Dear President Kelley:

I am pleased to forward the University of North Dakota 2013 Annual Financial Report, covering fiscal year July 1, 2012, to June 30, 2013. The financial statements are prepared in accordance with generally accepted accounting principles as presented by the Governmental Accounting Standards Board (GASB), which is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

Respectfully,

Alice C. Brekke
Vice President for Finance and Operations

Dr. Robert Kelley, President
University of North Dakota
264 Centennial Drive Stop 8193
Grand Forks, ND 58202
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Introduction

The University of North Dakota’s (herein referred to as “UND” or the “University”) discussion and analysis provides an overview of the University’s financial activities for the year ending June 30, 2013. It is designed to focus on current year activities in an effort to assist readers in understanding how those activities impacted the accompanying financial statements.

The financial activity of the 11 public postsecondary campuses under the control of the North Dakota University System (herein referred to as “NDUS”), including UND, is combined into a single financial report audited by the North Dakota State Auditor’s Office (SAO). The single financial report is available at www.UND.edu/finance-operations/financial-report-ndus.cfm or by contacting any of the UND financial contacts listed on Page 30. In compliance with North Dakota Century Code (NDCC) section 54-10-01, the SAO is required to perform an additional financial related audit for each campus every two years. The SAO also performs a third audit every two years. This is an audit of the federal funds received by UND. These audit reports are available at www.nd.gov/auditor/reports.htm.

UND issues this financial report annually. The financial statements presented in this annual report are partially extracted from the single financial report of the 11 public postsecondary campuses under the NDUS.

Government Accounting Standards Board (GASB) Statement No. 14, the Financial Reporting Entity, established standards for defining and reporting on the financial reporting entity. This standard was used to decide which related entities are component units. Effective July 1, 2003, GASB Statement No. 14 was amended with GASB Statement No. 39, Determining Whether Organizations Are Component Units. The objective of GASB Statement No. 39 is to clarify reporting requirements for these organizations. Effective July 1, 2012, GASB Statement No. 61 amends the requirements established by GASB Statement No. 14 and GASB Statement No. 39 for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires a financial benefit or burden relationship in addition to fiscal dependency.

The UND Aerospace Foundation (UNDAF), the Alumni Association of the University of North Dakota & University of North Dakota Foundation, the RE Arena Inc., UND Arena Services Inc., UND Sports Facilities Inc., and Arena Holdings Charitable LLC are major component units of UND. The University of North Dakota Research Foundation and the UND Center for Innovation Foundation are related foundations not included in this report as they currently are not material to the financial statements. All foundations are separate legal entities with their own audit reports, with the exception of the Law School Foundation. In the combined single financial audit for the NDUS, the foundation that are major component units are discreetly presented in a combined single column. Each major and non-major foundation is presented individually in the financial report supplementary information. In this financial report, the component unit entities’ financial statements are presented as supplementary information beginning on Page 63.

Background Information

The University of North Dakota is the state’s most comprehensive intensive research university and the primary center for professional education and training.

Founded on the principle that an outstanding liberal arts education is the basis of successful citizenship, UND is focused on teaching, research and creative and scholarly activity, and service to the state of North Dakota, nation, and world. UND’s economic impact on the state and region is more than $1 billion a year.

UND’s economic impact on the state and region is more than $1 billion a year.

Founded by the Dakota Territorial Assembly in 1883, six years before statehood, UND was intended to be, and has remained, a university with a strong liberal arts foundation surrounded by a variety of professional and specialized programs. It is admired for its spacious, beautiful campus and extensive resources. The University has earned an international reputation for its academic and research programs. UND is one of the top 100 doctoral research universities in the United States.

In the fall of 2012 (fiscal year 2013), UND enrolled 15,250 students in more than 200 fields of study from baccalaureate through doctoral and professional degrees. Thirty-nine percent* come from North Dakota; the rest represent all other states, eight Canadian provinces, and more than 50 nations.

UND has a variety of academic studies, programs and student opportunities that are best in class. Faculty and staff within every college focus on helping students prepare for their futures. Students learn and grow beyond the classroom by taking advantage of service-learning groups, internships, leadership positions within clubs and organizations, studying abroad, and assisting in faculty research. At UND, there are opportunities for everyone.

*Based on declaration of residency

Academic Divisions

John D. Odegard School of Aerospace Sciences
College of Arts and Sciences
College of Business and Public Administration
College of Education and Human Development
College of Engineering and Mines
School of Graduate Studies
School of Law
School of Medicine and Health Sciences
College of Nursing and Professional Disciplines

Location

The University is located in Grand Forks, a college town of 50,000 on the Red River of the North separating North Dakota and Minnesota. The University includes 243 buildings (nearly 6.4 million square feet under roof) on 548 acres.

Grand Forks is linked by Interstate 29 to Fargo, N.D., 70 miles to the south, and to Winnipeg, Manitoba, 150 miles to the north. The city is 300 miles northwest of Minneapolis and a day’s drive from Chicago, Milwaukee, and Des Moines. Commercial air service links the Grand Forks International Airport to Minneapolis, and on to other destinations worldwide.

Heritage & Legacy

UND is the oldest and largest University in North Dakota. With more than 100,000 alumni, there are strong academic and school spirit traditions. UND is the place where many global leaders got their start.

For many, attending UND is a family tradition. For others, UND has been the first step toward something brand new. Whether you are a first-generation or fourth-generation student studying here, being a part of the UND family is a special experience. Regardless, the same sense of spirit and pride resonates - that we are one, we are North Dakota.
The University of North Dakota, as a member of the North Dakota University System, serves the state, the country, and the world community through teaching, research, creative activities, and service. State-assisted, the University’s work depends also on federal, private, and corporate sources. With other research universities, the University shares a distinctive responsibility for the discovery, development, preservation, and dissemination of knowledge. Through its sponsorship and encouragement of basic and applied research, scholarship, and creative endeavor, the University contributes to the public well-being.

The University maintains its original mission in liberal arts, business, education, law, medicine, engineering and mines; and has also developed special missions in nursing, fine arts, aerospace, energy, human resources, and international studies. It provides a wide range of challenging academic programs for undergraduate, professional and graduate students through the doctoral level. The University encourages students to make informed choices, to communicate effectively, to be intellectually curious and creative, to commit themselves to lifelong learning and the service of others, and to share responsibility both for their own communities and for the world. The University promotes cultural diversity among its students, staff and faculty.

In addition to its on-campus instructional and research programs, the University of North Dakota separately and cooperatively provides extensive continuing education and public service programs for all areas of the state and region.
Enrich the Student Experience
Exceptional UND enriches the student experience by providing an environment that is challenging yet rewarding, and full of resources and opportunities to prepare the next generation of leaders. With innovative initiatives such as our state-of-the-art SCALE-UP classroom and engaging first-year student experiences, we continuously advance teaching and learning.

Encourage Gathering
By cultivating connections, improving facilities, and amplifying the student voice, we encourage gathering through initiatives such as Orientation and Welcome Weekend and visionary building projects at the School of Law, School of Medicine & Health Sciences, and Athletics. Exceptional UND is strengthened as we build enthusiasm and a sense of belonging.

Facilitate Collaboration
Exceptional UND supports interdisciplinary teaching, cutting-edge global research, teamwork, and creative activity. All sectors of the university community facilitate collaboration, from interdisciplinary academic programs to extracurricular activities, and supports partnerships to serve the public. By working together, we build an Exceptional UND.

Expand UND’s Presence
Exceptional UND promotes a vibrant relationship with the Grand Cities by partnering with community organizations, fostering creative endeavors, and extending academic programs. We work to meet the socioeconomic needs of North Dakota and extend our regional, national, and international presence through initiatives such as the Unmanned Aircraft Systems program.

Enhance Quality of Life
Exceptional UND promotes life balance, provides opportunities for career and personal development, celebrates diversity, and maintains an environment of openness and appreciation. Through initiatives such as Healthy UND 2020 and University Within the University, UND continues to be recognized for being safe, family friendly, and committed to health and wellness.

Exceptional Vision
Exceptional UND is a vision roadmap outlining five strategic priorities that advance UND from great to exceptional.

Spearheaded by President Robert O. Kelley in 2010 with campus-wide input, Exceptional UND builds steadily on UND’s core mission, values and tradition. Exceptional UND promotes teaching and learning, research, scholarly and creative activity, and service to every member of the university community. An Exceptional UND will link the people of North Dakota to the world through nationally and internationally recognized exceptional accomplishments.

Vision Statement
An Exceptional UND will be a nationally and internationally recognized state university in which a community of dedicated teacher-scholars promotes the public well-being and educates the next generations of leaders to shape a better future.

UND.edu/exceptional
7,660
UND's 416 student-athletes logged 7,660 hours of community service during the 2012-13 school year, averaging 18.41 hours per student-athlete. It was the most total volunteer hours since UND Athletics started officially tracking community service hours in 2008-09. It also represented an increase of more than 1,000 total hours from 2011-12.

4
The first four graduates of UND's Petroleum Engineering program graduated in May, 2013. These first four students, slated to graduate in 2014, were motivated and ready, and eager to get to work so UND accelerated the program. The students rose to the occasion by taking significant academic loads to graduate early. In its first three years, the program has grown to 130 undergraduate students enrolled in 2012-2013.

25
UND's Studio One, celebrating 25 years since its February 1987 launch, is a live telecast with a unique blend of student empowerment, real world credibility and attention to quality. Open to all majors, it centers on business principles that help students gain experience that translates into skills, overreaching simply how to produce a television show. The program's themes center on professionalism, teamwork, quality and communication. Studio One has won 663 regional and national awards.

15,250
After posting record spring and summer enrollments, UND surged into fall 2012 setting the school's all-time student enrollment record at 15,250 students.

24,000
Beautiful, vibrant colors greet visitors each spring and summer as 24,000 flowers are planted in gardens across UND's campus.

1st
The dedication of the Gorecki Alumni Center marked the opening of what would be North Dakota's first Platinum-certified LEED building and the first of its kind in the nation for alumni centers. The UND Gorecki Alumni Center will help move UND from great to exceptional as a landmark – a visual campus icon - showcasing our traditions, our successes and our future while celebrating our distinguished alumni and friends.

28
On August 28, 2012, the UND Art Collections Gallery opened at the Empire Arts Center in downtown Grand Forks. The UND Art Collections lives throughout the campus and community and strives to inspire all who see it. Whether regional art or the works by internationally known artists, the collections of UND are earning wide recognition. Notable internationally known artists include Salvador Dalí, Andy Warhol and Roy Lichtenstein.

$4.98 million
The ND STAR (North Dakota Simulation, Teaching and Research) Center for Healthcare Education at the University of North Dakota School of Medicine and Health Sciences was awarded a $4.98 million grant to bring mobile simulation education to rural North Dakota. The new program, called SIM-ND (Simulation in Motion-North Dakota), will provide education and training in medical-trauma events to help providers in the state deliver high-quality health care in the safest way possible. Four large trucks with custom-made classrooms will be stationed in Grand Forks, Fargo, Bismarck and Minot.

460
UND's well-established recycling program kept 460 tons of plastic, paper, aluminum and glass out of area landfills in fiscal year 2013. This recycling program is part of the UND Climate Action Plan.
Enrollment management remains a high priority for the University. The University engaged outside consultants in 2011 and 2012 to review the University’s enrollment strategies. Based on this input, the University is planning ongoing strategic revisions in its efforts to increase the quality and diversity of its new students, which ideally will result in more effective retention and graduation numbers.

A new Strategic Enrollment Management (SEM) Steering Committee was created in 2013 with the emphasis on more strategic collaboration across the University in enrollment planning, including academic, student affairs, financial, athletic, and marketing departments. This SEM Committee includes three subcommittees focused on specific goals: the Retention Subcommittee will review the University’s efforts to provide support systems for students to increase retention and ideally help students graduate in four years; the Scholarship Committee will consider its scholarship packaging with the goal of providing more strategic and increased scholarship offerings to high-achieving students; and the Recruitment and Marketing Committee will research and utilize best practices and current trends to recruit, market, and communicate with strategic target populations of prospective students. Through the institution-wide involvement of these committees, the University not only is looking to recruit and enroll the best students, but also aims to ensure their success while they are at the University.

Current enrollment continues to remain stable at the University in fall 2013 (around 15,000 total students), and the future goal is to continue with this stable enrollment matching the University’s capacity in terms of classroom and living space on campus.

### Fall Enrollment

#### Headcount Percent Increase Over Prior Year

<table>
<thead>
<tr>
<th></th>
<th>Fall 2009</th>
<th>Fall 2010</th>
<th>Fall 2011</th>
<th>Fall 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.33%</td>
<td>7.76%</td>
<td>3.54%</td>
<td>3.76%</td>
</tr>
</tbody>
</table>

#### FTE Percent Increase Over Prior Year

<table>
<thead>
<tr>
<th></th>
<th>Fall 2009</th>
<th>Fall 2010</th>
<th>Fall 2011</th>
<th>Fall 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.52%</td>
<td>6.30%</td>
<td>2.50%</td>
<td>3.33%</td>
</tr>
</tbody>
</table>

#### Fall Enrollment by Type (Headcount)

<table>
<thead>
<tr>
<th>Type</th>
<th>Fall 2009</th>
<th>Fall 2010</th>
<th>Fall 2011</th>
<th>Fall 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>10,440</td>
<td>11,139</td>
<td>11,522</td>
<td>11,953</td>
</tr>
<tr>
<td>Graduate</td>
<td>2,248</td>
<td>2,560</td>
<td>2,673</td>
<td>2,801</td>
</tr>
<tr>
<td>Law School</td>
<td>243</td>
<td>254</td>
<td>250</td>
<td>238</td>
</tr>
<tr>
<td>Medical School</td>
<td>241</td>
<td>241</td>
<td>252</td>
<td>258</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,172</strong></td>
<td><strong>14,194</strong></td>
<td><strong>14,697</strong></td>
<td><strong>15,250</strong></td>
</tr>
</tbody>
</table>

*FTE is defined as a full-time equivalent enrollment based upon fall student credit hours. The credit hours are divided by 15 for undergraduate, 12 for graduate, and the same as headcount for Law and Medicine students.
UND charges tuition based on state of residence. Undergraduate Resident tuition is charged to students from North Dakota or those who meet other qualifications for resident tuition according to NDUS policy. Undergraduate non-resident tuition is assessed at 267% of the resident rate. The State of North Dakota has various agreements with higher education consortiums to assess tuition rates that are less than the non-resident rate to students from participating states and provinces. Contiguous, Midwest Student Exchange Program (MSEP) and Western Undergraduate Exchange (WUE) tuition is charged to undergrads at 150% of the resident rate. (See below for participating states/provinces). Minnesota Reciprocity tuition is charged to students from Minnesota at the average Minnesota State Colleges and Universities (MnSCU) four-year campus resident rate, as determined by the State of Minnesota.

Contiguous – South Dakota, Montana, Saskatchewan, and Manitoba
MSEP – Illinois, Indiana, Kansas, Michigan, Missouri, Nebraska, and Wisconsin
WUE – Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming, Commonwealth of the Northern Marianas Islands

Tuition charges are capped at 12 credits except for online courses. Online tuition is not residency-based. Mandatory fees charged to students are not residency-based. They are charged to all students, regardless of residency, and are capped at 12 credits. Additional course and/or program fees may be charged based on a student’s enrollment.

Peer institutions were selected in 2006. These selections were based on mission, enrollments, program type, and program areas. Peer Institutions were identified for each of the 11 NDUS institutions.

Graduate tuition is also residency-based. Resident, Non-resident, Contiguous, and Minnesota Reciprocity rates are assessed to students meeting the same requirements as undergraduates. However, there is no MSEP rate for graduate students, as MSEP is an Undergraduate program. Graduate students from the WUE states who are enrolled in the following programs are eligible for Western Regional Graduate Program tuition at 150% of the resident rate: M.A. in History and Theatre Arts, Ph.D. in Counseling Psychology, Nursing, and History, and D.A. in History.
Student Payments on Accounts

<table>
<thead>
<tr>
<th></th>
<th>Fall 2009</th>
<th>Fall 2010</th>
<th>Fall 2011</th>
<th>Fall 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>TouchNet® ACH</td>
<td>52.06%</td>
<td>59.90%</td>
<td>62.93%</td>
<td>63.30%</td>
</tr>
<tr>
<td>TouchNet® Credit Card</td>
<td>4.54%</td>
<td>5.29%</td>
<td>5.51%</td>
<td>5.33%</td>
</tr>
<tr>
<td>Other Payment Methods</td>
<td>43.40%</td>
<td>34.81%</td>
<td>31.56%</td>
<td>31.37%</td>
</tr>
</tbody>
</table>

Non-student Online Payments

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Sites</td>
<td>40</td>
<td>40</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>Number of Transactions</td>
<td>30,286</td>
<td>33,068</td>
<td>33,762</td>
<td>32,488</td>
</tr>
<tr>
<td>Revenue</td>
<td>$4,717,418</td>
<td>$4,739,204</td>
<td>$4,945,964</td>
<td>$4,987,205</td>
</tr>
</tbody>
</table>

Employees

University employees who are 18 years of age, whose services are not limited in duration, who are filing an approved and regularly funded position, are employed at least 20 hours per week and at least 20 weeks each year of employment are eligible to receive benefits.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff</td>
<td>2,069</td>
<td>2,018</td>
<td>2,012</td>
<td>1,945</td>
</tr>
<tr>
<td>Faculty</td>
<td>810</td>
<td>821</td>
<td>845</td>
<td>889</td>
</tr>
<tr>
<td>Total</td>
<td>2,879</td>
<td>2,839</td>
<td>2,857</td>
<td>2,834</td>
</tr>
</tbody>
</table>

Purchasing Card

UND permits departments to use a UND MasterCard® to make small dollar and approved large purchases. Items purchased on the card are processed faster and more efficiently than the traditional voucher method.

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$8,655,154</td>
<td>$15,274,395</td>
<td>$16,778,589</td>
<td>$17,750,727</td>
</tr>
</tbody>
</table>

Student Refunds

UND uses a third-party vendor (Higher One®) for refund management. Refund management assists UND with the disbursement of excess student financial aid and other refunds, allowing more time for direct customer support to the students.

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of refunds</td>
<td>22,002</td>
<td>22,158</td>
<td>21,299</td>
<td>20,107</td>
</tr>
<tr>
<td>Total dollar amount of refunds</td>
<td>$61,572,257</td>
<td>$51,163,241</td>
<td>$52,865,179</td>
<td>$51,311,260</td>
</tr>
<tr>
<td>Refunds disbursed electronically</td>
<td>93%</td>
<td>94%</td>
<td>90%</td>
<td>87%</td>
</tr>
<tr>
<td>via Easy Refund®</td>
<td>38%</td>
<td>41%</td>
<td>44%</td>
<td>40%</td>
</tr>
<tr>
<td>via ACH</td>
<td>55%</td>
<td>53%</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>via Paper Check</td>
<td>7%</td>
<td>6%</td>
<td>10%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Financial Aid Awarded to Students

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount</td>
<td>$102,711,572</td>
<td>$100,897,052</td>
</tr>
<tr>
<td>Student loans(1)</td>
<td>8,840</td>
<td>8,748</td>
</tr>
<tr>
<td>Grants</td>
<td>3,542</td>
<td>4,160</td>
</tr>
<tr>
<td>Waivers</td>
<td>2,192</td>
<td>13,920,519</td>
</tr>
<tr>
<td>UND scholarships</td>
<td>3,305</td>
<td>13,915,125</td>
</tr>
<tr>
<td>External scholarships(1)(2)</td>
<td>1,736</td>
<td>2,671,425</td>
</tr>
<tr>
<td>Federal work-study</td>
<td>789</td>
<td>4,052,357</td>
</tr>
<tr>
<td>Other awards(1)(3)</td>
<td>2,338</td>
<td>11,655,624</td>
</tr>
<tr>
<td>Total financial aid awarded</td>
<td>22,742</td>
<td>23,795</td>
</tr>
<tr>
<td>Amount</td>
<td>$151,109,065</td>
<td>$152,839,931</td>
</tr>
</tbody>
</table>

(1) These awards are not recorded as revenue or expense in UND financial statements.
(2) The scholarship check is mailed directly to UND, but made payable to the student.
(3) Third-party billing, VA benefits, etc.

All figures reported from the Student Financial Aid System; a student receiving more than one type of aid is included in more than one category.
Bond Rating

A bond rating is the measure of the quality and safety of a bond. It indicates the likelihood that a debt issuer will be able to meet scheduled repayments. "Aa3" is the best possible rating, and "D" is the worst. Bond ratings are requested when the University plans to issue or refinance debt.

Aa3 Moody’s Investor Services 2012

This September 2012 rating reflects:

- Strong trend of state funding for higher education and expectations of continued support driven by a robust economy;
- Established market position as a flagship university in the state;
- Ongoing challenges to UND’s efforts to retire debt burden.

Established market position as a flagship university in the state:

- Modest debt burden relative to financial resources and operations;
- Reliance on non-resident students for enrollment growth;
- High competition and uncertain future funding levels for federal research grants;
- Continued reliance on non-resident students to mitigate a trend of declining high school age student enrollment growth.

A+ Standard & Poor’s 2013

This April 2013 rating reflects:

- Flagship position in North Dakota, and comprehensive course offerings, which include a medical and law school;
- History of increasing state operating support and consistent capital appropriations, unique factors among public universities during the recession; and increasing state funding in recent years;
- Solid demand and the largest headcount (15,250 in fall 2012) of students in the North Dakota University System;
- Stable financial operations with historically adequate debt service coverage; and
- Low MADS burden that equals an estimated 2.6% (including bonds, capital leases, and special assessments) of fiscal 2012 operating expenses.

Relatively low financial resource ratios as a percentage of operating expenses, with adjusted unrestricted net assets (UNA) equal to 30.8% of adjusted operating expenses, though a stronger and above-average 127.7% of outstanding debt as of June 30, 2012; and

Projected decline in the number of high school graduates in North Dakota during the next 10 years, though this is mitigated by the university’s large out-of-state and international student population (54% of total enrollment in fall 2012).

State Funding

The 2011 Legislative Assembly approved a state general fund appropriation for all entities of the North Dakota University System (including major capital projects) of $757.3 million for the 2011-2013 biennium. This was an increase of $139.6 million, or 22.6 percent more than the 2009-11 adjusted appropriation. Of the total increases, $83 million was included for base funding, $2.5 million for one-time items and the remaining $54.1 million one-time funding was for major capital projects. Excluding major capital projects, the total general fund increase over 2009-11 was $83.5 million, or 13.8 percent for all NDUS entities. NDUS’s appropriation (excluding agriculture extension and research centers) as a percentage of the state’s total 2011-13 general fund budget was 16.2 percent, compared to 18.3 percent in 2009-11.

Budget Preparation

The preparation of the individual budget documents consists of the following steps:

- Planning - Early in the budget cycle, discussions regarding the budget process and priorities occur with the VPAA Academic Cabinet, Executive Council and President’s Cabinet. In support of the budget decisions that must be made, the Budget Office updates budget schedules, revenue projections, and various fee/recharge rates, and also determines tentative funds available.
- Review - Budgets are reviewed by the Budget Manager and Budget Analyst to ensure accuracy and compliance with SBHE guidelines. A comparison of budget to available funding is also performed.

- Department Preparation - Upon completion of the review process, the final budget documents are assembled by the Budget Office and are distributed to the appropriate board, agency, or individual.
- Monitoring - Comparison of actual revenue and expenditures to budget occurs at various levels within the University.

UND and the School of Medicine and Health Sciences

The 2011 Legislative Assembly approved a state general fund appropriation for the 2011-2013 biennium of $200.4 million for UND and the School of Medicine and Health Sciences. This represents an increase of $24.7 million, or 14.1% over the 2009-11 adjusted appropriation. The increased general funds, along with funds generated by a tuition rate increase, were allocated to support:

- Salary increases for 2011-13
- Employee health insurance premium increases
- Enhancing programs and services to students and the state; and to increase national competitiveness in attracting students, faculty and research investments
- Non-salary inflation, including utilities
- Equity and Affordability
- Extraordinary repairs

Monitoring - Comparison of actual revenue and expenditures to budget occurs at various levels within the University.

- Department Preparation - Upon completion of the review process, the final budget documents are assembled by the Budget Office and are distributed to the appropriate board, agency, or individual.
- Monitoring - Comparison of actual revenue and expenditures to budget occurs at various levels within the University.

- Department Preparation - Upon completion of the review process, the final budget documents are assembled by the Budget Office and are distributed to the appropriate board, agency, or individual.
- Monitoring - Comparison of actual revenue and expenditures to budget occurs at various levels within the University.
Main Campus

The fiscal year 2013 annual budget for UND was prepared consistent with applicable legislation, the SBHE policy guidelines, and institutional policies and procedures.

Expenditures budgeted for fiscal year 2013 are funded from multiple sources, including general fund, tuition, fees (program, course, lab, flight, activity, etc.), sales, room, board, grants, contracts and gifts. Decisions regarding the allocation of resources were guided by a process that links planning and budget. This process is aligned with strategic priorities that would elevate us to Exceptional UND.

Recognizing that resource needs are far greater than the funds available, the first priority for fiscal year 2013 was implementing an average target salary increase of 3 percent. In addition to the targeted 3 percent increase, other cost pressures included the need to pay market salaries to recruit highly qualified candidates to fill vacant positions, and utility increases.

During the 2011–2013 biennium, an equity/affordability allocation of $3,788,692 was approved by the SBHE. During fiscal year 2012, $2,648,315 was provided to departments to continue recruiting new undergraduate and graduate students to programs that are unique or specific to the state of North Dakota, and to target investments to improve college retention and graduation (including student advisement and career counseling). Additional one-time and base dollars in the amount of $1,140,377 have been set aside to provide to departments for fiscal year 2013 efforts. With the dollars from the affordability allocation and the fiscal year 2013 budget plan, UND was able to limit the tuition increase to the recommended 2.5 percent.

In addition, a number of other one-time allocations were made using a variety of funding sources. Examples include:

- Web development
- Marketing/branding – Exceptional UND
- Small renovation projects
- Prairie Public Radio
- Searches
- Deferred maintenance
- Campus signage
- Smart classrooms
- SCALE-UP classrooms (Student-Centered Active Learning Environment for Undergraduate Programs)
- Emergency planning
- Healthy 2020 Initiative
- Art & Humanities Summit
- Higher Learning Commission
- Export controls
- Performance enhancement
- Commencement

School of Medicine & Health Sciences

The UND School of Medicine & Health Sciences (SMHS) completed the 2013 fiscal year annual budget consistent with legislative intent and NDUS guidelines.

- Tuition and Other Revenues: The SMHS net tuition revenue for fiscal year 2013 was $14,051,493. The projected One-Mill Levy revenue for fiscal year 2013 was $2,594,538.
- Faculty and Staff Salary Actions: The fiscal year 2013 salary budget actions resulted in an average of 3.14 percent salary increases for individual faculty and staff positions funded by state appropriations.
- UND SMHS Equity Funding: The SBHE allocated $275,074 to the SMHS for Equity Funding. The SMHS has two priorities for this funding: (1) Student Affairs & Admissions, and (2) Faculty Development.
- College Affordability Funding: The SBHE allocated $261,583 to the SMHS for College Affordability. This allowed the SMHS to limit tuition increases to 2.5 percent for fiscal year 2013.
- Rural Medicine Program: In fiscal year 2013, seven freshman medical students selected the Rural Medicine Program.
- Healthcare Workforce Initiative (HWI) Funding: Total funding for fiscal year 2013 was $2,038,365 for three major initiatives: (1) Medical Student Program: $562,720, (2) Medical Residents Program: $1,089,100, and (3) Health Science Students Program: $386,545.
- HWI: Masters in Public Health: Funding for fiscal year 2013 was $429,286.
- HWI: Geriatrics Training: Funding for fiscal year 2013 was $617,750.
### Statement of Net Position (June 30)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Investments, Current &amp; Non-current</td>
<td>$129,690,166</td>
<td>$121,763,660</td>
</tr>
<tr>
<td>Receivables</td>
<td>32,741,099</td>
<td>30,957,373</td>
</tr>
<tr>
<td>Notes Receivable, Current &amp; Non-current</td>
<td>22,210,026</td>
<td>23,515,322</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,020,658</td>
<td>3,664,498</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>362,532,369</td>
<td>356,822,974</td>
</tr>
<tr>
<td>Other Assets</td>
<td>2,193,192</td>
<td>1,932,034</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$553,387,510</strong></td>
<td><strong>$538,655,861</strong></td>
</tr>
</tbody>
</table>

| LIABILITIES                                    |              |              |
| Accounts Payable & Accrued Liabilities         | $20,999,404  | $19,930,203  |
| Deferred Revenue                               | 8,303,648    | 7,851,324    |
| Deposits                                       | 3,291,863    | 3,345,471    |
| Long Term Liabilities, Current & Non-current   | 104,676,319  | 112,446,277  |
| Other Long-Term Liabilities                    | 2,079,578    | 874,500      |
| **TOTAL LIABILITIES**                          | **$139,350,812** | **$144,447,775** |

| NET POSITION                                   |              |              |
| Invested in Capital Assets, Net of Related Debt| $266,490,000 | $254,311,998 |
| Restricted                                     | 59,186,863   | 59,282,557   |
| Unrestricted                                    | 88,359,835   | 80,613,531   |
| **TOTAL NET POSITION**                         | **$414,036,699** | **$394,208,086** |

| TOTAL LIABILITIES & NET POSITION                |              |              |
|                                                | **$553,387,510** | **$538,655,861** |

The Statement of Net Position reports all financial and capital resources of the University at the end of the fiscal year. The assets and liabilities are shown in order of their relative liquidity. An asset’s liquidity is determined by how readily it is expected to be converted to cash and whether restrictions limit the University’s ability to utilize the resources. A liability’s liquidity is based on its maturity, or when cash is expected to be used to liquidate it. Assets less liabilities is defined as net position.

### ASSETS

UND has assets of $553 million this fiscal year. Of this $553 million, $363 million, or 66%, is invested in net capital assets. Capital assets are defined as assets used in the operations of the University that have an initial useful life extending beyond a single reporting period. Capital assets include land, land improvements, buildings, building improvements, infrastructure, moveable equipment, software, library books, and other intangible assets less accumulated depreciation and amortization.

The next largest category of assets is cash and investments at $130 million or 23% of total assets. External parties restrict $17 million or 13% of the cash and investments. The remaining amount is held in more than 1,000 different funds in over 250 departments. Cash and investments increased from fiscal year 2012 to fiscal year 2013 by 7%. By comparison to other NDUS institutions, it is not uncommon to have 23% of total assets held in cash and investments. This fiscal year, the cash and investment to total assets at the NDUS institutions averaged 23%.

The remaining assets consist primarily of grants and contracts receivables at $13 million, notes receivables from students at $22 million, and accounts receivables from students, customers, component units, the State of North Dakota and inventories at $24 million.

In summary, total assets increased by $15 million or 3%. The change in assets is largely due to an $8 million increase in cash and investments and $6 million increase in net capital assets. The cash and investments increase is due to sale of land previously donated to UND, funds committed to current plant improvements, unanticipated tuition collections, and an increase in restricted fund investments.

### LIABILITIES

UND has liabilities of $139 million this fiscal year. Liabilities decreased $5 million from fiscal year 2012. The decrease is attributed to payments of scheduled debt and only a nominal increase in new capital leases.

### NET POSITION

The $553 million in assets is offset by the $139 million in liabilities. Total net position for fiscal year 2013 is $414 million. Net position increased by $20 million or 5% in fiscal year 2013. Of this $414 million in net position, $266 million or 64% is related to capital assets, $59 million or 14% is restricted by external parties, while the remaining 22% is unrestricted. Net position is listed as unrestricted even if UND internally designates its purpose. UND has designated funds for capital projects, grant match, irregular operating cycles, as well as numerous departmental and University initiatives. Resources within an unrestricted net position are not readily available.
The Statement of Revenues, Expenses, and Changes in Net Position reports all revenues and expenses of the University for the fiscal year. Revenues, classified by major sources, are reported net of related discounts and allowances.

Total revenue of the University increased by $18 million (4%). This included a $9.3 million (8%) increase in tuition and fee revenue, a $10 million (9%) decrease in grants and contracts revenue, a $9.0 million (9%) increase in revenue recognized from state appropriations, a $5.0 million (13%) increase in sales and services, and a $1.7 million (4%) increase in auxiliary enterprises revenue. The tuition increase is due to a 2.3% increase in undergraduate tuition rates and 3.33% increase in enrollment. Fiscal year 2013 is the second year of the 2011-2013 biennium.

Total expenses increased by $13 million (3%) due to an $8.3 million (5%) increase in salary and wage expense and a $5.6 million (5%) increase in operating expense. The average annual salary increase in fiscal year 2013 was 3%. Operating increases were due to increases in instructional operating allocations and one-time expenditures allocated to departments in fiscal year 2013.

The University’s change in net position was an increase of $20 million (5%). This is due to the same reasons cash and investments increased; land sold that was previously donated to UND, funds committed to current plant improvements, unanticipated tuition collections, and an increase in restricted fund investments.
Operating Expenses by Type

<table>
<thead>
<tr>
<th>2013</th>
<th>2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>$279,024,002</td>
<td>$270,738,599</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>85,430,148</td>
<td>81,607,838</td>
</tr>
<tr>
<td>Data Processing Expenses</td>
<td>5,336,331</td>
<td>5,392,370</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>21,226,366</td>
<td>20,572,488</td>
</tr>
<tr>
<td>Scholarship &amp; Fellow Expenses</td>
<td>7,102,249</td>
<td>7,891,089</td>
</tr>
<tr>
<td>Cost of Sales &amp; Services</td>
<td>25,675,834</td>
<td>23,820,986</td>
</tr>
<tr>
<td>Total</td>
<td>$423,794,930</td>
<td>$410,023,370</td>
</tr>
</tbody>
</table>

Operating Expenses by Function

<table>
<thead>
<tr>
<th>2013</th>
<th>2012</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$177,750,636</td>
<td>$164,056,177</td>
</tr>
<tr>
<td>Academic Support</td>
<td>29,511,032</td>
<td>29,270,998</td>
</tr>
<tr>
<td>Student Services</td>
<td>27,790,434</td>
<td>16,255,923</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>27,563,815</td>
<td>26,565,293</td>
</tr>
<tr>
<td>Physical Plant</td>
<td>27,866,319</td>
<td>26,522,392</td>
</tr>
<tr>
<td>Scholarships &amp; Fellowships</td>
<td>9,312,778</td>
<td>7,563,994</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>43,917,146</td>
<td>42,584,035</td>
</tr>
<tr>
<td>Public Service</td>
<td>21,347,918</td>
<td>18,838,932</td>
</tr>
<tr>
<td>Research</td>
<td>47,508,486</td>
<td>57,792,578</td>
</tr>
<tr>
<td>Depreciation</td>
<td>21,226,366</td>
<td>20,572,488</td>
</tr>
<tr>
<td>Total</td>
<td>$423,794,930</td>
<td>$410,023,370</td>
</tr>
</tbody>
</table>
Financial Ratios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio (current assets to current liabilities)</td>
<td>2.65</td>
<td>2.04</td>
<td>2.19</td>
</tr>
<tr>
<td>Primary Reserve Ratio (expendable net position to operating expense)</td>
<td>0.32</td>
<td>0.31</td>
<td>0.31</td>
</tr>
<tr>
<td>Tuition and Fees Funding Ratio (student tuition &amp; fees to operating expenses)</td>
<td>30%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Net Income Margin (increase in net position to total revenue)</td>
<td>4.4%</td>
<td>3.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Viability Ratio (expendable net position to long-term debt)</td>
<td>1.28</td>
<td>1.13</td>
<td>1.00</td>
</tr>
</tbody>
</table>

**CURRENT RATIO**
The Current Ratio measures whether or not the University has enough readily available resources to pay its short-term bills and liabilities. The fiscal year 2013 ratio is 2.65; a ratio of 2 or greater is considered healthy. By comparison, NDUS’s Current Ratio was 2.5 and 2.5 for fiscal years 2013 and 2012 respectively.

**PRIMARY RESERVE RATIO**
The Primary Reserve Ratio, calculated by dividing expendable net position by operating expenses, measures the ability of the University to continue operating at current levels, within current restrictions, without future revenues. Proof of an adequate reserve ratio is often required to secure long-term financing. A ratio of 1.0 denotes that an institution would have the ability to cover its expenses for one year without a revenue stream. The University’s Primary Reserve Ratio at June 30, 2013, is 0.32, which indicates that in an emergency situation, the University could continue its current operations for approximately 17 weeks. By comparison, NDUS’s Primary Reserve Ratio was 0.31 and 0.29 for fiscal years 2013 and 2012 respectively.

**TUITION AND FEES FUNDING RATIO**
The Tuition and Fees Funding Ratio measures the portion of the total operating expenses that are covered by tuition and fee revenue. The University’s Tuition and Fees Funding Ratio was 30%. By comparison, NDUS’s Tuition and Fees Funding Ratio was 27% and 27% for fiscal years 2013 and 2012 respectively.

**NET INCOME MARGIN**
The Net Income Margin indicates whether total activities resulted in income or deficit. A positive margin indicates that the institution experienced income for one year. The fiscal year 2013 margin was 4.4%. By comparison, the NDUS’s Net Income Margin was 6.7% and 5.5% for fiscal years 2013 and 2012 respectively.

**VIABILITY RATIO**
The Viability Ratio is a measure of clear financial health; the availability of expendable net position to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable Net Position is the balance in total net position excluding investment in capital assets and non-expendable scholarships and fellowships. A ratio of 1.00 or greater indicates an institution has sufficient expendable net position to satisfy debt requirements. The fiscal year 2013 ratio was 1.28. By comparison, the NDUS’s Viability Ratio was 1.0 and 0.9 for fiscal year 2013 and 2012, respectively.
UND holds substantial investment in capital assets, which represent a significant percentage of the University's total assets. The change in capital assets shown above is calculated as additions minus retirements. Equipment is a capital asset if the cost is greater than $5,000 and the equipment has a useful life beyond one year. Capital assets also include land improvements, infrastructure improvements, and building improvements costing $10,000 or greater, which significantly increases the value and extends the life of an existing asset. New buildings, land, and infrastructure are capital assets. Land is the only capital asset that does not depreciate. Library books and periodicals are capitalized at actual cost. Annual subscription services for library resources are not capital assets.

Total net increase in capital assets in fiscal year 2013 was $22 million. This includes $28 million of additions less retirements of $5.8 million. Significant changes to capital assets include:

- **Gift from UND Alumni for infrastructure improvements to the Gorecki Center** - $1.5 million
- **Construction of the NDUS IT Facility** - $11.6 million

Accumulated depreciation and amortization in fiscal year 2013 was $108 million with depreciation and amortization expense of $21 million.
FINANCIAL STATEMENTS

Statement of Net Position
Statement of Revenues, Expenses, & Changes in Net Position
Statement of Cash Flows
Notes to Financial Statements
# Statement of Net Position

**University of North Dakota**  
**For Years Ended June 30, 2013**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$13,014,636</td>
<td>$25,018,272</td>
</tr>
<tr>
<td>Investments</td>
<td>46,610,426</td>
<td>12,280,573</td>
</tr>
<tr>
<td>Accounts Receivable, Net</td>
<td>11,488,851</td>
<td>19,678,110</td>
</tr>
<tr>
<td>Due from Other NDUS Institutions</td>
<td>796,955</td>
<td>-</td>
</tr>
<tr>
<td>Receivable from Component Units</td>
<td>5,532,731</td>
<td>4,492,109</td>
</tr>
<tr>
<td>Due from State General Fund</td>
<td>1,868,395</td>
<td>759,742</td>
</tr>
<tr>
<td>Intergovernmental Receivables, Net</td>
<td>13,134,167</td>
<td>15,027,412</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,020,658</td>
<td>3,664,498</td>
</tr>
<tr>
<td>Notes Receivable, Net</td>
<td>4,827,940</td>
<td>5,102,825</td>
</tr>
<tr>
<td>Other Assets</td>
<td>1,764,940</td>
<td>1,410,199</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$104,979,699</td>
<td>$78,333,540</td>
</tr>
<tr>
<td><strong>Non-current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted Cash and Cash Equivalents</td>
<td>-</td>
<td>$58,478</td>
</tr>
<tr>
<td>Restricted Investments</td>
<td>3,660,440</td>
<td>2,250,000</td>
</tr>
<tr>
<td>Endowment Investments</td>
<td>13,505,465</td>
<td>12,900,593</td>
</tr>
<tr>
<td>Notes Receivable, Net</td>
<td>17,382,086</td>
<td>18,412,497</td>
</tr>
<tr>
<td>Other Long-Term Investments</td>
<td>50,899,199</td>
<td>69,355,944</td>
</tr>
<tr>
<td>Unamortized Bond Discount and Cost of Issuance</td>
<td>428,252</td>
<td>521,835</td>
</tr>
<tr>
<td>Capital Assets, Net</td>
<td>362,532,369</td>
<td>356,822,974</td>
</tr>
<tr>
<td><strong>Total Non-current Assets</strong></td>
<td>$448,407,811</td>
<td>$460,322,321</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$553,387,510</td>
<td>$538,655,861</td>
</tr>
</tbody>
</table>

| LIABILITIES |            |            |
| Accounts Payable and Accrued Liabilities | $8,568,102 | $8,313,541 |
| Payable to Component Units | 243,055 | 64,240 |
| Accrued Payroll | 12,188,247 | 11,552,422 |
| Deferred Revenue | 8,303,648 | 7,851,324 |
| Deposits | 3,291,863 | 3,345,471 |
| Long-Term Liabilities - Current Portion | 6,346,733 | 6,707,643 |
| Payable to Others | 610,879 | 538,585 |
| **Total Current Liabilities** | $39,552,527 | $38,373,226 |
| **Non-current Liabilities** |            |            |
| Other Long-Term Liabilities | $2,079,578 | $874,500 |
| Long-Term Liabilities | 87,585,932 | 95,013,681 |
| Payable to Others | 10,132,775 | 10,186,368 |
| Payable to Component Units | 10,132,775 | 10,186,368 |
| **Total Non-current Liabilities** | $99,798,285 | $106,074,549 |
| **Total Liabilities** | $139,350,812 | $144,447,775 |

**Net Position**  
For Years Ended June 30, 2013

<table>
<thead>
<tr>
<th>NET POSITION</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inv. in Capital Assets, Net of Related Debt</td>
<td>$266,490,000</td>
<td>$254,311,998</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-expendable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>$13,505,465</td>
<td>$12,955,825</td>
</tr>
<tr>
<td>Expendable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>$1,352,964</td>
<td>$1,913,515</td>
</tr>
<tr>
<td>Research</td>
<td>3,600,375</td>
<td>3,969,949</td>
</tr>
<tr>
<td>Instructional Department Uses</td>
<td>10,047,823</td>
<td>10,564,725</td>
</tr>
<tr>
<td>Loans</td>
<td>27,019,795</td>
<td>27,255,641</td>
</tr>
<tr>
<td>Debt Service</td>
<td>3,660,441</td>
<td>2,622,902</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$414,036,698</td>
<td>$394,208,086</td>
</tr>
</tbody>
</table>
## Statement of Revenues, Expenses, & Changes in Net Position

### For Years Ended June 30

#### University of North Dakota

<table>
<thead>
<tr>
<th>Revenues, Expenses, Net Position</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Tuition and Fees (1)</td>
<td>$126,584,059</td>
<td>$117,258,603</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>59,528,979</td>
<td>70,839,473</td>
</tr>
<tr>
<td>State and Local Grants and Contracts</td>
<td>8,212,207</td>
<td>8,830,110</td>
</tr>
<tr>
<td>Non-governmental Grants and Contracts</td>
<td>24,642,412</td>
<td>21,609,762</td>
</tr>
<tr>
<td>Sales and Services of Educational Departments</td>
<td>44,716,461</td>
<td>39,668,199</td>
</tr>
<tr>
<td>Auxiliary Enterprises (1)</td>
<td>41,303,921</td>
<td>39,632,398</td>
</tr>
<tr>
<td>Other</td>
<td>645,695</td>
<td>634,265</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$305,633,734</td>
<td>$298,472,810</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$279,024,002</td>
<td>$270,738,599</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>85,430,148</td>
<td>81,607,838</td>
</tr>
<tr>
<td>Data Processing</td>
<td>5,336,331</td>
<td>5,392,370</td>
</tr>
<tr>
<td>Depreciation Expenses</td>
<td>21,226,366</td>
<td>20,572,488</td>
</tr>
<tr>
<td>Scholarships and Fellowships (1)</td>
<td>7,102,249</td>
<td>7,891,089</td>
</tr>
<tr>
<td>Cost of Sales and Services</td>
<td>25,675,834</td>
<td>23,820,986</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$423,794,930</td>
<td>$410,023,370</td>
</tr>
<tr>
<td><strong>Operating Income (1)</strong></td>
<td>$(118,161,196)</td>
<td>$(111,550,560)</td>
</tr>
<tr>
<td><strong>Non-Operating Revenues (Expenses)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Appropriations</td>
<td>$94,597,428</td>
<td>$95,892,777</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>10,997,301</td>
<td>10,815,014</td>
</tr>
<tr>
<td>Gifts</td>
<td>9,079,588</td>
<td>7,868,966</td>
</tr>
<tr>
<td>Investment Income</td>
<td>3,385,986</td>
<td>8,078,985</td>
</tr>
<tr>
<td>Interest on Capital Asset-Related Debt</td>
<td>(4,832,886)</td>
<td>(5,674,891)</td>
</tr>
<tr>
<td>Gain (Loss) on Capital Assets</td>
<td>508,999</td>
<td>611,215</td>
</tr>
<tr>
<td>Insurance Proceeds</td>
<td>248,542</td>
<td>56,760</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>2,797,100</td>
<td>2,479,705</td>
</tr>
<tr>
<td>Other Non-operating</td>
<td>(99,557)</td>
<td>124,613</td>
</tr>
<tr>
<td><strong>Net Non-operating</strong></td>
<td>$116,682,401</td>
<td>$113,984,054</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Position - Beginning of Year</td>
<td>$394,208,086</td>
<td>$379,182,055</td>
</tr>
<tr>
<td>Net Position - End of Year</td>
<td>$414,036,698</td>
<td>$394,208,086</td>
</tr>
</tbody>
</table>

(1) In accordance with generally accepted accounting principles, student tuition and fees, auxiliary revenues and scholarship and fellowship expenses have been reduced by the following amounts (the net effect is $0):
### Statement of Cash Flows

**For Years Ended June 30**

**University of North Dakota**

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Tuition and Fees</td>
<td>$127,553,011</td>
<td>$116,874,207</td>
</tr>
<tr>
<td>Grants and Contracts</td>
<td>$94,276,844</td>
<td>$102,496,600</td>
</tr>
<tr>
<td>Payments to Suppliers</td>
<td>$(115,288,007)</td>
<td>$(109,663,040)</td>
</tr>
<tr>
<td>Payments to Employees</td>
<td>$(279,142,687)</td>
<td>$(269,833,258)</td>
</tr>
<tr>
<td>Payments for Scholarships and Fellowships</td>
<td>$(7,102,249)</td>
<td>$(7,891,099)</td>
</tr>
<tr>
<td>Loans Issued to Students</td>
<td>$(2,736,170)</td>
<td>$(2,582,490)</td>
</tr>
<tr>
<td>Collection of Loans to Students</td>
<td>$3,264,373</td>
<td>$3,199,146</td>
</tr>
<tr>
<td>Auxiliary Enterprise Charges</td>
<td>$41,598,654</td>
<td>$41,860,530</td>
</tr>
<tr>
<td>Sales and Services of Educational Departments</td>
<td>$41,231,623</td>
<td>$38,192,567</td>
</tr>
<tr>
<td>Cash Received (Paid) on Deposits</td>
<td>$(50,527)</td>
<td>$102,019</td>
</tr>
<tr>
<td>Other Receipts (Payments)</td>
<td>$2,357,563</td>
<td>$913,448</td>
</tr>
</tbody>
</table>

**NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$(94,137,572)</td>
<td>$(86,334,160)</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>$94,597,428</td>
<td>$95,892,777</td>
</tr>
<tr>
<td>Grants and Gifts Received for Other than Capital Purposes</td>
<td>$199,394,423</td>
<td>$185,893,962</td>
</tr>
<tr>
<td>Direct Lending Receipts</td>
<td>$98,246,289</td>
<td>$99,014,215</td>
</tr>
<tr>
<td>Direct Lending Disbursements</td>
<td>$(98,301,353)</td>
<td>$(99,144,051)</td>
</tr>
<tr>
<td>Agency Fund Cash Increase (Decrease)</td>
<td>$176,894</td>
<td>$(56,433)</td>
</tr>
<tr>
<td>Tax Revenues</td>
<td>$2,797,100</td>
<td>$2,479,705</td>
</tr>
</tbody>
</table>

**NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$117,455,781</td>
<td>$116,770,175</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Issuance of Debt</td>
<td>$24,413,391</td>
<td>$370,680</td>
</tr>
<tr>
<td>Capital Appropriations</td>
<td>$13,249,520</td>
<td>$3,790,449</td>
</tr>
<tr>
<td>Capital Grants and Gifts Received</td>
<td>$3,961,550</td>
<td>$9,338,842</td>
</tr>
<tr>
<td>Proceeds from Sale of Capital Assets</td>
<td>$8,475</td>
<td>$1,773,657</td>
</tr>
<tr>
<td>Purchases of Capital Assets</td>
<td>$(24,584,513)</td>
<td>$(19,992,378)</td>
</tr>
<tr>
<td>Insurance Proceeds</td>
<td>$268,740</td>
<td>$11,820</td>
</tr>
<tr>
<td>Principal Paid on Capital Debt and Lease</td>
<td>$(16,699,806)</td>
<td>$(7,472,132)</td>
</tr>
<tr>
<td>Deposits with Capital Debt Payment Trustees</td>
<td>$(15,720,000)</td>
<td>-</td>
</tr>
<tr>
<td>Interest Paid on Capital Debt and Lease</td>
<td>$(3,689,433)</td>
<td>$(5,958,089)</td>
</tr>
</tbody>
</table>

**NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$(18,792,076)</td>
<td>$(18,137,150)</td>
</tr>
</tbody>
</table>
The significant accounting policies, as summarized below, and the financial statements for UND are in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

REPORTING ENTITY

The University was created by the North Dakota Constitution and/or the North Dakota Century Code (NDCC). The University receives a separate appropriation from the North Dakota Legislature as provided by North Dakota Constitutional Article VIII, S 6(6)(e) and state statute.

The North Dakota State Board of Higher Education (SBHE) is the governing body of North Dakota's 11 publically supported colleges and universities. UND, including the School of Medicine and Health Sciences, is included in the reporting entity of the NDUS office and each institution on the Oracle/PeopleSoft Financial Systems.

COMPONENT UNITS

The process of evaluating potential component units involves the application of criteria set forth in GASB Statement No. 14, The Financial Reporting Entity. In accordance with GASB Statement No. 14, a financial reporting entity consists of the primary institution, organizations for which the primary institution is financially accountable, and other organizations for which the nature and significance of their relationship with the primary institution are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the criteria of financial accountability. The primary institution is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary institution. The GASB-issued Statement No. 39, Determining Whether Certain Organizations Are Component Units, modifies and clarifies existing criteria of determining whether an organization should be reported as a component unit and how that component unit should be reported in the financial statements. The nature and significance of the organization’s relationship and the extent of financial integration with the primary institution are now considered when determining potential component units. GASB Statement No. 61 amends the requirements established by GASB Statement No. 14 and GASB Statement No. 39 for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires a financial benefit or burden relationship in addition to fiscal dependency.

As required by generally accepted accounting principles, the accompanying financial statements present the University and its component units. The component units’ financial statements are presented under Financial Accounting Standards Board (FASB) standards. As such, certain amounts reported on the University financial statements (receivables from and payables to component units) are not reflected on the component units’ financial statements. Certain other amounts have been reclassified for consistent presentation.

BLENDED COMPONENT UNITS

A component unit whose governing body is substantively the same as the governing body of the primary institution, a financial benefit/burden relationship exists and the entity provides services entirely or almost entirely to the primary institution’s or otherwise exclusively or almost exclusively benefits the primary institution even though it does not provide services directly to it, is included in the primary institutions financial statements using the blending method.

UND has no blended Component Units.

DISCRETELY PRESENTED COMPONENT UNITS

The following component units are legally separate entities; however, a fiscal dependency relationship exists whereby the entity does not have the ability to complete certain essential fiscal events without substantive approval from the primary institution or due to the nature and significance of the relationship to the University, exclusion would render the financial statements incomplete or misleading. Although the institution does not control the timing or amount of receipts from the component units, the majority of resources, or income thereon, which the entities hold and invest is restricted to the activities of the institution or its constituents by the donors. Therefore, these entities are discretely presented in the financial statements using Financial Accounting Standards Board (FASB) standards, in including Statement No. 117, Financial Reporting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modification has been made to the foundation’s financial information in the financial report for these differences.
Note 1 - Continued

Component units that are significant relative to the other component units and to the institution are considered major component units and are displayed in separate columns in the component unit section of the financial statements and are included in Note 15 under Major Component Units. In this financial report, the major component units are included as supplementary information. Component units that are not significant relative to the other component units and to the institution are considered non-major component units and are displayed in a separate column in the component unit section of the financial statements. Note disclosures are not provided for “non-major” component units.

MAJOR COMPONENT UNITS

UND Aerospace Foundation is a nonprofit entity organized in 1985 to encourage and develop the University of North Dakota’s John D. Odegard School of Aerospace Sciences. The Foundation’s principal activities consist of developing and conducting training programs, research and development, and consulting services related to the aerospace industry. The Foundation is governed by a board of directors consisting of five to seven voting members, including two or more persons who are active in the aerospace industry and/or graduates of UND with an interest in the aerospace industry, elected by the board. Non-voting members/representatives on the board include a senior manager of the Foundation elected by the board, the dean of the Odegard School of Aerospace Sciences and the president of the University. These two legally separate nonprofit corporations have the same board of directors and the same executive vice president, but different board presidents and vice presidents. The board of directors consists of twenty-three voting members, twenty-one of whom are alumni of UND and four executive officers who are officers of UND. Complete combined financial statements for the Alumni Association of the University of North Dakota and the University of North Dakota Foundation were incorporated in 1978 to replace the Alumni Association Development Fund. The Foundation receives, holds and manages contributions from alumni and private sources and engages in development activities on behalf of UND. The Alumni Association of the University of North Dakota is organized to keep alumni connected to each other and to UND and to support the growth and enrichment of the University. The organizations are supported primarily through donor contributions and earnings on investments. The discussions are not provided for “non-major” component units.

The Alumni Association of the University of North Dakota and the University of North Dakota Foundation are nonprofit organizations utilizing a common board of directors and administration organized exclusively for the benefit of UND. The administrative offices for the organizations are maintained on the UND campus. The Alumni Association of the University of North Dakota was incorporated in 1915 and the University of North Dakota Foundation was incorporated in 1978 to replace the Alumni Association Development Fund. The Foundation receives, holds and manages contributions from alumni and private sources and engages in development activities on behalf of UND. The Alumni Association of the University of North Dakota is organized to keep alumni connected to each other and to UND and to support the growth and enrichment of the University. The organizations are supported primarily through donor contributions and earnings on investments.

RE Arena Inc. (REA), UND Arena Services Inc. (UAS), UND Sports Facilities Inc. and Arena Holdings Charitable LLC (AHC) are related organizations with commonality among their boards of directors and management organized for the benefit of the University. These organizations operate and maintain a multipurpose sports and entertainment arena in Grand Forks, N.D., known as the Ralph Engelstad Arena Sports Complex (including the Ralph Engelstad Arena, Olympic Arena, and Betty Engelstad Center). The complex is used primarily for UND athletics and activities. UND Sports Facilities Inc. (UNDSF) is the sole member of Arena Holdings Charitable LLC. RE Arena Inc. conducts day-to-day operations of the arena through a contract with UND Arena Services Inc. UND Arena Services Inc. is the legal manager of Arena Holdings Charitable LLC. Arena Holdings Charitable LLC is the lessee of the land from UND and is the title holder of the complex. At the conclusion of the original 30-year lease (2030), the complex shall vest with UND, UAS and AHC have a seven-member board with one member being the UND Vice President for Finance and Operations (VPFO). REA has a five-member board with the President being the REA Manager. The remaining four board members are also board members of UAS and AHC, with no UND employee represented on the board. UNDSF has three board members, who also serve on the other boards, with one of the board members being the UND VPFO. All board members from all four entities have voting rights. A complete combined financial statement for these organizations may be obtained at the Ralph Engelstad Arena, One Ralph Engelstad Arena Drive, Grand Forks ND 58203.

NON-MAJOR COMPONENT UNITS

UND Center for Innovation Foundation has a mission to foster entrepreneurship statewide as well as support the Center for Innovation and the Department of Entrepreneurship within the College of Business and Public Administration.

The University of North Dakota Research Foundation was formed in 2006 to assist the University to advance its research agenda, commercialize its university innovations and discoveries, and create economic opportunities for Grand Forks and the State of North Dakota. The Foundation works with UND to build successful and strategic partnerships between the University and private companies, resulting in mutual gains for each. Complete financial statements for the University of North Dakota Research Foundation may be obtained at the entity’s administrative office at 4201 James Ray Drive, Stop 8391, Grand Forks ND 58202-8391.

IMMATERIAL COMPONENT UNITS

The following organizations are component units of the University but have been deemed immaterial due to small total assets and revenues balances. Entities in this category had less than $1 million each in total assets and less than $750,000 each in total revenues. Separate boards of directors control these entities. In addition, the institution does not exercise financial or administrative control over these entities; and/or, the entities’ relationship with the institution is not significant enough to warrant inclusion in the reporting entity’s financial statements. The related organizations at June 30, 2013, were:

- EERC Foundation
- Law School Foundation
- The Fellows of the University of North Dakota
BASIS OF PRESENTATION
The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB, including Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, and Statement No. 35, Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities issued in June and November 1999 as amended by GASB Statement Nos. 36, 37 and 38. The University follows the business-type activities (BTA) reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the University’s activities.

BASIS OF ACCOUNTING
The financial statements of the University have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

UND follows the pronouncements of the GASB, which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. UND follows all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

UNRESTRICTED NET POSITION
Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University.

RESTRICTED ASSETS
The University, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources that can be used only to service outstanding debt. Also included are unspent bond proceeds that will be expended for construction of capital assets.

REVENUE & EXPENSE RECOGNITION
The University presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the University.

Operating revenues include all charges to customers, grants received for student financial assistance, research contracts and grants, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the University. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered non-operating since these are either investing, capital or non-capital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or non-capital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities.
Note 1 - Continued

BUDGETARY PROCESS
The State of North Dakota operates on a biennial appropriation. Legislation requires the SBHE to present a single unified budget request covering the needs of all the institutions under its control to the Governor through the Director of the Office of Management and Budget. The Governor is required by legislation to present his budget to the General Assembly at the beginning of each session. The General Assembly enacts the budget of the various institutions through the passage of specific appropriation acts. Before signing the appropriation acts, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state’s financial plan for the next two years.

The SBHE allocates contingency and capital emergency funding within guidelines provided by the General Assembly. Any funds received by UND pursuant to federal acts, private grants, and other sources not deposited in the operating funds in the State Treasury are appropriated for the biennial period. The SBHE has the authority to transfer funds between line items by notifying the Office of Management and Budget, with the exception that the SBHE may not approve transfers from any capital assets line item.

The North Dakota Constitution prohibits any transfers between line items of the general fund. Institutions within the North Dakota University System do not use encumbrance accounting. The legal level of budgetary control is at the institutional line item level, with ad ministrative controls established at lower levels of detail in certain instances.

SBHE policy requires each college or university to submit a biennial budget for board approval and annual budgets and Budget in writing to the Chancellor. These budgets are prepared on an accrual basis and include activity relative to current funds and unexpended plant funds. These annual budgets are prepared within the framework of the legislature-approved appropriations and become each institution’s financial plan for the coming year. The SBHE allows each institution some discretion in transferring funds between departments.

CASH & CASH EQUIVALENTS
This classification includes cash on hand, cash in bank, regular and money market savings accounts, certificates of deposit and time saving certificates (original maturity of three months or less). For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University’s endowment, unspent bond proceeds and cash restricted by bond covenants are included in non-current restricted cash.

INVESTMENTS
Investments consist of certificates of deposit (maturity greater than three months), U.S. Treasuries, bonds, stocks and other securities held by trust departments or broker dealers. Investments are reported at fair value for year-end financial reporting. Fair value is the amount at which an investment could be exchanged between two willing parties. Fair value for financial reporting purposes is based on quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a part of investment income. Investments in general are not classified as investments if the maturity date is more than three months to one year, or as other long-term investments if the maturity date is more than one year. Investments restricted by bond covenants or invested from bond proceeds are classified as Restricted Investments, and investments held by endowment funds are classified as Endowment Investments.

RECEIVABLES
Accounts receivable includes tuition, fees, food service, room and board charges and apartment rent; accrued interest on investments; and Family Practice Center revenues. Grant and contracts receivables include federal and private grants and contracts revenue and state grants and other income due from other state agencies. Loan fund notes receivable represents amounts due from students for Perkins and other federal loans, and short-term in situational loans. Net receivables are shown on the basic financial statements. The allowances for doubtful accounts/notes are detailed in Note 3.

INVENTORIES
Inventories held for resale in auxiliaries (including food, books and other merchandise) and unrestricted physical plant supplies are generally stated at the lower of cost (generally determined on the first-in, first-out weighted average method) or fair market value.

CAPITAL & INTANGIBLE ASSETS
Land, buildings, equipment, and other property are stated at historical cost, with the exception of property acquired prior to July 1, 1965. Professional consultants for the purposes of insurance and financial record keeping evaluated these assets. Library books and periodicals are stated at an estimated inventory value as of June 30, 1974, with subsequent additions at cost and deletions at an average cost.

Capital assets, including purchased software with a unit cost of $5,000 or greater and all library books, are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is not allocated to the functional categories. Intangible assets, excluding purchased software, with a unit cost of $25,000 or more are recorded at cost at the date of acquisition, or if donated, at fair market value at the date of donation. Internally developed intangible assets with a unit cost of $50,000 or more are recorded at cost and are amortized.

The composite method is used for library book depreciation. All books purchased during a year are consolidated and depreciated as a group rather than individually. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income, and included in resources set aside for the construction or remodeling costs. Certain reserves have been established by bond indenture for the repayment of revenue bond indebtedness. Such reserves are recorded in the appropriate restricted assets category (cash/investments) and as “net position restricted for debt service” on the Statement of Net Position.

Depreciation and intangible amortization is calculated using the straight-line method over the following estimated useful lives:

- Land improvements ........................................ 50 years
- Buildings .................................................. 50 years
- Equipment .................................................. 3-12 years
- Library books .............................................. 10 years
- Internally developed software ....................... 2-10 years
- Purchased software ....................................... 3-5 years
- Other intangibles .......................................... 3-20 years

DEPOSITS
Money received in advance for subsequent year’s residence hall/apartment reservations and flight training are held by the University in a fiduciary capacity, classified as deposits.

COMPENSATED ABSENCES
Annual and sick leave are a portion of permanent employees’ compensation as set forth in section 54-06-14 of the NDCC. In general, accrued annual leave cannot exceed 30 days at the end of each calendar year while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement. Employees who vest 10 years of credited service are paid one-tenth of their accumulated sick leave upon termination or retirement. Compensated absences are accrued when earned.

<table>
<thead>
<tr>
<th>Capital &amp; Intangible Assets</th>
<th>Lifespan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>50 years</td>
</tr>
<tr>
<td>Buildings</td>
<td>50 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>3-12 years</td>
</tr>
<tr>
<td>Library books</td>
<td>10 years</td>
</tr>
<tr>
<td>Internally developed software</td>
<td>2-10 years</td>
</tr>
<tr>
<td>Purchased software</td>
<td>3-5 years</td>
</tr>
<tr>
<td>Other intangibles</td>
<td>3-20 years</td>
</tr>
</tbody>
</table>
SCHOLARSHIP ALLOWANCES

Student tuition and fees, and certain other revenues received from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the University’s stated rates and charges and the amount actually paid by students and/or third parties making payment on behalf of students. Under this approach, scholarships, waivers and grants are considered reductions in tuition and fee revenues rather than as expenses. Therefore, student tuition and fees and auxiliary revenues are presented net of scholarships applied to student’s accounts. Certain other scholarship amounts paid or refunded directly to the student are generally reflected as expenses.

NET POSITION

Net position is classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Restricted Net Position represents funds that have been restricted for specific purposes by donors or granting agencies for scholarships and fellowships, instructional department uses, loan funds, debt service and other. Unrestricted Net Position is all other funds available at the discretion of the University. Invested In Capital Assets represents the cost of gifted value of buildings, equipment, land improvements, infrastructure, less accumulated depreciation and related outstanding debt.

RESTATEMENT OF BEGINNING NET POSITION

Beginning net position of $394,208,086 was not restated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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. The accompanying financial statements include estimates for items such as allowances for uncollectible accounts, scholarship allowances, accrued expenses and other liability accounts.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This statement defines deferred inflows and outflows and is effective for periods beginning after December 15, 2012.


In January 2013, the GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations.” This statement is effective for periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, “Accounting and Financial Guarantees.” This statement is effective for periods beginning after June 15, 2013.

The effect these statements will have on future financial statements has not yet been determined.
Note 2 - Deposits & Investments

LIMITATIONS

The NDCC governs the deposit and investment policies of the University. NDCC Section 6-09-07 states, "All state funds...must be deposited in the Bank of North Dakota...or must be deposited in accordance with constitutional and statutory provisions."

In addition, NDCC Section 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota (herein referred to as "BND"). NDCC Section 15-10-12 requires that all moneys not deposited in the special revenue fund within the State Treasury (unless restricted by the terms of a grant, donation or bequest), received by the University from federal, state, and local grants and contracts, indirect cost recoveries, tuition, special student fees, room and board and other auxiliary enterprise fees, student activity fees, continuing education program fees, internal service fund revenues, and all other revenues must be deposited in the BND.

NDCC Sections 15-55-05 and 15-55-06 govern the investment of proceeds of revenue bonds and revenues pledged to bondholders. Such proceeds must be invested in the BND, in a separate fund in the State Treasury or in a duly authorized depository for the state funds that is a member of the Federal Deposit Insurance Corporation. The SBHE may invest such funds in direct obligations of, or in obligations where the United States of America guarantees the principal and interest, or obligations of the State of North Dakota or any municipality as defined in NDCC Section 21-03-01.

NDCC Section 54-06-08.1 states clearing accounts and cash balances must be maintained in the BND, or if the state entity is located outside Bismarck, in another state or federally chartered financial institution. The account is used for clearing or cashing of checks and making change.

DEPOSITS & INVESTMENTS

Custodial credit risk is the risk that in the event of a financial institution failure, the University’s deposits may not be returned to it. The NDCC does not specifically address policies concerning custodial credit risk and while the deposits in the BND are backed by the State of North Dakota, they are deemed to be uninsured and uncollateralized by GASB definition. As of June 30, 2013, $113.4 million of the University’s bank balance of $113.6 million was exposed to custodial credit risk as follows:

Uninsured & uncollateralized $113,444,826

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Per NDCC, the University is limited to investing funds with the BND, with the exception of gifts. Accordingly, the University does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from changing interest rates. UND chose terms based on maximizing the return within the limits of their cash flow needs. UND relies on brokers to provide year-end market values for the investments held with those brokers.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligation. As of June 30, 2013, the University’s debt portfolio (excluding U.S. Treasuries and U.S. Agencies) included Standard & Poor’s quality ratings as follows:

Credit Quality Rating

<table>
<thead>
<tr>
<th>Investment Types</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BB</th>
<th>B</th>
<th>Not Rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Bond Funds</td>
<td>$10,866</td>
<td>$2,951,627</td>
<td>$630,241</td>
<td>$646,723</td>
<td>$959,598</td>
<td>-</td>
</tr>
<tr>
<td>Mutual Funds Total</td>
<td>$10,866</td>
<td>$2,951,627</td>
<td>$630,241</td>
<td>$646,723</td>
<td>$959,598</td>
<td>-</td>
</tr>
</tbody>
</table>

DEPOSITS

Cash and Cash Equivalents are reported on the Statement of Net Position for the University as follows:

<table>
<thead>
<tr>
<th>Cash Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
</tr>
<tr>
<td>Bank of North Dakota (BND)</td>
</tr>
<tr>
<td>Cash on hand/petty cash</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total deposits</td>
</tr>
</tbody>
</table>

INVESTMENTS

Investments, reported for the University at fair market value on the Statement of Net Position as of June 30, 2013, are shown below:

<table>
<thead>
<tr>
<th>Investment Type Type</th>
<th>Market Value</th>
<th>Current Unrestricted</th>
<th>Non-Current Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BND CD’s</td>
<td>$93,255,000</td>
<td>$48,599,560</td>
<td>-</td>
<td>3,660,440</td>
</tr>
<tr>
<td>Non-BND Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual bond funds</td>
<td>5,188,189</td>
<td>-</td>
<td>$2,179,039</td>
<td></td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>10,866</td>
<td>-</td>
<td>10,866</td>
<td></td>
</tr>
<tr>
<td>Equity mutual funds</td>
<td>12,782,612</td>
<td>$5,368,697</td>
<td>9,832,059</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>5,438,863</td>
<td>$2,284,322</td>
<td>-</td>
<td>9,832,059</td>
</tr>
<tr>
<td>Subtotal non-BND investments</td>
<td>$23,420,530</td>
<td>$10,866</td>
<td>-</td>
<td>9,832,059</td>
</tr>
<tr>
<td>Total</td>
<td>$116,675,530</td>
<td>$48,610,426</td>
<td>3,660,440</td>
<td>$9,832,059</td>
</tr>
</tbody>
</table>
### Note 3 - Receivables

Receivables as of June 30, 2013, for the University consist of the following amounts:

<table>
<thead>
<tr>
<th>Current</th>
<th>Non-Current</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student and general</td>
<td>$13,275,060</td>
<td>-</td>
</tr>
<tr>
<td>Interest - BND</td>
<td>57,813</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(1,924,022)</td>
<td>-</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$11,408,851</td>
<td>-</td>
</tr>
<tr>
<td>Grants and contracts receivables</td>
<td>$13,134,167</td>
<td>-</td>
</tr>
<tr>
<td>Due from other state agencies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grants and contracts, net</td>
<td>$13,134,167</td>
<td>-</td>
</tr>
<tr>
<td>Perkins and other loans</td>
<td>5,725,754</td>
<td>20,611,662</td>
</tr>
<tr>
<td>Allowance for doubtful notes</td>
<td>(897,814)</td>
<td>(3,229,576)</td>
</tr>
<tr>
<td>Loans receivable, net</td>
<td>$4,827,940</td>
<td>17,382,086</td>
</tr>
</tbody>
</table>

### Note 4 - Endowment Funds

The endowment funds reported herein are donor-restricted funds in the custody of the University. NDCC Section 59-21 applies to the investment of endowments governed by a gift instrument. Subject to any limitations in the gift instrument, such funds may be invested in any real or personal property deemed advisable by the governing board. NDCC Section 59-21-02.5a(7) applies to standard of conduct in the administration of powers to make and retain investments. It states that in managing and investing an institutional fund, the needs of the institution and the fund to make distributions and to preserve capital must be considered. UND changed investment managers in September 2013; the University of North Dakota Foundation is the investment manager for UND endowments. The payout is calculated using the average of the last four quarters balance times 4%. Net appreciation on endowment investments is reflected in net position under non-expendable scholarships and fellowships.

Endowment funds reported herein do not include the Federal Land Grant Fund held by the State Land Department. The annual proceeds from assets held by the State Land Commissioner are deposited into the University’s operating fund at the State Treasury and are used for current operating purposes.

### Note 5 - Capital & Intangible Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

<table>
<thead>
<tr>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Retirements</th>
<th>Transfers</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$6,499,711</td>
<td>-</td>
<td>$565,000</td>
<td>$5,934,711</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>4,820,127</td>
<td>14,490,942</td>
<td>626,190</td>
<td>$19,249,879</td>
</tr>
<tr>
<td>Total non-depreciated capital assets</td>
<td>$11,319,838</td>
<td>$14,490,942</td>
<td>$626,190</td>
<td>$25,184,590</td>
</tr>
<tr>
<td>Land improvements/infrastructure</td>
<td>$81,058,625</td>
<td>$1,499,119</td>
<td>$441,553</td>
<td>$84,126,219</td>
</tr>
<tr>
<td>Buildings</td>
<td>368,676,780</td>
<td>2,902,276</td>
<td>10,644</td>
<td>369,558,384</td>
</tr>
<tr>
<td>Equipment</td>
<td>119,256,548</td>
<td>4,280,153</td>
<td></td>
<td>121,396,020</td>
</tr>
<tr>
<td>Library books</td>
<td>66,168,734</td>
<td>2,499,379</td>
<td>420,933</td>
<td>68,247,180</td>
</tr>
<tr>
<td>Total depreciable capital assets</td>
<td>$635,160,687</td>
<td>$13,320,399</td>
<td>$5,153,283</td>
<td>$643,327,803</td>
</tr>
<tr>
<td>Intangibles</td>
<td>1,463,748</td>
<td>431,540</td>
<td>-</td>
<td>1,895,288</td>
</tr>
<tr>
<td>Total capital assets &amp; intangibles</td>
<td>$647,944,273</td>
<td>$20,242,881</td>
<td>$5,779,473</td>
<td>$670,407,681</td>
</tr>
</tbody>
</table>

Less accumulated depreciation

| Land improvements/infrastructure | $26,966,968 | $1,993,010 | $208,738 | $24,934,226 |
| Buildings                      | 137,466,330 | 7,254,330  | 4,045    | 144,172,909 |
| Equipment                      | 75,228,273  | 8,776,397  | 3,838,639| 80,166,031  |
| Library books                  | 50,632,475  | 2,885,809  | 420,933  | 53,097,351  |
| Total accumulated depreciation | $290,294,046| $20,909,546| $4,472,355| $306,731,238|

Intangible amortization

| $827,254  | 316,820 | - | 1,144,074 |

Total depreciation & amortization

| $291,321,300 | $23,226,366 | $4,472,355 | $307,875,312 |

Capital Assets, net

| $356,822,973 | $7,016,515 | $1,307,118 | $362,320,598 |
Note 5 - Continued
CONSTRUCTION IN PROGRESS (CIP)

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount Authorized</th>
<th>Expended (CIP Balance)</th>
<th>Authorized Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDUS IT facility(1)</td>
<td>$16,848,523</td>
<td>$12,653,886</td>
<td>$4,194,637</td>
</tr>
<tr>
<td>Center of Excellence/Hydrogen Technology(2)</td>
<td>4,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wilkerson renovation/addition(3)</td>
<td>29,000,000</td>
<td>134,875</td>
<td>28,865,125</td>
</tr>
<tr>
<td>Indoor athletic practice facility(4)</td>
<td>19,500,000</td>
<td>1,771</td>
<td>19,498,229</td>
</tr>
<tr>
<td>Equipment fabrications</td>
<td>-</td>
<td>242,853</td>
<td>(242,853)</td>
</tr>
<tr>
<td>Bok Hall patio</td>
<td>30,000</td>
<td>1,172</td>
<td>28,828</td>
</tr>
<tr>
<td>Steam plant</td>
<td>-</td>
<td>1,222</td>
<td>(1,222)</td>
</tr>
<tr>
<td>Gamble Hall</td>
<td>450,000</td>
<td>271,798</td>
<td>178,202</td>
</tr>
<tr>
<td>Fargo Medical Education</td>
<td>475,000</td>
<td>374,763</td>
<td>100,237</td>
</tr>
<tr>
<td>Memorial Union Air Handling Units</td>
<td>224,585</td>
<td>195,854</td>
<td>28,731</td>
</tr>
<tr>
<td>Chester Fritz Library chiller</td>
<td>649,000</td>
<td>11,996</td>
<td>637,004</td>
</tr>
<tr>
<td>Strebel Hall chiller</td>
<td>213,274</td>
<td>101,137</td>
<td>112,137</td>
</tr>
<tr>
<td>Chester Fritz Auditorium chiller</td>
<td>350,000</td>
<td>296,349</td>
<td>53,651</td>
</tr>
<tr>
<td>STEM Classroom O'Kelly</td>
<td>1,448,170</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Various buildings chiller replacement</td>
<td>191,100</td>
<td>43,362</td>
<td>147,738</td>
</tr>
<tr>
<td>Twallmen elevator</td>
<td>175,000</td>
<td>12,172</td>
<td>162,828</td>
</tr>
<tr>
<td>Electrical circuit</td>
<td>475,000</td>
<td>89,412</td>
<td>385,588</td>
</tr>
<tr>
<td>Leonard Hall elevator</td>
<td>340,000</td>
<td>13,142</td>
<td>326,858</td>
</tr>
<tr>
<td>Generator emissions</td>
<td>-</td>
<td>290,199</td>
<td>(290,199)</td>
</tr>
<tr>
<td>Upson I chiller</td>
<td>500,000</td>
<td>20,886</td>
<td>479,114</td>
</tr>
<tr>
<td>SMHS Healthcare Workforce Initiative building</td>
<td></td>
<td>995</td>
<td>(995)</td>
</tr>
<tr>
<td>Various buildings energy project</td>
<td>-</td>
<td>527,659</td>
<td>(527,659)</td>
</tr>
<tr>
<td>Steam Plant stockpile/auto software</td>
<td>425,000</td>
<td>221,855</td>
<td>203,145</td>
</tr>
<tr>
<td>Projects capitalized in FY11 &amp; FY12 incorrectly</td>
<td>2,490,385</td>
<td></td>
<td>(2,490,385)</td>
</tr>
<tr>
<td>Walsh Hall sprinkler</td>
<td>1,500,000</td>
<td>668,411</td>
<td>831,589</td>
</tr>
<tr>
<td>DSL replacement</td>
<td>1,500,000</td>
<td>170,890</td>
<td>1,329,110</td>
</tr>
<tr>
<td>Johnstone sprinkler &amp; doors</td>
<td>-</td>
<td>7,008</td>
<td>(7,008)</td>
</tr>
<tr>
<td>West Hall entrance</td>
<td>412,610</td>
<td>48,524</td>
<td>364,086</td>
</tr>
<tr>
<td>3904 University Avenue fire alarm</td>
<td>150,000</td>
<td>24,068</td>
<td>125,932</td>
</tr>
<tr>
<td>Astronomical observatory</td>
<td>67,620</td>
<td>34,298</td>
<td>33,321</td>
</tr>
<tr>
<td>Campus Road bridge design</td>
<td>1,600,000</td>
<td>218,411</td>
<td>1,381,589</td>
</tr>
<tr>
<td>SMHS electronic door access</td>
<td>95,953</td>
<td>67,638</td>
<td>28,315</td>
</tr>
<tr>
<td>Field research storage</td>
<td>84,250</td>
<td>3,611</td>
<td>80,639</td>
</tr>
<tr>
<td>Wiring upgrades/generator replacement</td>
<td>75,000</td>
<td>1,576</td>
<td>73,425</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$80,788,085</strong></td>
<td><strong>$19,249,879</strong></td>
<td><strong>$61,538,206</strong></td>
</tr>
</tbody>
</table>

(1) North Dakota University System new IT office building and data center located on the UND campus.
(2) Expansion of the Center for Hydrogen Technology building which houses hydrogen projects under EERC.
(3) An architect was contracted for cost estimates to renovate the Wilkerson Dining Center.
(4) The UND Alumni Association and Foundation is funding the construction of an indoor practice facility.

The remaining projects are all projects that began before June 30, 2013 and will be completed after June 30, 2013.

Note 6 - Accounts Payable & Accrued Liabilities
Accounts payable and accrued liabilities consist of the following at June 30, 2013:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$7,215,608</td>
</tr>
<tr>
<td>Sales tax payable</td>
<td>849</td>
</tr>
<tr>
<td>Due to other state agencies</td>
<td>5,939</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>707,701</td>
</tr>
<tr>
<td>Contractor payable/reimbursements</td>
<td>632,913</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5,092</td>
</tr>
<tr>
<td>Total payables &amp; accrued liabilities</td>
<td>$8,568,102</td>
</tr>
</tbody>
</table>

Note 7 - Long-Term Liabilities
Long-term liabilities of UND consist of bonds payable, notes payable, capital leases, special assessments, and compensated absences. The changes in long-term liabilities during fiscal year 2013 are shown below:

*UND transferred $441,596 compensated absences to NDUS System Information Technology Services (SITS) for employees who transferred to NDUS in fiscal year 2013. It is reflected as a negative addition at UND and an addition in SITS. In total, the amount nets to zero for NDUS.
Note 8 - Bonds Payable

Revenue bonds are limited obligations of the University. The principal and interest on the bonds are payable generally from the net income of specific auxiliary activities, designated student fees and debt service reserve funds. Those revenues are generally pledged to the payment of bonds in accordance with the specific terms of the specific indenture. Amounts held by the trustee specifically for payment on bonds are reflected in Net Position, Restricted for Debt Service.

The summary of outstanding obligations as of June 30, 2013, is presented below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Original Balance</th>
<th>Maturity</th>
<th>Interest Rate</th>
<th>Installments</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Housing &amp; Auxiliary Facilities Revenue</td>
<td>$9,750,000</td>
<td>2014</td>
<td>3.8 - 4.8%</td>
<td>$2,162,700</td>
<td>$9,750,000</td>
</tr>
<tr>
<td>2004 Housing &amp; Auxiliary Facilities Revenue</td>
<td>19,645,000</td>
<td>2034</td>
<td>1.0 - 5.0%</td>
<td>869,813 to 1,231,625</td>
<td>19,645,000</td>
</tr>
<tr>
<td>2006 Housing &amp; Auxiliary Facilities Revenue</td>
<td>40,050,000</td>
<td>2035</td>
<td>3.5 - 5.0%</td>
<td>85,000 to 2,875,000</td>
<td>40,050,000</td>
</tr>
<tr>
<td>2012 Housing &amp; Auxiliary Facilities Revenue</td>
<td>17,360,000</td>
<td>2034</td>
<td>2.0 - 5.0%</td>
<td>225,000 to 1,115,000</td>
<td>17,360,000</td>
</tr>
<tr>
<td>2009 Aerospace Hangar</td>
<td>1,500,000</td>
<td>2037</td>
<td>.75 - 4.2%</td>
<td>325,000 to 540,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Total Bonds Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$65,695,316</td>
</tr>
</tbody>
</table>

INDUSTRIAL COMMISSION BONDS

For the 2011-2013 biennium, the NDUS Office received an appropriation of $12.2 million to act as the fiscal agent for all NDUS campuses on bond payments to the Industrial Commission. Of this total, $417,250 is special funds, which is the amount the campuses pay as local match. At this time, UND does not owe a local fund match. During fiscal year 2012, the NDUS Office paid $5.85 million in general funds to the Industrial Commission of North Dakota. These amounts are not recorded on UND financial statements. UND does pay the Industrial Commission of North Dakota directly for 2005 energy bonds that are recorded in UND financial statements as capital lease.

REFUNDING AND DEFEASED BONDS

The purpose of a refunding bond is to refund in advance of maturity another bond issue. Under an advanced refunding arrangement, refunding bonds are issued, and the net proceeds plus additional resources that may be required, are used to purchase securities issued or guaranteed by the United States Government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds. As a result, trust account assets and liabilities for the defeased bonds are not included in the University System’s financial statements. The following is a description of the University System’s defeased bonds and the balance of the bonds outstanding in the trust.

In fiscal year 2013, the University of North Dakota issued $17.36 million of Housing and Auxiliary Facilities Revenue Refunding Bonds (Series 2013) with an interest rate ranging from 2.0% to 5.0%. The bonds were used to call $17.6 million of outstanding Series 2002 and 2004 Housing and Auxiliary Facilities Revenue bonds. The University advanced refunded the 2004 bonds and current refunded the 2002 bonds to reduce its total debt service payments over the next 21 years by approximately $1.9 million.

Scheduled Maturities of Bonds Payable

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$3,396,753</td>
<td>$2,925,170</td>
<td>$6,321,923</td>
</tr>
<tr>
<td>2015</td>
<td>2,257,657</td>
<td>2,807,945</td>
<td>5,065,602</td>
</tr>
<tr>
<td>2016</td>
<td>2,364,025</td>
<td>2,631,140</td>
<td>5,085,165</td>
</tr>
<tr>
<td>2017</td>
<td>2,450,172</td>
<td>2,695,259</td>
<td>5,145,431</td>
</tr>
<tr>
<td>2018</td>
<td>2,555,714</td>
<td>2,531,247</td>
<td>5,086,961</td>
</tr>
<tr>
<td>2019-2023</td>
<td>13,838,309</td>
<td>10,981,021</td>
<td>24,819,330</td>
</tr>
<tr>
<td>2024-2028</td>
<td>15,652,413</td>
<td>7,683,977</td>
<td>23,336,390</td>
</tr>
<tr>
<td>2029-2033</td>
<td>6,405,000</td>
<td>4,058,639</td>
<td>10,463,639</td>
</tr>
<tr>
<td>2034-2038</td>
<td>6,617,520</td>
<td>463,275</td>
<td>7,080,795</td>
</tr>
</tbody>
</table>

Note 9 - Notes Payable

The University does not have any outstanding notes payable as of June 30, 2013.
Note 10 - Capital Lease
The University leases various types of equipment and property under capital lease agreements. Capital leases give rise to property rights and lease obligations, and therefore the assets under lease are recorded as assets of the University and the lease obligation is recognized as a liability. The leases have varying interest rates with maturities to 2035.

Scheduled Maturities of Capital Leases

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2,929,822</td>
<td>1,336,688</td>
<td>4,266,510</td>
</tr>
<tr>
<td>2015</td>
<td>2,989,093</td>
<td>1,199,139</td>
<td>4,188,232</td>
</tr>
<tr>
<td>2016</td>
<td>2,635,054</td>
<td>1,067,874</td>
<td>3,702,928</td>
</tr>
<tr>
<td>2017</td>
<td>2,565,853</td>
<td>941,072</td>
<td>3,506,925</td>
</tr>
<tr>
<td>2018</td>
<td>4,469,008</td>
<td>818,056</td>
<td>5,287,064</td>
</tr>
<tr>
<td>2019-2023</td>
<td>6,291,050</td>
<td>2,449,847</td>
<td>8,740,897</td>
</tr>
<tr>
<td>2024-2028</td>
<td>3,500,234</td>
<td>1,182,951</td>
<td>4,683,185</td>
</tr>
<tr>
<td>2029-2033</td>
<td>2,644,609</td>
<td>539,698</td>
<td>3,184,307</td>
</tr>
<tr>
<td>2034-2038</td>
<td>669,370</td>
<td>20,483</td>
<td>689,853</td>
</tr>
<tr>
<td>Total</td>
<td>28,614,093</td>
<td>9,555,808</td>
<td>38,169,901</td>
</tr>
</tbody>
</table>

Note 11 - Other Long-Term Liabilities

SPECIAL ASSESSMENTS
The University receives special assessments from the city or county for improvements made to roads and infrastructure owned by the city or county that are adjacent to or on the University.

Scheduled Maturities of Special Assessments

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>35,869</td>
<td>11,136</td>
<td>47,005</td>
</tr>
<tr>
<td>2015</td>
<td>31,512</td>
<td>8,825</td>
<td>40,337</td>
</tr>
<tr>
<td>2016</td>
<td>25,004</td>
<td>6,760</td>
<td>31,764</td>
</tr>
<tr>
<td>2017</td>
<td>16,792</td>
<td>5,183</td>
<td>21,975</td>
</tr>
<tr>
<td>2018</td>
<td>16,792</td>
<td>999</td>
<td>20,791</td>
</tr>
<tr>
<td>2019-2023</td>
<td>37,721</td>
<td>6,554</td>
<td>44,275</td>
</tr>
<tr>
<td>2024-2028</td>
<td>6,894</td>
<td>1,870</td>
<td>8,764</td>
</tr>
<tr>
<td>2029-2033</td>
<td>4,336</td>
<td>374</td>
<td>4,710</td>
</tr>
<tr>
<td>Total</td>
<td>174,720</td>
<td>44,621</td>
<td>219,341</td>
</tr>
</tbody>
</table>

COMPENSATED ABSENCES
The compensated absences liability at June 30, 2013, consists of accumulated unpaid annual leave and the payable portion of accumulated sick leave. Compensated absences for employees at June 30, 2013 and 2012, totaled $10,192,188 and $10,286,279, respectively. Leave policies restrict the accumulation of unused vacation and thus limit the actual payments made to employees upon termination or retirement.
Note 12 - Retirement Benefits

The University participates in two major retirement systems: North Dakota Public Employees Retirement System administered by the State of North Dakota and a privately administered retirement system named the Teachers Insurance and Annuity Association - College Retirement Equities Fund. The following is a brief description of each plan:

**NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)**

**DESCRIPTION OF PLAN**

NDPERS is a cost-sharing, multiple-employer, defined benefit pension plan covering substantially all broadband employees of the University. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee’s accumulative contributions, plus interest, is paid to the employee’s beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee’s accrued normal retirement benefit, monthly payments in an amount equal to 50% of the employee’s accrued normal retirement benefit, 60 monthly payments equal to the employees’ normal retirement benefit calculated as if the employee were age 65 the day before the death occurred or monthly payments in an amount equal to the employee’s accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee’s accumulated pension benefits are paid, the balance will be payable to the surviving spouse’s designated beneficiary. Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled. Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2% of their final average salary for each year of service. The plan permits early retirement at ages 55-54, after three or more years of service. NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1657; Bismarck, ND 58502.

**FUNDING POLICY**

Benefit and contribution provisions are administered in accordance with NDCC 54-52. This state statute requires that a percentage of the participant’s salary be contributed to the plan by either the employee or by the employer under a “salary reduction” agreement. The rate of 4% through December 31, 2011, increased to 5% on January 1, 2012. The University has implemented a salary reduction agreement and is currently contributing the employees share. Through December 31, 2011, the University was required to contribute 4.12% of each participant’s salary as the employer’s share. The rate was increased to 5.12% on January 1, 2012. In addition to the 5.12% employer contribution the employer is required to contribute 1.14% of each participating employee’s gross wage to a preferred retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute.

The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with NDCC 54-52. Changes to the plan documents must be approved by the Legislature and Governor. The University’s required and actual contributions to NDPERS for the fiscal years ending June 30, 2013, and June 30, 2012, were $3,899,886 and $3,439,641 respectively.

**TEACHERS INSURANCE & ANNUITY ASSOCIATION - COLLEGE RETIREMENT EQUITIES FUND (TIAA-CREF)**

**DESCRIPTION OF PLAN**

This is a privately administered defined contribution retirement plan which provides individual retirement fund contracts for eligible employees as defined by the SBHE in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. The SBHE has the authority for establishing or amending plan provisions and making or amending contribution requirements. Further information can be obtained by writing to TIAA-CREF; Denver Regional Office; 1700 Broadway, Suite 770; Denver, CO 80202 or by calling 800-842-2009.

**FUNDING POLICY**

The plan requires employee and employer contributions be funded on a classification system and years of service based on the following schedule. Beginning January 1, 2013, contributions in class II increased from 1.5% to 2.5% for participant contributions and to 5.5% to 6.5% for institution contributions for employees with zero to two years of service. Contributions for employees with three to ten years of service increased from 2.5% to 3.5% for participant contributions and from 11.5% to 11.5% for institution contributions. Contributions for employees with more than ten years of service increased from 2.0% to 3.0% for participant contributions and from 10.0% to 1.1% for institution contributions.

<table>
<thead>
<tr>
<th>Employment Class</th>
<th>Years of Service</th>
<th>Contributions by the Participant</th>
<th>Contributions by the Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>0-2</td>
<td>2.56%</td>
<td>6.50%</td>
</tr>
<tr>
<td></td>
<td>3-10</td>
<td>3.50%</td>
<td>11.50%</td>
</tr>
<tr>
<td></td>
<td>10+</td>
<td>4.00%</td>
<td>12.00%</td>
</tr>
</tbody>
</table>

**NOTE:** A final contribution is made in the year the president terminates employment equal to the difference between total contributions made and the president’s final annual salary in year of termination of employment. In addition to the president’s contribution to Class II, he receives Executive Compensation.

Plan contributions are made on a tax-deferred basis in accordance with Section 414(b)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The University has no further liability once annual contributions are made. The University contributed $14,059,403 and $12,508,196 to TIAA-CREF during fiscal years ending June 30, 2013 and 2012, respectively.
Note 13 - Post-Retirement Benefits

STATE GROUP HEALTH PLAN

Members who receive retirement benefits from the Public Employees Retirement System may receive a credit toward their monthly health insurance premium under the state health plan based upon the member’s years of credited service. The benefits are set by statute and the plan is a cost-sharing multiple-employer defined benefit plan. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1.14% of covered compensation.

There are approximately 328 retired University employees receiving these benefits and 1,311 active members with retiree health credit. The actuarially determined required employer contribution of $462,048 for the year ended June 30, 2013, is 1.14% of the covered payroll. The University’s actual and required contributions for the fiscal years ending June 30, 2013 and 2012, were $462,048 and $455,555 respectively.

EARLY RETIREMENT AGREEMENTS

When early retirement is deemed to be in the mutual benefit of an employee and the University, the SBHE has adopted Policy 703.1 on Early Retirement. This policy applies to tenured faculty, professional staff, president, vice president, provost who are members of TIAA-CREF, TFFR, or TIRF. During the fiscal year ended June 30, 2013, no employees elected early retirement.

SEVERANCE AGREEMENTS

In fiscal year 2013, UND had no employees under a separate employment separation agreement.

Under the Tenured (Contract) Purchase Option, the employee is eligible for payment of up to 100% of the employee’s final contract salary if the sum of the employee’s age and total years of employment equals 70 or greater. Payments will be pursuant to the approved agreement, but cannot be made until at least 90 days after the date of Early Retirement Agreement. During the fiscal year ended June 30, 2013, no University employees elected to participate in this option. Policy 703.1 also allows the Early Retirement Agreements to retain the retiree on the applicable group health and life insurance plan. Payment by the University is negotiable. Total costs to the University for these conversion benefits will be 90% of the term of the new contract. Amounts payable to employees at June 30, 2013, for outstanding contract buyouts and future health and life premiums, adjusted for projected health insurance premium increases and discounted to the present were 70%, assuming health insurance premium increases of 5% to 10% and a discount rate of 3%.

Under the Phased Retirement Option, retirement occurs over a period of time. The percentage of work load is negotiated each year. The University may pay all or part of the retirement contributions on the current salary or part of the individual’s salary until the individual terminates employment. During the fiscal year ended June 30, 2013, five employees were under an agreement.

Note 14 - Construction Commitment & Financing

The University has contracted for the construction of various projects as of June 30, 2013. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

<table>
<thead>
<tr>
<th>Project</th>
<th>Contracts Adopted</th>
<th>Total Cost To Complete</th>
<th>Federal</th>
<th>State</th>
<th>Institutional Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generator Equipment Retrofit</td>
<td>66,000$</td>
<td>$66,000$</td>
<td>-</td>
<td>-</td>
<td>$66,000$</td>
</tr>
<tr>
<td>Astronomical Observatory</td>
<td>35,381$</td>
<td>29,400$</td>
<td>5,981</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Xcel Energy Power Outages</td>
<td>10,304$</td>
<td>10,304$</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>500 Tulane Drive - Water Damage</td>
<td>17,060$</td>
<td>6,460$</td>
<td>12,460</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Generator Farm - Emergency Backup</td>
<td>51,700$</td>
<td>41,700$</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>University House Driveaway</td>
<td>87,200$</td>
<td>14,550$</td>
<td>72,650</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>McCannell Hall X-Ray Replacement</td>
<td>22,500$</td>
<td>14,987$</td>
<td>7,513</td>
<td>-</td>
<td>5,184</td>
</tr>
<tr>
<td>Steam Plant</td>
<td>8,333$</td>
<td>8,333$</td>
<td>-</td>
<td>8,333</td>
<td>-</td>
</tr>
<tr>
<td>Tuck-pointing</td>
<td>220,600$</td>
<td>31,000$</td>
<td>189,000</td>
<td>-</td>
<td>189,000</td>
</tr>
<tr>
<td>Bark Hall Water Main</td>
<td>11,634$</td>
<td>11,634$</td>
<td>-</td>
<td>11,634</td>
<td>-</td>
</tr>
<tr>
<td>Generator Emissions</td>
<td>526,356$</td>
<td>276,898$</td>
<td>249,458</td>
<td>-</td>
<td>249,458</td>
</tr>
<tr>
<td>Upson II - Equipment Storage</td>
<td>20,405$</td>
<td>20,405$</td>
<td>-</td>
<td>20,405</td>
<td>-</td>
</tr>
<tr>
<td>3904 University Avenue Fire Alarm Upgrade</td>
<td>143,530$</td>
<td>22,738$</td>
<td>120,792</td>
<td>-</td>
<td>120,792</td>
</tr>
<tr>
<td>Athletics High-Performance Center</td>
<td>589,200$</td>
<td>100,000$</td>
<td>489,200</td>
<td>-</td>
<td>489,200</td>
</tr>
<tr>
<td>Brannon Roof Replacement</td>
<td>95,950$</td>
<td>87,215$</td>
<td>8,735</td>
<td>-</td>
<td>8,735</td>
</tr>
<tr>
<td>Campus Road Bridge Replacement</td>
<td>200,536$</td>
<td>200,536$</td>
<td>-</td>
<td>200,536</td>
<td>-</td>
</tr>
<tr>
<td>Chester Fritz Library Chiller</td>
<td>442,201$</td>
<td>442,201$</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electrical Distribution 2013</td>
<td>441,485$</td>
<td>83,580$</td>
<td>357,905</td>
<td>-</td>
<td>357,905</td>
</tr>
<tr>
<td>Fulton Hall Door Replacement</td>
<td>180,631$</td>
<td>142,830$</td>
<td>37,801</td>
<td>-</td>
<td>37,801</td>
</tr>
<tr>
<td>Harrington Hall Lab Renovation</td>
<td>25,000$</td>
<td>10,672$</td>
<td>14,328</td>
<td>-</td>
<td>14,328</td>
</tr>
<tr>
<td>High-Speed Internet</td>
<td>100,000$</td>
<td>37,932$</td>
<td>62,068</td>
<td>-</td>
<td>62,068</td>
</tr>
<tr>
<td>IT Facility</td>
<td>10,328,622$</td>
<td>8,050,943$</td>
<td>2,277,679</td>
<td>- 1,077,463</td>
<td>1,199,616</td>
</tr>
<tr>
<td>Data Center</td>
<td>5,015,453$</td>
<td>4,152,753$</td>
<td>862,700</td>
<td>-</td>
<td>603,200</td>
</tr>
<tr>
<td>Johnstone Fire Suppression</td>
<td>92,070$</td>
<td>6,728$</td>
<td>85,342</td>
<td>-</td>
<td>85,342</td>
</tr>
<tr>
<td>Leonard Elevator Replacement</td>
<td>25,000$</td>
<td>12,981$</td>
<td>12,019</td>
<td>-</td>
<td>12,019</td>
</tr>
<tr>
<td>SMHS Patien-Centered Learning</td>
<td>25,000$</td>
<td>24,254$</td>
<td>746</td>
<td>-</td>
<td>746</td>
</tr>
<tr>
<td>Twamley Elevator Replacement</td>
<td>25,000$</td>
<td>11,508$</td>
<td>13,492</td>
<td>-</td>
<td>13,492</td>
</tr>
<tr>
<td>Walsh Hall Renovation</td>
<td>1,289,069$</td>
<td>718,868$</td>
<td>570,201</td>
<td>-</td>
<td>570,201</td>
</tr>
<tr>
<td>West Hall Entrance</td>
<td>381,679$</td>
<td>37,895$</td>
<td>343,784</td>
<td>-</td>
<td>343,784</td>
</tr>
<tr>
<td>Wilkerson Hall Renovation &amp; Addition</td>
<td>250,000$</td>
<td>190,133$</td>
<td>59,867</td>
<td>-</td>
<td>59,867</td>
</tr>
</tbody>
</table>

Costs to complete funded by:

- Federal
- State
- Institutional Funds

Totals $20,858,699 $14,765,652 $6,093,047 $- $2,668,043 $3,424,204
University of North Dakota & UND Aerospace Foundation

The Aerospace Foundation reimbursed UND for salaries, building rent, aircraft rental, and goods and services under an operating agreement aggregating approximately $2.0 million in fiscal year 2013. The $20 million UND Aerospace Foundation paid UND includes aircraft rental, flight repairs, fuel of $12 million, room and board of $6,980,000, tuition and fees of $3.2 million, and salaries of $4 million. This operating agreement has no specific term and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other.

UND reimbursed the Foundation for air service, hangar usage, CRJ rent, 360-degree tower and aircraft rental of $1 million. These expense reimbursements represent actual costs incurred. In addition, the Aerospace Foundation may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate arrangements. As of June 30, 2013, the Foundation had $17,000,000 in accounts receivable from UND, which represents accounts payable to UND of $874,000 for reimbursable costs and services under these arrangements.

The Aerospace Foundation entered into a sublease with UND to lease a hangar ground support equipment facility. The lease term is 20 years, commencing on July 7, 2003, until July 6, 2023. A balloon payment of $1,011,392 is due on July 6, 2023. For the first 15 years of the sublease, UND will pay the Foundation monthly minimum payments. The rate is adjusted annually based upon changes to the ground lease payments to the Grand Forks Regional Airport Authority. The fiscal year 2013 monthly rate increased from $12,881 to $12,902 on January 1, 2013. Of the monthly lease payment, $10,529 is recorded as payment on principal and interest; the remaining amount is recorded as a capital lease payment, and this is the portion that relates to the ground lease payments. At the end of the 15 years, rent will be adjusted based upon the interest rate adjustment or a refinancing of the debt incurred by the Foundation in the construction of the hangar. The audited financial statements of the Foundation report the capital assets and related debt for this lease. Since the Foundation is a discretely presented component unit of the University System, and the component unit and the University System are reporting the same assets and debt for this transaction, a reclassification entry was made to ending balances in the component unit consolidating financial statements to show the appropriate amount due from primary institution.

University of North Dakota & RE Arena Inc.

RE Arena Inc. manages, operates and maintains an arena known as the Ralph Engelstad Arena, which was constructed in 2001 for the benefit of UND athletics. UND and RE Arena Inc. entered into an operating agreement. The operating agreement sets forth the facility usage, fees and services, ticket administration and revenue allocation, sponsorship sales administration and revenue allocation, and net income disposition. In accordance with this agreement (1) RE Arena Inc. collects all ticket revenue from ticketed UND athletic events (men’s and women’s hockey, football, men’s and women’s basketball, and volleyball), RE Arena Inc. retains 52% of such ticket revenue and remits 48% to UND; and (2) RE Arena Inc. collects sponsorship sales revenue from UND athletic events at the arena, RE Arena Inc. retains 52% of such sponsorship revenue, net of direct costs, and remits 48% to UND. If UND collects sponsorship revenue, the amount is applied towards RE Arena Inc’s obligation to pay UND. The UND Athletic Department maintains institutional control of all marketing activities and sponsorship sales as outlined in the NCAA constitution. In addition, UND and RE Arena recognize the mutual benefit by UND Athletics and REA in collaborating on marketing and sales functions for the UND enterprise.

In addition, RE Arena Inc. may contract with UND for materials and personnel in the service and utility areas and will reimburse UND based on separate agreements. Revenue and expense arrangements for all other UND events held at the arena will be negotiated on an event-by-event basis. The transactions in relation to the contractual relationship are as follows:

- Gross tickets sales were $4,078,304, of which UND recognized revenue of $1,975,886 and expenses of $2,120,718. REA recognized net revenue of $2,203,968, a difference of $83,250 due to trade allocations.
- Gross ticket sales for the next athletic season year are recorded by REA as due from component unit and deferred revenue at gross; the amount is $2,746,445. UND also records at gross with a deferred revenue amount in current liabilities.
- UND recognizes sponsorship (advertising) revenue from REA at gross and expenses for the amount allocated to UND.
- REA recognizes box office revenue for ticket facility fees, credit card fees and payment plan fees and expenses. If the net is positive or negative, UND Athletics either receives a check from REA, or writes a check to REA. In fiscal year 2013, UND received a check for $9,303.
- REA owes UND fiscal year 2013 net in come allocation of $550,000.
- REA paid UND $941,981 for utilities and maintenance staff.
- RE Arena Inc. fiscal year end is May 31; UND year end is June 30. If no agreement is reached between or in entity financial statements, it is because of timing differences due to different year-end dates.

University of North Dakota & the University of North Dakota Foundation

The University of North Dakota Foundation issued tax-exempt lease revenue bonds on October 24, 2003, of $4,400,000 to finance the land purchase and construction of the Minot Family Practice Center. The center is a department of the School of Medicine and is intended to memorialize various operating agreements, rate structures, duties, and obligations each party has to the other. On July 24, 2002, the UND Foundation issued lease revenue bonds of $8,595,000 on behalf of UND to (1) finance the construction of an office building for EERC, (2) renovate the current EERC building, (3) finance capitalized interest, and (4) pay cost of issuance of the bonds. 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 Foundation also amended the related lease agreement with the UND. The bonds bear an interest rate of 7.5% to 4.20% and mature in 2027. The lease revenue bond has a balance of $6,080,000 at June 30, 2013. The Foundation’s financial statements include this transaction as a revenue from receivable from UND and a long-term liability. UND’s financial statements include the capitalized asset and a long-term liability due to the Foundation.

On December 22, 2008, the UND Foundation issued bonds of $1,200,000 to finance the construction of the North Dakota Center for Human Safety (NDCS) for the UND School of Medicine. The bond payments are expected to be collected from future gifts. UND recorded a capital lease and long-term liability of $1,068,000. The Foundation issued $283,253. UND pays the Foundation for database, campus and construction of the Minot Family Practice Center. The center is a department of the School of Medicine and Health Sciences at UND. The interest payment on this is included on the financial reports of the Foundation, and UND has recorded a capital asset and a capital lease payable as of June 30, 2013.

Other transaction details include:
- Foundation pays UND gifts for scholarships and other expenses totaling $3.3 million.
- Foundation pays UND for services such as telecom, facilities, catering, and printing totaling $283,253.
- UND pays the Foundation for database, campaign, giving support, Alumni Review advertising and support, totaling $1,068,000.
- UND pays the Foundation on an operating lease for space in the Goveck Center of $220,168.
- UND pays for Athletics event coordination totaling $30,000.

At the end of the fiscal year, UND owes the Foundation $9,965 excluding lease revenue bonds mentioned above. The Foundation owes UND $13,691 for services.
Note 15 - Continued

NON-MAJOR COMPONENT UNITS
UND Center for Innovation Foundation
For the year ended June 30, 2013, UND received $15,410,106 in gifts from the Foundation, $240,628 in grant funding and $75,000 in contract services, and $22,61 of facility services. UND paid the Foundation $60,464 for room rent and other services.

University of North Dakota Research Foundation
For the year ended June 30, 2013, UND contracted with the Foundation to pay $250,000 and $192,929 rent for research space for grant-funded projects. UND charged the Foundation $115,388 for utility costs.

Note 16 - On Behalf Payments
On-behalf payments for fringe benefits and salaries are direct payments made by one entity to a third-party recipient for the employees of another legally separate entity. On-behalten payments include pension plan contributions, employee health and life in-surance premiums, and salary supplements or stipends. The amount of on-behalten payments for fringe benefits and salaries for fiscal year ended June 30, 2013, was $0. There were no on-behalten payments made as contributions to a pension plan for which the University is not legally responsible.

Note 17 - Functional Expense Classification
The University reports operating expenses using the "natural classification" on the Statement of Revenues, Expenses, and Changes in Net Position. The University reports operating expenses using the "functional classification" on the Statement of Position of the University.

Revenues, Expenses, and Changes in Net Position.
The University reports operating expenses using the "functional classification" on the Statement of Position of the University.

Note 18 - Operating Lease
The University is obligated under lease agreements for land, facility and storage rental, office rental, and aircraft rental which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the resulting expenditures are recognized as incurred. Lease expenditures for the year ended June 30, 2013, amounted to $2,347,760.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2013, are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>713,268</td>
</tr>
<tr>
<td>2015</td>
<td>624,564</td>
</tr>
<tr>
<td>2016</td>
<td>596,458</td>
</tr>
<tr>
<td>2017</td>
<td>571,293</td>
</tr>
<tr>
<td>2018</td>
<td>569,499</td>
</tr>
<tr>
<td>2019-2023</td>
<td>952,409</td>
</tr>
<tr>
<td>2024-2028</td>
<td>726,371</td>
</tr>
<tr>
<td>2029-2033</td>
<td>726,371</td>
</tr>
<tr>
<td>2034-2038</td>
<td>207,077</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 5,767,383</strong></td>
</tr>
</tbody>
</table>

Note 19 - Contingencies
Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

In the normal course of its activities, the University is party to various legal actions. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

Note 20 - Risk Management
The University is exposed to various risks of loss related to: theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

Note 20 - Risk Management Fund
The Risk Management Fund (NDCC Chapter 32-12.2) was established by the 1995 North Dakota Legislature as a result of a court decision that eliminated the State's sovereign immunity. The Risk Management Division of the Office of Management and Budget administers the fund.

The fund provides liability coverage and defense of a claim/lawsuit brought against the State of North Dakota, its agencies and employees acting within the scope of employment. The coverage amounts are $250,000 per person and $1,000,000 per occurrence.

The fund is a risk retention pool that is funded by contributions paid by all state agencies. The contributions are calculated by an actuary based on various factors, including the agency's loss history and number of full-time employees.

Note 21 - Asbestos Settlement
Asbestos-related projects at UND. The remaining balance as of June 30, 2013, is $1,036,566.
As of June 30, 2013, the University had negative fund balances in excess of $100,000. Listed below are the fund numbers, fund description and deficit balances for each:

<table>
<thead>
<tr>
<th>Fund Description</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>21220 Bismarck CPM</td>
<td>$420,463</td>
</tr>
<tr>
<td>21221 Bismarck CPM Pharmacy</td>
<td>245,169</td>
</tr>
<tr>
<td>21546 EERC FYE Carryover</td>
<td>1,145,893</td>
</tr>
<tr>
<td>22364 EERC Legal Costs</td>
<td>945,875</td>
</tr>
<tr>
<td>22430 Citation Cost Center Aerospace</td>
<td>230,741</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,988,141</strong></td>
</tr>
</tbody>
</table>

**Bismarck CPM ($420,463)** – In December 2008 the State Auditors made a prior period audit adjustment to the Bismarck Center for Family Medicine 6/30/08 accounts receivable allowance balance, increasing the allowance by $1,108,030. The prior period audit adjustment was made due to Medicare revenue adjustments made to the Bismarck hospitals. The SMHS and the Bismarck hospitals were in dispute with Medicare over these adjustments from 2003 through 2011. Medicare eventually won the dispute and the adjustments stand.

The SMHS will continue to reduce the Bismarck CPM deficit in a responsible manner. The deficit will be reduced through increased patient care revenue and responsible management of operating expenses. In addition, the SMHS will continue to work with the teaching hospitals to improve their hospital billing to Medicare for resident time spent in hospital service. The SMHS will eliminate this deficit entirely by June 30, 2015.

Analysis of the Bismarck hospitals accounts receivables is a cooperative effort of the financial officers of the SMHS, UND and the Bismarck hospitals. Adjustments to the hospitals’ accounts receivables will continue to be made as new data becomes available.

**Bismarck CPM Pharmacy ($245,169)** – The Bismarck Center for Family Medicine Pharmacy is a new business venture of the SMHS. The Bismarck Pharmacy opened in July 2012, with completion of the new Bismarck CPM facility. There is an expected start-up deficit with the Bismarck Pharmacy that will extend into fiscal year 2015. The SMHS has a similar experience with the start-up of the Minot CPM Pharmacy in 2005. The Minot CPM Pharmacy did not begin to generate a profit until the third year of operation, at which point it has continued to generate a net profit. The SMHS expects the Bismarck CPM Pharmacy to steadily increase its revenues and become profitable by fiscal year 2015.

**EERC FYE Carryover ($1,145,893)** – As a result of the significant, worldwide economic crisis, starting in late 2008, the EERC has encountered a decrease in funding opportunities, which has decreased its overall awards and expenditures, resulting in a year-end deficit. This deficit is less than 12% of the EERC’s prior year (fiscal year 2012) operating budget. In recognition of the effects of global economic downturn, the EERC made a number of pro-active reductions to its overhead budgets during fiscal year 2013. Through the year, a total of $1,434,884 was reduced from the original budget. With growth in modified total direct costs and a reduced overhead budget, the EERC anticipates an additional deficit of approximately $300,000 in fiscal year 2014 and no additional deficit in fiscal year 2015 and beyond. It is proposed that at the fiscal year 2013 and fiscal year 2014 deficits be packaged along with the remaining legal repayment to be repaid over a period not to exceed 10 years, beginning in fiscal year 2015. The current legal repayment is approximately $240,000/year. The new payment, which would include the remaining legal payment balance and the deficit balance, is anticipated to be approximately $300,000/year.

**EERC Legal Costs ($945,875)** – This balance reflects costs incurred in litigation. A settlement agreement has been signed. Internal to UND, a deficit reduction plan has been implemented. Through fiscal year 2013, a monthly payment of $19,979.23 has been made. The remainder of the legal deficit will be retired through the comprehensive plan outlined for the EERC above over a period not to exceed 10 years.

**Citation Cost Center Aerospace ($230,741)** – With funding for many of the federal projects for the Citation Research jet on hold until the federal budget is resolved, several measures have been implemented to reduce expenditures in this area. To minimize the resulting deficit in the Citation cost center, personnel have been temporarily reassigned to other functions and vacant positions have not been filled. In addition to a significant rate increase, the department is currently seeking bridge funding from various sources. Aerospace will continue to monitor these deficits, and the researchers are vigorously pursuing additional grant opportunities. As the department chair engages with others in the industry, he is assured the situation is temporary and the demand for this type of research exists. While we know the prestige and research opportunities of the University and the departments are greatly enhanced by having this research platform, we also know a conservative estimate of the aircraft’s worth exceeds the deficits accumulated, should the current circumstances prove themselves to be of a permanent nature.

**Note 22 - Deficit Fund Balances > $100,000**

In November 2013, UND issued up to $8.3 million in revenue bonds to finance the purchase of the Hamline Square. Hamline Square is a 77-unit apartment complex built by a private developer located on University land. The purchase was finalized in November 2013. In fiscal year 2013, the building was recorded in the UND financial statements as a capital asset and capital lease liability. In fiscal year 2014, the asset will remain on our financial statements and the debt will move from a capital lease liability to a bonds payable liability.

In September 2013, UND entered into a financing agreement for the purchase of a 50,000-square-foot research building owned by the UND Research Foundation. The loan is $9,800,000, amortized for 10 years at 5.38% with a balloon payment of $7.4 million on September 1, 2023.

UND has authorization to issue up to $29 million in revenue bonds to finance an addition and/or renovation of Wilkerson Hall. The preliminary time frame would be to issue the bonds by May 2014.

**Note 23 - Subsequent Events**
Statement of Financial Position


**ASSETS**

**Current Assets**
- Cash and cash equivalents: $12,285,353
- Receivables: $1,615,715
- Prepaid assets and inventory: $379,529
- Deferred revenue collection account: $1,402,314

**Non-current Assets**
- Investments: $23,035,944
- Property and equipment, net of accumulated depreciation: $8,754,609
- Restricted cash - reserve fund: $5,479,426

**Total Current Assets** $22,553,225

**Total Non-current Assets** $24,075,944

**Total Assets** $46,629,169

**LIABILITIES**

**Current Liabilities**
- Accounts payable and accrued liabilities: $1,657,220
- Deferred revenue: $7,584,818
- Current portion of long-term debt: $597,690

**Non-current Liabilities**
- Annuities payable: $3,301,785
- Long-term debt: $3,301,785

**Total Current Liabilities** $9,749,728

**Total Non-current Liabilities** $3,301,785

**Total Liabilities** $13,051,513

**NET ASSETS**
- Unrestricted: $33,577,656
- Temporarily restricted: $33,577,656

**Total Net Assets** $33,577,656

**Total Liabilities and Net Assets** $46,629,169

---

Statement of Activities


**REVENUES**
- Gifts and pledges: $1,569,129
- Operations, events, fees and miscellaneous: $144,035
- Consulting, training and support services: $35,870,777
- Investment income: $241,608

**Total Revenues** $38,382,952

**EXPENSES**
- Direct support to UND: $11,742,198
- Other support to UND: $2,989,068
- Operations: $2,365,124
- Fundraising: $2,844,282
- Donations and scholarships: $321,292
- Management and general: $2,042,684
- Training expense: $30,094,635
- Interest expense: $202,677
- Depreciation and amortization: $2,912,507

**Total Expenses** $32,661,288

**Other Changes in Net Assets**
- Change in value of split interest agreements: $3,975,462

**Total Other Changes in Net Assets** $-3,975,462

**Total Revenues** $38,382,952
**Total Expenses** $32,661,288
**Net Assets, Beginning of Year** $27,855,992
**Net Assets, End of Year** $33,577,656

---

UND 2013 Financial Report
### Supplemental Information - Non-Major Component Units

#### Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>UND Center for Innovation Foundation</th>
<th>University of North Dakota Research Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For Year Ended:</strong></td>
<td>Dec. 31, 2012</td>
<td>June 30, 2013</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,319,376 $35,971</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>150,845</td>
<td>83,141</td>
</tr>
<tr>
<td>Contribution receivable, net</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Inventory</td>
<td>8,701</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid assets</td>
<td>-</td>
<td>3,945</td>
</tr>
<tr>
<td>Property held for sale</td>
<td>9,800,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$1,478,922 $9,923,057</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>$3,212,213</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>32,550</td>
<td>-</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation</td>
<td>$3,334,407</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>249,914 $14,072</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-current Assets</strong></td>
<td>$6,829,084 $14,072</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$8,308,006 $9,937,129</td>
<td></td>
</tr>
</tbody>
</table>

#### LIABILITIES

|                      |                                     |                                                 |
| **Current Liabilities** |                                     |                                                 |
| Accounts payable and accrued liabilities | $140,771 $05,969        |                                                 |
| Deferred revenue      | 612,230                             | 21,091                                          |
| Deposits             | 25,000                              | 37,320                                          |
| Current portion of long-term debt | -                                  | 6,074,850                                      |
| **Total Current Liabilities** | $785,001 $6,219,230       |                                                 |
| **Non-current Liabilities** |                                     |                                                 |
| Long-term debt        | $166,534 $3,356,021             |                                                 |
| Liabilities under charitable remainder trusts | -                                 | -                                               |
| **Total Non-current Liabilities** | $166,534 $3,356,021       |                                                 |
| **TOTAL LIABILITIES** | $951,535 $9,575,251         |                                                 |

#### NET ASSETS

|                      |                                     |                                                 |
| **Unrestricted**     | $3,395,813 $324,968                 |                                                 |
| Temporarily restricted | 799,026 $36,910            |                                                 |
| Permanently restricted | 3,251,632                           |                                                 |
| **TOTAL NET ASSETS** | $7,356,471 $361,878               |                                                 |
| **TOTAL LIABILITIES AND NET ASSETS** | $6,908,006 $9,937,129 |                                                 |

### Statement of Activities

<table>
<thead>
<tr>
<th></th>
<th>UND Center for Innovation Foundation</th>
<th>University of North Dakota Research Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For Year Ended:</strong></td>
<td>Dec. 31, 2012</td>
<td>June 30, 2013</td>
</tr>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts and pledges</td>
<td>$350,412 $432,381</td>
<td></td>
</tr>
<tr>
<td>Operations, events, fees and miscellaneous</td>
<td>633,560 $-</td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>1,265,917 $-</td>
<td></td>
</tr>
<tr>
<td>Royalties, leases and rentals</td>
<td>- $708,754</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>276,731 $275</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$-</td>
<td>544</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUES</strong></td>
<td>$2,526,620 $1,141,954</td>
<td></td>
</tr>
</tbody>
</table>

#### EXPENSES

|                      |                                     |                                                 |
| **Donations and scholarships** | $1,431,185 $-            |                                                 |
| Expenses              | 801,314 $811,216                  |                                                 |
| Interest expense      | 2,250 $397,526                   |                                                 |
| Depreciation and amortization | 100,417 $784,531         |                                                 |
| Loss on sale of property | - $5,905,202                    |                                                 |
| **TOTAL EXPENSES**    | $2,335,166 $7,898,475            |                                                 |

#### CHANGES IN NET ASSETS

|                      |                                     |                                                 |
| **Net Assets, Beginning Of Year** | $7,165,017 $7,118,399     |                                                 |
| **Net Assets, End Of Year** | $7,356,471 $361,878         |                                                 |
The University of North Dakota is an equal opportunity, affirmative action institution.

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Contributions to this publication are greatly appreciated.
Cindy Petsch, Lisa Heber, Hazel Lehman, Peggy Lucke, Allison Peyton, Jennifer Moe, Janelle Kilgore, Pat Hanson, Scott Schreiner, Jessica Peterson, Chelsea Larson, and Patty Sigurdson