

LAFRC TESTIMONY**May 12, 2010, Robin Putnam, Director of Financial Reporting**

For the record, my name is Robin Putnam

NDUS Annual Financial Report

The June 30, 2009 annual financial report of the NDUS, as prepared by the system office, encompasses the 11 publicly supported colleges and universities, the system office, and 17 entities identified as component units of the NDUS.

The report includes an audit opinion letter, Management's Discussion & Analysis (also known as MD&A), financial statements of the NDUS and its component units, notes to the statements and supplementary information.

On page 1 is the unqualified audit opinion from the Office of the State Auditor as was previously discussed by a representative from that office.

The MD&A begins on page 3 and is much like an executive summary in that it provides an overview of the system's financial activities and issues for the year ended June 30, 2009.

Financial Highlights:

Financial highlights on pages 3-15 provide an overview of the system's financial position, financial activities and cash flows during the fiscal year.

- As noted in the table on page 5, total net assets of the system at June 30, 2009 is about \$751 million, an increase of 4% over prior year end. Net assets by definition are assets less liabilities.
- Total assets increased \$41 million during fiscal year 2009 and total liabilities increased by about \$13 million.
- On page 7 is a table that details sources of revenues for fiscal year 2009 and 2008. State appropriations of approximately \$262 million account for about 28% of total revenues, grants and contracts 23% and tuition and fees 26%.
- The first chart on page 10 details the uses of operating funds. Salaries and wages account for the largest use of funds at 62%. The 2nd chart on page 10 shows operating expenses by functional category. Instructional expenses, at 32% represent the largest expenditure category.
- As noted in the table on page 11, cash flows were negative for fiscal year 2009 indicating that cash flows were not sufficient to cover operating and nonoperating obligations during fiscal year 2009. It should be noted that cash flows from state appropriations are included in noncapital financing activities which is consistent with accounting standards, even though they provide funding for operating activities. If cash received from state appropriations were added to the cash flows from operating activities, the result is negative cash flow from operating activities of about \$82 thousand.

Capital asset and long-term liabilities highlights:

Pages 12 and 13 provide a summary of capital asset and long-term debt activity.

- The system added \$50.7 million in capital assets additions and renovations as noted on page 12.
- \$39.8 million in new debt was issued and \$31.3 million of debt was retired during fiscal year 2009 as noted on page 13.

Nonfinancial highlights:

Beginning on page 14, highlights of nonfinancial activity are provided.

- Student headcount enrollments increased 4 percent from Fall 2007 to Fall 2008.
- Distance education accounted for 33 percent of total degree credit headcount.

State Funding:

Page 15 contains information regarding state funding.

- The System's appropriation (excluding ag extension and research centers) as a percentage of the state's 2007-09 general fund budget was 19.2% as compared to 19.5% in 2005-2007.
- An additional \$8.5 million was provided in one-time funding from the permanent oil tax trust fund for projects various projects listed on page 15.

The three major financial statements for the System and its combined component units begin on page 16. The Statement of Net Assets presents the financial position of the System at June 30, 2009; the Statement of Revenues, Expenses and Changes in Net Assets provides information about the system's activities during the fiscal year; and the Statement of Cash Flows shows inflows and outflows of cash during the year, without regard to accrual items. The Primary Institution column comprises the 11 campuses and the system office. The Component Units column includes the entities that meet component unit status per GASB 39. Note that component unit information is not included in the statement of cash flows as GASB does not require this disclosure.

The two major statements for the component units are presented on pages 20-23. The entities listed are presented in more detail than other related organizations because they meet specific reporting criteria of GASB 39. Due to the nature and significance of their relationships with the campuses we are required to present the financial statements for these entities in the NDUS CAFR; however, it is important to keep in mind that the NDUS campuses do not own or have access to these funds to support campus activities.

The notes to the statements, beginning on page 24, are designed to provide information that is necessary for fair presentation of the financial statements. It includes detailed information and narrative that cannot be included in the statements themselves.

The supplementary information begins on page 69. The combining statements show the financial statement detail by campus. Also included in the supplementary information is a schedule of bonds payable for each campus and the financial information for revenue producing buildings by campus.