

Nadine Julson, LLC

Nadine Julson, Certified Public Accountant

709 Dakota Ave PO Box 721

Wahpeton, ND 58074

(701) 642-8146 Fax (701) 642-8165

To the Board Members
North Dakota State College of Science Foundation
Wahpeton, North Dakota

In planning and performing my audit of the financial statements of the North Dakota State College of Science Foundation for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, I considered North Dakota State College of Science Foundation's internal control of financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, I do not express an opinion on the effectiveness of the Foundation's internal control.

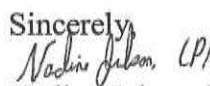
My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiency in the North Dakota State College of Science Foundation's internal control to be a significant deficiencies.

1. The Foundation takes a 8% receipt fee without authorization from the donor. A good system of internal accounting control provides for The Foundation to take an 8% receipt fee on authorized donations. The Foundation has established a receipt fee policy on November 28, 2007. This policy only authorized 8% receipt fee for donations given after that date. All donations given before that date should have a signed authorization from the donor for deduction of the 8% fee.

This communication is intended solely for the information and use of the Foundation and its management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Nadine Julson, LLC

Nadine Julson LLC
PO Box 721
Wahpeton ND 58074

This representation letter is provided in connection with your audit of the financial statements of North Dakota State College of Science Foundation, which comprise the statements of financial position as of June 30, 2014, and the related statements of government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the period then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of September 10, 2014, the following representations made to you during your audit.

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 14, 2014, including our responsibility for the preparation and fair presentation of the financial statements.

The financial statements referred to above are fairly presented in conformity with U.S. GAAP.

We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.

The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.

Guarantees, whether written or oral, under which the organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

We have provided you with:

Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

Additional information that you have requested from us for the purpose of the audit.

Unrestricted access to persons within the entity from whom you are determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any fraud or suspected fraud that affects the organization and involves:

Management,

Employees who have significant roles in internal control, or

Others where the fraud could have a material effect on the financial statements.

We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.

We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

We have disclosed to you all known actual or possible litigations, claims, and assessments whose effects should be considered when preparing the financial statements.

We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.

The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

North Dakota State College of Science Foundation, is an exempt organization under Section 501-C3 of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax -exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

We acknowledge our responsibility for presenting the Schedule of Plant Assets and Schedule of Findings in accordance with U.S. GAAP, and we believe the Schedule of Plant Assets and Schedule of Findings, including form and content, are fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

We are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

Signed 

Title Foundation Treasurer

**NORTH DAKOTA STATE COLLEGE
OF SCIENCE FOUNDATION
Wahpeton, North Dakota
Audit Report
Years Ended June 30, 2014 and 2013**

Nadine Julson, LLC

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
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FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
AS OF JUNE 30, 2014

OFFICIAL DIRECTORY

Foundation President

Paul Dimmer

Foundation Vice-President

Annette Loken

Foundation Board Members

Rochelle Conzemius
Chad Fredericksen
Roger Haberman
Mike Jacklitch
Justin Nepl
Kelly Hubrig
Joel Sirek
Ed Uhlich

Terry Goerger
Ken Harty
Margaret Wall
Robert Gette
Chris Johnson
Don Stevenson
Mike Worner

Exofficio Members

NDSCS President
Foundation Director
Foundation Treasurer/Secretary
Foundation Recorder
Vice-President of Academic Affairs

John Richman, Ph.D.
Brad Barth
DeAnn Loll
Tim Neumann
Harvey Link

Nadine Julson, LLC
Nadine Julson, Certified Public Accountant

709 Dakota Ave
PO Box 721
Wahpeton, ND 58074
Tel (701) 642-8146 Fax (701) 642-8165

Independent Auditor's Report

To the Board Members of
North Dakota State College
of Science Foundation

I have audited the accompanying financial statements of North Dakota State College of Science Foundation, a North Dakota non-profit corporation, which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

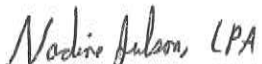
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota State College of Science Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the North Dakota State College of Science Foundation 2013 financial statements, and my report dated July 14, 2014, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Plant Assets is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Nadine Julson, LLC
Wahpeton, North Dakota
September 10, 2014

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WHPETON, NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash in checking -Bank of North Dakota	\$ 1,191,907	\$ 1,400,513
Money markets and CD's	1,281,978	1,351,090
Equity securities	10,129,373	8,180,780
Current portion of pledge receivable, net	242,103	-
Accounts receivable - other	<u>45,000</u>	<u>50,000</u>
 Total current assets	 12,890,361	 10,982,383
PROPERTY AND EQUIPMENT:		
Building	1,709,138	1,709,138
Land	330,225	330,225
Equipment	<u>12,743</u>	<u>12,743</u>
 Total property and equipment	 2,052,106	 2,052,106
Less: accumulated depreciation	<u>(203,043)</u>	<u>(146,935)</u>
 Net property and equipment	 <u>1,849,063</u>	 <u>1,905,171</u>
OTHER ASSETS;		
Pledges receivable, net of current portion	<u>189,000</u>	<u>-</u>
 Total assets	 <u>\$ 14,928,424</u>	 <u>\$ 12,887,554</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 37,408	\$ 14,050
Deferred reveune	45,000	47,500
Current portion of long-term debt	<u>55,496</u>	<u>53,472</u>
 Total current liabilities	 137,904	 115,022
LONG-TERM LIABILITIES;		
Notes payable, net of current	<u>1,778,266</u>	<u>1,833,762</u>
 Total liabilities	 1,916,170	 1,948,784
NET ASSETS:		
Unrestricted	129,697	83,336
Temporarily restricted	2,586,295	712,053
Permanently restricted	<u>10,296,262</u>	<u>10,143,381</u>
 Total net assets	 13,012,254	 10,938,770
 Total liabilities and net assets	 <u>\$ 14,928,424</u>	 <u>\$ 12,887,554</u>

See Accompanying Notes to the Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
 (WITH COMPARATIVE TOTAL FOR 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Support and Revenue:					
Donations	\$ 184,265	\$ 882,737	\$ 156,995	\$ 1,223,997	\$ 784,072
Dues & memberships	108,107	-	-	108,107	101,220
Box office sales	-	-	-	-	1,575
Dividend income	4,601	196,924	-	201,525	165,873
Interest income	2,946	114,191	-	117,137	118,846
Other services	163,343	-	-	163,343	201,052
Rental of rooms & buildings	184,953	-	-	184,953	184,953
Rent - land	44,310	-	-	44,310	44,310
Special events	32,108	-	-	32,108	35,278
Miscellaneous	1,480	-	-	1,480	-
Sponsorships	24,400	-	-	24,400	21,990
State Grants	-	336,356	-	336,356	-
Realized gains (losses) on investments	22,839	1,059,200	-	1,082,039	80,037
Unrealized appreciation (depreciation) on investments	(983)	(38,923)	-	(39,906)	252,464
Tuition & fees	616	-	-	616	624
Net assets released from restrictions	680,357	(676,243)	(4,114)	-	-
Total support and revenue	1,453,342	1,874,242	152,881	3,480,465	1,992,294
Expenses:					
Program services	1,018,543	-	-	1,018,543	1,013,965
Management and general	388,438	-	-	388,438	495,687
Total expenses	1,406,981	-	-	1,406,981	1,509,652
CHANGE IN NET ASSETS	46,361	1,874,242	152,881	2,073,484	482,642
NET ASSETS, JULY 1	83,336	712,053	10,143,381	10,938,770	10,456,128
NET ASSETS, JUNE 30	\$ 129,697	\$ 2,586,295	\$ 10,296,262	\$ 13,012,254	\$ 10,938,770

See Accompanying Notes to the Financial Statements

FOUNDATION FOR NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTAL FOR 2013)

	<u>Program Services</u>	<u>Management and General</u>	<u>2014 Total</u>	<u>2013 Total</u>
EXPENSES:				
Salaries	\$ -	\$ 187,496	\$ 187,496	\$ 193,429
Fringe benefits	-	53,155	53,155	50,014
Postage and printing	3,134	47,109	50,243	48,521
Office equipment	5,941	1,520	7,461	2,417
Office supplies	528	3,912	4,440	5,175
Bank charges/investment fees	46,879	275	47,154	31,470
Supplies	5,717	522	6,239	5,316
Insurance	12,078	8,835	20,913	11,514
Depreciation	56,108	-	56,108	57,473
Advertising	13,508	3,206	16,714	11,174
Repairs	116	521	637	1,400
Legal and accounting	1,481	6,896	8,377	3,950
Fees	2,830	2,889	5,719	7,708
Subscriptions	-	210	210	439
Dues and memberships	-	1,309	1,309	1,290
Taxes and licenses	16,254	15,831	32,085	34,410
Foreign tax	-	2,338	2,338	2,261
Interest	74,325	45	74,370	75,895
Awards & grants	243,632	-	243,632	380,194
Miscellaneous	947	2,220	3,167	614
Plaques	198	1,000	1,198	784
Professional development	-	1,902	1,902	-
Equipment rental	2,035	-	2,035	2,090
Banquets and meetings	48,674	16,564	65,238	56,854
Scholarship	462,435	-	462,435	479,088
Travel	4,426	12,220	16,646	14,410
Contract services	16,718	9,356	26,074	29,550
Operating fee	480	235	715	2,004
Software	-	8,803	8,803	-
Freight	99	69	168	208
Total Functional Expenses	<u>\$ 1,018,543</u>	<u>\$ 388,438</u>	<u>\$ 1,406,981</u>	<u>\$ 1,509,652</u>

See Accompanying Notes to the Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WHPETON, NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,073,484	\$ 482,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	56,108	57,473
Net unrealized gain (loss) on investments	39,906	(252,464)
Net realized capital loss (gain) on sale of investments	(1,082,039)	(80,037)
Increase (Decrease) Pledge receivable	(431,103)	-
Increase (Decrease) in accounts receivable	5,000	(50,000)
Increase (Decrease) in accounts payable	23,358	4,218
Increase (Decrease) in deferred reveune	2,500	(47,500)
	<u>687,214</u>	<u>114,332</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	9,774,339	3,265,539
Purchase of investments	<u>(10,685,799)</u>	<u>(4,199,390)</u>
	(911,460)	(933,851)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long-term debt	<u>(53,472)</u>	<u>(51,222)</u>
	<u>(53,472)</u>	<u>(51,222)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(277,718)	(870,741)
CASH AND CASH EQUIVALENTS, JULY 1	<u>2,751,603</u>	<u>3,622,344</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 2,473,885</u>	<u>\$ 2,751,603</u>

DISCLOSURE OF ACCOUNTING POLICY

For the purpose of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with maturity of one year or less to be cash equivalents.

See Accompanying Notes to the Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the North Dakota State College of Science Foundation is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

- A. Organization - The North Dakota State College of Science Foundation, Wahpeton, North Dakota, was organized on April 14, 1988, as a non-profit entity for the purpose of receiving and maintaining funds received from the public for the betterment of the North Dakota State College of Science through scholarships, awards, student loans, grants, and to improve the general well-being of this education institution.
- B. Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.
- C. Cash - The North Dakota State College of Science Foundation, Wahpeton, North Dakota, in conjunction with North Dakota State College of Science, Wahpeton, North Dakota, pools their cash accounts. The Foundation essentially has access to its cash resources on demand. Accordingly, the Foundation considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents for the purpose of the Statements of Cash Flows.
- D. Pledges Receivable - Pledges receivable relating to the annual fundraising campaign that are expected to be collected within one year are recorded at their net realizable values. Promises to give relating to the challenge fund that are expected to be collected in future years have not been discounted, as the amount is insignificant.

Conditional promises to give are not included as support until such time as the conditions are substantially met.

- E. Beneficial Interest in Perpetual Trusts - Perpetual trusts are held by a third party under an arrangement where the Foundation has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust assets, which are primarily publicly traded, are recorded at fair value at the gift date as beneficial interest in the trust and contribution income under permanently restricted support. Annual distributions are reported as investment income.

Continued on Next Page

- F. Living Trusts, Testamentary Trusts and Gift Annuities - The assets in living trusts, testamentary trusts and gift annuities are recorded at fair value at the inception of the trust or annuity and a liability is recorded to reflect the net present value of the expected future payments to the beneficiary.

The annuity and life income obligations are determined annually to reflect the change in life expectancy of the donor/beneficiary as well as expected payments to be made under the agreement. Investment income and distributions to beneficiaries increase or decrease the assets and the related obligation.

The remainder interest is recorded as a contribution to the Foundation or an increase in amounts held on behalf of others, depending on the terms of the agreement.

- G. Property, Equipment and Depreciation - The cost of property and equipment is depreciated over the estimated useful lives of the related assets. The depreciation method used is straight-line depreciation with a useful life of thirty-three years for property and seven years for equipment. Costs of office furnishings and equipment are consistently charged to expense because the Foundation does not deem such amounts to be sufficiently material to warrant capitalization and depreciation. However, for income tax purposes such items are capitalized and depreciated and the financial statements herein have been adjusted accordingly. Depreciation expense amounted to \$56,108 for the year ending June 30, 2014 and \$57,473 for the year ending June 30, 2013.
- H. 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- I. Deferred Revenue - Deferred revenue consists of funds received for programs in which the expenses will be incurred in a future period or for sponsorships of future special events. The revenue will be recognized in applicable future periods when the services are provided and the related expenses are incurred or when the event occurs.
- J. Financial Statement Presentation - The Foundation reports information regarding its financial position and activities according to three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) based upon the existence and/or nature of donor-imposed restrictions.

- 1) Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.
- 2) Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets whose use is limited by either donor-imposed time restrictions or purpose restrictions. Time restrictions require resources to be used in a certain period or after a specified date. Purpose restrictions require resources to be used for a specified purpose.
- 3) Permanently Restricted Net Assets - Permanently restricted net assets include the historical dollar amount of gifts (including unconditional promises to give), trusts and remainder interests and investment (earnings required by donors to be permanently retained). Unconditional promises to give, trusts and remainder interests are reported at their estimated present realizable values.

K. Subsequent Events – Subsequent events have been evaluated through September 10, 2014, the date the financial statements were available to be issued.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Foundation maintains certificates of deposit at several banks that are members of the Federal Reserve Systems. At June 30, 2014 and 2013, the Foundation's deposits were adequately insured and collateralized with securities held by its agent in the entity's name.

NOTE 3 – INVESTMENTS

The Foundation maintains accounts consisting of securities with several stock brokerage firms. The Securities Investors Protection Corporation insures balances up to \$25,000,000. The Foundation's securities investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in earnings. At June 30, 2014 and 2013, the Foundation's securities were adequately insured.

Investment Returns

Investment returns on all investments, included in investment income, consist of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 318,662	\$ 284,719
Net realized gains (losses)	1,082,039	80,037
Net unrealized gains (losses) on investments reported at fair value	<u>(39,906)</u>	<u>252,464</u>
Total	<u>\$ 1,360,795</u>	<u>\$ 617,220</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The Foundation applies the standards required by FASB ASC 820-10-50, *Fair Value of Measurements*, which provides a framework for measuring fair value, which includes a hierarchy based on the quality of inputs used to measure fair value and provides specific disclosure requirements based on the hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable inputs for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In determining fair value, The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

The following is a description of the valuation methodologies used for assets measured at fair value:

Equity mutual funds, bond mutual funds, equity securities, and real estate funds: Valued at the closing price reported on the active market on which the individual securities are traded.

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS cont.

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Money market funds, certificates of deposit, bond securities, and real estate funds: Value is based on prices currently available on comparable securities.

There were no changes to the valuation techniques used during the period.

Financial assets are carried at fair value as of June 30, 2014 and 2013 and are classified in the tables below in one of the three categories described above.

Assets at fair value as of June 30, 2014 are as follows:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 460,881	\$ -	\$ 460,881
Certificates of deposit	-	821,098	-	821,098
Bond securities	-	2,413,534	-	2,413,534
Mutual funds	325,985	-	-	325,985
Equity securities	<u>7,389,853</u>	<u>-</u>	<u>-</u>	<u>7,389,853</u>
Total assets at fair value	<u>\$ 7,715,838</u>	<u>\$ 3,695,513</u>	<u>\$ -</u>	<u>\$ 11,411,351</u>

NOTE 5 – COMPARATIVE FINANCIAL INFORMATION

The financial statements include prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a comparative presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the June 30, 2013 financial statements of the North Dakota State College of Science Foundation, from which the summarized information was derived.

NOTE 6 – FUNCTIONAL ALLOCATIONS OF EXPENSES

The cost of providing services have been summarized on a functional basis in the Statements of Activity and detailed in the Statement of Functional Expenses. Accordingly, certain costs and expenditures have been allocated between program and supporting services based on management's estimates.

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NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS cont.

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NOTE 7 – LONG-TERM DEBT

Long-term debt as of June 30 consists of the following:

	<u>2014</u>	<u>2013</u>
3.72% note payable in monthly installments of \$10,231 (including principal & interest) to April 15, 2021.	1,833,762	1,887,234
Less current portion	<u>(55,496)</u>	<u>(53,472)</u>
	<u>\$ 1,778,266</u>	<u>\$ 1,833,762</u>

The annual requirements to amortize the long-term debt as of June 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 55,496	\$ 67,276	\$ 122,772
2016	57,596	65,176	122,772
2017	59,775	62,997	122,772
2018	62,037	60,735	122,772
2019	64,385	58,387	122,772
2020 to 2021	<u>1,534,473</u>	<u>92,707</u>	<u>1,627,180</u>
	<u>\$ 1,883,762</u>	<u>\$ 407,278</u>	<u>\$2,241,040</u>

NOTE 8 – INCOME TAXES

The Foundation is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Foundation is required to pay state and federal income tax on unrelated business income. The Foundation has no unrelated business income for the years ended June 30, 2014 and 2013.

NOTE 9 – RELATIONSHIP WITH THE COLLEGE

A.) The Foundation made contributions and payments to the College for the following purposes as of June 30, 2014:

Scholarships	\$ 462,435
Gifts and Contributions	<u>243,632</u>
	<u>\$ 706,067</u>

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NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS cont.

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- B.) In exchange for services provided by the Foundation to the North Dakota State College of Science, the Foundation receives office space at no charge from the North Dakota State College of Science. The approximate fair market value is \$5,670. In addition, the College pays the Foundation \$174,000 for the rent of STTC building.
- C.) The North Dakota State College of Science pays 35% of salary and benefits for the Foundation's employees annually.

The above related-party transactions are not necessarily indicative of the terms and amounts that would have been incurred had a comparable transaction been entered into with independent parties.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The net assets as of June 30, 2013 have been reclassified as follows:

Net assets - unrestricted	\$ 83,336
Net assets - temporarily restricted	712,053
Net assets - permanently restricted	<u>10,143,381</u>
Total net assets	<u>\$ 10,938,770</u>

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
SCHEDULE OF PLANT ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Date Acquired</u>	<u>Cost</u>	<u>Prior Depreciation</u>	<u>Depreciation</u>	<u>Balance</u>
<u>LAND & LAND IMPROVEMENTS</u>					
723 5th Street N.	08/01/87	\$ 20,000	\$ 14,540	\$ -	\$ 5,460
723 7th Street N.	02/29/00	24,500	5,680	-	18,820
Curry farm land	03/31/99	115,988	-	-	115,988
Parking lot land	02/08/05	26,042	-	-	26,042
Parking Lot	08/10/11	143,695	20,842	12,286	110,567
		330,225	41,062	12,286	276,877
 <u>BUILDING</u>					
STTC Building	05/03/11	1,709,138	93,130	43,822	1,572,186
 <u>EQUIPMENT</u>					
Computer and software	07/15/90	3,682	3,682	-	-
Table	06/11/93	100	100	-	-
File	12/10/92	325	325	-	-
Computer	08/20/99	2,154	2,154	-	-
Computer	01/11/00	1,323	1,323	-	-
Computer Intel III	08/14/00	1,809	1,809	-	-
Laptop Computer	11/05/02	1,200	1,200	-	-
Computer	03/24/04	2,150	2,150	-	-
		12,743	12,743	-	-
Total plant assets		<u>\$ 2,052,106</u>	<u>\$ 146,935</u>	<u>\$ 56,108</u>	<u>\$ 1,849,063</u>

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

14.1 FOUNDATION FEE POLICY

Condition:

The Foundation unrestricted an 8% receipt fee from permanently restricted, on a mineral trust that was given as a donation. The mineral trust was donated prior to the Foundation establishing their 8% receipt fee policy on November 28, 2007 and without authorization from the donor.

Criteria:

The Foundation should have approval by the donor for the 8% receipt fee.

Effect:

This could result in the donation not being used as requested by the donor.

Recommendation:

It is recommended that the Foundation only takes 8% receipt fee on authorized donations.

Client Response:

While the Foundation respects our auditor's recommendation – it disagrees with the application of the administrative fee in this transaction. In discussions with other Foundations we have found that it is a normal practice to apply administrative or management fees on these types of transactions. Reasons given are the significant costs/expenses incurred in managing/selling of real estate, and other types of real property.