

**NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota**

**AUDITED FINANCIAL STATEMENTS
June 30, 2018**

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Dakota State College of Science Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota State College of Science Foundation, which comprise the statement of financial position as of June 30, 2018, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota State College of Science Foundation as of June 30, 2018, 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

We have previously audited the North Dakota State College of Science Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our reported dated September 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Correction of Misstatement

As discussed in Note 11 to the financial statements, there was an error resulting in amounts previously reported for net assets without donor restrictions and net assets with donor restrictions as of June 30, 2017 were discovered by management during the current year. Accordingly, an adjustment has been made to net assets as of June 30, 2017 to correct the error. Our opinion is not modified with respect to that matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Plant Assets on page 12 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our 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 14, 2018

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

STATEMENT OF FINANCIAL POSITION
June 30, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS		
Current Assets		
Cash in Checking - Bank of North Dakota	\$ 474,149	\$ 344,966
Money Markets and Certificates of Deposit	381,756	833,393
Equity Securities	16,334,723	14,508,946
Current Portion of Pledges Receivable	55,000	239,500
Current Portion of Accounts Receivable	196,869	55,000
Total Current Assets	<u>17,442,497</u>	<u>15,981,805</u>
Property, Plant, and Equipment		
Land and Land Improvements	370,325	370,325
Buildings	1,709,138	1,709,138
Equipment	-	12,743
Less Accumulated Depreciation	(406,624)	(365,963)
Total Property, Plant, and Equipment	<u>1,672,839</u>	<u>1,726,243</u>
Non-Current Assets		
Pledges Receivable, net of current portion	276,699	473,872
Accounts Receivable, net of current portion	200,000	255,000
Total Non-Current Assets	<u>476,699</u>	<u>728,872</u>
Total Assets	<u>19,592,035</u>	<u>18,436,920</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	19,425	11,579
Deferred Revenue	255,000	310,000
Current Portion of Long-Term Debt	64,385	62,037
Due to NDSCS	290,268	346,818
Total Current Liabilities	<u>629,078</u>	<u>730,434</u>
Long-Term Liabilities		
Liabilities Under Charitable Trusts	230,298	221,988
Notes Payable, net of current	1,547,017	1,598,858
Total Long-Term Liabilities	<u>1,777,315</u>	<u>1,820,846</u>
Total Liabilities	<u>2,406,393</u>	<u>2,551,280</u>
Net Assets		
Without Donor Restrictions	1,057,615	285,483
With Donor Restrictions	16,128,027	15,600,157
Total Net Assets	<u>17,185,642</u>	<u>15,885,640</u>
Total Liabilities and Net Assets	<u>\$ 19,592,035</u>	<u>\$ 18,436,920</u>

See Notes to Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	2018			(For Comparative Purposes Only) 2017
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE, GAINS, AND OTHER SUPPORT				
Gifts and Bequests	\$ 148,763	\$ 1,052,315	\$ 1,201,078	\$ 1,005,096
Rent Income	223,718	-	223,718	226,707
Operations, Fees, and Miscellaneous	353,245	199,500	552,745	689,371
Investment Income, net	28,333	1,017,513	1,045,846	1,043,900
Change in Split-Interest Agreements	-	(49,617)	(49,617)	34,837
Net Assets Released from Restriction	967,619	(967,619)	-	-
Total Revenue, Gains, and Other Support	1,721,678	1,252,092	2,973,770	2,999,911
EXPENSES				
Program Services	1,109,612	-	1,109,612	1,168,297
Administration	488,922	-	488,922	362,791
Fundraising	75,234	-	75,234	72,295
Total Expenses	1,673,768	-	1,673,768	1,603,383
CHANGE IN NET ASSETS	47,910	1,252,092	1,300,002	1,396,528
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	285,483	15,600,157	15,885,640	14,489,112
CORRECTION OF MISTATEMENT	724,222	(724,222)	-	-
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	1,009,705	14,875,935	15,885,640	14,489,112
NET ASSETS END OF YEAR	\$ 1,057,615	\$ 16,128,027	\$ 17,185,642	\$ 15,885,640

See Notes to Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	2018				(For Comparative Purposes Only) 2017
	Program Services	Administration	Fundraising	Total	
Salaries	\$ 2,500	\$ 270,374	\$ -	\$ 272,874	\$ 197,649
Fringe Benefits	197	116,031	-	116,228	58,908
Postage and Printing	3,484	41,616	3,417	48,517	39,917
Office Supplies	60	10,487	552	11,099	6,506
Bank Charges/Investment Fees	896	603	4,151	5,650	3,848
Supplies	8,520	3,598	5,927	18,045	5,897
Insurance	-	8,200	-	8,200	9,212
Depreciation	53,404	-	-	53,404	53,406
Advertising	13,650	3,456	102	17,208	4,792
Professional Fees	2,596	7,384	-	9,980	5,188
Fees	233	6,685	714	7,632	1,748
Dues and Memberships	-	1,017	-	1,017	747
Taxes and Licenses	-	4,557	2,302	6,859	33,186
Interest	73,279	-	-	73,279	97,834
Awards and Grants	524,524	-	-	524,524	582,599
Miscellaneous	10,583	936	12,148	23,667	12,144
Plaques	2,378	179	-	2,557	509
Banquets and Meetings	17,788	8,094	19,082	44,964	64,575
Scholarship	381,789	-	-	381,789	383,112
Travel	4,542	4,564	3,984	13,090	10,450
Contract Services	9,189	1,141	22,855	33,185	15,964
Total Functional Expenses	\$ 1,109,612	\$ 488,922	\$ 75,234	\$ 1,673,768	\$ 1,603,383

See Notes to Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,300,002	\$ 1,396,528
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities		
Depreciation	53,404	53,406
Net (Gain) Loss on Investments, realized and unrealized	(946,223)	(643,771)
Donated Securities	-	(6,903)
Changes in Assets and Liabilities		
Pledges Receivable	239,804	163,384
Accounts Receivable	55,000	40,000
Accounts Payable	7,846	(8,302)
Deferred Revenue	(55,000)	(40,000)
Split-Interest Agreements	8,310	(34,837)
Due to NDSCS	(56,550)	(127,000)
Net Cash Flows from Operating Activities	<u>606,593</u>	<u>792,505</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	8,507,461	6,039,532
Purchase of Investments	<u>(9,387,015)</u>	<u>(6,768,563)</u>
Net Cash Flows from Investing Activities	(879,554)	(729,031)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	<u>(49,493)</u>	<u>(59,775)</u>
Net Cash Flows from Financing Activities	<u>(49,493)</u>	<u>(59,775)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(322,454)	3,699
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,178,359</u>	<u>1,174,660</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 855,905</u>	<u>\$ 1,178,359</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW STATEMENT		
Interest Paid	\$ 73,279	\$ 97,834

See Notes to Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the North Dakota State College of Science Foundation (the “Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’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.

Nature of 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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

The Organization essentially has access to its cash resources on demand. Accordingly, the Organization 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.

Cash balances maintained at financial institutions may exceed federally insured limits. The Organization monitors the health of these banking institutions. Historically, the Organization has not experienced any credit-losses.

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.

As of June 30, 2018, \$473,568 of contributions receivable have been matched by the State of North Dakota. In addition, the Organization has additional gift agreements to be received and not recorded in the financial statements which have also been matched by the State of North Dakota. The value of these gift agreements is approximately \$191,710. The Organization is required to pay the State of North Dakota for any shortfall in these collections of pledges or gift agreements. Management is not aware of any specific uncollectible promises to give associated with the Challenge Grant program.

Beneficial Interest in Perpetual Trusts

Perpetual trusts are held by a third party under an arrangement where the Organization 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.

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Notes to Financial Statements – Continued

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 Organization or an increase in amounts held on behalf of others, depending on the terms of the agreement.

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. Depreciation expense amounted to \$53,404 and \$53,406 for the year ending June 30, 2018 and 2017 respectively.

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.

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.

Advertising Costs

Advertising costs are expensed as incurred. Total costs were \$17,208 and \$4,792 for the years ended June 30, 2018 and 2017, respectively.

Basis of Presentation

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Not-for-Profit Entities topic 958. The topic establishes standards for external financial reporting by not-for-profit Organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories, net assets without donor restrictions and net assets with donor restrictions, according to externally (donor) imposed restrictions. The topic also requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Organization maintains deposits at several banks that are members of the Federal Reserve Systems. At June 30, 2018 and 2017, the Organization's deposits were adequately insured.

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Notes to Financial Statements – Continued

NOTE 3 – INVESTMENTS

The Organization maintains accounts consisting of securities with one stock brokerage firm. The Organization’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.

NOTE 4 – FAIR VALUE MEASUREMENT

Fair Value Measurements and Disclosures topic 820, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy are described below:

- Level 1 Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date

- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

- Level 3 Unobservable inputs for the asset or liability should be used to measure the fair value to the extent that the observable inputs are not available.

In determining fair value, the Organization 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 counter party 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.

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, 2018 and 2017 and are classified in the tables below in one of the three categories described above. Assets at fair value as of June 30, 2018 and are as follows:

Description	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	\$ 474,149	\$ -	\$ -	\$ 474,149
Money Market Funds	380,253	-	-	380,253
Certificates of Deposit	1,503	-	-	1,503
Fixed Income Securities	-	6,174,349	-	6,174,349
Equity Securities	6,315,620	-	-	6,315,620
Equity Mutual Funds	3,844,754	-	-	3,844,754
Total Assets at Fair Value	\$ 11,016,279	\$ 6,174,349	\$ -	\$ 17,190,628

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Notes to Financial Statements – Continued

NOTE 5 – COMPARATIVE INFORMATION

The accompanying financial statements include certain prior-year comparative information in total but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the June 30, 2017, from which the summarized information was derived.

NOTE 6 – FUNCTIONAL ALLOCATION 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.

NOTE 7 – LONG-TERM DEBT

Long-term debt principal payment requirements are as follows:

Year Ending June 30:	
2019	\$ 64,385
2020	66,821
2021	<u>1,480,196</u>
Total	<u>\$ 1,611,402</u>

NOTE 8 – INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. Management has determined that the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

The Organization believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

NOTE 9 – RELATIONSHIP WITH COLLEGE

The Organization made contributions and payments to the College for the following purposes as of June 30, 2018:

Scholarships	\$ 381,789
Gifts and Contributions	<u>524,524</u>
Total	<u>\$ 906,313</u>

In exchange for services provided by the Organization to the North Dakota State College of Science, the Organization 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 Organization \$174,000 for the rent of STTC building and \$10,953 for parking lot lease.

The record keeping of the Organization are maintained through accounting and administrative services provided by the College. The approximate fair market value for these services is \$7,677. No amounts for these services have been recognized in the statement of activity.

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Notes to Financial Statements – Continued

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 – RETIREMENT PLANS

The Organization operates a Tax-Deferred Retirement defined contribution plan for all full-time employees. The cost of the retirement plan is paid currently and was \$32,845 and \$23,067 for the years ended June 30, 2018 and 2017.

NOTE 11 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 14, 2018, the date in which the financial statements were available to be issued.

NOTE 12 – CORRECTION OF MISTATEMENT

It was determined that there was a financial statement misstatement for the year ended June 30, 2017. The misstatement includes an understatement of net assets without donor restrictions and an overstatement of net assets with donor restrictions. As a result of the misstatement, the Organization has restated these amounts in the financial statements and an adjustment has been made to net assets without donor restrictions and net assets with donor restrictions as of June 30, 2017 to correct the misstatement as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
June 30, 2017 Net Assets, previously reported	\$ 285,483	\$ 15,600,157
Correction of Mistatement	<u>724,222</u>	<u>(724,222)</u>
June 30, 2017 Net Assets, as restated	<u>\$ 1,009,705</u>	<u>\$ 14,875,935</u>

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
Wahpeton, North Dakota

SCHEDULE OF PLANT ASSETS
June 30, 2018

	<u>Date Acquired</u>	<u>Cost</u>	<u>Prior Depreciation</u>	<u>Depreciation</u>	<u>Balance</u>
LAND & LAND IMPROVEMENTS					
723 5th Street N.	8/1/1987	\$ 20,000	\$ 14,540	\$ -	\$ 5,460
723 7th Street N.	2/29/2000	24,500	5,680	-	18,820
Curry Farm Land	3/31/1999	115,988	-	-	115,988
Parking Lot Land	2/8/2005	26,042	-	-	26,042
Parking Lot	8/10/2011	143,695	64,582	-	79,113
720 5th Street N.	8/13/2014	40,100	-	9,580	30,520
		<u>370,325</u>	<u>84,802</u>	<u>9,580</u>	<u>275,943</u>
BUILDING					
STTC Building	5/3/2011	<u>1,709,138</u>	<u>268,418</u>	<u>43,824</u>	<u>1,396,896</u>
		<u>\$ 2,079,463</u>	<u>\$ 353,220</u>	<u>\$ 53,404</u>	<u>\$ 1,672,839</u>

See Independent Auditor's Report