



Financial Statements
June 30, 2010 and 2009

North Dakota State University Development Foundation

NORTH DAKOTA STATE UNIVERSITY DEVELOPMENT FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
North Dakota State University Development Foundation
Fargo, North Dakota

We have audited the accompanying statements of financial position of North Dakota State University Development Foundation (a North Dakota non-profit corporation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. 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 Foundations internal control over financial reporting. Accordingly, we do not express such an 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota State University Development Foundation as of June 30, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "EideBailly US".

Fargo, North Dakota
October 15, 2010

NORTH DAKOTA STATE UNIVERSITY DEVELOPMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,666,789	\$ 7,838,157
Investments	9,409,025	250,254
Receivables		
Current portion of unconditional promises to give	2,762,826	2,415,694
Interest	22,539	18,003
Current portion of Contracts for deed and notes	86,554	16,646
Other	2,810,132	257,826
Prepaid expenses	40,025	45,844
Total current assets	<u>17,797,890</u>	<u>10,842,424</u>
PROPERTY AND EQUIPMENT		
Property and equipment, net of accumulated depreciation	5,481,842	5,850,105
Real estate and equipment held for investment, net of accumulated depreciation	37,969,392	37,133,447
	<u>43,451,234</u>	<u>42,983,552</u>
OTHER ASSETS		
Investments, net of current portion	87,793,274	82,625,080
Contracts for deed and notes receivable, net of current portion	1,280,848	1,425,194
Other receivables, net of current portion	-	2,107,186
Split interest trusts held by others, net	698,912	770,126
Cash surrender value of life insurance	394,557	542,540
Unconditional promises to give, net of current portion	4,003,309	5,202,063
	<u>94,170,900</u>	<u>92,672,189</u>
	<u>\$ 155,420,024</u>	<u>\$ 146,498,165</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 424,951	\$ 1,642,738
Cash and cash equivalents held for others	519,767	566,037
Investments held for others	103,471	94,346
Current portion of gift annuities and life income agreements	675,775	631,636
Current portion of notes and bonds payable	891,062	681,386
Total liabilities	<u>2,615,026</u>	<u>3,616,143</u>
GIFT ANNUITIES AND LIFE INCOME AGREEMENTS, net of current portion	5,630,717	5,563,055
NOTES AND BONDS PAYABLE, net of current portion	22,638,867	24,471,306
NET ASSETS		
Donor restricted		
Temporarily restricted	19,721,507	22,767,509
Permanently restricted	95,432,725	85,427,197
Unrestricted	9,381,182	4,652,955
Total net assets	<u>124,535,414</u>	<u>112,847,661</u>
Total liabilities and net assets	<u>\$ 155,420,024</u>	<u>\$ 146,498,165</u>

See Notes to Financial Statements

NORTH DAKOTA STATE UNIVERSITY DEVELOPMENT FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009

	2010			
	Restricted Net Assets		Unrestricted	TOTAL
	Temporarily	Permanently	Net Assets	
REVENUE AND OTHER SUPPORT				
Gifts	\$ 4,026,997	\$ 4,461,490	\$ 779,837	\$ 9,268,324
Liabilities to income beneficiaries	-	(50,838)	-	(50,838)
	<u>4,026,997</u>	<u>4,410,652</u>	<u>779,837</u>	<u>9,217,486</u>
Investment income	1,448,498	4,770	3,915,770	5,369,038
Realized gains (losses)	(1,616,348)	(29,001)	137,089	(1,508,260)
Unrealized appreciation (depreciation)	81,898	7,960,883	3,268,653	11,311,434
Change in split interest agreements	-	(1,203,379)	-	(1,203,379)
Liquidating and receipting incomes (fees)	(450,370)	(175,556)	625,926	-
Other income	-	-	951,783	951,783
	<u>3,490,675</u>	<u>10,968,369</u>	<u>9,679,058</u>	<u>24,138,102</u>
Net assets released from restrictions	(5,645,745)	-	5,645,745	-
	<u>(2,155,070)</u>	<u>10,968,369</u>	<u>15,324,803</u>	<u>24,138,102</u>
EXPENSES				
Program service				
Gifts, grants, scholarships	-	-	2,380,636	2,380,636
NDSU departmental expenses, building and equipment purchases	-	-	2,857,576	2,857,576
Support service				
Administrative and general expenses	-	-	4,869,119	4,869,119
Direct investment expenses	-	-	249,679	249,679
Depreciation and depletion	-	-	2,093,339	2,093,339
	<u>-</u>	<u>-</u>	<u>12,450,349</u>	<u>12,450,349</u>
CHANGE IN NET ASSETS	(2,155,070)	10,968,369	2,874,454	11,687,753
NET TRANSFERS	(890,932)	(962,841)	1,853,773	-
NET ASSETS, BEGINNING OF YEAR	<u>22,767,509</u>	<u>85,427,197</u>	<u>4,652,955</u>	<u>112,847,661</u>
NET ASSETS, END OF YEAR	<u>\$ 19,721,507</u>	<u>\$ 95,432,725</u>	<u>\$ 9,381,182</u>	<u>\$ 124,535,414</u>

See Notes to Financial Statements

	2009			
	Restricted Net Assets		Unrestricted	TOTAL
	Temporarily	Permanently	Net Assets	
REVENUE AND OTHER SUPPORT				
Gifts	\$ 4,938,770	\$ 5,613,435	\$ 604,196	\$ 11,156,401
Liabilities to income beneficiaries	-	(211,434)	-	(211,434)
	<u>4,938,770</u>	<u>5,402,001</u>	<u>604,196</u>	<u>10,944,967</u>
Investment income	584,806	5,286	4,092,232	4,682,324
Realized gains (losses)	(2,075,357)	(8,889)	25,983	(2,058,263)
Unrealized appreciation (depreciation)	(52,461)	(9,636,420)	(12,716,583)	(22,405,464)
Change in split interest agreements	(29,837)	609,556	-	579,719
Liquidating and receipting incomes (fees)	(543,515)	(98,847)	642,362	-
Other income	-	279	961,347	961,626
	<u>2,822,406</u>	<u>(3,727,034)</u>	<u>(6,390,463)</u>	<u>(7,295,091)</u>
Net assets released from restrictions	<u>(7,725,207)</u>	<u>-</u>	<u>7,725,207</u>	<u>-</u>
	<u>(4,902,801)</u>	<u>(3,727,034)</u>	<u>1,334,744</u>	<u>(7,295,091)</u>
EXPENSES				
Program service				
Gifts, grants, scholarships	-	-	4,656,981	4,656,981
NDSU departmental expenses, building and equipment purchases	-	-	3,556,203	3,556,203
Support service				
Administrative and general expenses	-	-	5,294,301	5,294,301
Direct investment expenses	-	-	322,682	322,682
Depreciation and depletion	-	-	1,345,551	1,345,551
	<u>-</u>	<u>-</u>	<u>15,175,718</u>	<u>15,175,718</u>
CHANGE IN NET ASSETS	(4,902,801)	(3,727,034)	(13,840,974)	(22,470,809)
NET TRANSFERS	(1,746,841)	(77,928)	1,824,769	-
NET ASSETS, BEGINNING OF YEAR	<u>29,417,151</u>	<u>89,232,159</u>	<u>16,669,160</u>	<u>135,318,470</u>
NET ASSETS, END OF YEAR	<u>\$ 22,767,509</u>	<u>\$ 85,427,197</u>	<u>\$ 4,652,955</u>	<u>\$ 112,847,661</u>

NORTH DAKOTA STATE UNIVERSITY DEVELOPMENT FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 11,687,753	\$ (22,470,809)
Charges and credits to change in assets not affecting cash		
Depreciation and depletion	2,093,339	1,345,551
Net realized and unrealized (gain) loss on investments	(9,666,085)	24,463,727
(Gain) loss on sale of property and equipment	64	16,695
Permanently restricted gifts and investment income	(4,410,652)	(5,271,751)
Changes in operating assets and liabilities		
Unconditional promises to give	851,622	1,839,129
Receivables	(449,656)	(193,131)
Prepaid expenses	5,819	34,231
Accounts payable and accrued liabilities	(1,217,787)	(1,336,750)
Cash and cash equivalents held for others	(46,270)	37,318
Investments held for others	9,125	(25,479)
Gift annuities and life income agreements	111,801	(1,186,443)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(1,030,927)</u>	<u>(2,747,712)</u>
INVESTING ACTIVITIES		
Proceeds from the sale of investments and gifts	35,653,325	22,547,419
Purchases of investments, including		
real estate and equipment held for investments	(42,851,968)	(30,810,509)
Receipts on notes and contracts receivable	74,438	81,114
Proceeds from the sale of property and equipment	-	39,250
Property and equipment purchases	(23,322)	(127,461)
Change in cash surrender value of life insurance	147,983	(24,084)
Change in funds held by others	71,214	246,835
NET CASH USED FOR INVESTING ACTIVITIES	<u>(6,928,330)</u>	<u>(8,047,436)</u>
FINANCING ACTIVITIES		
Permanently restricted gifts and investment income	4,410,652	5,271,751
Proceeds from issuance of bonds and notes payable	-	900,000
Principal payments on bonds and notes payable	(1,622,763)	(2,878,305)
NET CASH FROM FINANCING ACTIVITIES	<u>2,787,889</u>	<u>3,293,446</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(5,171,368)</u>	<u>(7,501,702)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,838,157</u>	<u>15,339,859</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,666,789</u></u>	<u><u>\$ 7,838,157</u></u>
SUPPLEMENTAL DISCLOSURES		
OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 1,126,818</u></u>	<u><u>\$ 1,235,511</u></u>

NORTH DAKOTA STATE UNIVERSITY DEVELOPMENT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Activity

North Dakota State University Development Foundation (Foundation) is a North Dakota nonprofit corporation established for the purpose of providing financial and other assistance to North Dakota State University and management of related assets.

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.

Concentration of Credit Risk

The Foundation maintains cash balances and certificates of deposits at various institutions. Periodically, balances in these accounts are temporarily in excess of federally insured limits.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash consists of money held in money market funds and held on behalf of other organizations or held until donor imposed restrictions expire.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Other Receivables

Other receivables relate to amounts that the Foundation has contributed for portions of its downtown campus. These receivables will be collected when the related property is contributed back to the Foundation, which is expected after the tax credits from the project have been realized.

NOTES TO FINANCIAL STATEMENTS

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. The Foundation carries its real estate investments at the fair market value as of the dates the investments were donated to or purchased by the Foundation.

Certain funds have been pooled for ease of management and to achieve greater diversification in investments.

Earnings on investments are allocated to individual accounts at rates determined by the Board of Trustees. The Board designates a portion of the Foundation's cumulative investment return for support of current operations. The remainder is retained to support future Foundation programs and to offset potential market declines.

Fair Value Measurements

Topic ASC 820, "*Fair Value Measurements and Disclosures*", establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritized 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the authoritative guidance are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property and Equipment

Property and equipment received as support are stated at the fair market value at the time of the gift or at cost if purchased. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	5-50 years
Office furniture and equipment	5-10 years
Computer software	3-5 years

NOTES TO FINANCIAL STATEMENTS

Real Estate Held for Investment

Real estate held for investment or future development is stated at the fair market value at the time of the gift or at cost if purchased. Depreciation is provided using the straight-line method over 15-31.5 years.

Cash and cash equivalents held for others

Cash and cash equivalents held for others consists of funds held and invested for various University departments and organizations.

Investments held for others

Investments held for others represent the portion of charitable remainder unitrusts for which the Foundation holds the assets, but is not the beneficiary.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Donated Services

Many individuals, including board members, have contributed significant amounts of time to activities of the Foundation without compensation. Volunteers also donate services for periodic fund-raising drives, such as the Bison Bidder's Bowl. During the years ended June 30, 2010 and 2009, the value of contributed services meeting the requirement for recognition in the financial statements was not material and has not been recorded.

Donated Assets

Donated property, marketable securities and other non-cash donations are recorded as contributions at their estimated market value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets when the restriction has been fulfilled.

Tax Exempt Status

The Internal Revenue Service has ruled that the Foundation is a publicly supported organization under Internal Revenue Code Section 501(c)(3), and is classified as an organization, which is not a private foundation. Accordingly the Foundation is not subject to federal income taxes.

The Company has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

NOTES TO FINANCIAL STATEMENTS

The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Company is no longer subject to Federal tax or state examinations by tax authorities for years before 2006.

Reclassifications

Certain amounts have been reclassified in 2009 to be comparative to 2010 amounts. These reclassifications have no effect on change in net assets.

Subsequent Events

The Foundation has evaluated subsequent events through October 15, 2010, the date which the financial statements were available to be issued.

Restrictions on Net Assets

The Foundation records its activities in the following classes:

Temporarily Restricted Net Assets represent resources currently available for use for those operating purposes specified by the donor or restricted by the donor for a specified period. Temporarily restricted net assets will be appropriated for the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 3,549,871	\$ 4,098,389
NDSU departmental expenses	5,522,022	6,371,941
NDSU buildings and equipment	10,255,184	11,998,600
Foundation operations	394,430	298,579
	<u>\$ 19,721,507</u>	<u>\$ 22,767,509</u>

Permanently Restricted Net Assets represent gifts and bequests which have been accepted with the donor-stipulation that the principal be maintained intact in perpetuity with only the income to be utilized. The Board of Trustees may reinvest part of the earnings to increase the Endowment. Permanently restricted net assets are dedicated to support the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 52,487,999	\$ 47,335,259
NDSU departmental expenses	33,401,453	31,101,349
Foundation operations	9,543,273	6,990,589
	<u>\$ 95,432,725</u>	<u>\$ 85,427,197</u>

Unrestricted Net Assets represent resources over which the Board of Trustees has discretionary control.

NOTES TO FINANCIAL STATEMENTS

Operating Reserve

Excess funds from operations of the general fund are transferred to a temporarily restricted fund during the year to be used to support operations in subsequent years when income does not meet budgeted expenses. This account is shown as unrestricted for reporting purposes. The operating reserve is to be accumulated to \$250,000. The operating reserve had a \$250,000 and \$0 balance at

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUE OF ASSETS

Assets measured at fair value on a recurring basis at June 30, 2010 and 2009, respectively, are as follows:

	<u>2010</u>	<u>2009</u>
Cash Awaiting Transfer	\$ -	\$ 545,722
Certificate of Deposit	3,575,000	75,000
Corporate Bonds and Mutual Fund	18,465,556	12,927,305
Corporate Equity Stocks and Mutual Fund	52,583,930	52,100,758
Global Hedge Funds	6,446,222	
Government Securities	50,072	141,134
Commercial Paper	241,880	312,465
Commodity Fund	3,223,387	2,325,097
Private Stock	15,000	15,000
Hedge Fund	4,516,442	3,205,279
Mineral Interests	103,973	115,113
Partnership Fund	7,744,721	10,055,032
Real Estate Fund	236,116	1,057,429
	<u>\$ 97,202,299</u>	<u>\$ 82,875,334</u>

NOTES TO FINANCIAL STATEMENTS

The related fair values of these assets and liabilities are determined as follows:

<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Cash Awaiting Transfer	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	3,575,000	-	-	3,575,000
Corporate Bond Funds	3,067,670	14,697,886	700,000	18,465,556
Growth Mutual Funds	7,055,065	45,528,865	-	52,583,930
Global Hedge Funds	-	6,446,222	-	6,446,222
Government Securities	5,523	44,549	-	50,072
Commercial Paper	-	241,880	-	241,880
Commodity Fund	-	3,223,387	-	3,223,387
Private Stock	-	15,000	-	15,000
Hedge Fund	-	4,347,597	168,845	4,516,442
Mineral Interests	-	-	103,973	103,973
Partnership Fund	-	-	7,744,721	7,744,721
Real Estate Fund	-	-	236,116	236,116
Unconditional				
Promises to Give	-	-	6,766,135	6,766,135
Split interest agreements	-	-	698,912	698,912
	<u>\$ 13,703,258</u>	<u>\$ 74,545,386</u>	<u>\$ 16,418,702</u>	<u>\$ 104,667,346</u>
Liabilities				
Obligations under split interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,306,492</u>	<u>\$ 6,306,492</u>

NOTES TO FINANCIAL STATEMENTS

The related fair values of these assets and liabilities are determined as follows:

June 30, 2009	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash Awaiting Transfer	\$ 545,722	\$ -	\$ -	\$ 545,722
Certificate of Deposit	75,000	-	-	75,000
Corporate Bond Funds	2,807,228	10,120,077	-	12,927,305
Growth Mutual Funds	6,856,768	45,243,990	-	52,100,758
Government Securities	96,706	44,428	-	141,134
Commercial Paper	-	312,465	-	312,465
Commodity Fund	-	2,325,097	-	2,325,097
Private Stock	-	15,000	-	15,000
Hedge Fund	-	2,314,891	890,388	3,205,279
Mineral Interests	-	-	115,113	115,113
Partnership Fund	-	4,436,905	5,618,127	10,055,032
Real Estate Fund	-	-	1,057,429	1,057,429
Unconditional				
Promises to Give	-	-	7,617,757	7,617,757
Split interest agreements	-	-	770,126	770,126
	<u>\$ 10,381,424</u>	<u>\$ 64,812,853</u>	<u>\$ 16,068,940</u>	<u>\$ 91,263,217</u>
Liabilities				
Obligations under split interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,194,691</u>	<u>\$ 6,194,691</u>

The fair value for certificates of deposits, corporate bonds and mutual funds, corporate equity securities and mutual funds, government securities is determined by reference to quoted market prices. For co-mingled and pooled marketable investment funds, fair value is obtained by using a direct look through basis to the underlying direct assets holding. At this level, the underlying assets have a direct market reference price that is traceable. For certain private equity investments, fair value is estimated at the present value of expected future cash flows. For hedge, partnership and real estate funds, fair value is determined with independent, third party valuations occurring monthly to every six months depending upon the investment type.

NOTES TO FINANCIAL STATEMENTS

Following is a reconciliation of activity for 2010 and 2009 for assets measured at fair value based upon significant unobservable (non-market) information.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 16,068,940	\$ 29,311,432
Realized and unrealized losses included in earnings	181,139	(3,083,323)
Purchases, issuances, and settlements	1,102,599	(368,656)
Contributions	1,178,617	175,395
Receipts of promises	(2,260,632)	(2,532,728)
Present value discount of collectible promises to give	(96,186)	(9,161)
Amortization of promise to give discount	272,478	409,498
Decrease in allowance for uncollectible promises	54,101	117,867
Changes in split interest agreement	(71,214)	(246,835)
Depletion	(11,140)	(11,140)
Transfers out of Level 3		(7,693,409)
Balance, end of year	<u>\$ 16,418,702</u>	<u>\$ 16,068,940</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CONTRACTS FOR DEED AND NOTES RECEIVABLE

	<u>2010</u>	<u>2009</u>
7.5% note receivable, interest due monthly and principal due April 2013, secured by personal property and assignment of leases	\$ 1,000,000	\$ 1,000,000
6% contract for deed, due in monthly installments of \$1,019 including interest, to June 2012 plus final payment of the remaining balance due July 2012, secured by land	144,966	155,374
7% notes receivable, due in annual installments of \$60,968 including interest, to January 31, 2012, unsecured	110,232	160,001
7% contract for deed, due in annual installments of \$16,000 including interest, to November 2014 plus final payment of \$8,198 due November 2015, secured by land	44,129	55,885
8% contract for deed, due in monthly installments of \$465, including interest, to December 2019, secured by land and building	37,025	39,530
8% note receivable, unsecured	<u>31,050</u>	<u>31,050</u>
	<u>\$ 1,367,402</u>	<u>\$ 1,441,840</u>

Maturities of the contracts for deed and notes receivable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 86,554
2012	82,337
2013	1,141,361
2014	4,123
2015	4,377
Thereafter	<u>48,650</u>
	<u>\$ 1,367,402</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - REAL ESTATE HELD FOR INVESTMENT

	<u>2010</u>	<u>2009</u>
Land	\$ 3,590,202	\$ 3,185,602
Buildings and improvements	40,174,084	19,314,616
Construction in progress	-	18,737,445
	<u>43,764,286</u>	<u>41,237,663</u>
Less accumulated depreciation	<u>(5,794,894)</u>	<u>(4,104,216)</u>
	<u>\$ 37,969,392</u>	<u>\$ 37,133,447</u>

NOTE 6 - PROPERTY AND EQUIPMENT

	<u>2010</u>	<u>2009</u>
Land	\$ 868,809	\$ 868,809
Buildings and improvements	3,679,398	3,678,066
Furniture and equipment	3,384,574	3,385,204
Computer software	125,255	125,255
	<u>8,058,036</u>	<u>8,057,334</u>
Less accumulated depreciation	<u>(2,576,194)</u>	<u>(2,207,229)</u>
	<u>\$ 5,481,842</u>	<u>\$ 5,850,105</u>

NOTE 7 - LIABILITIES FOR SPLIT-INTEREST AGREEMENTS

Gift Annuity Agreements

The Foundation has entered into gift annuity agreements, which provide that the Foundation shall pay periodic amounts to designated beneficiaries until their death. Payments continue even if the assets gifted or acquired as a result of a gift have been exhausted. The Foundation records these gifts at market value with a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amounts of the gifts are recorded as unrestricted or permanently restricted net assets based on the donors' wishes. Upon the death of a beneficiary, the remaining assets are held or disposed in accordance with the annuity agreement.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - NOTES AND BONDS PAYABLE

	<u>2010</u>	<u>2009</u>
5.19% bonds payable, due in semi-annual installments of \$80,645, including interest, to December 2018, secured by Alumni Center land and building - {1}	\$ 1,097,254	\$ 1,197,671
Variable rates bonds payable, 3.1%-4.7% at June 30, 2010, with semi-annual interest payments and annual installments of varying principal amounts, to November 2024, secured by equine center land and building - {2}	3,415,000	3,580,000
2.77% note payable, due in semi-annual installments of \$1,800, including interest, to January 2013, unsecured	10,293	13,541
4.89% bonds payable due in semi-annual installments of \$165,998, including interest, to December 2020, secured by equipment - {3}	2,701,216	2,894,023
6.86% note payable, due in quarterly installments of \$80,730, including interest, to May 2017, secured by an airplane - {4}	1,783,192	1,975,470
Variable rates bonds payable (Series A), 1.0% at June 30, 2010, with semi-annual installments of varying amounts, to November 2027, secured by the Barry Hall business building and land - {5}	1,840,000	2,556,000
5.11% bonds payable (Series B), due in semi-annual installments of \$243,079, including interest, to November 2027, secured by the Barry Hall business building and land - {5}	7,138,488	7,255,371
Variable rates bonds payable (Series C), 1.0% at June 30, 2010, with semi-annual installments of varying amounts, to November 2027, secured by the Klai Hall architecture building and land - {6}	920,800	979,800
5.11% bonds payable (Series D), due in semi-annual installments of \$127,764, including interest, to November 2027, secured by the Klai Hall architecture building and land - {6}	3,752,035	3,813,470
4.2% bond payable, due in monthly payments of \$4,432 including interest, to September 2038, unsecured - {7}	871,651	887,346
	<u>\$ 23,529,929</u>	<u>\$ 25,152,692</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

{1} - The Foundation financed the construction of the NDSU Alumni Center Project through the sale of 20-year First Mortgage Revenue Bonds issued by Cass County, North Dakota. The Foundation has leased the property from the county for rental equal to the sum of the semi-annual principal and interest payments on the bonds. Under the terms of the lease, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to the ownership of the property. The leased property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to the Foundation when the bonds are repaid in full. The bonds are guaranteed by the Foundation.

{2} - The Foundation financed the construction of the NDSU Equine Center Project through the sale of 20-year University Facilities Revenue Bonds issued by Cass County, North Dakota. The Foundation has leased the property from the county for rental equal to the sum of the semi-annual principal and interest payments on the bonds. Under the terms of the lease, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to the ownership of the property. The leased property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to the Foundation when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is subleased to North Dakota State University (NDSU) for rental equal to the sum of the semi-annual principal and interest payments on the bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. NDSU has an option to acquire the land and building at certain dates or upon full payment of the bonds.

{3} - The Foundation financed the construction and equipping of office space, locker rooms, meeting rooms, and related facilities in the Fargodome for use by NDSU through the sale of 15-year University Facilities Revenue Bonds issued by Cass County, North Dakota. The Foundation has leased the space in the Fargodome from the City of Fargo and has financed the leasehold improvements and furniture, fixtures and equipment with proceeds of the bonds. The leasehold improvements and furniture, fixtures and equipment have been included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. The space, the leasehold improvements, and the furniture, fixtures and equipment have been subleased to North Dakota State University (NDSU) for rental equal to the sum of the annual Fargodome space rent plus the semi-annual principal and interest payments on the bonds plus all the costs incurred by the Foundation incident to the lease. NDSU's payments and/or bond principal will be reduced by contributions received by the Foundation for this project.

{4} - The Foundation entered into a ten-year financing agreement for the purchase of an aircraft. The Foundation has leased the aircraft to North Dakota State University for rental equal to the sum of the quarterly principal and interest payments on the loan for the life of the loan. The University is responsible for all costs incurred in operation and maintenance of the aircraft. Upon completion of loan payments,

NOTES TO FINANCIAL STATEMENTS

{6} - The Foundation financed the construction of the NDSU Klai Hall architecture building project through the sale of 20-year University Facilities Revenue Bonds issue by the City of Fargo, North Dakota. The City has loaned the bond proceeds to the Foundation for payments equal to the sum of the semi-annual interest payments and installments of varying principal amounts on the variable rate bonds and the semi-annual principal and interest payments on the fixed-rate bonds. The principal payments on the variable rate bonds will be funded from payments on donor pledges restricted for the project. Under the terms of the loan, the Foundation is responsible for the real estate taxes, insurance, repairs and maintenance, and other costs incident to ownership of the property. The property is included with property in the financial statements and the bonds have been recorded as a direct obligation of the Foundation. Ownership of the property will transfer to NDSU when the bonds are repaid in full. The bonds are guaranteed by the Foundation. This property is leased to NDSU for rental equal to the sum of the semi-annual interest only payments on the variable term bonds plus the semi-annual principal and interest payments on the fixed-rate bonds for the term of the bonds, plus all the costs incurred by the Foundation incident to ownership of the property. NDSU has an option to acquire the property upon full payment of the bonds.

{7} – The Foundation financed the construction of a new university president’s residence through the sale of 30-year NDSU Development Foundation University Facilities Bonds. Gate City Bank has loaned the bond proceeds to the Foundation for payments equal to \$4,432 per month for the life of the loan. Title to the property rests with the State Board of Higher Education of the State of North Dakota.

Debt maturities are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 891,062
2012	936,629
2013	989,536
2014	1,036,305
2015	1,089,225
Thereafter	18,587,172
	<u>\$ 23,529,929</u>

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2010</u>	<u>2009</u>
Purpose restrictions accomplished		
Scholarships and grants paid	\$ 2,234,956	\$ 4,490,801
NDSU departmental expenses	2,306,006	2,094,975
NDSU building and equipment	551,570	556,964
Direct investment expenses on real estate held for investment	231,122	297,050
Depreciation on real estate held for investment	322,091	285,417
	<u>\$ 5,645,745</u>	<u>\$ 7,725,207</u>
Total net assets released from restrictions		

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - EMPLOYEE BENEFIT PLANS

Tax Deferred Annuity

The Foundation has a tax deferred annuity plan under Internal Revenue Code section 403(b) which covers all eligible employees. The employees contribute to the plan through salary reductions. The Foundation makes no contributions toward the plan.

Pension Plan

The Foundation has a defined contribution pension plan covering all eligible employees. The Foundation contributes 9.5 percent of the eligible salary of each employee with six months to ten years of service, and 10 percent of the eligible salary of each employee with ten or more years of service. The Foundation has made contributions of \$172,141 and \$158,244 to the pension plan for the years ended June 30, 2010 and 2009, respectively.

NOTE 11 - FUND RAISING COSTS

The Foundation incurred fund raising costs of \$1,646,659 and \$1,760,070 for the years ended June 30, 2010 and 2009, respectively. These costs are included in administrative and general expenses on the accompanying Statements of Activities.

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Quoted market prices are generally not available for the Organization's financial instruments. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. Changes in the assumptions could significantly affect the estimates.

The following methods and assumptions were used by the Organization to estimate fair value of the financial instruments, and the estimated fair values of the Organization's financial instruments as of June 30, 2010 and 2009, are as follows:

Cash and cash equivalents - The carrying amount approximates fair value because of the short maturity of those instruments.

Present value discounting of unconditional promises to give - The fair value of unconditional promises is determined by discounting for promises to be received in future periods. The applicable discount rate is reviewed annually.

Notes and bonds payable - The fair value of obligations under notes and bonds payable are estimated based on the quoted market prices for the same or similar issues or on the current rates offered for debt of similar maturities. The carrying amount on the financial statements approximates fair market value.

Split interest agreements - The fair value of the future obligations relating to the split interest agreements is estimated based on the expected rate of return of the agreements respective assets. The rate of return is reviewed annually; see Note 7 for further details.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - ENDOWMENT

The Foundation's endowment consists of approximately 930 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NDSU Development Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

Permanently restricted net assets are the portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulation or by UPMIFA.

	At June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (3,255,045)	\$ 1,241,975	\$ 80,307,442	\$ 78,294,372
Board-designated endowment funds	<u>10,238,857</u>			<u>10,238,857</u>
	<u>\$ 6,983,812</u>	<u>\$ 1,241,975</u>	<u>\$ 80,307,442</u>	<u>\$ 88,533,229</u>
	At June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (9,706,980)	\$ 5,316,186	\$ 74,163,359	\$ 69,772,565
Board-designated endowment funds	<u>9,833,608</u>			<u>9,833,608</u>
	<u>\$ 126,628</u>	<u>\$ 5,316,186</u>	<u>\$ 74,163,359</u>	<u>\$ 79,606,173</u>

NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets are as follows:

	For the Year Ending June 30, 2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year (July 1, 2009)	\$ 126,628	\$ 5,316,186	\$ 74,163,359	\$ 79,606,173
Investment return:				
Investment income	327,910	1,571,752	112,206	2,011,868
Net appreciation/(depreciation) (realized and unrealized)	1,229,640	931,059	5,667,478	7,828,177
Contributions		33,841	4,272,461	4,306,302
Appropriation of endowment assets for expenditure	(323,873)	(4,066,990)		(4,390,863)
Other changes:				
Transfers to unrestricted for recovery of funds with deficiencies (underwater)	6,451,935		(6,451,935)	-
Transfers to create board-designated endowment funds	246,289			246,289
Transfers to remove board-designated endowment funds	(1,074,717)			(1,074,717)
Endowment net assets, end of year	<u>\$ 6,983,812</u>	<u>\$ 3,785,848</u>	<u>\$ 77,763,569</u>	<u>\$ 88,533,229</u>
	For the Year Ending June 30, 2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year (July 1, 2008)	\$ 12,631,753	\$ 9,834,449	\$ 76,723,747	\$ 99,189,949
Investment return:				
Investment income	321,664	1,717,678		2,039,342
Net appreciation/(depreciation) (realized and unrealized)	(2,758,919)	(1,095,747)	(18,455,941)	(22,310,607)
Contributions		68,325	5,280,384	5,348,709
Appropriation of endowment assets for expenditure	(334,198)	(4,300,330)		(4,634,528)
Other changes:				
Transfers to unrestricted for recovery of funds with deficiencies (underwater)	(9,706,980)		9,706,980	-
Transfers to create board-designated endowment funds	128,391			128,391
Transfers to remove board-designated endowment funds	(155,083)			(155,083)
Endowment net assets, end of year	<u>\$ 126,628</u>	<u>\$ 6,224,375</u>	<u>\$ 73,255,170</u>	<u>\$ 79,606,173</u>

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NOTES TO FINANCIAL STATEMENTS

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets and totaled \$3,255,045 and \$9,706,980 as of June 30, 2010 and 2009 respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation deemed prudent by the Board of Trustees. The reporting of such deficiencies as a reduction of Foundation-controlled unrestricted net assets does not legally create an affirmative obligation of the Foundation to restore the fair value of those funds from unrestricted assets.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and for scholarships supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds functioning as endowment. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is expected to outperform a custom benchmark (the Policy Benchmark) consisting of the appropriate indices of each of the asset classes and their proportional weight in the portfolio while assuming a moderate level of investment risk. The Policy Benchmark is constructed by selecting appropriate indices (eg. S&P 500, Russell 2000, MSCI World ex US, Barclays Capital US Aggregate Bond Index, etc.) and assigning beginning of the quarter weightings by asset class. The total return of the invested assets is expected to exceed the total return of the Policy Benchmark. Actual returns in any given year may vary from this goal.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year an amount determined by a hybrid formula including 70% based on the prior year's spending, increased (decreased) by an inflation (deflation) factor of CPI + 0.5%, and 30% based on 5% of the prior year's average quarterly market value (AQMV). The spending allocation is determined by applying the rate thus determined (distribution amount / AQMV) to the AQMV of each individual endowed fund. The spending rate, net of management fees, was 3.54% in 2010 and 3.43% in 2009. In establishing this policy, the Foundation considered the long-term expected return on its endowment. The Foundation's spending policy is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets in perpetuity as well as to provide additional growth through new gifts and investment return.