

UNIVERSITY OF NORTH DAKOTA

FINANCIAL STATEMENTS

JUNE 30, 2002

UNIVERSITY OF NORTH DAKOTA

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INDEPENDENT ACCOUNTANT'S REPORT

Board of Trustees
University Of North Dakota
Grand Forks, North Dakota

We have compiled the accompanying basic financial statements of the **University of North Dakota** as of and for the year ended June 30, 2002, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

As described in Note 1, University of North Dakota has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of July 1, 2001.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements, and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis on pages 2 to 6 are not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board.

Bismarck, North Dakota
September 20, 2002

**UNIVERSITY OF NORTH DAKOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2002**

New Accounting Standards

In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities. The State of North Dakota has elected to adopt these new standards in fiscal year 2001 and, as a component unit of the state government, North Dakota University System has adopted the new standards as well. The University of North Dakota (the "University") is one of the organizations included in the reporting entity of the North Dakota University System's financial statement.

The following discussion and analysis provides an overview of the University's financial activities. Since this is a transition year for the new format, only one year of information is presented in the audited financial statements.

The new accounting standards resulted in a prior period adjustment of \$177,067,051 million to the beginning fund balance. The components of this adjustment are included in the footnotes to the financial statements and primarily include accumulated depreciation as of June 30, 2001.

As required by the newly adopted accounting principles, the annual report consists of three basic financial statements that provide information on the University as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. Each one of these statements will be discussed.

Financial and Enrollment Highlights

- Net assets increased 13% due to continuing investment in capital assets and reserves for repairs, maintenance and future debt service.
- The downturn in the equity market affected the market value of endowment and retirement investments.
- Capital campaigns and capital appropriations from the State of North Dakota supported several construction projects.
- On October 2000, the University issued \$36 million in debt to finance additional student housing in Allendale and renovations for the student activities center.
- Operating revenue increased 14% as a result of increased enrollment, tuition rates, housing capacity and grant activity.
- Enrollment increased by 7.2% based on FYES (fiscal year equated students). Headcount for the fall semester increased by 6.5%. The student body grew to 12,423 in the fall of 2002, surpassing the momentum required to reach the Strategic Plan's goal of 14,000 students on and off the campus.
- State appropriations for operations increased 11%.
- New external grants for research and program development reached \$54.6 million, up for the fifth straight year.
- Replacement of much of the University's underground infrastructure was completed and work begun on three construction projects not involving state tax dollars: Research-related additions to the School of Medicine and Health Sciences and the Energy and Environmental Research Center and a Hilton Garden Inn hotel.
- Using new flexibility granted by the State Legislature, UND made progress in improving faculty salaries, long among the lowest in the nation. Average increases were 6.2 percent for 2002-2003 and 7.1 percent in 2001-2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- A new Center of Biomedical Research Excellence was established that will conduct research into such widespread disorders as Parkinson's disease, Lou Gehrig's disease, Alzheimer's disease, autism and epilepsy. The Center's first five years of work will be supported by a \$10.3 million grant from the National Institutes of Health.
- A new arrangement with Williston State College will allow students to begin work on an aviation degree – including the pilot training component – and transfer to UND at the end of two years.
- More than 600 program articulation agreements have been approved with 26 partner two-year colleges. This means a student is assured that credits taken at the junior college will count toward a specific major at UND. New course equivalency agreements are in place with 60 schools. These outline how every course in the junior college's catalog will be treated at UND.
- Five new doctoral and three master's degree programs were authorized for UND by the State Board of Higher Education during 2001-2002. They include the Ph.D. in history, offered jointly with North Dakota State University, the Ph.D. in criminal justice, offered jointly with Minot State University; the Ph.D. in communication and public discourse; the Doctor of Physical Therapy; the Ph.D. in Nursing; and M.S. degrees in physician assistant studies, occupational therapy, and civil engineering.
- The new 11,406-seat Ralph Engelstad Arena, constructed with a \$100 million gift from Alumnus Ralph Engelstad of Las Vegas, Nev., successfully completed its first year of operation. More than 330,000 paid guests enjoyed the facility.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the University.

Current assets	
Cash and short-term investments	\$ 34,661,612
Receivables	26,697,667
Inventory, prepaid expenses and other	2,870,424
Total current assets	<u>64,229,703</u>
Noncurrent assets	
Noncurrent cash and investments	42,922,714
Long-term receivables	21,203,341
Capital assets, net of depreciation	267,065,964
Total noncurrent assets	<u>331,192,019</u>
Total assets	<u>\$ 395,421,722</u>
Current liabilities	\$ 26,182,878
Noncurrent liabilities	52,970,276
Total liabilities	<u>79,153,154</u>
NET ASSETS	
Invested in capital assets	222,857,826
Restricted	45,872,800
Unrestricted	47,537,942
Total net assets	<u>\$ 316,268,568</u>

(continued on next page)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the University, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

Operating revenues	
Net tuition and fees	\$ 44,647,062
Auxiliary and sales of educational services	54,244,224
Grant and contracts	58,568,547
Other	550,010
Total operating revenues	<u>158,009,843</u>
Operating expenses	<u>231,068,618</u>
Net operating loss	<u>(73,058,775)</u>
Non-operating revenues	
State appropriations	63,865,120
Gifts and grants	5,050,689
Interest on capital asset-related debt	(2,370,396)
Investment income	2,480,789
Loss on capital assets	(1,605,649)
Insurance proceeds	4,617,186
Other income and expense	976,060
Total	<u>73,013,799</u>
Net income before capital contributions	(44,976)
Capital grants and gifts	<u>3,915,007</u>
Increase in net assets	3,870,031
Net assets—beginning of year	<u>312,398,537</u>
Net assets—end of year	<u>\$ 316,268,568</u>

Auxiliary revenue consists of housing, bookstores, vending, golf course, health center fees and telephone charges.

Tuition and fees, net of scholarship allowances, makes the largest contribution (33%) to the total revenue of the University. State appropriation is the next largest at 29%. These two sources, along with grants and contracts, provide for the majority of the operating expenses. Auxiliary activities are considered self-supporting enterprises.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses (by functional classification)

Instruction	\$ 90,426,014
Research	23,130,977
Public service	11,762,162
Academic support	20,541,306
Student services	9,104,037
Institutional support	17,683,172
Operation and maintenance of facilities	12,009,207
Depreciation	15,335,294
Scholarships and related expenses	7,636,084
Auxiliary activities	23,440,365
	<hr/>
	\$ 231,068,618

Operating Expenses (by natural classification)

Salaries & Wages	\$ 145,146,979
Operating Expenses	45,551,036
Data processing	2,018,887
Depreciation	15,335,294
Cost of sales and services	14,229,009
Scholarships and fellowships	8,787,413
	<hr/>
	\$ 231,068,618

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the University's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Cash provided by (used in)	
Operating activities	\$ (52,690,259)
Non-capital financing activities	73,870,938
Capital and related financing activities	(11,415,910)
Investing activities	17,134,548
Net increase (decrease) in cash	<hr/> 26,899,317
Cash - beginning of year	9,767,092
	<hr/>
Cash - end of year	\$ 36,666,409

The primary cash receipts from operating activities consist of tuition and housing revenues and contracts and grants. Cash outlays include payment of wages, benefits, supplies, and utilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

State appropriation is the primary source of non-capital financing. The new accounting standards require that we reflect this source of revenue as non-operating even though the University's budget depends on this to continue the current level of operations.

Economic Factors That Will Affect the Future

The economic position of North Dakota University System is closely tied to that of the State of North Dakota. State appropriation comprises 29% of total revenues and, after tuition revenue, is the second largest source of funding.

Contacting the University of North Dakota's financial management:

The information in this report is intended to provide the reader with an overview of the University's operations along with the University's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the University of North Dakota, PO Box 8378, Grand Forks, North Dakota 58202.

UNIVERSITY OF NORTH DAKOTA
STATEMENT OF NET ASSETS
JUNE 30, 2002

	<u>Primary Institution</u>	<u>Component Units</u>
ASSETS		
Current assets		
Cash and cash equivalents - BND	\$ 30,335,599	\$ 315,550
Cash and cash equivalents -outside BND	2,463,099	435,335
Investments - BND	1,736,373	-
Investments - outside BND	126,541	2,935,504
Accounts receivable, net	5,204,175	356,933
Notes receivable, net	3,134,746	-
Interest receivable	155,503	-
Due from state general fund	2,248,014	-
Intergovernmental receivable	15,955,229	-
Inventories	2,628,283	47,531
Other assets	242,141	31,545
Total current assets	<u>64,229,703</u>	<u>4,122,398</u>
Non current assets		
Restricted cash and cash equivalents	3,867,711	-
Restricted investments	3,767,720	-
Endowment investments	9,777,521	-
Notes receivable, net	21,203,341	-
Investments - BND	9,605,107	-
Investments - outside BND	15,096,574	496,000
Unamortized Bond Discount & Cost of Issuance	808,081	-
Other assets	-	90,416
Capital assets, net (Note 4)	267,065,964	5,640,409
Total noncurrent assets	<u>331,192,019</u>	<u>6,226,825</u>
Total assets	<u>\$ 395,421,722</u>	<u>\$ 10,349,223</u>

See Notes to Financial Statements

	Primary Institution	Component Units
LIABILITIES		
Current liabilities		
Accounts payable	\$ 5,434,551	\$ 542,828
Payable to the primary government	-	7,692
Accrued payroll	3,651,287	-
Interest payable	699,300	-
Other current liabilities	2,255	-
Deferred revenue	5,298,297	400,963
Deposits	4,626,912	-
Compensated absences-current portion	318,130	119,935
Long-term liabilities-current portion	6,152,146	1,425,193
Total current liabilities	<u>26,182,878</u>	<u>2,496,611</u>
Noncurrent liabilities		
Advances from state	5,331,654	-
Compensated absences, net of current portion	5,466,046	-
Bonds payable, net of current portion	42,172,576	1,458,763
Total noncurrent liabilities	<u>52,970,276</u>	<u>1,458,763</u>
Total liabilities	<u>79,153,154</u>	<u>3,955,374</u>
NET ASSETS		
Invested in capital assets, net of related debt	222,857,826	2,756,453
Restricted for		
Nonexpendable		
Scholarships and fellowships	9,777,521	-
Expendable		
Scholarships and fellowships	2,954,922	-
Research	71,828	-
Instructional department uses	1,628,999	-
Loans	26,690,209	-
Capital projects	71,682	-
Debt service	4,677,639	-
Other	-	3,345,605
Unrestricted	<u>47,537,942</u>	<u>291,791</u>
Total net assets	<u>\$ 316,268,568</u>	<u>\$ 6,393,849</u>

UNIVERSITY OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

	<u>Primary Institution</u>	<u>Component Units</u>
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of \$6,901,293)	\$ 44,647,062	\$ 5,020,090
Federal grants and contracts	45,512,469	-
State and local grants and contracts	2,031,379	-
Nongovernmental grants and contracts	11,024,699	-
Sales and services of educational departments (net of allowances \$18,926)	32,278,513	-
Auxiliary enterprises (net of allowances \$1,633,493; \$19,107,548 of revenues are used as security for revenue bonds)	21,965,711	547,720
Other	550,010	-
Total operating revenues	<u>158,009,843</u>	<u>5,567,810</u>
EXPENSES		
Operating expenses		
Salaries & Wages	145,146,979	-
Operating Expenses	45,551,036	5,023,930
Data processing	2,018,887	-
Depreciation	15,335,294	3,316
Cost of sales and services	14,229,009	-
Scholarships and fellowships	8,787,413	-
Total operating expenses	<u>231,068,618</u>	<u>5,027,246</u>
Operating income (loss)	<u>(73,058,775)</u>	<u>540,564</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	63,865,120	-
Gifts	5,050,689	3,157,213
Investment income	2,480,789	(107,890)
Interest on capital asset - related debt	(2,370,396)	(84,286)
Loss on capital assets	(1,605,649)	-
Insurance proceeds	4,617,186	-
Other nonoperating revenues over (under) expenses	976,060	42,724
Net nonoperating revenues	<u>73,013,799</u>	<u>3,007,761</u>
Income before other revenues, expenses, gains, or losses	<u>(44,976)</u>	<u>3,548,325</u>
State appropriations - capital assets	1,068,729	-
Capital grants and gifts	2,846,278	-
Increase in net assets	<u>3,870,031</u>	<u>3,548,325</u>
NET ASSETS		
Net assets - beginning of year	<u>312,398,537</u>	<u>2,845,524</u>
Net assets - end of year	<u>\$ 316,268,568</u>	<u>\$ 6,393,849</u>

UNIVERSITY OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

	Primary Institution	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 44,735,654	\$ 4,985,818
Grants and contracts	60,320,761	50,000
Payments to suppliers	(61,965,607)	(3,309,358)
Payments to employees	(143,617,568)	(1,500,061)
Payments for scholarships and fellowships	(8,787,413)	(1,200)
Loans issued to students	(5,366,627)	-
Collection of loans to students	4,993,552	-
Auxiliary enterprise charges	21,965,711	547,720
Sales and service of educational departments	32,278,513	-
Other receipts (payments)	2,752,765	-
Net cash provided (used) by operating activities	<u>(52,690,259)</u>	<u>772,919</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	66,659,204	-
Gifts for other than capital purposes	5,050,689	3,156,266
Deposits	(1,936,417)	-
Agency fund cash increase/decrease	3,121,402	-
Other revenues	976,060	-
Net cash flows provided by noncapital financing activities	<u>73,870,938</u>	<u>3,156,266</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	6,710,000	2,239,154
Bond discounts paid	(170,218)	-
State capital grants	2,846,278	-
State capital appropriation	1,068,729	-
Purchases of capital assets	(14,731,673)	(1,839,973)
Proceeds from sales of capital assets	-	176,000
Insurance proceeds	4,617,186	-
Principal paid on capital debt, lease, and specials	(9,537,137)	(337,259)
Interest paid on capital debt and lease	(2,219,075)	(80,247)
Net cash used by capital and related financing activities	<u>(11,415,910)</u>	<u>157,675</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	49,960,003	-
Interest on investments	3,044,818	43,965
Purchase of investments	(35,870,273)	(3,580,967)
Net cash provided (used) by investing activities	<u>17,134,548</u>	<u>(3,537,002)</u>
Net increase in cash	26,899,317	549,858
CASH - BEGINNING OF YEAR	<u>9,767,092</u>	<u>201,027</u>
CASH - END OF YEAR	<u>\$ 36,666,409</u>	<u>\$ 750,885</u>

(continued on next page)

STATEMENTS OF CASH FLOWS- page 2

	<u>Primary Institution</u>	<u>Component Units</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (73,058,775)	\$ 540,564
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation expense	15,335,294	242,468
Amortization expense	25,929	-
Increase in allowance for bad debts	1,030,830	-
Notes receivable principal forgiven	555,570	-
Expenses paid by capital lease	666,987	
Change in assets and liabilities		
Accounts receivables and state receivable	1,840,806	62,509
Inventories	(174,356)	(461)
Other assets	1,288,337	-
Accounts payable and accrued liabilities	(2,565,726)	(35,407)
Deferred revenue	2,752,765	(36,754)
Compensated absences	535,165	-
Collections of loans to students	(923,085)	-
	<u>\$ (52,690,259)</u>	<u>\$ 772,919</u>
SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS		
Assets acquired through capital lease	\$ 2,284,845	
Expenses paid by capital lease	666,987	
	<u>\$ 2,951,832</u>	
Like kind exchange of a building		
Book value of building exchanged	\$ 5,515,269	
Loss on exchange	1,515,269	
	<u>\$ 4,000,000</u>	
Book value of building acquired	<u>\$ 4,000,000</u>	

UNIVERSITY OF NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, as summarized below, and the financial statements for the University are in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) which is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The University of North Dakota (the "University") is included in the reporting entity of the North Dakota University System. The North Dakota University System is an entity of the executive branch of the government of the state of North Dakota, and is thus a component unit of the state of North Dakota. The North Dakota Legislature appropriates funds it deems necessary and as required by law for those agencies and institutions authorized to exist by the constitution and statutes. The University is subject to management and supervision by the State Board of Higher Education as established in the North Dakota Constitution. The membership of the State Board of Higher Education is appointed by the Governor of the State, with the advice and consent of the North Dakota Senate. The financial statements presented here are also included in the comprehensive annual financial report of the State of North Dakota as part of the University System Consolidated Statements.

In accordance with generally accepted accounting principles (GAAP) as applied to governmental units, the University's financial statements include all activities for which the institution is either financially accountable or the nature and significance of their relationship are such that the exclusion would cause the financial statements to be misleading or incomplete.

The University of North Dakota Foundation and Alumni Association, which are detailed in Note 11, are excluded from the reporting entity because they are determined to be independent entities. A separate board of directors controls both entities. The University does not exercise financial or administrative control over the excluded entities.

Discretely Presented Component Units

The following component units are legally separate entities; however, these entities provide a financial benefit or burden, are governed by boards that are substantially made up of University System administrative personnel, or due to the nature and significance of their relationship to the University System, their exclusion would render the financial statements incomplete or misleading:

1. University of North Dakota Aerospace Foundation (UNDAF)
2. University of North Dakota Center for Innovation Foundation (CIF)

NOTES TO FINANCIAL STATEMENTS

The financial information for the University of North Dakota Aerospace Foundation is as of June 30, 2002. The financial information for the University of North Dakota Center for Innovation Foundation is as of December 31, 2001. Complete financial statements for each of these individual component units may be obtained at the entity's administrative offices as follows:

University of North Dakota Aerospace Foundation
Box 9023
Grand Forks, ND 58202-8372

University of North Dakota Center for Innovation Foundation
PO Box 8372
University Station
Grand Forks, ND 58202-8372

The UND Aerospace Foundation is a North Dakota nonprofit organization 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 managed by a Board of Directors consisting of five to seven 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; 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. The Foundation benefits the University, financially and otherwise, through its promotion of the Odegard School and its programs and in the sharing of resources. The Foundation is reported as a discretely presented component unit as the University has voting members on the Board of Directors and because of the extent of the financial relationship between the entities.

The UND Center for Innovation Foundation is a North Dakota nonprofit organization organized in 1991 to engage in all types of activities relating directly or indirectly to supplying educational data and services to entrepreneurs, manufacturers, and emerging industries and to encourage and develop the Center for Innovation as it relates to the overall objectives of UND.

The Foundation is managed by a Board of Directors of at least five voting members elected by the Board and four ex-officio non-voting members: UND's President, Vice President for Finance and Operations, Dean of the College of Business and Public Administration, and the Director of the Center for Innovation. The Foundation benefits the University, financially and otherwise, through its promotion of the College of Business and Public Administration and its Center for Innovation. The Foundation has previously been reported as a blended component unit as, until July 2001, the University held the majority of voting members on the Board of Directors. Recent changes in the Board have removed the need for blended component reporting. The Foundation is reported as a discretely presented component unit in this reporting period as the Foundation implements changes in governance while it continues to enhance the University.

Related Organizations

The University's foundations/alumni associations, which are detailed in Note 11, are excluded from the reporting entity because they were determined to be independent entities. Separate boards of directors control these entities. The University does not exercise financial or administrative control over these excluded entities.

NOTES TO FINANCIAL STATEMENTS

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (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 of Public College and Universities*, issued in June and November, 1999. The University now 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.

The University follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principals for governmental entities. The University follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

Unrestricted Net Assets

Unrestricted net assets include 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.

NOTES TO FINANCIAL STATEMENTS

Revenue and Expense Recognition

The University presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable 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 nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Budgetary Process

The State of North Dakota operates through a biennial appropriation. Legislation requires the Board 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 Board allocates Equity and Special Needs/Technology funding among the institutions based on guidelines provided by the General Assembly. Any funds received by the Board and entities of the University pursuant to federal acts, private grants, and other sources not deposited in the operating funds in the state treasury are appropriated for the period beginning July 1, 2001, and ending June 30, 2003. The Board has the authority to transfer funds between line items by notifying the Office of Management and Budget in writing, with the exception that the Board may not approve transfers from any capital assets line item.

The North Dakota Constitution prohibits any transfers between institutions, even by the legislature. The University has until July 31 of each biennium year-end to submit revenues and expenditures for recognition within the biennium. Expenditures and revenues received after July 31, are applied to the next biennium. Institutions within the University do not use encumbrance accounting. The legal level of budgetary control is at the institutional line item level, with administrative controls established at lower levels of detail in certain instances.

Board policy requires the University to submit a biennial budget for Board approval and annual budgets to be approved by 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 on an accrual basis and include activity relative to current funds and unexpended plant funds. These annual budgets are prepared within framework of the legislative approved appropriations and become each institution's financial plan for the coming year. The Board allows each institution some discretion in transferring funds between departments.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

This category consists of bank demand accounts, money market accounts; cash on hand, petty cash and highly liquid investments with an original maturity of three months or less when purchased.

Investments

This classification includes long-term fixed income investments and equity securities. 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.

Receivables

Receivables include interest receivable from the State Land Department; tuition, fees, food service, room and board, and apartment rent; federal, state, and private grant revenue; accrued interest on investments; and Family Practice Center revenues (UND). Loan fund notes receivable represents amounts due from students for Perkins and other federal loans, and short-term institutional loans. The allowance for doubtful accounts/notes is detailed in Note 3. Net receivables are shown on the basic financial statement.

Due to/from Other Entities

These types of receivables/payables related to the University System include the following:

- a. Due to/from State's General Fund – represents amounts due to/from the State's General Fund.
- b. Due to/from Other State Funds – represents amounts due to/from other agencies within the state.

Inventories

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

Plant Assets

Land, buildings, equipment, and other property are stated at historical cost, with the exception of property acquired prior to July 1, 1965, which are stated at appraised values: 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 the following date June 30, 1974 with subsequent additions at cost and deletions at an average cost

NOTES TO FINANCIAL STATEMENTS

Capital assets 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 computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Library books are depreciated using the composite method, whereby all books purchased during a year are consolidated together and depreciated as a group of assets rather than individually, over a fifteen year life. Expenses for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income earned on 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 assets category (cash/investments) and as “net assets restricted for debt service” on the statement of net assets.

Deposits Held in Custody for Others

Money received in advance for subsequent year’s residence hall, apartment reservations and flight training costs for the aviation program (UND) is shown as deposits. Agency fund moneys held by an institution in a fiduciary capacity are classified as deposits held in custody for others.

Compensated Absences

Annual and sick leave are a part of permanent employees’ compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at each calendar year end 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 at 10 years of credible service are paid one-tenth of their accumulated sick leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Compensated absences are accrued when earned by employees.

Operating Revenues

All revenues from programmatic sources are considered to be operating revenues. Included in non-operating revenues are state appropriations, investment income, and gifts.

Scholarship Allowances and Student Aid

Certain aid such as loan funds provided to students as awarded by third parties, is accounted as if the student made the payment and no expense is recorded. All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce student tuition and fees income. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of a direct credit or tuition reduction.

Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, Federal Perkins Loan and Federal Nursing Student Loan programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

NOTES TO FINANCIAL STATEMENTS

Net Assets

GASB Statement No. 34 requires the reporting of equity as “Net Assets” rather than “fund balance.” Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. Restricted Net Assets represent funds that have been restricted for specific purposes by granting agencies for scholarships and fellowships, instructional department uses, loan funds, capital projects, debt service and other. Unrestricted Net Assets are all other funds available at the discretion of the University. Invested In Capital Assets represents the cost or gifted value of buildings, equipment, land improvements, infrastructure, less accumulated depreciation and related outstanding debt.

Restatement of Beginning Net Assets

In connection with the implementation of GASB Statements No. 34 and No. 35, the following adjustments have been made to reflect the cumulative effect of this accounting change:

Net assets, beginning of the year, as previously reported	\$ 462,041,710
Prior period adjustment for previously reported discretely presented component units being reported as blended component units	(3,568,074)
Prior period adjustment for accumulated depreciation	(137,411,511)
Prior period adjustment for change in capitalization policy of library books	<u>(8,663,588)</u>
Net assets, beginning of the year, as restated	<u><u>\$ 312,398,537</u></u>

NOTE 2 - CASH AND INVESTMENTS

North Dakota Century Code (NDCC) Sections 6-09-07, 15-10-12, 15-55-06, 15-67-04, and 21-04-02 govern the deposit and investment policies of the State of North Dakota.

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.”

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 institutions 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 Bank of North Dakota.

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 Bank of North Dakota, 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 Board 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.

NOTES TO FINANCIAL STATEMENTS

NDCC Section 15-67-04 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 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.

Deposits

This classification includes cash on hand; cash in bank, regular and money market savings accounts, certificates of deposit and time saving certificates. 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 are included in non-current investments.

Investment

Investments consisting primarily of certificates of deposit at the Bank of North Dakota are classified as either “Short Term Investments” if the maturity date is more than three months to one year, or as “Investments” if the maturity date is more than one-year from the date of the financial statements.

In accordance with the GASB Statement No. 3, deposits and investments are classified into three categories of custodial credit risk:

	<u>Cash</u>	<u>Investments</u>
Category 1	Deposits that are either insured or collateralized with securities held by the University or by its agent in the University's name.	Investments that are insured or registered, or securities held by the University or by its agent in the University's name.
Category 2	Deposits collateralized with securities held by the pledging financial institution's trust department or agent in the University's name.	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name.
Category 3	Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by pledging financial institution, or by its trust department or agent, but not in the University's name).	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not held in the University's name
Not Categorized		Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

NOTES TO FINANCIAL STATEMENTS

Component Units

Aerospace Foundation

	Carrying Amount	Bank Balance	Category		
			1	2	3
Deposits:					
Cash/BND	\$ 315,550	\$ 315,550	\$ 123,026	\$ -	\$ 192,524
Cash/Other	-	-	-	-	-
Savings, CD's, and MMK/Other	-	-	-	-	-
Total Deposits	<u>315,550</u>	<u>\$ 315,550</u>	<u>\$ 123,026</u>	<u>\$ -</u>	<u>\$ 192,524</u>
Add: Cash on Hand/Petty Cash	-				
Less: Amounts credit risked as deposits but reported as short- term investments		<u>-</u>			
Cash & Cash Equivalents per Statement of Net Assets	<u>\$ 315,550</u>				

	Category			Carrying Value	Market Value
	1	2	3		
Investments					
Bonds and Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Investments (i.e. stocks, mutual funds)	-	-	586,416	586,416	586,416
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,416</u>	586,416	586,416
Add:					
Amts. Credit Risked Deposits but Rptd as Invests				<u>-</u>	<u>-</u>
Investments per statement of net assets				<u>\$ 586,416</u>	<u>\$ 586,416</u>

NOTES TO FINANCIAL STATEMENTS

Center for Innovation Foundation

	Carrying Amount	Bank Balance	Category		
			1	2	3
Deposits:					
Cash/BND	\$ -	\$ -	\$ -	\$ -	\$ -
Cash/Other	5,976	5,976	1,000	-	4,976
Savings, CD's, and MMK/Other	429,359	429,358	100,000	-	329,358
Total Deposits	435,335	\$ 435,334	\$ 101,000	\$ -	\$ 334,334
Add: Cash on Hand/Petty Cash	-				
Less: Amounts credit risked as deposits but reported as short- term investments	-				
Cash & Cash Equivalents per Statement of Net Assets	<u>\$ 435,335</u>				

	Category			Carrying Value	Market Value
	1	2	3		
Investments					
Bonds and Notes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Investments (i.e. stocks, mutual funds)	-	-	2,935,504	2,935,504	2,935,504
Totals	\$ -	\$ -	\$ 2,935,504	2,935,504	2,935,504
Add:					
Amts. Credit Risked Deposits but Rptd as Invests				-	-
Investments per statement of net assets				<u>\$ 2,935,504</u>	<u>\$ 2,935,504</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002, consist of the following amounts:

Accounts Receivable	\$ 5,657,884
Less Allowance	(453,709)
Net Accounts Receivable	<u>5,204,175</u>
Loans and Notes Receivable	26,212,069
Less Allowance	(1,873,982)
Net Loans Receivable	<u>24,338,087</u>
Intergovernmental Receivable	16,030,776
Less Allowance	(75,547)
Net Intergovernmental Receivable	<u>15,955,229</u>
Interest Receivable	155,503
Due From State General Funds	<u>2,248,014</u>
Net Receivables	<u><u>\$ 47,901,008</u></u>

Intergovernmental receivables and due from other state funds consist of:

<u>Federal</u>	<u>State</u>	<u>Private</u>	<u>Total</u>
<u>\$ 13,847,699</u>	<u>\$ 242,241</u>	<u>\$ 1,865,289</u>	<u>\$ 15,955,229</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - ENDOWMENT FUNDS

The endowment funds reported herein are only those in the custody of the University System, and 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 each college/university's operating fund at the State Treasury and are used for current operating purposes. Total assets held by the State Land Department and proceeds for the fiscal year ended June 30, 2002 are \$8,249,392 and \$495,589, respectively.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

Primary Government

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	\$ 4,196,903	\$ 140,000	\$ -	\$ -	\$ 4,336,903
Improvements, other than buildings	61,477,279	5,126,246	-	-	66,603,525
Buildings	224,447,128	5,232,920	8,960,356	6,483,826	227,203,518
Furniture, fixtures, and equipment	76,631,409	8,265,313	2,183,601	-	82,713,121
Library materials	39,655,540	2,296,163	351,043	-	41,600,660
Construction in progress	6,298,276	294,506	-	(6,483,826)	108,956
Total	<u>412,706,535</u>	<u>21,355,148</u>	<u>11,495,000</u>	<u>-</u>	<u>422,566,683</u>
Less accumulated depreciation					
Improvements, other than buildings	9,751,693	1,332,070	-	-	11,083,763
Buildings	77,400,839	4,544,071	3,445,087	-	78,499,823
Furniture, fixtures, and equipment	50,258,979	5,299,086	2,113,543	-	53,444,522
Library materials	8,663,588	4,160,066	351,043	-	12,472,611
Total accumulated depreciation	<u>146,075,099</u>	<u>15,335,293</u>	<u>5,909,673</u>	<u>-</u>	<u>155,500,719</u>
Capital assets, net	<u>\$ 266,631,436</u>	<u>\$ 6,019,855</u>	<u>\$ 5,585,327</u>	<u>\$ -</u>	<u>\$ 267,065,964</u>

The following estimated useful lives are used to compute depreciation:

Land Improvements	50 years
Infrastructure	50 years
Buildings	50 years
Equipment	4-12 years
Library Books	10 years

NOTES TO FINANCIAL STATEMENTS

Component Unit

Aerospace Foundation

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 891,298	\$ 23,604	\$ -	\$ 914,902
Improvements, other than buildings	106,800	-	-	106,800
Furniture, fixtures, and equipment	3,750,332	1,816,370	138,622	5,428,080
Total	<u>4,748,430</u>	<u>1,839,974</u>	<u>138,622</u>	<u>6,449,782</u>
Less accumulated depreciation				
Improvements, other than buildings	55,553	3,877	-	59,430
Furniture, fixtures, and equipment	525,785	230,517	5,235	751,067
Total accumulated depreciation	<u>581,338</u>	<u>234,394</u>	<u>5,235</u>	<u>810,497</u>
Capital assets, net	<u>\$ 4,167,092</u>	<u>\$ 1,605,580</u>	<u>\$ 133,387</u>	<u>\$ 5,639,285</u>

Center for Innovation Foundation

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Improvements, other than buildings	-	-	-	-	-
Furniture, fixtures, and equipment	32,598	-	-	-	32,598
Total	<u>32,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,598</u>
Less accumulated depreciation					
Improvements, other than buildings	-	-	-	-	-
Furniture, fixtures, and equipment	28,158	3,317	-	-	31,475
Total accumulated depreciation	<u>28,158</u>	<u>3,317</u>	<u>-</u>	<u>-</u>	<u>31,475</u>
Capital assets, net	<u>\$ 4,440</u>	<u>\$ (3,317)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,123</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM LIABILITIES

Long-term liabilities of the University consist of bonds payable, notes payable, capital and operating leases and compensated absences. The changes in long-term liabilities are shown below:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 27,408,895	\$ 6,710,000	\$ 5,771,943	\$ 28,346,952	\$ 2,282,103
Notes Payable	1,574,505	-	1,109,113	465,392	139,434
Capital Leases	19,538,194	2,951,831	3,595,423	18,894,602	3,689,150
Special Assessments	301,541	358,953	42,718	617,776	41,459
Compensated Absences	5,300,388	535,165	51,377	5,784,176	318,130
Total	<u><u>\$ 54,123,523</u></u>	<u><u>\$ 10,555,949</u></u>	<u><u>\$ 10,570,574</u></u>	<u><u>\$ 54,108,898</u></u>	<u><u>\$ 6,470,276</u></u>

Component Unit

Alerus aircraft note payable, due in monthly principal and interest payments of \$6,565, maturity November 2008, interest rate based on prime (4.75% at June 30, 2002)	\$ 288,190
Alerus commuter regional jet simulator down payment note payable A, due in monthly principal and interest payments of \$8,585, maturity January 2008, interest based on prime (4.75% at June 30, 2002)	544,283
Alerus commuter regional jet simulator down payment note payable B, due in monthly interest payments, maturity January 2003, interest based on prime (4.75% at June 30, 2002)	587,500
Bremer note payable, due in monthly principal and interest payments of \$19,553, maturity January 2007, interest based on 280 basis points over the one-year LIBOR swap (4.73% at June 30, 2003)	963,983
UND Foundation note payable, due in full June 7, 2003, interest rate of 6%	<u>500,000</u>
	2,883,956
Less current portion	<u>(1,425,193)</u>
	<u><u>\$ 1,458,763</u></u>

NOTES TO FINANCIAL STATEMENTS

Bonds Payable

Bonds payable consist of the following issues for the University of North Dakota:

Issue	Maturity Date	Interest Rate	Balance
1992 EERC	2003	4.4-6.4%	\$ 365,000
1993 Building Authority	2010	None	112,500
1996 Technology Fee	2006	3.7-4.75%	714,158
1996 Building Authority	2002	None	145,294
1998 Housing and Refunding	2014	3.8-4.8%	20,300,000
2002 Memorial Union and Refunding	2021	3-5%	6,710,000
			\$ 28,346,952

For the University of North Dakota, 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, HUD interest subsidies 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 plant fund retirement of indebtedness.

On March 1, 2002, University of North Dakota issued \$6,710,000 of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 2002) with an average interest rate of 4.56%. These bonds, together with other available funds, were used to provide funds to currently refund \$3,840,000 Housing and Auxiliary Facilities Revenue Bonds, Series 1993A and to provide \$3,500,000 for renovation of the Memorial Union. The University of North Dakota refunded the 1993A bonds to reduce its total debt service payments over the next 11 years by approximately \$825,000 and to obtain an economic gain of \$173,482.

On January 1, 1998, the University of North Dakota issued \$22.6 million of Housing and Auxiliary Facilities Improvement and Refunding Revenue Bonds (Series 1998A) with an average interest rate of 4.7%. These bonds were used to advance refund \$20.4 million of outstanding 1988 Series A & B Housing and Auxiliary Facilities Refunding Revenue Bonds (with an average interest rate of 7.5%) and to provide \$450,000 for parking lot construction at the Rural Technology Center. The net proceeds of \$21.6 million (after payment of \$387,000 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. Government Securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series A & B bonds. As a result, the 1988 Series A & B bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet. The University of North Dakota advance refunded the bonds to reduce its total debt service payments over the next 17 years by approximately \$4 million and to obtain an economic gain (difference of the present values of the debt service payments on the old and new debt) of \$3.8 million. The principal amount outstanding as of June 30, 2002, of the original bonds refunded by the advance refunding of 1998, totaled \$16,946,000.

NOTES TO FINANCIAL STATEMENTS

Housing and Auxiliary Facilities Refunding Series 1985A bonds were originally issued (in addition to financing construction costs) to refund in advance of maturity, the outstanding advanced refunding bonds as follows: (a) \$14,520,000 of Housing and Auxiliary Facilities Revenue Bond Series 1984A, and (b) \$3,750,000 of Housing and Auxiliary Facilities Revenue Bond Series 1984B. The principal amounts outstanding as of June 30, 2002, of the original bonds refunded by the advance refunding of 1985, totaled \$0.

Housing and Auxiliary Facilities Refunding Bonds Series 1984A, which were included in the advance refunding of 1985 as described above, were originally issued in 1984 for the purpose of advance refunding certain outstanding bonds (Series I through Series N). The principal amounts outstanding as of June 30, 2002 of the original bonds refunded by the advance refunding of 1984 totaled \$280,000.

Housing and Auxiliary Facilities Revenue Bonds Series I and Series J, which were included in the advance refunding of 1984 as described above, were originally issued in 1975 for the purpose of advance refunding certain outstanding bonds of the University. The principal amounts outstanding as of June 30, 2002, of the original bonds refunded by the advance refunding of 1975, totaled \$960,000.

All of the refunded bonds are considered defeased and have debt service needs covered by U.S. Government securities that are held in a special trust administered by the Bank of North Dakota. As such, neither the assets of the trust nor the related bonds payable are included in the accompanying balance sheet.

University of North Dakota Aerospace Foundation

In December 1993, the Foundation issued \$9,170,000 of nonrecourse Lease Revenue Bonds, which bear interest at 2.60% to 4.60% with various maturities beginning July 15, 1995 and continuing through to July 15, 2002. In July 2000, the Foundation issued \$13,770,000 of nonrecourse Lease Revenue Bonds, which bear interest at 4.375% to 5% with various maturities beginning September 1, 2000 and continuing through to September 1, 2010. The proceeds of the bonds were principally used to refinance UND leases for its facilities and equipment. In conjunction with the issuance of these bonds, the Foundation entered into a lease agreement as lessor with UND for the facilities and equipment. Payments under the lease agreement match the principal and interest payments due on the bonds and will be paid by UND directly to the bond trustee as a result of the Foundation assigning all of its rights and interest as lessor to the bond trustee. The Foundation, as issuer, does not have any obligation to pay the bonds beyond the rents paid by UND to the bond trustee under the lease agreement and has also granted the trustee a security interest in the related leased equipment. In the event of UND's default under the lease agreement (as defined), the bondholders do not have any rights to collect from the Foundation other than the proceeds from the sale or release of the leased equipment. The outstanding balance of the bonds of June 30, 2002 and 2001 is \$12,435,000 and \$14,460,000, respectively.

The above lease, lease assignment, and bond agreements provide for the legal right of offset, permitting the related assets and debt to be netted for financial reporting purposes.

Notes Payable

Primary Government

The University of North Dakota has a note payable to the UND Foundation, a related party, in the original amount of \$700,000, with \$465,393 payable at June 30, 2002. The loan was disbursed on July 1, 2000, for a term of five years and an interest rate of 8 percent per annum. The payments are guaranteed by assigning the proceeds the University of North Dakota receives under the Barnes and Noble bookstore management agreement.

NOTES TO FINANCIAL STATEMENTS

The future maturities for bonds and notes payable are as follows:

Fiscal Year	Bonds Payable			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 2,282,102	\$ 1,254,165	\$ 3,536,267	\$ 139,434	\$ 31,028	\$ 170,462
2004	1,938,961	1,150,045	3,089,006	149,666	20,795	170,461
2005	2,012,640	1,069,696	3,082,336	162,181	8,280	170,461
2006	2,191,995	990,549	3,182,544	14,112	93	14,205
2007	2,013,125	900,585	2,913,710			
2008-2012	11,323,128	3,147,475	14,470,603			
2013-2017	5,555,000	723,430	6,278,430			
2018-2021	1,030,000	131,750	1,161,750			
	<u>\$28,346,951</u>	<u>\$9,367,695</u>	<u>\$37,714,646</u>	<u>\$ 465,393</u>	<u>\$ 60,196</u>	<u>\$ 525,589</u>

Component Unit

Year	Principal	Interest	Total
2003	\$ 1,425,193	\$ 122,691	\$ 1,547,884
2004	354,435	61,998	416,433
2005	371,834	44,649	416,483
2006	389,897	26,536	416,433
2007	231,707	14,305	246,012
2008-2012	110,890	5,270	116,160
Total	<u>\$2,883,956</u>	<u>\$275,449</u>	<u>\$3,159,405</u>

Capital Leases

The University of North Dakota has certain lease agreements in effect, which are capital leases. Capital leases are reported as a liability in the investment in plant subgroup, as these liabilities were incurred in the acquisition of plant assets including fixtures, telecommunication equipment, airplanes, helicopters, computers, copiers, and other miscellaneous equipment and improvements.

NOTES TO FINANCIAL STATEMENTS

The following is a schedule by years of future minimum lease payments under capital leases, together with the net present value of the net minimum lease payments as of June 30, 2002:

<u>Fiscal Year</u>	
2003	\$ 4,505,737
2004	3,612,199
2005	2,983,070
2006	3,377,161
2007	1,959,408
2008-2012	<u>5,644,181</u>
Total minimum lease payments	22,081,756
Less amount representing interest	<u>(3,187,154)</u>
Present value of net minimum lease payment	<u>\$ 18,894,602</u>

The assets acquired through capital leases for furniture, fixtures, and equipment was \$22,749,905.

Certificates of Participation totaling \$20,450,000 were originally issued in 1990 to: (1) reimburse the university for certain expenses incurred for capital improvements; (2) refinance the costs of certain equipment, and (3) finance the acquisition of certain equipment and real property, to fund a reserve, and to pay the costs of issuance. Subsequent to this issuance, the Legislative Assembly, in HB1003 (1991 Legislative Session), directed the university to retire those certificates originally issued for the acquisition of certain equipment and real property and to fund a reserve. Therefore, in December 1991, \$6,025,000 in certificates were defeased. The principal amount outstanding as of June 30, 2002 of the defeased certificates total \$2,780,000.

Operating Leases

The University of North Dakota is committed under various operating leases for building space, equipment and vehicles. These leases are considered for accounting purposes to be operating leases. Operating lease payments for the University of North Dakota during the fiscal year 2002 totaled \$1,717,680. Future minimum lease payments for the University of North Dakota as a whole for operating leases are as follows:

<u>Fiscal Year</u>	
2003	\$ 1,217,634
2004	976,779
2005	593,201
2006	386,959
2007	191,684
2008	<u>123,316</u>
Total	<u>\$ 3,489,573</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - ADVANCES FROM STATE – BANK OF NORTH DAKOTA LINE OF CREDIT

The University of North Dakota has reported advances from state in restricted funds and in unexpended plant funds, of \$1,300,000 and \$4,031,654, respectively. This total amount (\$5,331,654) represents the amount borrowed as of June 30, 2002, on a \$12,000,000 line of credit that the University has with the Bank of North Dakota for flood related expenditures.

On August 4, 1997, the Emergency Commission approved the University's request to obtain \$12,000,000 line of credit from the Bank of North Dakota to pay expenses incurred by the University as a result of the spring 1997 flooding and only as documented on a Damage Survey Report (DSR) pending with or approved by the Federal Emergency Management Agency (FEMA). The line of credit cannot be used to cover the cost of enhancements or modifications beyond those listed on the DSR, that line of credit can be repaid as reimbursements are received from FEMA and/or insurance carriers, that the line of credit only be drawn upon as funds are needed to pay contractors, and that the request be approved under the emergency provisions of NDCC 54-16-04.

On March 9, 1998, the Bank of North Dakota, acting on direction from the Emergency Commission, approved two additional categories of draw availability on the \$12,000,000 Letter of Credit: (1) Projects which have been submitted for DSR preparation anticipating funding from both FEMA and Insurance Providers; and (2) Projects which have been submitted for DSR preparation anticipating denial of FEMA funding, but anticipating funds from Insurance Providers. The rate of interest changes quarterly. At June 30, 2002, the rate was 2.73%.

NOTE 8 - RETIREMENT BENEFITS

The University of North Dakota 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: Teachers' Insurance Annuity Association and College Retirement Equity Fund. The following is a brief description of each plan:

I. North Dakota Public Employees' Retirement System (NDPERS)

A. Description of Plan:

NDPERS is a cost-sharing, multiple-employer, defined benefit pension plan covering substantially all classified employees of the University. The plan provides retirement, disability and death benefits. If an active employee dies with less than five years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than five 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, or 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, effective August 1, 1995, 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.

NOTES TO FINANCIAL STATEMENTS

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 1.89% of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with five 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 58502-1657.

B. Funding Policy:

NDPERS is funded by employee contributions (set by statute) of 4% of regular compensation. During the 1983-1985 biennium the State implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The State is paying the full employee contribution. Employer contributions of 5.12 percent of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

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 chapter 54-52 of the North Dakota Century Code. The University's required and actual contributions to NDPERS for the fiscal year ending June 30, 2002 were \$2,276,184.

II. TIAA-CREF Retirement Plan

A. 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 Board of Higher Education in its approved TIAA-CREF retirement resolution. All benefits vest immediately to the participant. Further information can be obtained by writing to TIAA-CREF; Denver Regional Office; 1700 Broadway, Suite 770; Denver, Colorado 80290 or by calling 800-842-2009.

NOTES TO FINANCIAL STATEMENTS

B. Funding Policy:

The plan required employees and employer contributions be based on a classification system and years of service based on the following schedule:

<u>Employment Class</u>	<u>Years of Service</u>	<u>Contributions by the Participant</u>	<u>Contributions by the Institution</u>
I and III	0 thru 10	1.5%	9.5%
	over 10	2.0%	10.0%
II	0 thru 2	0.5%	4.5%
	3 thru 10	1.5%	9.5%
	over 10	2.0%	10.0%
IV	0	1.0%	9.0%

Plan contributions are made on a tax-deferred basis in accordance with Section 414(h)(2) of the Internal Revenue Code. All contributions are applied as premiums to retirement annuity contracts owned by the participant. The University North Dakota has no further liability once annual contributions are made. The University contributed \$6,319,588 to TIAA-CREF during the fiscal year ending June 30, 2002.

NOTE 9 - COMMITMENTS

Contracts for the construction of various projects on behalf of the University have been let as follows:

<u>Projects</u>	<u>Original Contract</u>	<u>Expended Through June 30, 2002</u>	<u>Contract Balance</u>
Steam line restoration	\$ 9,906,814	\$ 8,512,982	\$ 1,393,832
Energy improvement	354,199	64,557	289,642
Memorial union renovation	250,000	117,074	132,926
Parking lots	636,691	42,370	594,321
Medical school new entrance	394,518	131,090	263,428
EERC	620,000	-	620,000
Total	<u>\$ 12,162,222</u>	<u>\$ 8,868,073</u>	<u>\$ 3,294,149</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - DEFICIT FUND BALANCES

As of June 30, 2002, the University had negative fund balances in excess of \$100,000. Listed below are the fund numbers, fund description and deficit balances for each:

<u>Fund</u>	<u>Description</u>	<u>Balance</u>
1831	Citation II Maintenance	\$ (170,715)
2400	FEMA Admin Allowance	(102,529)
2487	EERC Flood Downtime	(145,944)
2493	NATCO	(411,092)
7484	Flood Match Requirement	(346,309)
	Total	<u>\$ (1,176,589)</u>

The following is an explanation and/or plan for elimination of the deficit for the related fund:

Fund 1831 – The Citation II maintenance deficit fund balance decreased by \$11,703. The rate is reviewed annually and revised as necessary. A portion of the deficit will be covered by departmental funds with the remaining deficit reduced by future rate recalculations in a four-year recovery period through June 2006.

Fund 2400 – The FEMA fund balance will only pay a small percentage of any costs associated with requesting, obtaining, or maintaining the grant funds. The University has contracted for disaster grants management services and those costs are accumulated in this fund. A portion of the costs will be covered by the FEMA administrative allowance. The unfunded balance will be included in the 2003 deficiency appropriation request.

Fund 2487 – The payroll costs incurred at the EERC during the period the University was closed, as a result of the 1997 flood, were accumulated in this fund. These costs are included in the vacation/sick leave liability rate that the EERC negotiates with the Department of Health and Human Services, the cognizant federal agency. The costs are being recovered over a six-year period ending June 2004 through charges to the EERC funds. The deficit was reduced by \$97,690 during fiscal year 2002.

Fund 2493 - UND initiated legal actions against NATCO for nonpayment of lease payments. The litigation process resulted in a settlement offer. The settlement proceeds were remitted to the Bank of North Dakota to apply to a portion of the unpaid loan balance. The University paid the remainder of the loan of \$519,277.86 plus attorney costs of \$17,813.73. The John D. Odegard School of Aerospace Science through future divisional revenues will repay these. The costs are being repaid over a five-year period beginning in FY 2002 and continuing through FY 2006. The deficit was reduced by \$126,000 during fiscal year 2002.

Fund 7484 - This deficit is the state match, generally 10%, of the flood recovery expenditures that are eligible for FEMA reimbursement. These costs will be included in the 2003 deficiency appropriation request.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RELATED ORGANIZATIONS

The related and affiliated organizations are separate North Dakota nonprofit corporations whose sole function is to provide financial and other assistance to the University of North Dakota. The organizations conduct fund-raising activities and receive moneys and pledges from institutionally sponsored programs. As such, the institution neither displays nor discloses pledges. The financial activity of the organizations is not reflected in the accompanying financial statements. The assets, revenue, and program service expenditures for each organization and the free services, or payments, each provides as of June 30, 2002 are as follows:

<u>Organization</u>	<u>Assets</u>	<u>Revenues</u>	<u>Program Service Revenue</u>
Alumni Association and Foundation	\$ 120,816,086	\$2,798,774	\$ 6,971,252
The Fellows	3,913,936	877,619	124,071
Law School Foundation	91,053	3,772	2,230
EERC Foundation	484,220	100,961	86,927

NOTE 12 - ASBESTOS SETTLEMENT

During fiscal year 1999, the University System settled an asbestos lawsuit against WR Grace & Co. The Chancellor has designated the dollars for asbestos related projects at the campuses. The designated amount for UND at June 30, 2002 is \$3,122,972.

NOTE 13 - SUBSEQUENT EVENTS

On July 1, 2002, the UND Foundation (Foundation) issued \$8,595,000 lease revenue bonds to (i) finance the construction of an office building for the Energy and Environmental Research Center (EERC) of UND, (ii) renovate the current building occupied by the EERC, and (iii) finance capitalized interest and pay costs of issuance related to the bonds. The Foundation will lease certain property to UND pursuant to a lease agreement dated as of July 1, 2002, under which the aggregate of basic rents to be paid by UND, subject to biennial appropriations by the North Dakota Legislature, will be sufficient in amount and payable at such times to pay principal of and interest on the bonds when due. The repayment period extends to June 1, 2027 with interest from 2.5 - 5%.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - INTERFUND ACTIVITY

During the year the University had interfund activity as of June 30, 2002 consisting of:

	<u>Due from</u>	<u>Due to</u>	<u>Transfers from</u>
State Courts	\$	\$	\$ 40,000
Land Department			495,589
Dept of Public Instruction	1,606		368,846
Vocational Education	22,766		92,824
Health Department			204,366
Human Services	1,361		1,030,984
Industrial Commission	38,584		285,699
Emergency Management			4,298,637
Commerce	97,679		137,449
Game & Fish			59,534
Water Commission	7,362		3,319
Transportation		92,962	499,027
ITD		85,379	650,000
Attorney General			37,300
ND Board of Nursing	6,827		
Economic Development	28,897		
State Board Agric Res & Ed	16,067		
	<u>16,067</u>		
Total	<u>\$ 221,149</u>	<u>\$ 178,341</u>	<u>\$ 8,203,574</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 15 - RECONCILIATION OF NATURAL EXPENSE CLASSIFICATION TO FUNCTIONAL EXPENSE CLASSIFICATION AS PRESENTED ON THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The University has chosen to present expenses using the “natural classification” on the Statement of Revenues, Expenses, and Changes in Net Assets. As required by GASB Statement No. 34, the following is the re-statement of the operating expenses using the “functional classification” for the primary institution:

Expenses

Operating Expenses

Instruction	\$ 90,426,014	
Academic Support	20,541,306	
Student Services	9,104,037	
Institutional Support	17,683,172	
Physical Plant	12,009,207	
Scholarships and fellowships	7,636,084	
Auxiliary Enterprises	23,440,365	
Depreciation	15,335,294	
Public service	11,762,162	
Research	23,130,977	
Total Operating Expenses		<u>\$ 231,068,618</u>

NOTE 16 - FLOOD DAMAGE

Beginning with a sleet storm on April 6, 1997, and followed by the Flood of 1997, beginning on April 18, 1997, the University of North Dakota suffered extensive damage to infrastructure, buildings, equipment, and furnishings. UND has filed claims with the Federal Emergency Management Agency (FEMA) to recover damages to the extent allowed by FEMA. On August 11, 1997, the North Dakota Emergency Commission authorized UND to borrow up to \$12 million from the Bank of North Dakota for purposes of expediting the repair of buildings and infrastructure, as well as the replacement of equipment and furnishings lost in the disaster. The original \$12,000,000 line of credit was closed on June 29, 2001. On June 29, 2001, the Bank of North Dakota per approval of the Emergency Commission on June 11, 2001 issued a new \$12,000,000 line of credit.

Overall, FEMA has estimated that total eligible UND losses should approximate \$52.3 million. FEMA has determined that insured losses should fund \$6.9 million, FEMA will fund \$41 million, and UND will fund \$4.4 million. As of June 30, 2002 UND has expended approximately \$55.5 million in flood recovery costs, recovered \$6.1 million from insurance, received \$36.7 million from FEMA, and received \$7.3 million in deficiency appropriations in the 1999 and 2001 legislative sessions.

UND will be seeking additional deficiency appropriation in the 2003 Legislative session to fund the match on the ongoing flood expenditures, interest in the flood loan from the Bank of North Dakota, supply, services and labor charges not reimbursable by FEMA, and the disaster consultants.

NOTES TO FINANCIAL STATEMENTS

NOTE 17 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University is part of the North Dakota University Systems pool for risk management. The following are funds/pools established by the state for risk management issues:

Risk Management Fund

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of state's sovereign immunity. The RMF manages the tort liability of the state, its agencies, employees and the University. All state agencies participate in the RMF and each fund's contribution was determined using a projected cost allocation approach. The system obtains most of its insurance through the RMF.

North Dakota Fire and Tornado and State Bonding Fund

The University also participates in the North Dakota Fire and Tornado Fund and State Bonding Fund. The University pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the University with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

North Dakota Workers Compensation Bureau

The University participates in the North Dakota Workers Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and is a no fault insurance system. It covers the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

North Dakota Insurance Reserve Fund

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for over 2,000 state agencies and political subdivisions. The University of North Dakota purchases professional liability insurance for physicians at its Medical School from NDIRF. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

There have been no significant reductions in insurance coverage from the prior year and settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years except for flood damages at UND and NDSU as discussed in Note 16.

UNIVERSITY OF NORTH DAKOTA
SCHEDULE OF CONSOLIDATING NET ASSETS – COMPONENT UNITS
JUNE 30, 2002

	University of North Dakota Aerospace Foundation	Center for Innovation	Total
ASSETS			
Current assets			
Cash and cash equivalents - BND	\$ 315,550	\$ -	\$ 315,550
Cash and cash equivalents -outside BND	-	435,335	435,335
Investments - outside BND	-	2,935,504	2,935,504
Accounts receivable, net	355,986	947	356,933
Inventories	43,178	4,353	47,531
Other assets	31,545	-	31,545
Total current assets	<u>746,259</u>	<u>3,376,139</u>	<u>4,122,398</u>
Non current assets			
Investments - outside BND	496,000	-	496,000
Other assets	90,416	-	90,416
Capital assets, net	5,639,286	1,123	5,640,409
Total noncurrent assets	<u>6,225,702</u>	<u>1,123</u>	<u>6,226,825</u>
Total assets	<u>\$ 6,971,961</u>	<u>\$ 3,377,262</u>	<u>\$ 10,349,223</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 530,988	\$ 11,840	\$ 542,828
Payable to the primary government	7,692	-	7,692
Deferred revenue	400,963	-	400,963
Compensated absences-current portion	119,935	-	119,935
Notes payable-current portion	1,425,193	-	1,425,193
Total current liabilities	<u>2,484,771</u>	<u>11,840</u>	<u>2,496,611</u>
Noncurrent liabilities			
Notes payable, net of current portion	1,458,763	-	1,458,763
Total noncurrent liabilities	<u>1,458,763</u>	<u>-</u>	<u>1,458,763</u>
Total liabilities	<u>3,943,534</u>	<u>11,840</u>	<u>3,955,374</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,755,330	1,123	2,756,453
Restricted for			
Expendable			
Other	-	3,345,605	3,345,605
Unrestricted	<u>273,097</u>	<u>18,694</u>	<u>291,791</u>
Total net assets	<u>\$ 3,028,427</u>	<u>\$ 3,365,422</u>	<u>\$ 6,393,849</u>

UNIVERSITY OF NORTH DAKOTA
SCHEDULE OF CONSOLIDATING REVENUES, EXPENSES, AND CHANGES IN NET ASSETS –
COMPONENT UNITS
JUNE 30, 2002

	University of North Dakota Aerospace Foundation	Center for Innovation	Total
REVENUES			
Operating Revenues			
Student tuition and fees	\$ 5,020,090	\$ -	\$ 5,020,090
Auxiliary enterprises	-	547,720	547,720
Total operating revenues	<u>5,020,090</u>	<u>547,720</u>	<u>5,567,810</u>
EXPENSES			
Operating expenses			
Salaries & Wages	-	-	-
Operating Expenses	4,892,337	131,593	5,023,930
Depreciation	-	3,316	3,316
Other expenses - cost of goods sold	-	-	-
Other expenses - scholarships	-	-	-
Total operating expenses	<u>4,892,337</u>	<u>134,909</u>	<u>5,027,246</u>
Operating income (loss)	<u>127,753</u>	<u>412,811</u>	<u>540,564</u>
NONOPERATING REVENUES (EXPENSES)			
Gifts	83,263	3,073,950	3,157,213
Investment income (net of investment expense of \$)	15,285	(123,175)	(107,890)
Interest on capital asset - related debt	(84,286)	-	(84,286)
Other nonoperating revenues over (under) expenses	42,724	-	42,724
Net nonoperating revenues	<u>56,986</u>	<u>2,950,775</u>	<u>3,007,761</u>
Increase in net assets	<u>184,739</u>	<u>3,363,586</u>	<u>3,548,325</u>
NET ASSETS			
Net assets - beginning of year	<u>2,843,688</u>	<u>1,836</u>	<u>2,845,524</u>
Net assets - end of year	<u>\$ 3,028,427</u>	<u>\$ 3,365,422</u>	<u>\$ 6,393,849</u>

UNIVERSITY OF NORTH DAKOTA
SCHEDULE OF CONSOLIDATING CASH FLOWS – COMPONENT UNITS
JUNE 30, 2002

	University of North Dakota Aerospace Foundation	Center for Innovation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and fees	\$ 4,985,818	\$ -	\$ 4,985,818
Grants and contracts	50,000	-	50,000
Payments to suppliers	(3,100,844)	(208,514)	(3,309,358)
Payments to employees	(1,500,061)	-	(1,500,061)
Payments for scholarships and fellowships	(1,200)	-	(1,200)
Auxiliary enterprise charges	-	547,720	547,720
Net cash provided (used) by operating activities	<u>433,713</u>	<u>339,206</u>	<u>772,919</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gifts for other than capital purposes	83,263	3,073,003	3,156,266
Net cash flows provided by noncapital financing activities	<u>83,263</u>	<u>3,073,003</u>	<u>3,156,266</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	2,239,154	-	2,239,154
Proceeds from sale of capital assets	176,000	-	176,000
Purchases of capital assets	(1,839,973)	-	(1,839,973)
Principal paid on capital debt and lease	(337,259)	-	(337,259)
Interest paid on capital debt and lease	(80,247)	-	(80,247)
Net cash used by capital and related financing activities	<u>157,675</u>	<u>-</u>	<u>157,675</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	15,285	28,680	43,965
Purchase of investments	(496,000)	(3,084,967)	(3,580,967)
Net cash provided (used) by investing activities	<u>(480,715)</u>	<u>(3,056,287)</u>	<u>(3,537,002)</u>
Net increase in cash	193,936	355,922	549,858
CASH - BEGINNING OF YEAR	<u>121,614</u>	<u>79,413</u>	<u>201,027</u>
CASH - END OF YEAR	<u>\$ 315,550</u>	<u>\$ 435,335</u>	<u>\$ 750,885</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 127,753	\$ 412,811	\$ 540,564
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Depreciation expense	239,152	3,316	242,468
Change in assets and liabilities			
Receivables, prepaid, and other assets	63,456	(947)	62,509
Inventories	2,973	(3,434)	(461)
Accounts payable and accrued liabilities	37,133	(72,540)	(35,407)
Deferred revenue	(36,754)	-	(36,754)
Net cash provided (used) by operating activities	<u>\$ 433,713</u>	<u>\$ 339,206</u>	<u>\$ 772,919</u>