which is the date that the financial statements were issued.