

**NORTH DAKOTA STATE COLLEGE
OF SCIENCE FOUNDATION
Wahpeton, North Dakota
Audit Report
Years Ended June 30, 2012 and 2011**

Nadine Julson, LLC

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
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FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
AS OF JUNE 30, 2012

OFFICIAL DIRECTORY

Foundation President

Rick Steckler

Foundation Vice-President

Annette Loken

Foundation Board Members

Rochelle Conzemius

Paul Dimmer

Chad Fredericksen

Terry Goerger

Roger Haberman

Ken Harty

Mike Jacklitch

Duane Kragness

Perry Miller

Bernie Meyer

Tim Neumann

Dave Roche

Judy Schmidt

Bart Schouweiler

Joel Sirek

Don Stevenson

Julie Trudeau

Eric Trueblood

Ed Uhlich

Mike Worner

Kyle Wych

Exofficio Members

NDSCS President

John Richman, Ph.D.

Foundation Director

Brad Barth

Foundation Treasurer/Secretary

Keith Johnson

Foundation Recorder

Kim Nelson

Vice-President of Academic Affairs

Harvey Link

Dean of Extended Learning

Margaret Wall

Alumni Board Members

Paul Dimmer

Don Stevenson

Terry Goerger

Roger Haberman

Perry Miller

Mike Worner

Duane Kragness

Bernie Meyer

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

Board Members

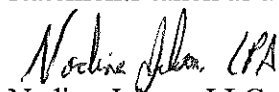
North Dakota State College
of Science Foundation
Wahpeton, North Dakota

I have audited the statements of financial position of the North Dakota State College of Science Foundation, a North Dakota non-profit corporation, as of June 30, 2012 and 2011, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the North Dakota State College of Science Foundation, Wahpeton, North Dakota. My responsibility is to express an opinion on these financial statements based on my 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. I was not engaged to perform an audit of the Foundation's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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, Wahpeton, North Dakota, as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Plant Assets is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.


Nadine Julson, LLC
August 17, 2012

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND 2011

<u>ASSETS</u>		
	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash in checking – Bank of North Dakota	\$ 2,334,067	\$ 1,889,379
Money markets and CD's	1,288,277	1,267,246
Equity securities	<u>6,819,729</u>	<u>6,880,800</u>
Total current assets	10,442,073	10,037,425
PROPERTY AND EQUIPMENT:		
Building	1,709,138	1,709,138
Land	330,225	218,530
Equipment	<u>12,743</u>	<u>12,743</u>
	2,052,106	1,940,411
Less: accumulated depreciation	<u>(89,462)</u>	<u>(38,329)</u>
Net property and equipment	<u>1,962,644</u>	<u>1,902,082</u>
Total assets	<u>\$12,404,717</u>	<u>\$11,939,507</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	9,832	9,041
Current portion of long-term debt	<u>51,222</u>	<u>53,859</u>
Total current liabilities	61,054	62,900
LONG-TERM LIABILITIES;		
Notes payable, net of current portion above	<u>1,887,535</u>	<u>1,938,542</u>
Total liabilities	1,948,589	2,001,442
NET ASSETS:		
Unrestricted	569,123	617,798
Temporarily restricted	368,614	472,662
Permanently restricted	<u>9,518,391</u>	<u>8,847,605</u>
Total net assets	<u>10,456,128</u>	<u>9,938,065</u>
Total liabilities and net assets	<u>\$12,404,717</u>	<u>\$11,939,507</u>

See Accompanying Notes to the Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
 WAHPETON, NORTH DAKOTA
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2012
 (WITH COMPARATIVE TOTAL FOR 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Support and Revenue:					
Donations	\$ 299,444	\$ 154,109	\$ 309,059	\$ 762,612	\$ 638,030
Dues & memberships	74,924	-	-	74,924	77,374
Box office sales	12,533	-	-	12,533	17,681
Dividend income	21,384	117,291	-	138,675	121,519
Interest income	15,295	80,296	-	95,591	93,980
Other services	131,288	-	1,000	132,288	88,614
Rental of rooms & buildings	206,199	-	-	206,199	48,323
Rent - land	10,953	-	-	10,953	16,653
Special events	35,947	-	-	35,947	23,885
Gain on land sale	-	-	378,000	378,000	-
Sponsorships	20,975	-	-	20,975	-
Other investment income	-	-	-	-	-
Realized gains (losses) on investments	(28,210)	(148,102)	-	(176,312)	147,442
Unrealized appreciation (depreciation) on investments	(10,966)	(57,573)	-	(68,539)	687,355
Tuition & fees	572	-	-	572	560
Net assets released from restrictions	267,343	(250,070)	(17,273)	-	-
Total support and revenue	1,057,681	(104,048)	670,786	1,624,419	1,961,416
Expenses:					
Salaries	159,624	-	-	159,624	153,301
Fringe benefits	44,865	-	-	44,865	41,688
Postage and printing	60,222	-	-	60,222	47,961
Office equipment	10,696	-	-	10,696	9,189
Office supplies	6,067	-	-	6,067	6,715
Bank charges/investment fees	29,161	-	-	29,161	28,451
Supplies	7,216	-	-	7,216	8,790
Insurance	11,342	-	-	11,342	11,642
Depreciation	51,133	-	-	51,133	5,606
Advertising	12,330	-	-	12,330	8,444
Repairs	453	-	-	453	256
Legal and accounting	4,888	-	-	4,888	18,525
Fees	1,828	-	-	1,828	820
Subscriptions	1,353	-	-	1,353	384
Dues and memberships	1,376	-	-	1,376	2,005
Taxes and licenses	35,003	-	-	35,003	21,077
Foreign Tax	1,833	-	-	1,833	-
Interest	77,826	-	-	77,826	13,549
Grants	35,011	-	-	35,011	187,492
Miscellaneous	3,182	-	-	3,182	3,763
Plaques	50	-	-	50	1,333
Equipment rental	4,854	-	-	4,854	3,027
Banquets and meetings	40,496	-	-	40,496	37,436
Scholarship	485,673	-	-	485,673	420,321
Travel	9,794	-	-	9,794	9,352
Contract services	6,413	-	-	6,413	4,197
Operating fee	2,845	-	-	2,845	1,720
Freight	822	-	-	822	147
Total expenses	1,106,356	-	-	1,106,356	1,047,191
CHANGE IN NET ASSETS	(48,675)	(104,048)	670,786	518,063	914,225
NET ASSETS, JULY 1	617,798	472,662	8,847,605	9,938,065	9,023,840
NET ASSETS, JUNE 30	\$ 569,123	\$ 368,614	\$ 9,518,391	\$ 10,456,128	\$ 9,938,065

See Accompanying Notes to the Financial Statements

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in the net assets	\$ 518,063	\$ 914,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,133	5,606
Net unrealized gain (loss) on investments	68,539	(687,355)
Net realized capital loss (gain) on sale of investments	184,648	120,330
Net gain on land sale	(378,000)	-
Increase (Decrease) in accounts payable	<u>791</u>	<u>(3,157)</u>
Net cash provided by operating activities	445,174	349,649
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building	-	(1,709,138)
Proceeds from sale of investments	7,927,367	2,854,409
Purchase of investments	(8,117,372)	(3,122,996)
Proceeds from land sale	408,104	-
Land Improvements	<u>(143,695)</u>	<u>-</u>
Net cash provided (used) by investing activities	74,404	(1,977,725)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of long-term debt	(53,859)	(15,599)
Increase in notes payable	<u>-</u>	<u>1,988,401</u>
Net cash provided (used) by financing activities	<u>(53,859)</u>	<u>1,972,802</u>
NET INCREASE IN CASH AND EQUIVALENTS	465,719	344,726
CASH AND CASH EQUIVALENTS, JULY 1	<u>3,156,625</u>	<u>2,811,899</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 3,622,344</u>	<u>\$ 3,156,625</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, 2012 AND 2011

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. Fund Accounting - To ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund, however, in accompanying financial statements, funds that have similar characteristics have been combined.
- C. 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 \$51,133 for the year ending June 30, 2012 and \$5,606 for the year ending June 30, 2011.

- D. 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.

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

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- E. 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.
- F. 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.
- G. Subsequent Events – Subsequent events have been evaluated through August 17, 2012, the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS AND INVESTMENTS

- A. Deposits - The Foundation maintains certificates of deposit at several banks that are members of the Federal Reserve Systems. At June 30, 2012 and 2011, the Foundation's deposits were adequately insured and collateralized with securities held by its agent in the entity's name.

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

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- B. Investment - 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, 2012 and 2011, the Foundation's securities were adequately insured.

NOTE 3 – FUNCTIONAL ALLOCATIONS OF EXPENSES

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statements of Activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

All of the expenditures for administration are recorded in the Foundation Fund. The costs are then allocated to the various funds as a reimbursement entitled "Administration Cost Reimbursement" and are recorded in the revenues of this fund.

NOTE 4 – LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</u>
0.00% note payable in annual installments of \$4,000 to October 4, 2012.	\$ -	\$ 4,000
3.72% note payable in monthly installments of \$10,231 (including principal & interest) to April 15, 2021.	<u>1,938,757</u>	<u>1,988,401</u>
	1,938,757	1,992,401
Less current portion	<u>(51,522)</u>	<u>(53,859)</u>
	<u>\$ 1,887,235</u>	<u>\$ 1,938,542</u>

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

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The annual requirements to amortize the long-term debt as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 51,523	\$ 71,249	\$ 122,772
2014	53,472	69,300	122,772
2015	55,496	67,276	122,772
2016	57,596	65,176	122,772
2017	59,775	62,997	122,772
2018 to 2021	<u>1,660,895</u>	<u>222,343</u>	<u>1,883,238</u>
	<u>\$ 1,938,757</u>	<u>\$ 558,341</u>	<u>\$2,497,098</u>

NOTE 5 – 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, 2012 and 2011.

NOTE 6 – RELATIONSHIP WITH THE COLLEGE

A.) The Foundation made contributions and payments to the College for the following purposes as of June 30, 2012:

Scholarships	\$ 485,673
Gifts and Contributions	<u>29,840</u>
	<u>\$ 515,513</u>

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 30% of the Foundation Director's annual salary and benefits.

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.

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
SCHEDULE OF PLANT ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<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.	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	-	7,191	136,504
		<u>330,225</u>	<u>20,220</u>	<u>7,191</u>	<u>302,814</u>
 <u>BUILDING</u>					
STTC Building	5/3/2011	1,709,138	5,486	43,822	1,659,830
 <u>EQUIPMENT</u>					
Computer and software	7/15/1990	3,682	3,682	-	-
Table	6/11/1993	100	100	-	-
File	12/10/1992	325	325	-	-
Computer	8/20/1999	2,154	2,154	-	-
Computer	1/11/2000	1,323	1,323	-	-
Computer Intel III	8/14/2000	1,809	1,809	-	-
Laptop Computer	11/5/2002	1,200	1,080	120	-
Computer	3/24/2004	2,150	2,150	-	-
		<u>12,743</u>	<u>12,623</u>	<u>120</u>	<u>-</u>
Total		<u>\$ 2,052,106</u>	<u>\$ 38,329</u>	<u>\$ 51,133</u>	<u>\$ 1,962,644</u>

NORTH DAKOTA STATE COLLEGE OF SCIENCE FOUNDATION
WAHPETON, NORTH DAKOTA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

12.1 FOUNDATION FEE POLICY

Condition:

The Foundation unrestricted an 8% receipt fee from permanently restricted, on a land sale that was given as a donation. The land 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.