

Centers of Excellence – Summary of Findings from Agreed Upon Procedures and Financial Audits for Fiscal Year 2011

In accordance with NDCC § 15-69-05(2), each Center of Excellence must undergo financial audits after two full fiscal years of operation and at the conclusion of expending all award funds. Agreed upon procedures engagements are required for years that a center does not have a full fiscal audit conducted. The agreed upon procedures are dictated in NDCC § 15-69-05(2) and include the following tasks to be performed by auditors:

1. Verify disbursed award funds were received by the center or grant recipient;
2. Determine that interest earned on award proceeds was retained by the center or grant recipient;
3. Review the Matching Cash Contributions, Matching Contributions in Lieu of Cash (Cash Reserved), and Matching In-Kind Contributions reported in the Functional Review and trace them to supporting documentation and/or accounting records;
4. Verify compliance the Centers of Excellence program matching funds requirements;
5. Review the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash (Cash Reserved), and Leveraged In-Kind Contributions reported in the Functional Review and trace them to supporting documentation and/or accounting records;
6. Review the private-sector and private-sector equivalent job creation reported in the Functional Review and trace each position to supporting documentation. Verify that each job meets the qualifying criteria identified in the Functional Review;
7. Review a sample of expenditures to verify compliance the NDCC 15-69-05.1 (use of funds);
8. Review a sample of expenditures to verify expenses were approved, supported with documentation, and spent according to the scope identified in the application for funding;
9. Verify a sample of labor charged to the grant and trace it to supporting effort-reporting documentation;
10. Review the center's or grant recipient's actual expenditures of award funds and compare them to the center's or grant recipient's application budget, including documentation explaining any material differences;

11. Verify the center or grant recipient complied with the timeline as provided under the center's or grant recipient's application and any authorized revisions;
12. Verify the center or grant recipient complied with the scope of activities as provided under the center's or grant recipient's application and any authorized revisions.

What follows is a summary of the results from the agreed upon procedures engagements and fiscal audits that were conducted for the Centers of Excellence and Centers of Excellence Enhancement Grants that had been funded prior to June 30, 2011.

NDSU Center for Advanced Electronics Design and Manufacturing

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

Financial Audit

Eide Bailly, LLP performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

LRSC Dakota Precision Ag Center

Agreed Upon Procedures

Brady Martz performed the third-party review. The following findings were identified:

Finding 1:

The center's functional review reported that \$113,915 of leveraged cash contributions were received during the fiscal year ended June 30, 2011. However, only \$24,839 of this total was actually received. The data reported in the functional review was completely based on requests for reimbursement rather than actual receipts.

Center Response:

Agreed, the amounts in question should have been listed in the "Total Amount Pledged" column. We will thoroughly review data entered in the ensuing functional review to ensure information is correct and accurate and all reporting requirements have been met.

Commerce Response:

The error was administrative in nature. The center has submitted a revised functional review reflecting the amount of leveraged cash contributions actually received during the reporting timeframe.

Finding 2:

Expenditures charged to COE award funds should be spent on expenditures that would not normally be paid out of other funds. During testing of expenditures, it was noted that Rotary Club dues in the amount of \$620 were charged to the grant. These expenditures had been paid personally prior to the grant.

Center Response:

Nearly all of our economic and product development linkage from 2006-2010 was to regional ND, multi-state, and national entities. As we began to source more of our agricultural equipment components from electronic, agriculture equipment, and fabrication businesses within the Devils Lake region, Rotary was a logical mechanism for further product development outreach on a more local level. It didn't seem proper to continue having the employee pay the dues himself when he was using the connections for purposes of meeting the grant objectives.

College Response:

The auditor's recommendation in the AUP Report is based on his misinterpretation or, at best, a loose interpretation of what it means to "supplant funding." The fact that Dr. Gunderson had been personally funding his membership in the Rotary Club prior to his employment as COE Director at LRSC has nothing to do with the operation of the institution and, therefore, has nothing to do with "supplanting." The COE needed to enhance its outreach capacity through local business connections; it was only natural that our COE would fund a membership in an organization that could provide those local business connections. COE funding of Dr. Gunderson's Rotary Club membership is a legitimate business expense and was not supplanting anything in LRSC's current operations.

Someone recently provided an excellent analogy: "I travel to Grand Forks occasionally for personal reasons. My boss now asks me to go to Grand Forks for a business meeting related to the college. He doesn't believe I should be reimbursed for the business trip because I'm already accustomed to personally paying for my trips to Grand Forks." I believe this is a pretty accurate analogy to the situation promoted by the audit recommendation.

LRSC disagrees with the Finding #7 in the AUP Report.

Commerce Response:

Commerce agrees with the finding. Because the Rotary Club dues were previously paid from another source, using COE award funds to now pay the dues represents supplanting of funding for current operations which is a disallowed use of funds as per NDCC 15-69-05.1 (use of funds).

Commerce also questions whether using COE award funds to pay local club dues, regardless of the supplanting issue, is an appropriate use of award funds. It should also be noted that this expenditure does not appear consistent with the budget that was submitted for the project.

Lake Region State College has credited the \$620 back to the grant. The funds may be redeployed in ways that are consistent with program requirements and the scope of the project.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of the center's first COE award. No negative findings or questioned expenditures were identified. The questioned expenditure identified above was made under the center's second COE award, which was not within the scope of this audit.

UND – EERC National Center for Hydrogen Technology

Agreed Upon Procedures

Brady, Martz, & Associates, P.C. performed the third-party review. One finding was noted against the center. Only \$831,689 of the \$2,681,941 leveraged cash reported in the functional review was actually received during the past fiscal year.

Our follow up with the center found the mistake to be administrative in nature and the result of a new individual handling some of the reporting duties. The leveraged cash was reported on an accrual basis. Under COE, only matching and leveraged funds that have been received are to be reported.

The center has submitted a revised version of its functional review in which the amount of leveraged cash reported was amended to reflect only cash received during the reporting timeframe.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified. This will be the only financial audit required of the center since all of its COE award funds have been expended.

BSC National Energy Center of Excellence

Agreed Upon Procedures

Eide Bailly performed the third-party review. No negative findings were identified.

Financial Audit

The center contracted with Eide Bailly to perform a financial audit of all COE award funds. No negative findings or questioned expenditures were identified. This will be the only financial audit required of the center since all of its COE award funds have been expended.

NDSU Center for Surface Protection

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

Financial Audit

Eide Bailly, LLP performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

NDSU Center of Excellence for Agbiotechnology: Oilseed Development

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

Financial Audit

Eide Bailly, LLP performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

VCSU Enterprise University

Agreed Upon Procedures

Widmer Roel P.C. performed the third-party review. No negative findings were noted.

Financial Audit

The center contracted Widmer Roel P.C. to perform a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

WSC Petroleum Safety and Technology Center

Agreed Upon Procedures

The Commission approved the center's request to forgo the agreed upon procedures engagement for the fiscal year ended June 30, 2011. The center remains in compliance with state law because it did have a financial audit completed for the fiscal year ended June 30, 2011.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

UND Unmanned Aircraft Systems Center of Excellence

Agreed Upon Procedures

Brady Martz performed the third-party review. The following findings were identified:

Finding 1:

It was noted that matching cash contributions of \$3,420,741 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$2,261,868 and were traced to supporting documentation.

Center Response:

Agree. The center will thoroughly review data entered in the functional review to ensure information is correct and accurate and all reporting requirements have been met.

Commerce Response:

The center has submitted a revised functional review reflecting only matching cash contributions that have been received.

Finding 2:

It was noted that leveraged cash contributions of \$246,659 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$224,790 and were traced to supporting documentation.

Center Response:

Agree. The center will thoroughly review data entered in the functional review to ensure information is correct and accurate and all reporting requirements have been met.

Commerce Response:

The center has submitted a revised functional review reflecting only leveraged cash contributions that have been received.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

DSU Strom Center for Entrepreneurship and Innovation – Institute for Technology and Business

Agreed Upon Procedures

Roene J. Hulsing, CPA performed the third party review. No negative findings were identified.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of all COE award funds. The following findings were identified:

Finding 1:

In accordance with DSU record retention policy; supporting documentation for the expenditures totaling \$68,536 from October 5, 2006 (inception) through June 30, 2007 was destroyed. The auditors were unable to perform alternative procedures on these expenditures to determine whether the \$68,536 of expenditures were allowable under the grant.

Center Response:

The center completed the required functional review annually since its inception. Therefore the expenditures in question have been through a functional review. Legislative action in the spring of 2011 mandated the additional financial audit after the records in question had already been destroyed following our records retention policy. Had we known the financial audit was to be performed retroactively back to the inception of the center, the records retention policy could have been changed to accommodate the financial audit.

Commerce Response:

An agreed upon procedures engagement was completed by an independent third party CPA firm in October 2007 for the time period of grant inception through June 30, 2007. As part of such, the auditors reviewed a sample of expenditures testing for noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation, and spent according to the purposes identified in the application for funding. A sample of labor charged to the grant was also reviewed. In each instance, no findings or corrective actions were identified.

The results of the agreed upon procedures engagement provide confidence that expenditures of award funds during the stated time period were appropriate. It should be noted, however, that the auditors tested a sampling of expenditures and did not perform an exhaustive review of all expenditures.

Finding 2:

Four expenditures totaling \$132,320 were made to DSU for tuition and fees. Per the 2007 version of the NDCC 15-69-05, "a center awarded funds under this chapter may not use the funds to supplant funding for current operations or academic instruction or to pay indirect costs."

Center Response:

DSU concurs. Since being made aware of this instance of non-compliance, DSU discontinued the practice of providing leadership training to KMM employees utilizing COE funds to pay the tuition and fee costs associated with those courses after spring semester 2009.

Commerce Response:

This was examined during the recent performance audit by the State Auditor's Office. The center agreed to discontinue this type of expenditure using COE award funds. None of the four identified expenditures occurred after spring 2009 indicating the center has complied.

UND Research Foundation Center of Excellence in Life Sciences and Advanced Technologies

Agreed Upon Procedures

Brady, Martz & Associates, P.C. performed the third-party review. No negative findings were identified.

Financial Audit

Baker Tilly Virchow Krause, LLP performed the third-party review. The following findings were identified and are identical to two findings from the fiscal audit performed on the UNDRF's COE in Passive Therapeutics (see pages 10 and 11):

Finding 1:

Adjusting journal entries were identified that were material to the financial statements including a restatement of prior year net assets related to an error in net asset classification. In addition, the Foundation has not documented controls over significant transaction cycles such as payroll, disbursements, receipts, and financial reporting.

Recommendation:

We recommend the UNDRF develop an action plan to ensure that all material year-end adjustments are recorded by Foundation staff prior to audit fieldwork and prepare documentation of key controls over significant transaction cycles such as payroll, disbursements, receipts, and financial reporting.

Center Response:

In response to the 2010 audit, it was management's decision to contract with an independent accounting firm to assist in determining required entries. The UNDRF will continue to work toward having all entries made when it becomes cost effective to do so with qualified staff.

Finding 2:

The UNDRF operates its accounting and reporting function with a limited number of individuals. This precludes a proper segregation of duties over receipts, payroll, disbursements, and financial reporting. The UNDRF has several compensating controls in place to address the lack of segregation of duties; however, they are not sufficient to eliminate the risk of misstatement.

Recommendation:

It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in those charged with governance's knowledge and monitoring of matters relating to the UNDRF's affairs. The UNDRF should also review the internal control processes and determine whether job responsibilities (including backup

responsibilities) and general ledger access can be modified to ensure adequate separation of duties exists in all key processes.

Center Response:

Current management is aware that the limited number of individuals is not desirable from an internal control point of view. Because of this awareness, the UNDRF did contract with an independent accounting firm to assist management in processing its financial transactions. In addition, the current management is attempting to mitigate internal control concerns to the extent possible; i.e. receipt of accounts payable and preparation of vouchers is separate from the review and approval of vouchers; the duties are then separated again when checks are signed by one of the two board members that have signature authority. Management will implement other improvements when it becomes cost effective.

Commerce Response to Findings 1 & 2: Due to budgetary constraints, the UNDRF is forced to operate with a lean staff. The weakness in internal control over financial reporting is a direct result of operating with too lean of a staff.

NDSU Center for Biopharmaceutical Research and Production

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

Financial Audit

Eide Bailly, LLP performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

NDSU Center for Integrated Electronic Systems

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

Financial Audit

Eide Bailly, LLP performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

UND Research Foundation Center of Excellence for Passive Therapeutics

Agreed Upon Procedures

Baker Tilly Virchow Krause, LLP performed the third-party review. The following findings were identified:

Finding 1:

The UNDRF did not maintain effort-reporting documentation for two of three employees with salary and benefits charged to the grant that were tested. No specific questioned expenditures were identified, however total salary and benefits for the individuals allocated to the grant without effort-reporting were \$32,338.

Center Response:

One effort certification was completed during the Fiscal Year 2011 to account for one employee. As part of the payroll process and documentation, a process and schedule has been implemented for the Fiscal Year 2012 to ensure timely completion of personnel activity reports.

Commerce Response:

Our follow up with the center indicates that appropriate policies have been put in place to ensure effort-reporting documentation is completed and retained. Labor charged to the grant will continue to be tested in future agreed upon procedures engagements.

Finding 2:

The actual expenditures of COE award funds for year 2, per the financial audit, is \$144,348. The expenditures reported on the functional review for year 2 were \$209,323. It appears the functional review expenditures were reported through July 31, 2011. We did not investigate the difference. Material differences between actual and budgeted expenditures were explained in the narrative to Objective #7 of the functional review.

Center Response:

Actual expenditures for the financial audit were for the time period of 7/1/10 to 6/30/11; the expenditures reported on the functional review were for 7/1/10 to 7/31/11. It should be noted that additional personnel was hired at the end of June, 2011, which would account for additional salary and fringe expense incurred during that short period of time.

Commerce Response:

Our follow up with the center indicates the mistake in reporting timeframes was an administrative oversight.

Financial Audit

Baker Tilly Virchow Krause, LLP performed the third-party review. The following findings were identified:

Finding 1:

Adjusting journal entries were identified that were material to the financial statements including a restatement of prior year net assets related to an error in net asset classification. In addition, the

UNDRF has not documented controls over significant transaction cycles such as payroll, disbursements, receipts, and financial reporting.

Recommendation:

We recommend the UNDRF develop an action plan to ensure that all material year-end adjustments are recorded by UNDRF staff prior to audit fieldwork and prepare documentation of key controls over significant transaction cycles such as payroll, disbursements, receipts, and financial reporting.

Center Response:

In response to the 2010 audit, it was management's decision to contract with an independent accounting firm to assist in determining required entries. The UNDRF will continue to work toward having all entries made when it becomes cost effective to do so with qualified staff.

Finding 2:

The UNDRF operates its accounting and reporting function with a limited number of individuals which precludes a proper segregation of duties over receipts, payroll, disbursements, and financial reporting. The UNDRF has several compensating controls in place to address the lack of segregation of duties; however, they are not sufficient to eliminate the risk of misstatement.

Recommendation:

It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in those charged with governance's knowledge and monitoring of matters relating to the UNDRF's affairs. The UNDRF should also review the internal control processes and determine whether job responsibilities (including backup responsibilities) and general ledger access can be modified to ensure adequate separation of duties exists in all key processes.

Center Response:

Current management is aware that the limited number of individuals is not desirable from an internal control point of view. Because of this awareness, the UNDRF did contract with an independent accounting firm to assist management in processing its financial transactions. In addition, the current management is attempting to mitigate internal control concerns to the extent possible; i.e. receipt of accounts payable and preparation of vouchers is separate from the review and approval of vouchers; the duties are then separated again when checks are signed by one of the two board members that have signature authority. Management will implement other improvements when it becomes cost effective.

Commerce Response to Findings 1 & 2:

Due to budgetary constraints, the UNDRF is forced to operate with a lean staff. The weakness in internal control over financial reporting is a direct result of operating with too lean of a staff.

Finding 3:

Labor for five employees was charged to the grant in the year ended June 30, 2011. The wage rates and benefits were traced to supporting documentation. The UNDRF did not maintain effort-reporting documentation for two of the five employees with salary and benefits charged to the grant. No specific questioned costs were identified, however total salary and benefits for the individuals allocated to the grant without effort-reporting were \$20,393.

Recommendation:

We recommend the UNDRF implement procedures to ensure wages and benefits charged to the grant are supported by adequate certifications or time records as required by the COE.

Center Response:

Three effort certifications were completed during the 2011 fiscal year to account for \$40,039 in salary and fringe benefits. As part of the payroll process and documentation, a process and schedule has been implemented for the fiscal year 2012 to ensure timely completion of personnel activity reports.

Commerce Response:

Our follow up with the center indicates that appropriate policies have been put in place to ensure effort-reporting documentation is completed and retained. Labor charged to the grant will continue to be tested in future agreed upon procedures engagements and will also be reviewed in the second financial audit of the center to be completed once all of its COE award funds are expended.

Finding 4:

COE grant funds have been received from Commerce before related COE expenditures have been made. The excess of funds received over expenditures made should be the amount of cash on hand for future COE expenditures. At June 30, 2011, there should be \$835,560 of cash on hand for future COE expenditures; however there was a deficiency of \$19,302 of COE cash on hand. This means COE grant funds have been temporarily used for non-COE expenditures. No specific questioned costs have been identified; however \$19,302 of COE grant awards is temporarily being used for operating costs.

Recommendation:

We recommend the UNDRF implement procedures to ensure COE cash is not used on a temporary basis for operating costs.

Center Response:

Management acknowledged the cash flow situation in fiscal year 2011. Changes in leadership occurred during fiscal year 2011 and the accounting system was changed. There is cash on hand; procedures are evolving and being implemented to ensure the funds are appropriately expended.

Commerce Response:

Updated financial statements have been obtained from the UNDRF indicating the appropriate amount of cash is on hand. Although the matter appears to be resolved, testing will reoccur in future audits.

UND Center of Excellence in Space Technology and Operations

Agreed Upon Procedures

Brady, Martz & Associates performed the third-party review. No negative findings were identified.

Financial Audit

Brady, Martz & Associates performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

UND Petroleum Research, Education, and Entrepreneurship Center of Excellence

Agreed Upon Procedures

Brady, Martz & Associates performed the third-party review. One finding was noted. The center reported in its functional review a \$68,524 matching contribution that cannot be considered due to the source of funding.

The center concurred with the finding and submitted a revised functional review that did not include the unallowable matching contribution.

Financial Audit

Brady, Martz & Associates performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

UND SUNRISE BioProducts Center of Excellence for Chemicals, Polymers, and Composites from Crop Oils

Agreed Upon Procedures

Brady, Martz & Associates, P.C. performed the third-party review. No negative findings were identified.

Financial Audit

Brady, Martz & Associates, P.C. performed a financial audit of all COE award funds. No negative findings or questioned expenditures were identified.

NDSU Center Sensors, Communications, & Control

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

DCB Entrepreneurial Center for Horticulture

Agreed Upon Procedures

Brady, Martz & Associates, P.C. performed the third-party review. No negative findings were identified.

UND Center for UAS Research, Education and Training Enhancement Grant

Agreed Upon Procedures

Brady Martz performed the third-party review. The following findings were identified:

Finding 1:

It was noted that during the review of expenditures that a charge of \$259.92 was not related to the COE grant. A mistake was made on the general ledger coding this specific expenditure to the COE grant.

Center Response:

Agree. This expense was direct billed to the incorrect sponsored fund. The center will follow the University's accounting process to remove this charge. All prior and future expenditures will be extensively reviewed by the center to ensure proper allocation.

Commerce Response:

Commerce has obtained documentation from the center showing that \$241.56 has been credited back to the grant. The remaining \$18.36 was applicable to the grant so that portion remained charged to the grant.

Findings 2 & 3:

Two additional findings were noted on matching cash and leveraged cash received. These findings relate to UND's two original UAS grants (totaling \$2.5 million) under the regular COE program and are detailed on page 6. No matching cash or leveraged cash has been received under this Enhancement Grant

NDSU Research 1 Expansion

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.

UND North Dakota UAS Airspace Initiative

Agreed Upon Procedures

Brady, Martz & Associates, P.C. performed the third-party review. No negative findings were noted.

UND UAS Software and Curriculum Development

Agreed Upon Procedures

Brady Martz performed the third-party review and noted two findings on matching cash and leveraged cash received. These findings relate to UND's two original UAS grants (totaling \$2.5 million) under the regular COE program and are detailed on page 6. No matching cash or leveraged cash has been received under this Enhancement Grant.

UND Center for Innovation Foundation – Certificate Programs for Full Motion Video and Activity-Based Intelligence Analysis

Agreed Upon Procedures

Drees, Risky & Vallager, Ltd. performed the third-party review. The following findings were identified:

Finding 1:

A listing of leveraged funds received by the Center was included in the functional review report under objective five, including cash and in-kind contributions. The in-kind contributions were misclassified and should be included as cash contributions. In addition, the in kind contribution includes an amount of \$20,217.46 of which \$3,087.96 was also included as expenditures charged against the grant funds.

Center Response:

Agree. When future Functional Review reports are completed, additional care will be taken to avoid inadvertent posting mistakes to properly classify leveraged funds by source. Additionally, the center will have the report reviewed by another person who is knowledgeable in the reporting requirements prior to submission to ensure no expenses are claimed in more than one area and to correct any other errors that may be identified.

Finding 2:

The functional review, under objective three includes a listing of three employment opportunities that were created for the period, one full job and two half jobs created. The Centers' supporting documentation for the two half jobs are not considered adequate to support these as jobs created.

Center Response:

Agree. Future documentation of job creation for future Functional Reviews will include documentation of job creation such as H.R. records indicating a date of hire and rate of pay and our staff will consult with Commerce staff when clarification.

Commerce:

The center has provided additional documentation that has fulfilled the reporting requirements. The additional documentation will be attached to the center's Functional Review.

NDSU Materials and Nanotechnology Center

Agreed Upon Procedures

Eide Bailly, LLP performed the third-party review. No negative findings were identified.



Report on Agreed-Upon Procedures
June 30, 2011

The Bismarck State College Foundation



Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Specified Users of the Report:
The Bismarck State College Foundation
SBHE
ND Economic Development Foundation
ND Legislative Council
Bismarck, North Dakota

We have performed the procedures as enumerated in the accompanying description of procedures and findings which were agreed to by the specified users of the report, as identified above, to assist The Bismarck State College Foundation in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the year ended June 30, 2011. The Bismarck State College Foundation's management is responsible for the Foundation's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the accompanying Description of Procedures either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the accounts to which they pertained and our findings relative thereto are set forth in the accompanying description of procedures and findings which is an integral part of this report.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on The Bismarck State College Foundation's financial statements or accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than those specified parties.

Eide Bailly LLP

Bismarck, North Dakota
August 8, 2011

This section of the report describes the procedures that were performed and any findings resulting from the performing of those procedures.

1. Trace the amount of funding received from the disbursement letter the Foundation received from OMB to the receipt of funds in the Foundations' accounting.
 - There were no additional disbursements during the year in which procedures would have been performed.
2. Review the cash match declared in the application for Centers of Excellence funding and trace it to supporting documentation and the accounting records.
 - There were no additional contributions in the application of Centers of Excellence funding to which procedures would have applied to in the current year.
3. Review the Contributions in Lieu of Cash and In-Kind Contributions declared in the application for Centers of Excellence funding and trace to documentation supporting the value.
 - There were no additional contributions in lieu of cash or in-kind contributions to which procedures would have applied to in the current year.
4. Review the private sector jobs created and trace them to supporting documentation.
 - We reviewed the application section regarding the creation of private sector jobs with management. Per discussion with management, The Bismarck State College Energy Center of Excellence will not be creating specific private sector jobs, other than the construction jobs specifically created for constructing the Center. However, the energy industry and new plant construction is expecting major growth over the next few years and a large portion of the permanent positions that will be created are directly related to the training and education that will flow through the Bismarck State College Energy Center of Excellence. There were 4 jobs created internally as a result of the Center of Excellence. We applied procedures to obtain supporting documentation for this amount. As of the date of fieldwork, the BSC Foundation has not received any responses from their business partners regarding any new hires or positions created in their firms. As a result, this number may change as they continue to work with their partners regarding employment for the period.
5. Review supporting documentation to determine the interest earned on the award proceeds was retained by the Foundation.
 - There was no interest earned on award proceeds in the current year.
6. Review any additional expenditures to report any noted instances of noncompliance with NDCC 15-69-05.1 and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.
 - We did not note any additional expenditures to which procedures would have applied to in the current year.

7. Review any additional labor charges to the grant and trace it to supporting documentation.
 - We did not note any additional labor charges to which procedures would have applied to in the current year.
8. Review the timelines that were provided in the application and discuss the actual timeline with management to ensure the Foundation has properly disclosed material timeline changes.
 - We reviewed the timelines that were provided in the application and discussed the actual timeline with management to ensure the Foundation has properly disclosed material timeline changes. There were no material timeline changes from the application to actual progress.
9. Review the scope of the grant that was provided with the application and discuss the actual scope with management to ensure the Foundation has properly disclosed material scope changes.
 - We reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the Foundation has properly disclosed material scope changes. There were no material scope changes from the application to actual progress.
10. Compare the Center of Excellence application budget to the Center's actual expenditures, including documentation explaining any material differences.
 - We did not note significant deviations from the application budget to actual expenditures in the current year. No additional expenditures were incurred to which procedures would have applied to in the current year.



Independent Accountant's Report on
Applying Agreed Upon Procedures
June 30, 2011

North Dakota State University Centers of Excellence

North Dakota State University – Centers of Excellence
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Independent Accountant's Report on Applying Agreed Upon Procedures

North Dakota State University - Centers of Excellence
Fargo, North Dakota

Specified Users of this Report:

North Dakota State University - Centers of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures detailed on the following pages which were agreed to by the specific users of the report, as identified above, to assist the North Dakota State University Centers of Excellence ("COE") in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. This agreed-upon procedure engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described on the following pages either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
September 21, 2011

Procedures and Findings

These procedures and findings are reported on the following Centers of Excellence (“COE”):

- Surface Protection
- Advanced Electronics Design and Manufacturing
- AgBiotechnology
- Biopharmaceutical Research & Production
- Integrated Electronic Systems
- R1 Expansion
- Materials and Nanotechnology
- Advanced Technology Development & Commercialization
- Sensors, Communication & Control

As of and for the fiscal year ended June 30, 2011:

1. Verification of the accuracy of jobs data regarding jobs claimed created by the center, distinguishing between the creation of private sector jobs and jobs within the institution of higher education.

Procedures Performed – From the annual Functional Review, we reviewed the private sector jobs created and traced them to supporting documentation.

Findings – *None noted*

2. Verification of compliance with the centers of excellence program matching fund requirements.

Procedures Performed – From the annual Functional Review, we reviewed the Cash Match declared in application for COE funding and traced them to supporting documentation and to the accounting records.

Findings – *None noted*

3. Verification awarded center funds were used for authorized uses.

Procedures Performed – From the COE’s accounting records, we reviewed a selection of expenditures to report any noted instances of non-compliance with NDCC 15-69-05.1 (use of funds). For each COE grant we reviewed 40 expenditures, with the exception of the R1 Expansion, Materials and Nanotechnology, Advanced Technology Development & Commercialization, and Sensors, Communication & Control. The R1 Expansion, Materials and Nanotechnology had total expenditures of less than 40 for the year, and we tested the expenditures in their entirety. The Advanced Technology Development & Commercialization, and Sensors, Communication & Control had not incurred any expenditures as of June 30, 2011, therefore we did not review any expenditures. The selection of the expenditures reviewed included both payroll and non-payroll expenditures.

Findings – *None noted*

4. Verification the center complied with the center's application timeline and any authorized revisions.

Procedures Performed – From the annual Functional Review we reviewed the timeline of the grants that was provided with the application and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

Findings – *None noted*

5. Verification the center complied with the center's scope of activities as provided under the center's application and any authorized revisions.

Procedures Performed – From the annual Functional Review we reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the center has properly disclosed material scope changes.

Findings – *None noted*

6. Review of a sample of center expenditures to verify the expenses were approved, supported with documentation, and made in accordance with the scope identified in the center's application.

Procedures Performed – From the COE's accounting records, we reviewed a selection of expenditures to report any noted instances of non-compliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application. For each COE grant we reviewed 40 expenditures, with the exception of the R1 Expansion, Materials and Nanotechnology, Advanced Technology Development & Commercialization, and Sensors, Communication & Control. The R1 Expansion, Materials and Nanotechnology had total expenditures of less than 40 for the year, and we tested the expenditures in their entirety. The Advanced Technology Development & Commercialization, and Sensors, Communication & Control had not incurred any expenditures as of June 30, 2011, therefore we did not review any expenditures. The selection of the expenditures reviewed included both payroll and non-payroll expenditures.

Findings – *None noted*

7. Verification of a sample of labor charged to the center.

Procedures Performed – From the COE's accounting records, we reviewed a selection of labor charged to the grant and traced it to supporting effort-reporting documentation. As indicated in #3 and #6 for each COE grant we reviewed 40 expenditures, with the exception of the R1 Expansion, Materials and Nanotechnology, Advanced Technology Development & Commercialization, and Sensors, Communication & Control. The R1 Expansion, Materials and Nanotechnology had total expenditures of less than 40 for the year, and we tested the expenditures in their entirety. The Advanced Technology Development & Commercialization, and Sensors, Communication & Control had not incurred any expenditures as of June 30, 2011, therefore we did not review any expenditures. Also, the R1 Expansion was used solely for construction expenditures therefore we did not review any labor charges. The selection of the expenditures reviewed included both payroll and non-payroll expenditures.

Findings – *None noted*

8. Comparison of the center's application budget to the center's actual expenditures, including documentation explaining any material differences.

Procedures Performed – We reviewed the budget from the center and compared the budgeted figures to actual expenditures incurred by the center, and obtained documentation explaining any material differences.

Findings – *None noted*

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY®
(NCHT®) FACILITY
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

University of North Dakota EERC National Center for Hydrogen Technology® (NCHT®)
Facility Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota EERC National Center for Hydrogen Technology® (NCHT®) Facility Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota EERC National Center for Hydrogen Technology® (NCHT®) Facility Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted no receipts during the fiscal year ended June 30, 2011. All receipts were reviewed in prior years.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: Noted all funds were spent in prior years and thus no interest earned during fiscal year ended June 30, 2011.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind Contributions reported and traced them to supporting documentation.

Findings: No matching noted during fiscal year ended June 30, 2011 per Functional Review.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No matching noted during fiscal year ended June 30, 2011 per Functional Review.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that of the \$2,681,941 reported as Leveraged Cash Contributions during fiscal year ended June 30, 2011, that only \$831,689 of Leveraged Cash Contributions was received.

Cause: The Functional Review for Leveraged Cash Contributions was completed based on total contracted amounts rather than receipts during the fiscal year ended June 30, 2011.

Effect: The Functional Review reported excess Leveraged Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Leveraged Cash Contribution amounts listed in the Functional Review. The EERC will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No jobs created per Functional Review.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: All funds expended in prior years and thus this procedure was not applicable for fiscal year ended June 30, 2011.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: All funds expended in prior years and thus this procedure was not applicable for fiscal year ended June 30, 2011.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: All funds expended in prior years and thus this procedure was not applicable for fiscal year ended June 30, 2011.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

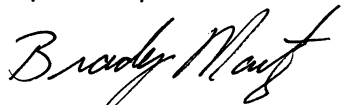
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brady Martz", written in a cursive style.

BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY OPTIMIZED AGRICULTURE
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

To the Specified Users of the Report:

Lake Region State College Dakota Center for Technology Optimized Agriculture Center of Excellence

SBHE

ND Economic Development Foundation

ND Legislative Council

We have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, to assist the Lake Region State College Dakota Center for Technology Optimized Agriculture Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the Lake Region State College Dakota Center for Technology Optimized Agriculture Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted no receipts for fiscal year ended June 30, 2011 per the Functional Review.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: All funds were expended in the prior year and thus no interest income during fiscal year ended June 30, 2011.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted per review of Functional Review that Matching In-Kind Contributions of \$282,404 were reported which were traced to supporting documentation. The Functional Review reported the activities of two projects, which for this purpose were tested as one.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted. The Functional Review reported the activities of two projects, which for this purpose were tested as one.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted per Functional Review that \$113,915 of Leveraged Cash Contributions was received during fiscal year ended June 30, 2011. However, only \$24,839 of this total was actually received.

Cause: The Functional Review for Leveraged Cash Contributions was completed based on requests for reimbursement rather than actual receipts.

Effect: The Functional Review reported excess Leveraged Cash Contributions received during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than requests for reimbursement.

Management's View and Corrective Action: We concur with the findings concerning the Leveraged Cash Contribution amounts listed in the Functional Review. The amounts in question should have been listed in the "Total Amount Pledged" column. We will thoroughly review data entered in the ensuing Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted. The Functional Review reported the activities of two projects, which for this purpose were tested as one.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were

approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



Brady, Martz and Associates, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES FOR THE
UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION
CENTER OF EXCELLENCE IN LIFE SCIENCES
AND ADVANCED TECHNOLOGIES**

June 30, 2011

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

Independent Accountant's Report on
Applying Agreed-Upon Procedures

To the Specified Users of the Report:
University of North Dakota Research Foundation
State Board of Higher Education
North Dakota Economic Development Foundation
North Dakota Legislative Council – Budget Section

We have performed the procedures enumerated below, which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota Research Foundation Center of Excellence in Life Sciences and Advanced Technologies in meeting its financial accountability requirements as prescribed by North Dakota Century Code (NDCC) 15-69-05 for the fiscal year ended June 30, 2011. Management of the University of North Dakota Research Foundation ("Foundation") is responsible for the Foundation's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures Performed:** From the disbursement letter the Foundation received from the Office of Management and Budget, traced the amount of funding to the receipt of funds in the Foundation's accounting records.

Findings: Not applicable. All funds were received in prior years.

2. **Procedures Performed:** From the Foundation's accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Foundation.

Findings: Not applicable. All proceeds were spent in prior years so there is no current year interest earned.

3. **Procedures Performed:** From the annual Functional Review, we reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash (Cash Reserved), and Matching In-Kind Contributions reported and traced them to supporting documentation and accounting records.

Findings: No findings noted. No matching contributions are reported for this period.

4. **Procedures Performed:** From the annual Functional Review, we reviewed current year match contributions to verify their compliance with NDCC 15-69-05 requirements (during the biennium in which the COE was approved).

Findings: No findings noted. No matching contributions are reported for this period.

5. **Procedures Performed:** From the annual Functional Review, we reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash (Cash Reserved), and Leveraged In-Kind Contributions reported and traced them to supporting documentation.

Findings: No findings noted.

6. **Procedures Performed:** From the annual Functional Review, we reviewed the private sector jobs created and traced them to supporting documentation and verified that each job meets the qualifying criteria identified in the functional review.

Findings: No findings noted. Management included in the Functional Review jobs created for two other businesses located within the REAC building. We were able to trace all of the jobs reported to emails received from the businesses reporting the jobs.

7. **Procedures Performed:** From the Foundation's accounting records, we reviewed a sample of expenditures to verify compliance with NDCC 15-69-05.1 (use of funds).

Findings: Not applicable. All proceeds were spent in prior years.

8. **Procedures Performed:** From the Foundation's accounting records, we reviewed a sample of expenditures to verify they were approved, supported with documentation, and spent according to the scope identified in the application for funding.

Findings: Not applicable. All proceeds were spent in prior years.

9. **Procedures Performed:** We reviewed a sample of labor charged to the grant and traced charges to supporting effort-reporting documentation.

Findings: Not applicable. There was no labor charged to this grant.

10. **Procedures Performed:** We reviewed the Foundation's actual expenditures and compared them to the COE application budget, including documentation explaining any material differences.

Findings: Not applicable. All proceeds were spent in prior years.

11. **Procedures Performed:** We verified the Foundation complied with the timeline in its COE application.

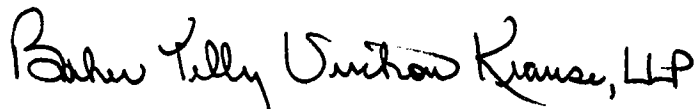
Findings: Not applicable to current reporting period as the project was completed in prior years.

12. **Procedures Performed:** We reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the Foundation has properly disclosed material scope changes in Objective #10 of the functional review.

Findings: No findings noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Baker Tilly Union Knause, LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
October 5, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

University of North Dakota UASs and Simulation Applications Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota UASs and Simulation Application Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota UASs and Simulation Applications Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted no receipts for fiscal year ended June 30, 2011 per the Functional Review.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that matching cash contributions of \$3,420,741 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$2,261,868 and were traced to supporting documentation.

Cause: The Functional Review for Matching Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Matching Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Matching Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted Leveraged In-Kind contributions of \$1,131,181 during fiscal year ended June 30, 2011, which were traced to supporting documentation. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that Leveraged Cash Contributions of \$246,659 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$224,790 and were traced to supporting documentation.

Cause: The Functional Review for Leveraged Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Leveraged Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Leveraged Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Finding

Criteria: All expenditures charged to the Center of Excellence projects should be in accordance to the purposes identified in the application for funding.

Condition: It was noted that during review of expenditures that a charge of \$259.92 was not related to the Center of Excellence grant.

Cause: A mistake was made on the general ledger coding this specific expenditure to the Center of Excellence grant.

Effect: The Functional Review included an unrelated expenditure of \$259.92 as being disbursed.

Recommendation: We recommend that all expenditures coded to the Center of Excellence grants be reviewed to ensure compliance with grant requirements.

Management's View and Corrective Action: We concur with the findings concerning the \$259.92 charge. This expense was direct billed to the incorrect sponsored fund. UAS will follow the University's accounting process to remove this charge. All prior and future expenditures will be extensively reviewed by UAS to ensure proper allocation.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Finding

Criteria: All expenditures charged to the Center of Excellence projects should be in accordance to the scope of the grant.

Condition: It was noted that during review of expenditures that a charge of \$259.92 was not related to the Center of Excellence grant.

Cause: A mistake was made on the general ledger coding this specific expenditure to the Center of Excellence grant.

Effect: The Functional Review included an unrelated expenditure of \$259.92 as being disbursed.

Recommendation: We recommend that all expenditures coded to the Center of Excellence grants be reviewed to ensure compliance with grant requirements.

Management's View and Corrective Action: We concur with the findings concerning the \$259.92 charge. This expense was direct billed to the incorrect sponsored fund. UAS will follow the University's accounting process to remove this charge. All prior and future expenditures will be extensively reviewed by UAS to ensure proper allocation.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

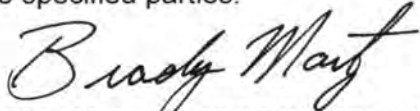
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

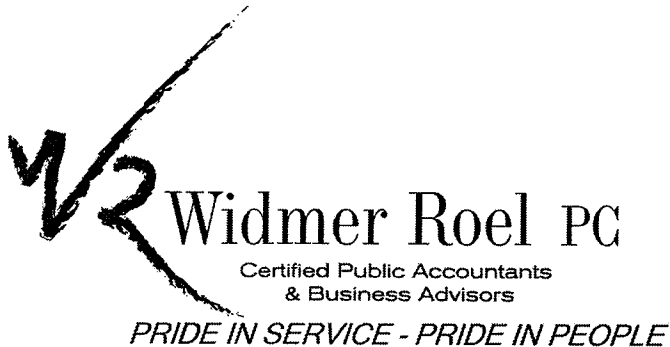


BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**VALLEY CITY STATE UNIVERSITY
ENTERPRISE UNIVERSITY
CENTER OF EXCELLENCE**

**REPORT APPLYING
AGREED-UPON PROCEDURES
JUNE 30, 2011**



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz
Tracee S. Buethner

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

Valley City State University Enterprise University Center of Excellence
State Board of Higher Education (SBHE)
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures enumerated below which were agreed to by the specified users of the report, as identified above, to assist the **Valley City State University Enterprise University Center of Excellence** ("Center") in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the **Valley City State University Enterprise University Center of Excellence** is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures Performed:** From the disbursement letter the Center received from Office of Management and Budget, we verified award funds disbursed were received by the Center or grant recipient.

Findings: No instances noted.

2. **Procedures Performed:** From the Center's accounting records, we reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Center.

Findings: No instances noted.



3. **Procedures Performed:** We verified compliance with the Centers of Excellence program matching funds requirements, a) Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No instances noted.

4. **Procedures Performed:** From the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash (Cash Reserved), and Leveraged In-kind Contributions reported in the Functional Review and trace them to supporting documentation and/or accounting records.

Findings: No instances noted.

5. **Procedures Performed:** We reviewed the private-sector and private sector equivalent job creation reported in the Functional Review and traced each position to supporting documentation. We verified that each job meets the qualifying criteria identified in the Functional Review:

- a) Private-sector equivalent jobs are defined as positions at the center and university or college that are not paid by state general funds.

Findings: No instances noted.

6. **Procedures Performed:** We reviewed a sample of expenditures to verify compliance with NDCC 15-69-05.1 (use of funds).

- a) The allowable and unallowable uses of funds identified in NDCC 15-69-01 have changed over time. Centers are accountable to the requirements specified in NDCC 15-69-05.1 during the biennium in which they were approved.

Findings: No instances noted.

7. **Procedures Performed:** We reviewed a sample of expenditures to verify expenses were approved, supported with documentation, and spent according to the scope identified in the application for funding.

Findings: No instances noted.

8. **Procedures Performed:** We reviewed a sample of labor charged to the grant and traced it to supporting effort-reporting documentation.

Findings: No instances noted.

9. **Procedures Performed:** We reviewed the Center's or grant recipient's actual expenditures of award funds and compared them to the Center's or grant recipient's application budget, including documentation explaining any material variances.

Findings: No instances noted. The COE Commission and DOC approved a timeline extension for the VCSU EU Center of Excellence. The extended timeline resulted in additional personnel costs including salary, benefits and travel beyond the original budgeted amounts. Prior to the beginning of fiscal year 2012, the DOC did not have a budget revision process; therefore the DOC did not require revision request from VCSU EU Center of Excellence for the period covered by this report.

10. **Procedures Performed:** We verified the Center or grant recipient complied with the timeline as provided under the Center or grant recipient's application and any authorized revisions.

Findings: No instances noted. Based on correspondence between COE and Department of Commerce (DOC), the remaining funds will be returned to the DOC once the final activities for the annual report and financial audit are completed in late 2011.

11. **Procedures Performed:** We verified the Center or grant recipient complied with the scope of activities as provided under the Center or grant recipient's application and any authorized revisions.

Findings: No instances noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

Widmer Roel PC

Widmer Roel PC
September 21, 2011

DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE

DICKINSON, NORTH DAKOTA

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2011

Roene J. Hulsing
Certified Public Accountant
Dickinson, North Dakota

Roene J. Hulsing
Certified Public Accountant

P.O. Box 187
Dickinson, ND 58602-0187
Phone: (701) 483-9697
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Roene J. Hulsing, CPA
Alisha M. Obrigewitch, CPA

404 2nd Ave. South
Hettinger, ND 58639
Phone: (701) 290-7972

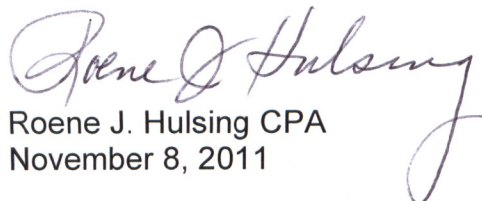
Independent Accountants' Report on Applying Agreed-Upon Procedures

To the Specified Users of the Report:
Dickinson State University Center of Excellence
State Board of Higher Education
North Dakota Economic Development Foundation
North Dakota Legislative Council

We have performed the procedures in Attachment A which were agreed to by the specified users of the report, as identified above, to assist the Dickinson State University Center of Excellence in meeting its financial accountability requirements as prescribed by the North Dakota Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the Dickinson State University Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.


Roene J. Hulsing CPA
November 8, 2011

Attachment A

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. Procedures Performed: From the disbursement letter the Center received from the Office of Management and Budget, we traced the amount of funding to the receipt of funds in the Center's accounting records.

Findings: No funding has been received since October 4, 2006, the initial start up of the Center of Excellence project.

2. Procedures Performed: From the annual Functional Review, we reviewed the Cash Match declared in application for COE funding and traced them to supporting documentation and to the accounting records.

Findings: We reviewed the annual Functional Review, the Cash Match declared in the Application for COE funding, and supporting documentation of pledges for the Center of Excellence. We also reviewed documentation found in the Dickinson State University Foundation, Inc.'s accounting records, recognizing these pledges as receivables. We found that Dickinson State University Foundation, Inc. recognizes the pledges through donor letters and keeps the funds designated in separate accounts. We found the criteria has been met, no corrective action is needed.

3. Procedures Performed: From the annual Functional Review, we reviewed the Contributions in Lieu of Cash and In-Kind Contributions declared in the application for COE funding and traced them to documents supporting the value.

Findings: In reviewing the annual Functional Review, we found that there were no Contributions in Lieu of Cash or In-Kind Contributions during the fiscal year ended June 30, 2011. We found the criteria has been met, no corrective action is needed.

4. Procedures Performed: From the annual Functional Review, we reviewed the private sector jobs created and traced them to supporting documentation.

Findings: We reviewed the annual Functional Review and supporting documentation of the jobs created by the Center of Excellence. We found in reviewing documentation that the center's efforts have helped Killdeer Mountain Manufacturing create 89 new jobs and Patriot Trucking create five new jobs during the last fiscal year ended June 30, 2011. This is in accordance with the total jobs created to date stated in the Functional Review. We found the criteria has been met, no corrective action is needed.

5. Procedures Performed: From the Center's accounting records, we reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Center.

Findings: We found in the Center's accounting records, supporting documentation that interest earned on the award in the amount of \$391.58 was allocated and retained by the center. We found the criteria has been met, no corrective action is needed.

6. Procedures Performed: From the Center's accounting records, we reviewed a sample of expenditures to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: We found in reviewing a sample of expenditures from the Center's accounting record, no instance of noncompliance with NDCC 15-69-05.1 (use of funds). We found the criteria has been met, no corrective action is needed.

7. Procedures Performed: We reviewed a sample of labor charged to the grant and traced it to supporting effort-reporting documentation.

Findings: We found, in reviewing a sample of labor charged to the grant, that it was in accordance with supporting effort-reporting documentation. We found the criteria has been met, no corrective action is needed.

8. Procedures Performed: We reviewed the timelines that were provided with the application and discussed the actual timeline with management to ensure the center has properly disclosed material scope changes in Objective #7 of the Functional Review.

Findings: In reviewing the timeline provided in the application and supporting documentation from management, we found that the awarded dollars will be expended sometime after the first of January, 2012. The original application had all dollars being spent by the end of June 2011; therefore, the project is close to the original timeline. We found the criteria has been met, no corrective action is needed.

9. Procedures Performed: We reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the center has properly disclosed material scope changes in Objective #10 of the Functional Review.

Findings: In reviewing the scope of the grant that was provided with the application and supporting documentation from management, we found no substantial variations that changed the scope, focus, direction, or outcome of this grant. The Center continues to focus the majority of its time and energy serving entrepreneurs and start-up and small businesses. We found the criteria has been met, no corrective action is needed.

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:
Sunrise BioProducts Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota Sunrise BioProducts Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota Sunrise BioProducts Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted deposits during fiscal year ended June 30, 2011 of \$937,912 of the \$1,921,245 reported on the Functional Review. The difference was reviewed in prior years.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted on the Functional Review during fiscal year ended June 30, 2011, that a cash match of \$80,000 was received which agreed to supporting documentation. Also noted Matching Cash Reserved funds of \$1,120,000 was received which was traced to letters from two companies indicating their intent to provide Matching Cash Reservations as included in the Functional Review.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted on the Functional Review during fiscal year ended June 30, 2011, that Leveraged Cash contributions of \$81,651 were received which agreed to supporting documentation.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant

expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

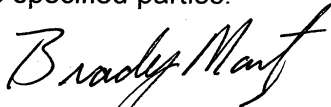
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
PETROLEUM RESEARCH, EDUCATION, AND ENTREPRENEURIAL
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

University of North Dakota

Petroleum Research, Education, and Entrepreneurial Center of Excellence

SBHE

ND Economic Development Foundation

ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota Petroleum Research, Education, and Entrepreneurial Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota Petroleum Research, Education, and Entrepreneurial Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted deposits during fiscal year ended June 30, 2011 of \$1,102,737 of the \$2,213,106 reported on the Functional Review. The difference was reviewed in prior years.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review information should be accurately completed from supporting information.

Condition: Noted during fiscal year ended June 30, 2011, the Center reported \$68,524 of a UND Faculty salary match of \$68,524 pledged. The total reported were paid out of a grant funded by Center of Excellence money and thus should not have been included. The Center prepared a corrected amount of \$66,700 taken from the proper related project not funded by Center of Excellence, which was traced to supporting information.

Cause: The amount used for salary matching were salaries actually paid from Center of Excellence money.

Effect: The Functional Review was not accurate for cash matching reporting.

Recommendation: We recommend management develop a procedure to reconcile and review all amounts reported on the Functional Review to detailed supporting records.

Management's View and Corrective Action: We concur with the findings concerning the UND Faculty salary match reported in the Functional Review. PREEC intended to report salary match from University of North Dakota department funds. The salary match is currently being tracked within the University system. PREEC will extensively review the data required in the Functional Review to ensure the appropriate information is provided and entered correctly for all future reporting.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted no current year leveraged contributions.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

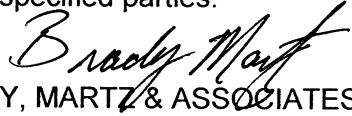
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We were not engaged to and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brady Martz". The signature is fluid and cursive, with the first name "Brady" and last name "Martz" clearly distinguishable.

BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES FOR THE
UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION
CENTER OF EXCELLENCE IN PASSIVE THERAPEUTICS**

June 30, 2011

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

Independent Accountant's Report on
Applying Agreed-Upon Procedures

To the Specified Users of the Report:
University of North Dakota Research Foundation
State Board of Higher Education
North Dakota Economic Development Foundation
North Dakota Legislative Council – Budget Section

We have performed the procedures enumerated below, which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota Research Foundation Center of Excellence in Passive Therapeutics in meeting its financial accountability requirements as prescribed by North Dakota Century Code (NDCC) 15-69-05 for the fiscal year ended June 30, 2011. Management of the University of North Dakota Research Foundation ("Foundation") is responsible for the Foundation's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures Performed:** From the disbursement letter the Foundation received from the North Dakota Department of Commerce, we traced the amount of funding to the receipt of funds in the Foundation's accounting records.

Findings: No findings noted.

2. **Procedures Performed:** From the Foundation's accounting records, we reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Foundation.

Findings: No findings noted. Interest earned will be used at end of project when other resources have been expended.

3. **Procedures Performed:** From the annual Functional Review, we reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash (Cash Reserved), and Matching In-Kind Contributions reported and traced them to supporting documentation and accounting records.

Findings: No findings noted.

4. **Procedures Performed:** From the annual Functional Review, we reviewed current year match contributions to verify their compliance with NDCC 15-69-05 requirements (during the biennium in which the COE was approved).

Findings: No findings noted.

5. **Procedures Performed:** From the annual Functional Review, we reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash (Cash Reserved), and Leveraged In-Kind Contributions reported and traced them to supporting documentation.

Findings: No findings noted. No leveraged contributions are reported for this period.

6. **Procedures Performed:** From the annual Functional Review, we reviewed the private sector jobs created and traced them to supporting documentation and verified that each job meets the qualifying criteria identified in the functional review.

Findings: No findings noted. Management included in the Functional Review jobs created for one business located within the REAC building. We were able to trace all of the jobs reported to an email received from the business reporting the jobs.

7. **Procedures Performed:** From the Foundation's accounting records, we reviewed 12 expenditures to verify compliance with NDCC 15-69-05.1 (use of funds).

Findings: No findings noted.

8. **Procedures Performed:** From the Foundation's accounting records, we reviewed 12 expenditures to verify they were approved, supported with documentation, and spent according to the scope identified in the application for funding.

Findings: No findings noted.

9. **Procedures Performed:** We reviewed a sample of labor charged to the grant and traced charges to supporting effort-reporting documentation.

Findings: Labor for 3 employees was charged to the grant in the year ended June 30, 2011. The wage rates and benefits were traced to supporting documentation. The Foundation did not maintain effort-reporting documentation for two of the three employees with salary and benefits charged to the grant.

Criteria: The COE program requires effort reporting. Labor charged to the grant should be supported by adequate documentation such as certifications or time records.

Condition: The Foundation did not maintain effort-reporting documentation.

Cause: The Foundation experienced significant turnover in management and accounting staff during the year.

Effect: The payroll amounts charged to the program may not be for personnel that worked on the grant program.

Questioned Costs: No specific questioned costs have been identified, however total salary and benefits for the individuals allocated to the grant without effort-reporting were \$32,338.

Recommendation: We recommend the Foundation implement procedures to ensure wages and benefits charged to the grant are supported by adequate certifications or time records as required by the COE.

Management's Response: One effort certification was completed during the 2011 FY to account for \$28,093.28 in salary and fringe for Bernadette Meberg. As part of the payroll process and documentation, a process and schedule has been implemented for the FY2012 to ensure timely completion of personnel activity reports.

10. **Procedures Performed:** We reviewed the Foundation's actual expenditures of award funds and compared them to the COE application budget, including documentation explaining any material differences.

Findings: Actual expenditures per the financial audit were \$144,348. The expenditures reported on the functional review for year 2 were \$209,323. It appears the functional review expenditures were reported through July 31, 2011. We did not investigate the difference. Material differences between actual and budget were explained in the narrative to Objective #7.

Criteria: The COE functional review, Objective #7 requires actual expenditures for the reporting period to be compared to the budget.

Condition: Expenditures per the financial audit do not agree to the functional review.

Cause: Unknown.

Effect: The amounts reported could be inaccurate.

Questioned Costs: N/A

Recommendation: We recommend the Foundation ensures the amounts reported agree to financial records for the reporting period.

Management's Response: Actual expenditures for the financial audit were for the time period of 7/1/10 to 6/30/11; the expenditures reported on the functional review were for 7/1/10 - 7/31/11. It should be noted that additional personnel was hired at the end of June, 2011, which would account for additional salary and fringe expense incurred during that short period of time.

11. **Procedures Performed:** We reviewed the timelines that were provided with the application and authorized revisions and discussed the actual timeline with management to ensure the Foundation has properly disclosed material timeline changes in Objective #7 of the Functional Review.

Findings: No findings noted.

12. **Procedures Performed:** We reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the Foundation has properly disclosed material scope changes in Objective #10 of the functional review.

Findings: No findings noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Vinchow Krause, LLP

Minneapolis, Minnesota
October 7, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

University of North Dakota Space Technology and Operations Center of Excellence
SBHE

ND Economic Development Foundation
ND Legislative Council

We have performed the procedures in Attachment A which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota Space Technology and Operations Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota Space Technology and Operations Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted no current year receipts. All funds reported on Functional Review as Disbursed to Center were reviewed in prior years.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Findings: No Matching contributions noted on Functional Review.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No Matching contributions noted on Functional Review.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: No Leveraged contributions noted on Functional Review.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

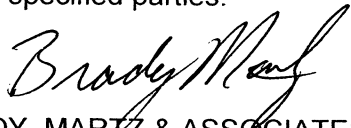
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

Dakota College at Bottineau Center of Excellence
The Centers of Excellence Commission
ND Department of Commerce
ND Economic Development Foundation
State Board of Higher Education

We have performed the procedures enumerated below, which were agreed to by the specified users of the report, as identified above, to assist the Dakota College at Bottineau Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05 for the fiscal year ended June 30, 2011. Management of the Dakota College at Bottineau Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011, our procedures and findings are as follows:

1. **Procedures Performed:** From the disbursement letter the center received from the ND Department of Commerce, we traced the amount of funding to the receipt of funds in the Center's accounting records.

Findings: There was no receipt of funds in the current fiscal year. The total amount of the awards as presented in the Functional Review report is appropriately stated.

2. **Procedures Performed:** From the Center's accounting records and bank statements, we determined that any interest earned on award proceeds was retained by the center.

Findings: There was no receipt of funds in the current fiscal year. Therefore, no interest was earned on these funds.

3. **Procedures Performed:** From the annual Functional Review, we reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash (Cash Reserved), and Matching In-Kind Contributions declared in the application for Center of Excellence funding and traced them to supporting documentation and to the accounting records.

Findings: As this is the first year that these agreed-upon procedures have been performed, all current and prior year cash matching contributions disclosed in the functional review were reviewed and supported by adequate documentation in the form of letters or signed verifications from donors. We also traced all received funds into the accounting records without exception. The total matching funds agree with the application amount, with the exception of the \$15,000 from financial lending institutions, which was included on the application but previously determined to be excluded from matching funds due to the fact that it was received prior to the approval date of the Center.

4. **Procedures Performed:** From the annual Functional Review, we reviewed the Matching Contributions declared in the application and verified compliance with the Centers of Excellence program matching funds requirements.

Findings: Because no funds were disbursed until subsequent to June 30, 2011, the matching requirements do not apply to the year under review.

5. **Procedures Performed:** We reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash (Cash Reserved), and Leveraged In-Kind Contributions reported in the Functional Review and traced them to supporting documentation and to the accounting records.

Findings: Supporting documentation in the form of letters from donors was present for all leveraged funds. We also traced all receipts to the accounting records without exception.

6. **Procedures Performed:** From the annual Functional Review, we reviewed the private sector jobs created, traced them to supporting documentation, and verified that qualifying criteria identified in the Functional Review was met.

Findings: Supporting documentation in the form of a letter from Dakota Star Farms was present for the jobs created as presented in the Functional Review report. The letter verified the number of jobs created and wages paid to each employee as well as the fact that all jobs were attributable to the efforts of the center, that the jobs are located in North Dakota, and that the jobs existed as of June 30, 2011. We also confirmed with Dakota Star Farms that wages paid are not funded by state general fund dollars.

7. **Procedures Performed:** From the Center's accounting records, a sample of expenditures were to be reviewed in order to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation, and spent according to the purposes identified in the application for funding.

Findings: There were no expenditures of Center of Excellence grant funds in the current fiscal year as the funds were not received before June 30, 2011. Therefore, a sample of expenditures could not be obtained, and the procedure was not performed for the current year.

8. **Procedures Performed:** From the Center's accounting records, a sample of expenditures were to be reviewed in order to verify that expenses were approved, supported with documentation, and spent according to the scope identified in the application for funding.

Findings: There were no expenditures of Center of Excellence grant funds in the current fiscal year as the funds were not received before June 30, 2011. Therefore, a sample of expenditures could not be obtained, and the procedure was not performed for the current year.

9. **Procedures Performed:** A sample of labor charged to the grant was to be reviewed and traced to supporting effort-reporting documentation.

Findings: There were no labor expenditures of Center of Excellence grant funds in the current fiscal year as the funds were not received before June 30, 2011. Therefore, a sample of labor expenditures could not be obtained, and the procedure was not performed for the current year.

10. **Procedure Performed:** Actual expenditures of award funds were to be reviewed and compared with the Center's application budget, including documentation explaining any material differences.

Findings: There were no expenditures in the current fiscal year as the funds were not received before June 30, 2011. Also, the first year of the budget begins in the next fiscal year. Therefore, a sample of expenditures could not be obtained, and the procedure was not performed for the current year.

11. **Procedure Performed:** We reviewed the timelines that were provided with the application and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes in Objective #7 of the Functional Review.

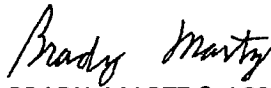
Findings: The timeline and changes appear properly presented in the Functional Review report.

12. **Procedures Performed:** We reviewed the scope of the grant that was provided with the application and discussed the actual scope with management to ensure the center has properly disclosed material scope changes in Objective #10 of the Functional Review.

Findings: The material scope changes in Objective #10 of the Functional Review appear to be in line with the anticipated scope as noted in the application and the actual scope as noted through discussions with management.

We were not engaged to and did not conduct an examination, the objectives of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of specified users, as identified above, and is not intended to be and should not be used by anyone other than those specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 12, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
UAS RESEARCH, EDUCATION, AND TRAINING ENHANCEMENT
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:
University of North Dakota UAS Research, Education, and Training Enhancement
Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota UAS Research, Education, and Training Enhancement Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota UAS Research, Education, and Training Enhancement's Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted no receipts for fiscal year ended June 30, 2011 per the Functional Review.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that matching cash contributions of \$3,420,741 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$2,245,598 and were traced to supporting documentation.

Cause: The Functional Review for Matching Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Matching Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Matching Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted Leveraged In-Kind contributions of \$1,131,181 during fiscal year ended June 30, 2011, which were traced to supporting documentation. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that Leveraged Cash Contributions of \$246,659 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$289,143 and were traced to supporting documentation.

Cause: The Functional Review for Leveraged Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Leveraged Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Leveraged Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: Noted no labor charged during fiscal year ended June 30, 2011 and thus not applicable.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

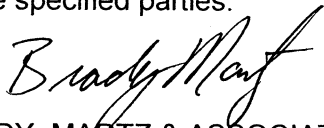
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
UAS AIRSPACE INITIATIVE
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:
University of North Dakota UAS Airspace Initiative Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota UAS Airspace Initiative Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota UAS Airspace Initiative Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted deposits during fiscal year ended June 30, 2011 of \$100,000 of the \$100,000 reported on the Functional Review.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Findings: This is an Enhancement Grant and thus matching is not applicable.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: This is an Enhancement Grant and thus matching is not applicable.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted Leveraged In-Kind contributions of \$8,016 on the Functional Review for the fiscal year ended June 30, 2011, which was traced to supporting documentation.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No jobs reported on Functional Review and thus not applicable.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No labor charged to this project and thus not applicable.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

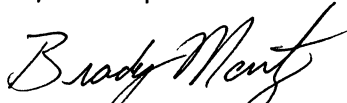
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES
FOR THE UNIVERSITY OF NORTH DAKOTA
UAS SOFTWARE AND CURRICULUM DEVELOPMENT
CENTER OF EXCELLENCE**

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Specified Users of the Report:

University of North Dakota UAS Software and Curriculum Development Center of Excellence
SBHE
ND Economic Development Foundation
ND Legislative Council

We have performed the procedures as listed below which were agreed to by the specified users of the report, as identified above, to assist the University of North Dakota UAS Software and Curriculum Development Center of Excellence in meeting its financial accountability requirements as prescribed by ND Century Code 15-69-05.2 for the fiscal year ended June 30, 2011. Management of the University of North Dakota UAS Software and Curriculum Developments Center of Excellence is responsible for the Center's financial accountability and its compliance with those legal and contractual requirements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and fieldwork and reporting standards applicable to attestation engagements as contained in *Government Auditing Standards* of the Comptroller General of the United States of America. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As of and for the fiscal year ended June 30, 2011:

1. **Procedures performed:** From the disbursement letter the Centers received from OMB and the ND Department of Commerce, traced the amount of funding to the receipt of funds in the Centers' accounting records.

Findings: Noted deposits during fiscal year ended June 30, 2011 of \$600,000 of the \$600,000 reported on the Functional Review.

2. **Procedures performed:** From the Centers' accounting records, reviewed supporting documentation to determine that interest earned on the award proceeds was retained by the Centers.

Findings: No findings noted.

3. **Procedures performed:** From the annual Functional Review, reviewed the Matching Cash Contributions, Matching Contributions in Lieu of Cash, and Matching In-Kind contributions reported and traced them to supporting documentation.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that matching cash contributions of \$3,420,741 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$2,245,598 and were traced to supporting documentation.

Cause: The Functional Review for Matching Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Matching Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Matching Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

4. **Procedures performed:** From the Centers' accounting records, verified compliance with the matching funds requirements for the Centers. This included verifying that the Centers are accountable to the requirements specified in NDCC 15-69 during the biennium in which they were approved.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

5. **Procedures performed:** From the annual Functional Review, reviewed the Leveraged Cash Contributions, Leveraged Contributions in Lieu of Cash, and Leveraged In-Kind contributions reported and traced them to supporting documentation.

Findings: Noted Leveraged In-Kind contributions of \$1,131,181 during fiscal year ended June 30, 2011, which were traced to supporting documentation. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

Finding

Criteria: The Functional Review should report receipt transactions occurring during fiscal year ended June 30, 2011.

Condition: We noted that Leveraged Cash Contributions of \$246,659 during fiscal year ended June 30, 2011, were based off of expenditures incurred rather than receipts received. Receipts received were \$289,143 and were traced to supporting documentation.

Cause: The Functional Review for Leveraged Cash Contributions was completed based on expenses incurred rather than receipts received.

Effect: The Functional Review reported excess Leveraged Cash Contributions during fiscal year ended June 30, 2011.

Recommendation: We recommend that cash receipts received during the applicable fiscal year be reported rather than expenditures incurred.

Management's View and Corrective Action: We concur with the findings concerning the Leveraged Cash Contribution amounts listed in the Functional Review. UAS will thoroughly review data entered in the Functional Review to ensure information is correct and accurate and all reporting requirements have been met.

6. **Procedures performed:** From the annual Functional Review, reviewed the private sector jobs created and traced them to supporting documentation.

Findings: No findings noted. The Functional Review reported the activities of three projects, which for this purpose were tested as one.

7. **Procedures performed:** From the Centers' accounting records, reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to report any noted instances of noncompliance with NDCC 15-69-05.1 (use of funds) and to ensure funds were approved, supported with documentation and spent according to the purposes identified in the application for funding.

Findings: No findings noted.

8. **Procedures performed:** Reviewed a sample of 25 expenditures if the total grant expenditures were over \$1 million, or 15 expenditures if the total grant expenditures were less than \$1 million, to verify that expenses were approved with supporting documentation and spent according to the scope of the grant.

Findings: No findings noted.

9. **Procedures performed:** Reviewed a sample of 25 items if the total grant expenditures were over \$1 million or 15 expenditures if the total grant expenditures were less than \$1 million, of labor charged to the grant and traced them to supporting effort-reporting documentation.

Findings: No findings noted.

10. **Procedures performed:** Reviewed the Centers' actual expenditures of award funds and compared them to the application budget of expenditures, and reviewed documentation explaining any material differences.

Findings: No findings noted.

11. **Procedures performed:** Reviewed the timeline of the grants that were provided with the applications and discussed the actual timeline with management to ensure the center has properly disclosed material timeline changes.

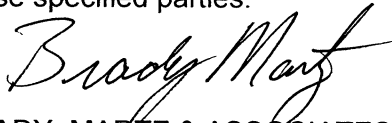
Findings: No findings noted.

12. **Procedures performed:** Reviewed the scope of the grants that were provided with the applications and discussed the actual scope for each grant with management to ensure the centers have properly disclosed material scope changes.

Findings: No findings noted.

We are not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

September 23, 2011

Drees, Risky & Vallager, Ltd.

Certified Public Accountants
1405 Library Circle
Grand Forks, North Dakota 58201-6399
Telephone (701) 746-4466
Fax (701) 772-6659

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

UND Center for Innovation Foundation
Grand Forks, North Dakota

And

State of North Dakota
North Dakota Department of Commerce
1600 East Century Avenue Suite 2
Bismarck, ND 58503

We have performed the procedures enumerated below, which were agreed to by the North Dakota Department of Commerce and the UND Center for Innovation Foundation ("Center"), solely to assist those parties in monitoring post award activities of Centers of Excellence Enhancement Grant Program recipients for the period ended June 30, 2011. The UND Center for Innovation Foundation's management is responsible for the organization's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We verified with the North Dakota Department of Commerce the amount of grant funds disbursed to the Center. We verified receipt of these funds, traced the deposit of these funds to the Center's bank account, and verified the recording of the receipt to the Center's accounting records.

Findings
NONE

2. We determined that no interest was earned on the award proceeds.

Findings:
NONE

3. We reviewed the leveraged cash contributions, leveraged contributions in lieu of cash and leveraged in kind contributions reported in the functional review and traced the reported amounts to supporting documentation.

Findings:

SEE FINDING #1

4. We reviewed the private-sector and private-sector equivalent job creation information reported in the functional review and we reviewed the supporting documentation for each of the positions created. We reviewed each job created to verify that it met the qualifying criteria identified in the functional review.

Findings:

SEE FINDING #2

5. We reviewed expenditures charged to the grant to verify compliance with NDCC 15-69-05-01 and the use of the funds. We reviewed the costs for compliance with section 46-23 of the 2009 Session Laws.

Findings:

SEE FINDING #1

6. We reviewed expenditures to verify expenses were approved, supported with documentation and spent according to the scope identified in the application for funding.

Findings:

NONE

7. We reviewed the labor charges to the grant and verified that no labor was charged to the grant.

Findings:

NONE

8. We reviewed the Center's actual expenditures of award funds and compared them to the Center's application budget.

Findings:

NONE

9. We reviewed the Center's timeline provided under the application and reviewed compliance with the timeline. The grant was awarded effective for April 1, 2011 through June 30, 2012 and expenditures were charged against the grant beginning in May 2011. The reporting period of this report limits the ability to assess compliance with this requirement.

Findings:

NONE

10. We reviewed the Center's activities and the Center's compliance with the scope of activities as provided under the Center's application.

Findings:

NONE

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records and supporting documentation of UND Center for Innovation Foundation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the State of North Dakota, North Dakota Department of Commerce and the UND Center for Innovation Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

DREES, RISKEY & VALLAGER, LTD.

Drees, Risky & Vallager Ltd.

Certified Public Accountants

May 17, 2012
Grand Forks, North Dakota

UND Center for Innovation Foundation
Agreed Upon Procedures
Schedule of Findings
June 30, 2011

Finding #1

Criteria:

A center shall use funds awarded to enhance capacity and leverage state, federal and private sources of funding. Although matching funds are not required for Enhancement Grants, leveraged funds are desired and leveraged funds are to be included in the functional review report.

Condition:

A listing of leveraged funds received by the Center was included in the functional review report under objective five, including cash and in-kind contributions. The in-kind contributions were misclassified and should be included as cash contributions. In addition, the in kind contribution includes an amount of \$20,217.46 of which \$3,087.96 was also included as expenditures charged against the grant funds.

Cause:

The Center personnel misinterepted the definition the in-kind contributions. The individual preparing the report inadvertently included the same expenditure of \$3,087.96 as both grant expenditure and a leveraged funds amount.

Effect:

The misclassification of the contributions has no effect. The inclusion of the \$3,087.96 as an expenditure of the grant has either overstated grant expenditures for the period by that amount or overstated leveraged funds.

Recommendation:

In future functional review reports the center should properly classify leveraged funds by the source from which they are received and the Center should take the necessary steps that expenditure amounts are not claimed in more than one area. The functional review report should be reviewed by a person that is knowledgeable in the report requirements and is not the preparer of the report.

Management views:

We agree with auditor's comments.

Planned corrective action:

When future Functional Review reports are completed, additional care will be taken to avoid inadvertent posting mistakes to properly classify leveraged funds by source.

Additionally, the Center will have the report reviewed by another person who is knowledgeable in the report requirements prior to submission to ensure no expenses are claimed in more than one area and to correct any other errors that may be identified.

UND Center for Innovation Foundation
Agreed Upon Procedures
Schedule of Findings
June 30, 2011

Finding #2

Criteria:

A center shall create high-value private-sector employment opportunities. The employment opportunities created shall be reported in the functional review report.

Condition:

The functional review, under objective three includes a listing of three employment opportunities that were created for the period, one full job and two half jobs created. The Center's supporting documentation for the two half jobs are not considered adequate to support these as jobs created.

Cause:

The supporting documentation that was obtained for the two half jobs were invoices received from the Companies that were contracted with to provide services. The documentation received for the full job was a pay stub. However, documents such as H.R. records or correspondence from these companies were not obtained indicating that these were jobs that were created.

Effect:

The Center has over reported the number of jobs created in the functional review report.

Recommendation:

To report jobs created the documentation should include correspondence with companies or the H.R. records which indicate date of hire and rate of pay to insure that these jobs meet the criteria.

Management views:

We concur with the auditor's comments that additional supporting documentation is appropriate on reporting employment.

Planned corrective action:

Center personnel recently requested and received documentation requirements for job creation from the North Dakota Department of Commerce staff after our report was submitted. This clarification of how private companies utilize full-time, part-time, subcontractors and independent consultants will facilitate the collection of appropriate documentation in the preparation of future Functional Review reports.

Future documentation of job creation for future Functional Reviews will include documentation of job creation such as H.R. records indicating a date of hire and rate of pay and our staff will consult with Department of Commerce staff when clarification is needed so the report will meet their needs.



Report on Expenditures of the National Energy Center
of Excellence
June 30, 2011

The Bismarck State College Foundation



Independent Auditor's Report

To the Specified Users of the Report:
The Bismarck State College Foundation
North Dakota Department of Commerce
State Board of Higher Education
Budget Section of Legislative Management
Centers of Excellence Commission
Bismarck, North Dakota

We have audited the accompanying schedule of expenditures of the National Energy Center of Excellence of The Bismarck State College Foundation as of June 30, 2011. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule 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 schedule of expenditures of the National Energy Center of Excellence is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of expenditures of the National Energy Center of Excellence. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of the National Energy Center of Excellence referred to above presents fairly, in all material respects, the expenditures of the National Energy Center of Excellence of The Bismarck State College Foundation as of June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Accounting Standards*, we have also issued our report dated October 19, 2011, on our consideration of The Bismarck State College Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Bismarck, North Dakota
October 20, 2011

The Bismarck State College Foundation
Schedule of Expenditures to the Application Budget for the National Energy Center of Excellence
June 30, 2011

	<u>Original and Final Budget</u>	<u>Expenditures</u>
National Energy Center of Excellence Building	<u>\$ 17,000,000</u>	<u>\$ 15,846,116</u>

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

The Bismarck State College Foundation was organized in 1979 as a non-profit corporation to receive, hold and nurture perpetual endowments for the benefit of the College.

Basis of Accounting

The schedule of expenditures of the National Energy Center of Excellence has been prepared on the accrual basis.

Property and Equipment

Property and equipment are stated at cost or at fair market value at date of gift if gifted to the Foundation, less accumulated depreciation. The Foundation's policy is to capitalize all property and equipment over \$750.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated subsequent events through October 20, 2011, the date which the financial statements were available to be issued.

Note 2 - Commitments

In 2011, the State of North Dakota appropriated \$3.3 million in general funds and \$1 million in federal and/or private funds to Bismarck State College to complete the fourth floor of the National Energy Center of Excellence building. The completed project will consist of up to five labs and classrooms that will support energy technology programs and workforce training opportunities.



**Report on Internal Control over Financial Reporting and on Compliance and other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Trustees
The Bismarck State College Foundation
Bismarck, North Dakota

We have audited the schedule of expenditures of the National Energy Center of Excellence of The Bismarck State College Foundation as of and for the period ended June 30, 2011, and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Bismarck State College Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedule of expenditures of the National Energy Center of Excellence, but not for the purpose of expressing an opinion on the effectiveness of The Bismarck State College Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Bismarck State College Foundation's schedule of expenditures of the National Energy Center of Excellence are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, North Dakota Department of Commerce, State Board of Higher Education, Budget Section of Legislative Management, and Centers of Excellence Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Sallie LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota
October 20, 2011

A. – Summary of Auditor’s Results

1. The auditor’s report expresses an unqualified opinion of the schedule of expenditures of the National Energy Center of Excellence of the Bismarck State College Foundation.
2. No significant deficiencies were disclosed during the audit of the schedule of expenditures of the National Energy Center of Excellence that were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of the Center of Excellence expenditures performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the schedule of expenditures of the National Energy Center of Excellence of The Bismarck State College Foundation, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No instances of fraud, waste and illegal acts, or indications of such, were identified based on an audit of the schedule of expenditures of the National Energy Center of Excellence in accordance with *Government Auditing Standards*.
5. Audit findings relative to the expenditures of the National Energy Center of Excellence of The Bismarck State College Foundation are reported in Part B of this schedule.

B. – Findings and Questioned Costs for Expenditures of the National Energy Center of Excellence

None



Schedule of Centers of Excellence Awards
June 30, 2011

North Dakota State University

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Independent Auditor's Report

North Dakota State University
Fargo, North Dakota

Compliance

We have audited North Dakota State University's compliance with the types of compliance requirements described in the *North Dakota Century Code 15-69-05* that could have a direct and material effect on each of the University's Centers of Excellence awards for centers that have, as of June 30, 2011, completed two or more full fiscal years of its post award monitoring. The University's Centers of Excellence awards subject to testing are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements referred to above is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *North Dakota Century Code 15-69-05*. Those standards and *North Dakota Century Code 15-69-05* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on Centers of Excellence awards. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the Centers of Excellence awards for centers that have, as of June 30, 2011, completed two or more full fiscal years of its post award monitoring.

Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a Centers of Excellence award to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

Schedule of Centers of Excellence Awards

We have audited the accompanying schedule of Centers of Excellence awards for centers that have, as of June 30, 2011, completed two or more full fiscal years of its post award monitoring. This financial statement is the responsibility of North Dakota State University's management. Our responsibility is to express an opinion on the financial statement of the Centers of Excellence awards for centers that have, as of June 30, 2011, completed two or more full fiscal years of its post award monitoring, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *North Dakota Century Code 15-69-05*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statement. The budget to actual comparisons is presented for purposes of additional analysis and is not a required part of the financial statement. The budget to actual comparisons is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement of to the financial statement itself, 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 statement as a whole.

In our opinion, the schedule of Centers of Excellence awards presents fairly, in all material respects, the expenditures of Centers of Excellence awards for centers that have, as of June 30, 2011, completed two or more full fiscal years of its post award monitoring, in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of management, others within the University, the North Dakota Department of Commerce, the State Board of Higher Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
October 27, 2011

North Dakota State University
Schedule of Centers of Excellence Awards
June 30, 2011

Centers of Excellence Title	Period Range	Identifying Number	Expenditures
Center for Advanced Electronics Design and Manufacturing	9/30/2005 to 6/30/11	FAR0011352	\$ 2,160,364
Center for Surface Protection	4/1/06 to 6/30/11	FAR0011567; FAR0014357	2,604,748
Center for Agbiotechnology: Oilseed Development	9/30/06 to 6/30/11	FAR0011580; FAR0014601	2,280,008
Center for Biopharmaceutical Research and Production	9/30/09 to 6/30/11	FAR0014516	481,080
Center for Integrated Electronic Systems	3/31/08 to 6/30/11	FAR0015484	944,936

Notes to Schedule of Centers of Excellence Awards

Note 1 - General

The accompanying schedule of Centers of Excellence awards is presented on the accrual basis of accounting.

There was no audit in a prior period. The period ended June 30, 2011 is the initial audit period.

A. Summary of Audit Results

North Dakota Centers of Excellence Awards

Internal control over COE awards:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Type of auditor's report issued on compliance for COE awards:

Unqualified

Any audit findings disclosed that are required to be reported:

No

B. Findings and Responses – None

North Dakota State University
Budget to Actual Comparison
Center for Advanced Electronics Design and Manufacturing
June 30, 2011

For the period 9/30/05 to 6/30/11:

CAEDM (FAR0011352)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Personnel	\$ 2,360,000	\$ 2,360,000	\$ 1,611,912	\$ 748,088
Materials and Recharge Center Fees	288,000	288,000	251,689	36,311
Travel	90,000	90,000	81,895	8,105
Commercial Software License Fees	60,000	60,000	37,027	22,973
Outsourced Services and Subcontracts	20,000	20,000	16,238	3,762
Audit Expenditures	5,000	5,000	-	5,000
Business & Commercialization	20,000	20,000	17,049	2,951
Tech Transfers & Entrepreneurship Training	20,000	20,000	10,524	9,476
NDSCS CNsTT Faculty Associateships	115,000	115,000	112,207	2,793
Equipment and Capital Assets	22,000	22,000	21,823	177
Total expenditures	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 2,160,364</u>	<u>\$ 839,636</u>

North Dakota State University
Budget to Actual Comparison
Center for Surface Protection
June 30, 2011

For the period 4/1/06 to 6/30/11:

CSP Phase I (FAR0011567)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Personnel (Staff, Faculty, Student interns)	\$ 1,062,244	\$ 1,062,244	\$ 1,374,881	\$ (312,637)
Materials, Equipment, Rent and Recharge Center Fees, Etc.	547,100	547,100	290,303	256,797
Travel	26,000	26,000	53,989	(27,989)
Remodeling & Furnishing Wet Labspace	225,000	225,000	-	225,000
COE Business Development: (incl. personnel, travel, market analysis, legal fees, etc.)	139,656	139,656	139,032	624
Total expenditures	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,858,205</u>	<u>\$ 141,795</u>

CSP Phase II (FAR0014357)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Personnel (Staff, Faculty, Student interns)	\$ 1,318,507	\$ 1,583,859	\$ 535,675	\$ 1,048,184
Materials, Equipment, Rent and Recharge Center Fees, Etc.	466,493	208,641	95,400	113,241
Audit Expenditures	-	7,500	-	7,500
Travel	45,000	30,000	15,890	14,110
Remodeling & Furnishing Labspace	65,000	65,000	-	65,000
COE Business Development: (incl. personnel, travel, market analysis, legal fees, etc.)	105,000	105,000	99,578	5,422
Total expenditures	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 746,543</u>	<u>\$ 1,253,457</u>

Combined Center for Surface Protection				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Personnel (Staff, Faculty, Student interns)	\$ 2,380,751	\$ 2,646,103	\$ 1,910,556	\$ 735,547
Materials, Equipment, Rent and Recharge Center Fees, Etc.	1,013,593	755,741	385,703	370,038
Audit Expenditures	-	7,500	-	7,500
Travel	71,000	56,000	69,879	(13,879)
Remodeling & Furnishing Labspace	290,000	290,000	-	290,000
COE Business Development: (incl. personnel, travel, market analysis, legal fees, etc.)	244,656	244,656	238,610	6,046
Total expenditures	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 2,604,748</u>	<u>\$ 1,395,252</u>

North Dakota State University
Budget to Actual Comparison
Center for Agbiotechnology: Oilseed Development
June 30, 2011

For the period 9/30/06 to 6/30/11:

CA Oilseed I (FAR0011580)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Salaries & Fringe				
Salaries-Reglr	\$ -	\$ -	\$ 289,697	\$ (289,697)
Salaries-Temp	-	-	103,755	(103,755)
Salaries-OT	-	-	6,503	(6,503)
Salaries-Fac	984,108	984,108	539,278	444,830
Salaries-Grad Asst	-	-	107,450	(107,450)
Benefits	281,287	281,287	246,156	35,131
Total Salaries & Fringe	<u>1,265,395</u>	<u>1,265,395</u>	<u>1,292,839</u>	<u>(27,444)</u>
Operating				
Travel	34,000	34,000	67,115	(33,115)
Supplies	-	-	5,075	(5,075)
Supplies - Professional	-	-	29,367	(29,367)
Food and Clothing	-	-	123	(123)
Bldg,Grounds,Vehicle Supply	-	-	4,055	(4,055)
Miscellaneous Supplies	217,416	217,416	66,644	150,772
Office Supplies	-	-	1,876	(1,876)
Postage	-	-	69	(69)
Printing	2,000	2,000	1,267	733
IT Equipment under \$5000	5,000	5,000	5,854	(854)
Other Equipment under \$5,000	-	-	21,172	(21,172)
Insurance	-	-	84	(84)
Repairs	18,000	18,000	29,688	(11,688)
IT Communications	-	-	2,483	(2,483)
Professional Development	-	-	190	(190)
Operating Fees and Services	-	-	12,770	(12,770)
Professional Fee & Services	-	-	835	(835)
Total Operating	<u>276,416</u>	<u>276,416</u>	<u>248,667</u>	<u>27,749</u>
Capital Assets				
Equipment	<u>458,189</u>	<u>458,189</u>	<u>404,190</u>	<u>53,999</u>
Total expenditures	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,945,696</u>	<u>\$ 54,304</u>

North Dakota State University
Budget to Actual Comparison
Center for Agbiotechnology: Oilseed Development
June 30, 2011

CA Oilseed II (FAR0014601)				
	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures				
Salaries & Fringe				
Salaries-Reglr	\$ -	\$ -	\$ 38,932	\$ (38,932)
Salaries-Temp	-	-	9,875	(9,875)
Salaries-Fac	870,300	870,300	129,027	741,273
Salaries-Grad Asst	-	-	15,758	(15,758)
Benefits	34,700	34,700	52,442	(17,742)
Total Salaries & Fringe	<u>905,000</u>	<u>905,000</u>	<u>246,034</u>	<u>658,966</u>
Operating				
Travel	-	-	7,981	(7,981)
Supplies	520,000	520,000	32	519,968
Supplies - Professional	-	-	795	(795)
Bldg,Grounds,Vehicle Supply	-	-	15	(15)
Miscellaneous Supplies	-	-	8,034	(8,034)
Office Supplies	-	-	24	(24)
Printing	-	-	325	(325)
IT Equipment under \$5000	-	-	1,413	(1,413)
Other Equipment under \$5,000	-	-	11,967	(11,967)
Repairs	-	-	317	(317)
IT Communications	-	-	339	(339)
Operating Fees and Services	-	-	7,716	(7,716)
Professional Fee & Services	-	-	3,275	(3,275)
Total Operating	<u>520,000</u>	<u>520,000</u>	<u>42,233</u>	<u>477,767</u>
Capital Assets				
Equipment	<u>75,000</u>	<u>75,000</u>	<u>46,045</u>	<u>28,955</u>
Total expenditures	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 334,312</u>	<u>\$ 1,165,688</u>

North Dakota State University
Budget to Actual Comparison
Center for Biopharmaceutical Research and Production
June 30, 2011

For the period 9/30/09 to 6/30/11:

CBRP (FAR0014516)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Salaries & Fringe				
Salaries-Reglr	\$ -	\$ -	\$ 145,072	\$ (145,072)
Salaries-Other	305,363	305,363	14,365	290,998
Salaries-Fac	-	-	150,448	(150,448)
Benefits	-	-	73,109	(73,109)
Total Salaries & Fringe	<u>305,363</u>	<u>305,363</u>	<u>382,994</u>	<u>(77,631)</u>
Operating				
Travel	-	-	55,238	(55,238)
Supplies	83,644	83,644	1,252	82,392
Supplies - Professional	-	-	12,757	(12,757)
Food and Clothing	-	-	2,235	(2,235)
Miscellaneous Supplies	-	-	178	(178)
Office Supplies	-	-	1,486	(1,486)
Postage	-	-	50	(50)
Printing	-	-	177	(177)
IT Equipment under \$5000	-	-	10,356	(10,356)
Insurance	-	-	33	(33)
Rents & Leases	-	-	2,625	(2,625)
Repairs	-	-	405	(405)
IT Communications	-	-	2,598	(2,598)
Professional Development	-	-	1,075	(1,075)
Operating Fees and Services	25,000	25,000	3,897	21,103
Professional Fee & Services	-	-	3,470	(3,470)
Miscellaneous Expense	-	-	254	(254)
Total Operating	<u>108,644</u>	<u>108,644</u>	<u>98,086</u>	<u>10,558</u>
Capital Assets				
Equipment	<u>737,343</u>	<u>737,343</u>	<u>-</u>	<u>737,343</u>
Total expenditures	<u>\$ 1,151,350</u>	<u>\$ 1,151,350</u>	<u>\$ 481,080</u>	<u>\$ 670,270</u>

North Dakota State University
Budget to Actual Comparison
Center for Integrated Electronic Systems
June 30, 2011

For the period 3/31/08 to 6/30/11:

CIES (FAR0015484)				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures				
Personnel	\$ 1,917,162	\$ 1,917,162	\$ 882,533	\$ 1,034,629
Operating	117,838	117,838	62,403	55,435
Audit Expenditures	5,000	5,000	-	5,000
Equipment	10,000	10,000	-	10,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 2,050,000</u>	<u>\$ 2,050,000</u>	<u>\$ 944,936</u>	<u>\$ 1,105,064</u>

**UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY®
(NCHT®) FACILITY CENTER FOR EXCELLENCE
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

University of North Dakota
EERC National Center for Hydrogen Technology ®
(NCHT®) Facility Center of Excellence

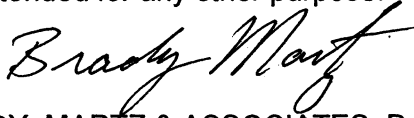
We have audited the balance sheet-modified cash basis and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period February 2, 2006 (inception) through June 30, 2011 for the University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence (Project #UND0011581). These financial statements are the responsibility of the Grantee. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence (Project #UND0011581) as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the University of North Dakota, Centers for Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, appearing to read "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY ®
(NCHT®) FACILITY CENTER OF EXCELLENCE
PROJECT #UND0011581
BALANCE SHEET –MODIFIED CASH BASIS

ASSETS

Cash	\$ -
------	------

FUND BALANCE

\$ -

Total Liabilities and Fund Balance

\$ -

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY®
(NCHT®) FACILITY CENTER OF EXCELLENCE
PROJECT #UND0011581

STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH BASIS
For the Grant Period February 2, 2006 (Inception) to June 30, 2011

REVENUES	Total
Grant Revenues	\$ 2,500,000
Interest Income	<u>64,739</u>
Total Revenues	<u>\$ 2,564,739</u>
EXPENDITURES	
Communications	\$ 4,267
Capital Outlay	2,557,653
Repairs and Maintenance	2,810
Miscellaneous	<u>9</u>
Total Expenditures	<u>\$ 2,564,739</u>
REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u> </u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY ®
(NCHT®) FACILITY CENTER OF EXCELLENCE
PROJECT #UND0011581

STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
For the Grant Period February 2, 2006 (Inception) to June 30, 2011

	<u>Budgeted Cost</u>	<u>Incurred Cost</u>	<u>Questioned Cost</u>	<u>Over (Under)</u>
Communications		\$ 4,267		\$ 4,267
Capital Outlay	\$2,564,755	2,557,653		(7,102)
Repairs and Maintenance		2,810		2,810
Miscellaneous		<u>9</u>		<u>9</u>
Total Expenditures	<u>\$2,564,755</u>	<u>\$2,564,739</u>	<u>\$ -</u>	<u>\$ (16)</u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY ®
(NCHT®) FACILITY CENTER OF EXCELLENCE
PROJECT #UND0011581
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the grant is to fund the National Center for Hydrogen Technology. The National Center for Hydrogen Technology (NCHT) conducts research, development, demonstration, and commercialization projects for the production and use of hydrogen as a practical fuel.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence (Project #UND0011581) was \$2,950,000. In addition, a total of \$64,739 in interest income was earned and available for expenditure. As of June 30, 2011, the entire grant had been expended.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

University of North Dakota
EERC National Center for Hydrogen Technology ®
(NCHT®) Facility Center of Excellence

We have audited the accompanying modified cash basis financial statements of the fund information of the University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence as of and for the year ended June 30, 2011, which collectively comprise University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

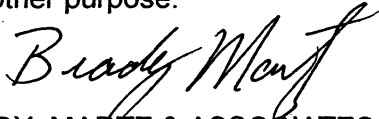
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of North Dakota EERC National Center for Hydrogen Technology ® (NCHT®) Facility Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
EERC NATIONAL CENTER FOR HYDROGEN TECHNOLOGY®
(NCHT®) FACILITY CENTER OF EXCELLENCE
PROJECT #UND0011581
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

___ yes X none reported

Non-compliance material to financial

Statements noted?

___ yes X no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURE
CENTER OF EXCELLENCE
DEVILS LAKE, NORTH DAKOTA
AUDITED FINANCIAL STATEMENTS
FOR THE CUMULATIVE GRANT PERIOD ENDED JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Lake Region State College
Dakota Center for Technology-Optimized Agriculture Center of Excellence

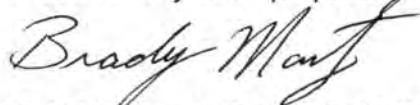
We have audited the balance sheet-modified cash basis of the Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence as of June 30, 2011, and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period December 22, 2005 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011, on our consideration of the Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, reading "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

December 30, 2011

LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURAL
CENTER OF EXCELLENCE
BALANCE SHEET – MODIFIED CASH BASIS
AS OF JUNE 30, 2011

ASSETS

Cash	\$ -
------	------

FUND BALANCE	\$ -
--------------	------

Total Liabilities and Fund Balance	\$ -
------------------------------------	------

See Accompanying Notes to Financial Statements

LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURAL
CENTER OF EXCELLENCE
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH
BASIS
FOR THE TIME PERIOD DECEMBER 22, 2005 (INCEPTION) TO JUNE 30, 2011

REVENUES	Total
Grant Revenues	\$ 450,000
Interest Income	6,635
Gifts and Private Grants	<u>11,520</u>
Total Revenues	<u>468,155</u>
EXPENDITURES	
Salaries	132,533
Fringe Benefits and Payroll Taxes	37,204
Equipment	25,991
Supplies	34,927
Professional Fees and Services	46,777
Operating Fees & Services	171,516
Printing	1,406
Communications	66
Repairs and Maintenance	814
Travel	16,016
Food and Clothing	<u>905</u>
Total Expenditures	<u>468,155</u>
REVENUES OVER EXPENDITURES	-
Fund Balance, Beginning of Period	<u>-</u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURAL
CENTER OF EXCELLENCE
STATEMENT OF BUDGETED, INCURRED, AND QUESTIONED COSTS – MODIFIED CASH
BASIS
FOR THE TIME PERIOD DECEMBER 22, 2005 (INCEPTION) TO JUNE 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$ 468,000	\$ 132,533	\$ -	\$ (335,467)
Fringe Benefits and Payroll Taxes	121,680	37,204	-	(84,476)
Equipment	24,900	25,991	-	1,091
Supplies	10,200	34,927	-	24,727
Professional Fees and Services	-	46,777	-	46,777
Operating Fees & Services	12,280	171,516	-	159,236
Printing	-	1,406	-	1,406
Communications	-	66	-	66
Repairs and Maintenance	-	814	-	814
Travel	21,765	16,016	-	(5,749)
Food and Clothing	-	905	-	905
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 658,825</u>	<u>\$ 468,155</u>	<u>\$ -</u>	<u>\$ (190,670)</u>

See Accompanying Notes to Financial Statements

**LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURAL
CENTER OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the Dakota Center for Technology-Optimized Agriculture Center of Excellence award to Lake Region State College was intended to create a center in which agronomic impact assessment of precision agriculture technologies would occur, an "answer farm" testing cohort would be created, and product design (including educational tools), prototype development, and incentivized job creation would result across its lifetime.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

NOTE 2 GRANT

The total grant to the Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence was \$450,000. As of June 30, 2011, \$450,000 had been spent and \$450,000 had been received from the North Dakota Department of Commerce.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

* * * * *



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Lake Region State College
Dakota Center for Technology-Optimized Agriculture Center of Excellence

We have audited the financial statements-modified cash basis of the fund information of Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence as of and for the cumulative grant period ended June 30, 2011, which collectively comprise Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence's basic financial statements and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

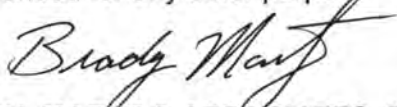
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Region State College Dakota Center for Technology-Optimized Agriculture Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

December 30, 2011

LAKE REGION STATE COLLEGE
DAKOTA CENTER FOR TECHNOLOGY-OPTIMIZED AGRICULTURAL
CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE CUMULATIVE GRANT PERIOD ENDED JUNE 30, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

___ yes X none reported

Non-compliance material to financial
Statements noted?

___ yes X no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

**UNIVERSITY OF NORTH DAKOTA
RESEARCH FOUNDATION**

CENTER OF EXCELLENCE IN LIFE SCIENCES
AND ADVANCED TECHNOLOGIES - SPECIFIC AUDIT

June 30, 2011

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

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Baker Tilly Virchow Krause, LLP
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Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Specified Users of the Report:
University of North Dakota Research Foundation
North Dakota Department of Commerce
State Board of Higher Education
North Dakota Legislative Council – Budget Section
Centers of Excellence Commission
North Dakota Economic Development Foundation

We have audited the accompanying schedule of Center of Excellence program award expenditures - budget to actual for the Center of Excellence in Life Sciences and Advance Technologies grant of the University of North Dakota Research Foundation (the "Foundation") for the period from the first disbursement of award funds through June 30, 2011. This financial statement is the responsibility of the University of North Dakota Research Foundation's management. Our responsibility is to express an opinion on the financial statement of the grant based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and North Dakota Century Code 15-69-05.1. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of Center of Excellence program award expenditures - budget to actual referred to above presents fairly, in all material respects, the expenditures of awards under the Center of Excellence in Life Sciences and Advance Technologies grant of the University of North Dakota Research Foundation for the period from the first disbursement of award funds through June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the University of North Dakota Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Minneapolis, Minnesota
October 27, 2011

**UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION
CENTER OF EXCELLENCE IN LIFE SCIENCES
AND ADVANCED TECHNOLOGIES**

SCHEDULE OF CENTER OF EXCELLENCE PROGRAM AWARD
EXPENDITURES - BUDGET TO ACTUAL
From First Disbursement of Award Funds Through June 30, 2011

	<u>Application Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>
Construction Costs - Commercial	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>

See accompanying notes to schedule of Center of Excellence program award expenditures - budget to actual.

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

**NOTES TO SCHEDULE OF CENTER OF EXCELLENCE PROGRAM AWARD
EXPENDITURES - BUDGET TO ACTUAL
From First Disbursement of Award Funds Through June 30, 2011**

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Center of Excellence Program Award Expenditures - Budget to Actual includes grant activity for the Life Sciences and Advance Technologies grant of the University of North Dakota Research Foundation and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of North Dakota Century Code 15-69.

NOTE 2 - EXPENDITURE ACTIVITY AND BUDGET

Expenditures of the Life Sciences and Advance Technologies grant were completed during the year ended June 30, 2008. There were no amendments to the application budget.

Baker Tilly Virchow Krause, LLP
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF
CENTER OF EXCELLENCE PROGRAM AWARD EXPENDITURES - BUDGET TO ACTUAL
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
University of North Dakota Research Foundation
Grand Forks, North Dakota

We have audited the schedule of Center of Excellence program award expenditures - budget to actual for the Center of Excellence in Life Sciences and Advance Technologies grant of the University of North Dakota Research Foundation (the "Foundation") for the period from the first disbursement of award funds through June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University of North Dakota Research Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedule of Center of Excellence program award expenditures - budget to actual, but not for the purpose of expressing an opinion on the effectiveness of the University of North Dakota Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of North Dakota Research Foundation's schedule of Center of Excellence program award expenditures - budget to actual is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule of Center of Excellence program award expenditures - budget to actual amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University of North Dakota Research Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit University of North Dakota Research Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Foundation's management, the Board of Directors, others within the Foundation, the North Dakota Department of Commerce, the State Board of Higher Education, the North Dakota Legislative Council – Budget Section, the Centers of Excellence Commission, and the North Dakota Economic Development Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Baker Tilly Vinchow Krause, LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
October 27, 2011

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON THE CENTER OF EXCELLENCE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH NORTH DAKOTA CENTURY CODE 15-69-05.1
AND APPLICABLE PURCHASING REQUIREMENTS

To the Board of Directors
University of North Dakota Research Foundation
Grand Forks, North Dakota

Compliance

We have audited the compliance of the University of North Dakota Research Foundation (the "Foundation") with the types of compliance requirements described in the North Dakota Century Code ("NDCC") 15-69-05.1 and applicable purchasing requirements that could have a direct and material effect on the Center of Excellence in Life Sciences and Advance Technologies grant for the period from the first disbursement of award funds through June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the grant is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and NDCC 15-69-05.1. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Center of Excellence in Life Sciences and Advance Technologies grant program occurred. An audit includes examining, on a test basis, evidence about University of North Dakota Research Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on University of North Dakota Research Foundation's compliance with those requirements.

In our opinion, the University of North Dakota Research Foundation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Center of Excellence in Life Sciences and Advance Technologies grant for the period from the first disbursement of award funds through June 30, 2011.


Internal Control Over Compliance

Management of the University of North Dakota Research Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Center of Excellence programs. In planning and performing our audit, we considered the University of North Dakota Research Foundation's internal control over compliance with requirements that could have a direct and material effect on its Center of Excellence in Life Sciences and Advance Technologies grant program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with NDCC 15-69-05.1, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University of North Dakota Research Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Center of Excellence program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Center of Excellence program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Foundation's management, the Board of Directors, others within the Foundation, the North Dakota Department of Commerce, the State Board of Higher Education, the North Dakota Legislative Council – Budget Section, the Centers of Excellence Commission, and the North Dakota Economic Development Foundation, and is not intended to be and should not be used by anyone other than these specified parties.


Minneapolis, Minnesota
October 27, 2011

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Schedule of Center of Excellence Program Award Expenditures - Budget to Actual

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to the schedule of expenditures noted?	No

Center of Excellence Program

Internal control over the program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditors' report issued on compliance for the program?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with NDCC 15-69-05.1?	No
Auditee qualified as low-risk auditee?	N/A

SECTION II - SCHEDULE OF EXPENDITURES FINDINGS

Finding 2011-1: Internal Control over Financial Reporting

Criteria

Auditing standards require us to report a material weakness in internal control over financial reporting if any of these two factors are relevant: 1) material journal entries are discovered during the course of the audit; or 2) lack of complete documentation of a system of internal control over significant transaction cycles.

Condition

During the course of the audit, adjusting journal entries were identified that were material to the financial statements including a restatement of prior year net assets related to an error in net asset classification. In addition, the Foundation has not documented controls over significant transaction cycles such as payroll, disbursements, receipts and financial reporting.

Effect

Without adequate controls over financial reporting, misstatements may not be prevented or detected and corrected on a timely basis. Without complete documentation, controls may lapse during periods of turnover at the Foundation.

Cause

Material journal entries were not prepared by the Foundation.

Recommendation

We recommend the Foundation develop an action plan to ensure that all material year-end adjustments are recorded by Foundation staff prior to audit fieldwork and prepare documentation of key controls over significant transaction cycles such as payroll, disbursements, receipts and financial reporting.

Management's Response

In response to the 2010 audit, it was management's decision to contract with an independent accounting firm to assist in determining required entries. The Foundation will continue to work toward having all entries made when it becomes cost effective to do so with qualified staff.

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION II - SCHEDULE OF EXPENDITURES FINDINGS (cont.)

Finding 2011-2: Separation of Duties

Criteria

The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another.

Condition

The Foundation operates its accounting and reporting function with a limited number of individuals, which precludes a proper segregation of duties over receipts, payroll, disbursements and financial reporting. The Foundation has several compensating controls in place to address the lack of segregation of duties, however, they are not sufficient to eliminate the risk of misstatement.

Effect

Misstatements in the accounting records may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cause

The Foundation has a limited number of staff and has experienced significant turnover in employees during the fiscal year.

Recommendation

It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in those charged with governance's knowledge and monitoring of matters relating to the Foundation's affairs. The Foundation should also review the internal control processes and determine whether job responsibilities (including backup responsibilities) and general ledger access can be modified to ensure adequate separation of duties exists in all key processes.

Management's Response

Current management is aware that the limited number of individuals is not desirable from an internal control point of view. Because of this awareness, the Foundation did contract with an independent accounting firm to assist management in processing its financial transactions. In addition, the current management is attempting to mitigate internal control concerns to the extent possible i.e., receipt of accounts payable and preparation of vouchers is separate from the review and approval of vouchers; the duties are then separated again when checks are signed by one of the two board members that have signature authority. Management will implement other improvements when it becomes cost effective.

SECTION III - CENTER OF EXCELLENCE PROGRAM FINDINGS AND QUESTIONED COSTS

None.

**UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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* * * * *



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

University of North Dakota
UASs and Simulation Application Center of Excellence

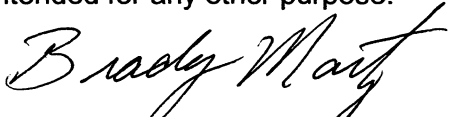
We have audited the balance sheet-modified cash basis of the University of North Dakota UASs and Simulation Application Center of Excellence (Project #UND0013381; 13907; 13908; 13909; 13910; 11892; 11900; 12103; 12104; 12907; 12910) as of June 30, 2011, and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period May 1, 2006 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University of North Dakota UASs and Simulation Application Center of Excellence as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the University of North Dakota UASs and Simulation Application Center of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, reading "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
BALANCE SHEET- MODIFIED CASH BASIS
As of June 30, 2011

ASSETS

Cash	<u>\$ 75,561</u>
------	------------------

LIABILITIES

Deferred Revenue	<u>\$ 75,561</u>
------------------	------------------

FUND BALANCE	<u>\$ -</u>
--------------	-------------

Total Liabilities and Fund Balance	<u><u>\$ 75,561</u></u>
------------------------------------	-------------------------

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH BASIS
For the Grant Period May 1, 2006 (Inception) to June 30, 2011

REVENUES	Total
Grant Revenues	\$ 2,424,439
Interest Income	<u>37,530</u>
Total Revenues	<u>\$ 2,461,969</u>

EXPENDITURES

Salaries	\$ 1,397,406
Fringe Benefits and Payroll Taxes	342,126
Lab	33,160
Professional Fees and Services	182,433
Supplies	35,979
Capital Outlay	95,502
Office Supplies	2,118
Insurance	1,260
Postage	1,228
Printing	6,441
Promotion & Advertising	11,715
Communications	2,046
Rent	19,718
Office Equipment	27,068
Repairs and Maintenance	2,553
Dues and Subscriptions	4,104
Travel	290,568
Utilities	55
Food and Clothing	6,294
Miscellaneous	<u>195</u>
Total Expenditures	<u>\$ 2,461,969</u>

REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u>-</u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
For the Grant Period May 1, 2006 (Inception) to June 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$ 1,422,287	\$ 1,397,406		\$ (24,881)
Fringe Benefits and Payroll Taxes	347,382	342,126		(5,256)
Lab	11,439	33,160		21,721
Professional Fees and Services	120,007	182,433		62,426
Supplies	170,273	35,979		(134,294)
Capital Outlay	85,625	95,502		9,877
Office Supplies	14,794	2,118		(12,676)
Insurance	78,750	1,260		(77,490)
Postage		1,228		1,228
Printing		6,441		6,441
Promotion & Advertising		11,715		11,715
Communications	8,268	2,046		(6,222)
Rent	88,084	19,718		(68,366)
Office Equipment		27,068		27,068
Repairs and Maintenance		2,553		2,553
Dues and Subscriptions		4,104		4,104
Travel	150,319	290,568		140,249
Utilities		55		55
Food and Clothing		6,294		6,294
Waivers, Scholarships and Fellowship	40,000			(40,000)
Miscellaneous		195		195
Total Expenditures	<u>\$2,537,228</u>	<u>\$2,461,969</u>	<u>\$ -</u>	<u>\$ (75,259)</u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the Unmanned Aircraft Systems Center of Excellence (UAS COE) performs research and development on UAS technologies, applications, and UAS human factors issues. The UAS COE also focuses on education and training for UAS integration into the national airspace system. Additionally, the center encourages commercialization of new UAS-related products and services and promotes private sector job growth within the State of North Dakota.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the University of North Dakota UASs and Simulation Center of Excellence (Project #UND0013381; 13907; 13908; 13909; 13910; 11892; 11900; 12103; 12104; 12907; 12910) was \$2,500,000. In addition, interest income of \$37,530 had been earned as of June 30, 2011 and was available for expenditures. As of June 30, 2011, \$2,461,969 had been expended and \$2,500,000 had been received from the North Dakota Office of Management and Budget and Department of Commerce.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

University of North Dakota
UASs and Simulation Application Center of Excellence

We have audited the accompanying modified cash basis financial statements of the fund information of University of North Dakota UASs and Simulation Application Center of Excellence as of and for the cumulative grant period ended June 30, 2011, which collectively comprise University of North Dakota UASs and Simulation Application Center of Excellence's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of North Dakota UASs and Simulation Application Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

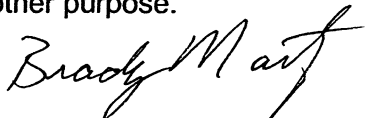
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of North Dakota UASs and Simulation Application Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, appearing to read "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
UASs AND SIMULATION APPLICATION CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

___ yes X none reported

Non-compliance material to financial

Statements noted?

___ yes X no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

**VALLEY CITY STATE UNIVERSITY
ENTERPRISE UNIVERSITY
CENTER OF EXCELLENCE**

**SCHEDULE OF EXPENDITURES OF AWARD
FUNDS FOR THE PERIOD BEGINNING
MAY 23, 2006 THROUGH SEPTEMBER 30, 2011
WITH INDEPENDENT AUDITOR'S REPORT**



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz
Tracee S. Buethner

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH NDCC 15-69-05.1 AND
APPLICABLE UNIVERSITY PURCHASING REQUIREMENTS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Specified Users of the Report:

Valley City State University Enterprise University Center of Excellence
North Dakota Department of Commerce
State Board of Higher Education (SBHE)
ND Economic Development Foundation
ND Legislative Council

Compliance

We have audited all funds distributed to **Valley City State University Enterprise University Center of Excellence ("the Center")** under the North Dakota Century Code 15-69 and the Center's compliance with NDCC 15-69-05.1 and applicable university purchasing requirements that could have a direct and material effect on **Valley City State University Enterprise University Center of Excellence's** expenditures of award funds from the inception of the grant, May 23, 2006 through September 30, 2011. In addition, we performed audit procedures to ensure that the expenditures of award funds are consistent with the scope of the project and that the Center is appropriately administering award funds. **Valley City State University Enterprise University Center of Excellence's** expenditures of award funds are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its award funds is the responsibility of **Valley City State University Enterprise University Center of Excellence's** management. Our responsibility is to express an opinion on **Valley City State University Enterprise University Center of Excellence's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on award funds occurred. An audit includes examining, on a test basis, evidence about **Valley City State University Enterprise University Center of Excellence's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Valley City State University Enterprise University Center of Excellence's** compliance with those requirements.

In our opinion, **Valley City State University Enterprise University Center of Excellence** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on award funds for the period beginning May 23, 2006 through September 30, 2011.



Internal Control Over Compliance

Management of **Valley City State University Enterprise University Center of Excellence** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to award funds. In planning and performing our audit, we considered **Valley City State University Enterprise University Center of Excellence's** internal control over compliance with the requirements that could have a direct and material effect on the award funds to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Valley City State University Enterprise University Center of Excellence's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of award funds on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of award funds will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the **Valley City State University Enterprise University Center of Excellence**, North Dakota Department of Commerce, State Board of Higher Education (SBHE), the ND Economic Development Foundation, and the ND Legislative Council and should not be used by anyone other than these specified parties.

Widney Reed PC

Fargo, North Dakota
October 14, 2011

VCSU ENTERPRISE UNIVERSITY ENTERPRISE UNIVERSITY

CENTER OF EXCELLENCE

**SCHEDULE OF EXPENDITURES OF AWARD FUNDS
FOR THE PERIOD BEGINNING MAY 23, 2006 THROUGH SEPTEMBER 30, 2011**

	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Salaries and benefits	\$ 547,267	\$ 377,450	\$ (169,817)
Communications	1,799	24,000	22,201
Equipment - computer and other	8,446	102,750	94,304
Food	3,262	5,000	1,738
Intangible assets - domain	6,000	-	(6,000)
Maintenance and repair	-	65,000	65,000
Operating	53,602	68,000	14,398
Printing	3,235	14,400	11,165
Professional services	121,676	132,900	11,224
Scholarships	-	40,000	40,000
Supplies - information technology and other	45,026	101,000	55,974
Travel	96,244	69,500	(26,744)
Total	<u>\$ 886,557</u>	<u>\$ 1,000,000</u>	<u>\$ 113,443</u>

The Center of Excellence Commission and Department of Commerce (DOC) approved a timeline extension for the VCSU Enterprise University Center of Excellence. The extended timeline resulted in additional personnel costs including salary, benefits and travel beyond the original budgeted amounts. Prior to the beginning of fiscal year 2012, the DOC did not have a budget revision process; therefore the DOC did not require revision request from VCSU Enterprise University Center of Excellence for the period covered by this report.

NOTES TO SCHEDULE OF EXPENDITURES OF AWARD FUNDS

Note 1 – Summary of Significant Accounting Policies

The accompanying schedule of expenditures of award funds is presented on the accrual basis of accounting.

VALLEY CITY STATE UNIVERSITY ENTERPRISE UNIVERSITY
CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD BEGINNING MAY 23, 2006 THROUGH SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDIT RESULTS

Compliance:

Compliance with requirements over award funds:

Significant deficiency(ies) identified?	_____ yes	<u> X </u> no
Material weakness(es) identified that are not considered to be significant deficiency(ies)?	_____ yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over financial reporting:

Significant deficiency(ies) identified?	_____ yes	<u> X </u> no
Material weakness(es) identified that are not considered to be significant deficiency(ies)?	_____ yes	<u> X </u> none reported

Noncompliance material to the schedule of expenditures of award funds noted?	_____ yes	<u> X </u> no
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Identification of award funds distributed to center:

Center of Excellence Award Funds – May 23, 2006	\$1,000,000
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VALLEY CITY STATE UNIVERSITY ENTERPRISE UNIVERSITY
CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD BEGINNING MAY 23, 2006 THROUGH SEPTEMBER 30, 2011

SECTION II - EXPENDITURE OF AWARD FUND FINDINGS

None required to be reported.

**WILLISTON STATE COLLEGE
PETROLEUM SAFETY AND TECHNOLOGY CENTER
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Williston State College Petroleum Safety and Technology Center

We have audited the balance sheet-modified cash basis and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period August 12, 2005 (inception) through June 30, 2011 for the Williston State College Petroleum Safety and Technology Center. These financial statements are the responsibility of the Grantee. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Williston State College Petroleum Safety and Technology Center as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, on our consideration of the Williston State College Petroleum Safety and Technology Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

BRADY, MARTZ & ASSOCIATES, P.C.

December 7, 2011

BRADY, MARTZ & ASSOCIATES, P.C.

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WILLISTON STATE COLLEGE
PETROLEUM SAFETY AND TECHNOLOGY CENTER
BALANCE SHEET –MODIFIED CASH BASIS
JUNE 30, 2011

ASSETS

Cash	\$ -
------	------

FUND BALANCE

\$ -

Total Liabilities and Fund Balance

\$ -

See Accompanying Notes to Financial Statements

WILLISTON STATE COLLEGE
 PETROLEUM SAFETY AND TECHNOLOGY CENTER
 STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH BASIS
 For the Grant Period August 12, 2005 (Inception) to June 30, 2011

REVENUES

Grant Revenues	\$ (400,000)
Interest Income	<u>(5,423)</u>
Total Revenues	<u>\$ (405,423)</u>

EXPENDITURES

Supply/Material/Professional	\$ 8,448
Small Equipment	3,565
Repairs	4,263
Capital Outlay	<u>389,147</u>
Total Expenditures	<u>\$ 405,423</u>

REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u> </u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

WILLISTON STATE COLLEGE
 PETROLEUM SAFETY AND TECHNOLOGY CENTER
 STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
 For the Grant Period August 12, 2005 (Inception) to June 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Supply/Material/Professional or				
Marketing & Recruitment	\$ 100,000	\$ 8,448	\$ -	\$ (91,552)
Small Equipment or Training Supplies	30,000	3,565	-	(26,435)
Contract Services (used in capital outlay)	150,000	-	-	(150,000)
Repairs or Site Development	70,000	4,263	-	(65,737)
Capital Outlay or Leasing of Equipment	50,000	389,147	-	339,147
Total Expenditures	\$ 400,000	\$ 405,423	\$ -	\$ 5,423

See Accompanying Notes to Financial Statements

WILLISTON STATE COLLEGE
PETROLEUM SAFETY AND TECHNOLOGY CENTER
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Petroleum Safety and Technology Center (PSTC) was formed to assist with the creation of jobs. The PSTC will educate individuals who are interested in careers in the oilfield industry. The PSTC will improve safety practices, improve retention, reduce turnover, and enhance the region's quality of life by focusing on: applied academic skills, technical and occupational specific skills, and managerial and interpersonal skills. The PSTC was funded through a Centers of Excellence grant.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met. Under the modified cash basis of accounting, expenditures, including Capital Outlays, are recognized when the expenses are paid.

Cash Deposits

Cash balances for the Williston State College Petroleum Safety and Technology Center are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the Williston State College Petroleum Safety and Technology Center was \$400,000. In addition, a total of \$5,423 in interest income was earned and available for expenditure. As of June 30, 2011, the entire grant had been expended.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Williston State College Petroleum Safety and Technology Center

We have audited the accompanying modified cash basis financial statements of the fund information of the Williston State College Petroleum Safety and Technology Center as of and for the year ended June 30, 2011, which collectively comprise Williston State College Petroleum Safety and Technology Center's basic financial statements and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Williston State College Petroleum Safety and Technology Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Williston State College Petroleum Safety and Technology Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

December 7, 2011

WILLISTON STATE COLLEGE
PETROLEUM SAFETY AND TECHNOLOGY CENTER
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified that are
not considered to be material weaknesses

☐ yes ☒ none reported

Non-compliance material to financial
statements noted?

☐ yes ☒ no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Dickinson State University
Center of Excellence
Dickinson, North Dakota

We have audited the balance sheet-modified cash basis of the Dickinson State University Center of Excellence as of June 30, 2011, and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period October 5, 2006 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. Our responsibility is to express an opinion on these financial statements based on our audit.

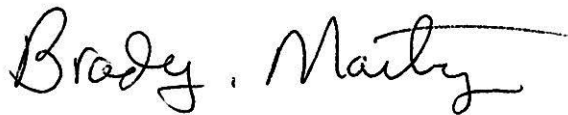
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Dickinson State University's record retention policy, the supporting documentation for the expenditures totaling \$68,536 from October 5, 2006 (inception) through June 30, 2007 have been destroyed. We were unable to perform alternative procedures on these expenditures to satisfy ourselves about the \$68,536 of expenditures reported in the accompanying statement of revenues, expenditures, and fund balance - modified cash basis, and budgeted, incurred and questioned costs - modified cash basis.

In our opinion, except for the effect of adjustments, if any, as might have been determined to be necessary had the Dickinson State University Center of Excellence expenditures for the time period October 5, 2006 (inception) through June 30, 2007 been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the Dickinson State University Center of Excellence as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the Dickinson State University Center of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style. The first name "Brady" is followed by a period, and then "Martz" is written. The signature ends with a long, horizontal flourish.

BRADY, MARTZ & ASSOCIATES, P.C.

November 22, 2011

**DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
BALANCE SHEET - MODIFIED CASH BASIS
AS OF JUNE 30, 2011**

ASSETS

Cash	<u>\$ 93,353</u>
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Total Assets	<u><u>\$ 93,353</u></u>
--------------	-------------------------

LIABILITIES

Deferred Revenue	<u>\$ 93,353</u>
------------------	------------------

Total Liabilities	<u>93,353</u>
-------------------	---------------

FUND BALANCE	<u>-</u>
--------------	----------

Total Liabilities and Fund Balance	<u><u>\$ 93,353</u></u>
------------------------------------	-------------------------

See Notes to Financial Statements

DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE - MODIFIED CASH BASIS
FOR THE GRANT PERIOD OCTOBER 5, 2006 (INCEPTION) TO JUNE 30, 2011

	<u>Total</u>
REVENUES	
Grant Revenues	\$ 1,056,647
Interest Income	45,144
Program Revenue	<u>32,250</u>
Total Revenues	<u>1,134,041</u>
 EXPENDITURES	
Salaries	644,323
Fringe Benefits and Payroll Taxes	217,032
Travel and Registration Fees	59,378
IT	2,780
Instructional Supplies	1,441
Banquest & Meeting Food	1,389
Other Supplies	683
Office Supplies	2,978
Postage	303
Printing	3,243
Computer Equipment under \$5,000	10,055
Miscellaneous	225
Professional Development	98,550
Contract Services	60,571
Consultants	<u>31,090</u>
Total Expenditures	<u>1,134,041</u>
Revenues over expenditures	-
Fund Balance, Beginning of Period	<u>-</u>
Fund Balance, End of Period	<u><u>\$ -</u></u>

See Notes to Financial Statements

DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS - MODIFIED CASH BASIS
FOR THE GRANT PERIOD OCTOBER 5, 2006 (INCEPTION) TO JUNE 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$ 806,502	\$ 644,323	\$ 27,620	\$ 162,179
Fringe Benefits and Payroll Taxes	282,022	217,032	5,390	64,990
Travel and Registration Fees	75,000	59,378	35,712	15,622
IT	1,500	2,780	-	(1,280)
Instructional Supplies	1,550	1,441	-	109
Banquest & Meeting Food	1,500	1,389	135	111
Other Supplies	1,000	683	87	317
Office Supplies	19,000	2,978	-	16,022
Postage	5,700	303	-	5,397
Printing	14,500	3,243	-	11,257
Computer Equipment under \$5,000	15,000	10,055	-	4,945
Miscellaneous	-	225	-	(225)
Professional Development	24,000	98,550	98,550	(74,550)
Contract Services	68,000	60,571	27,945	7,429
Consultants	153,400	31,090	5,417	122,310
Total Expenditures	<u>\$ 1,468,674</u>	<u>\$ 1,134,041</u>	<u>\$ 200,856</u>	<u>\$ 334,633</u>

See Notes to Financial Statements

**DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the Dickinson State University Center of Excellence grant is to establish and operate the Institute of Technology and Business that will focus on a keystone project which will enable Killdeer Mountain Manufacturing to expand its high-tech aerospace manufacturing business, thereby creating jobs in rural ND communities. The Institute of Technology and Business that will also collaborate with its partners and with the Center's other institutes to create a capacity for supporting entrepreneurs and businesses in addition to Killdeer Mountain Manufacturing. The mission of the Center for Entrepreneurship and rural Revitalization is to promote economic development through entrepreneurial strategies. The Institute of Technology and Business will support the Center's mission by focusing on commercial application of technology to help technology-based businesses start or expand in rural ND communities. The Institute will seek to identify new technology-related opportunities and will provide technical assistance to help businesses adapt and implement new technologies.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of Dickinson State University and are deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the Dickinson State University Center of Excellence was \$1,150,000. As of June 30, 2011, \$1,134,041 had been spent and \$1,150,000 had been received from the North Dakota Department of Commerce. In addition, a total of \$45,144 in interest income and \$32,250 of program revenue had been earned as of June 30, 2011 and was available for expenditures.

**DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011**

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Dickinson State University
Center of Excellence
Dickinson, North Dakota

We have audited the accompanying modified cash basis financial statements of the fund information of the Dickinson State University Center of Excellence as of and for the cumulative grant period ended June 30, 2011, which collectively comprise the Dickinson State University Center of Excellence's basic financial statements and have issued our report thereon dated November 22, 2011. The report included a scope limitation for the expenditures for the time period October 5, 2006 (inception) through June 30, 2007 not having supporting documentation due to Dickinson State University's record retention policy. Documentation supporting the financial expenditures for this time period was destroyed and therefore we were unable to audit this information. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Dickinson State University Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2011-1 and 2011-2 in the accompanying schedule of findings and responses to be material weaknesses.

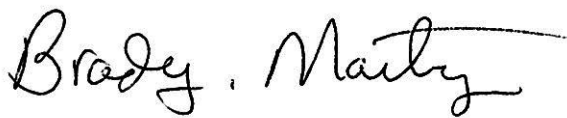
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dickinson State University Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

The College's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the College's responses and, accordingly, we express no opinion on them.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

November 22, 2011

**DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND RESPONSES
AS OF JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	<u>Qualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> x </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported
Noncompliance material to financial statements noted?	<u> x </u> yes	<u> </u> no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

2011-1: Material Weakness: Center of Excellence Grant

Criteria

Only allowable costs should be charged to the Center of Excellence grant, as described in the grant proposal and North Dakota Century Code 15-69.

Condition

Of one hundred and twenty expenditures tested for this grant, four expenditures totaling \$132,320 were to Dickinson State University for tuition and fees. Per the 2007 version of the North Dakota Century Code 15-69-05, “a center awarded funds under this chapter may not use the funds to supplant funding for current operations or academic instruction or to pay indirect costs.”

Cause

The College is not maintaining proper controls for determining allowable costs under this grant.

Effect

There is potential for unallowable costs to be charged to this grant and the College to not be in compliance with grant requirements.

Recommendation

We recommend the College maintain an effective internal control system, which includes department heads approving allowable expenses and reviewing the expenses and grant terms prior to approving the payment of these expenses from the grant to ensure the costs are allowable under the grant.

Views of Responsible Officials and Planned Corrective Actions

Dickinson State University Concurs. Since being made aware of this instance of non-compliance, DSU discontinued the practice of providing leadership training to KMM employees utilizing COE funds to pay the tuition and fee costs associated with those courses after spring semester 2009.

**DICKINSON STATE UNIVERSITY CENTER OF EXCELLENCE
SCHEDULE OF FINDINGS AND RESPONSES
AS OF JUNE 30, 2011**

2011-2: Material Weakness: Center of Excellence Grant

Criteria

Only allowable costs should be charged to the Center of Excellence grant, as described in the grant proposal and North Dakota Century Code 15-69.

Condition

In accordance with Dickinson State University's record retention policy, the supporting documentation for the expenditures totaling \$68,536 from October 5, 2006 (inception) through June 30, 2007 have been destroyed. We were unable to perform alternative procedures on these expenditures to satisfy ourselves about whether the \$68,536 of expenditures were allowable under the grant.

Cause

The College destroyed supporting documentation for the expenditures in accordance with their record retention policy.

Effect

There is potential for unallowable costs to be charged to this grant and the College to not be in compliance with grant requirements.

Recommendation

The College should consider expanding their record retention policy to include keeping records as long as required by grant agreements, even if the period is longer than the period by the College.

Views of Responsible Officials and Planned Corrective Actions

The DSU Center of Excellence has completed the required functional review annually since the inception of the Center. Therefore the expenditures in question from 2006 and 2007 have been through a functional review. Legislative action in the spring of 2011 mandated the additional financial audit after the records in question had already been destroyed following our records retention policy. Had we known the financial audit was to be performed retroactively back to the inception of the Center, the records retention policy could have been changed to accommodate the financial audit.

**UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

University of North Dakota
SUNRISE Bioproducts Center of Excellence

We have audited the balance sheet-modified cash basis of the University of North Dakota SUNRISE Bioproducts Center of Excellence (Project #UND0014114) as of June 30, 2011, and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period January 1, 2009 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. Our responsibility is to express an opinion on these financial statements based on our audit.

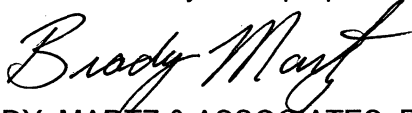
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the SUNRISE Bioproducts Center of Excellence (Project #UND0014114) as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the SUNRISE Bioproducts Center of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in black ink, appearing to read "Brady Martz". The signature is fluid and cursive, with the first name "Brady" and last name "Martz" clearly distinguishable.

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
PROJECT #UND0014114
BALANCE SHEET – MODIFIED CASH BASIS
As of June 30, 2011

ASSETS

Cash	<u>\$ 339,642</u>
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LIABILITIES

Deferred Revenue	<u>\$ 339,642</u>
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FUND BALANCE	<u>\$ -</u>
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Total Liabilities and Fund Balance	<u><u>\$ 339,642</u></u>
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See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
PROJECT #UND0014114
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH BASIS
For the Grant Period January 1, 2009 (Inception) to June 30, 2011

REVENUES	Total
Grant Revenues	\$ 1,581,603
Interest Income	<u>2,129</u>
Total Revenues	<u>\$ 1,583,732</u>

EXPENDITURES

Salaries	\$ 853,283
Fringe Benefits and Payroll Taxes	204,472
Lab	22,598
Chemical Supplies	27,570
Professional Fees and Services	81,766
Subcontracts	330,289
Operating Fees & Services	12,358
Office Supplies	836
Postage	200
Printing	273
Promotion & Advertising	1,367
Equipment	41,593
Travel	5,094
Food and Clothing	<u>2,033</u>
Total Expenditures	<u>\$ 1,583,732</u>

REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u> </u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
PROJECT #UND0014114

STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
For the Grant Period January 1, 2009 (Inception) to June 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$ 941,750	\$ 853,283		\$ (88,467)
Payroll Taxes	151,611	204,472		52,861
Lab		22,598		22,598
Chemical Supplies	26,182	27,570		1,388
Professional Fees and Services	433,000	81,766		(351,234)
Subcontracts	325,000	330,289		5,289
Operating Fees & Services		12,358		12,358
Office Supplies		836		836
Postage		200		200
Printing		273		273
Promotion & Advertising		1,367		1,367
Equipment	29,331	41,593		12,262
Travel	16,500	5,094		(11,406)
Food and Clothing		2,033		2,033
Total Expenditures	<u>\$1,923,374</u>	<u>\$1,583,732</u>	<u>\$ -</u>	<u>\$ (339,642)</u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
PROJECT #UND0014114
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the University of North Dakota SUNRISE Bioproducts Center of Excellence grant is to invent, develop, and commercialize green industrial chemicals, polymers, and fiber composites using crop oils as the primary raw material. This Center of Excellence is administered by the North Dakota Sustainable Energy Research Initiative and Supporting Education (ND SUNRISE) program at the University of North Dakota. The mission of ND SUNRISE includes conducting research that contributes to solving energy-related problems and leads to economic development in North Dakota.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the University of North Dakota SUNRISE Bioproducts Center of Excellence (Project #UND0014114) was \$2,950,000. As of June 30, 2011, \$1,583,732 had been spent and \$1,921,245 had been received from the North Dakota Department of Commerce. In addition, a total of \$2,129 in interest income had been earned as of June 30, 2011 and was available for expenditures.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

University of North Dakota
SUNRISE Bioproducts Center of Excellence

We have audited the accompanying modified cash basis financial statements of the fund information of University of North Dakota SUNRISE Bioproducts Center of Excellence as of and for the cumulative grant period ended June 30, 2011, which collectively comprise University of North Dakota SUNRISE Bioproducts Center of Excellence's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of North Dakota SUNRISE Bioproducts Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

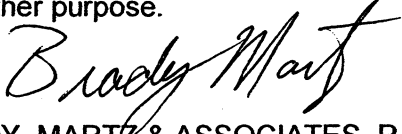
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of North Dakota SUNRISE Bioproducts Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in black ink, appearing to read "Brady Martz", is written over the printed name.

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
SUNRISE BIOPRODUCTS CENTER OF EXCELLENCE
PROJECT #UND0014114
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

___ yes X none reported

Non-compliance material to financial

Statements noted?

___ yes X no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

**UNIVERSITY OF NORTH DAKOTA
PETROLEUM RESEARCH, EDUCATION, AND
ENTREPRENEURIAL CENTER OF EXCELLENCE
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

University of North Dakota
Petroleum Research, Education, and Entrepreneurial Center of Excellence

We have audited the balance sheet-modified cash basis of the University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence (Project #UND0014250) as of June 30, 2011, and the related statements of revenues, expenditures and fund balance-modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period January 7, 2009 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. Our responsibility is to express an opinion on these financial statements based on our audit.

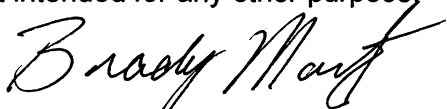
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence (Project #UND0014250) as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in black ink, appearing to read "Brady Martz". The signature is fluid and cursive, with the first name "Brady" and last name "Martz" clearly distinguishable.

BRADY, MARTZ & ASSOCIATES, P.C.
October 28, 2011

UNIVERSITY OF NORTH DAKOTA
PETROLEUM RESEARCH, EDUCATION, AND ENTREPRENEURIAL CENTER OF EXCELLENCE
PROJECT #UND0014250
BALANCE SHEET – MODIFIED CASH BASIS
As of June 30, 2011

ASSETS

Cash	<u>\$ 139,289</u>
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LIABILITIES

Deferred Revenue	<u>\$ 139,289</u>
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FUND BALANCE	<u>\$ -</u>
--------------	-------------

Total Liabilities and Fund Balance	<u><u>\$ 139,289</u></u>
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See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
 PETROLEUM RESEARCH, EDUCATION, AND ENTREPRENEURIAL CENTER OF EXCELLENCE
 PROJECT #UND0014250
 STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE – MODIFIED CASH BASIS
 For the Grant Period January 7, 2009 (Inception) to June 30, 2011

REVENUES	Total
Grant Revenues	\$ 2,073,818
Interest Income	<u>2,175</u>
Total Revenues	<u>\$ 2,075,993</u>

EXPENDITURES

Salaries	\$ 894,731
Fringe Benefits and Payroll Taxes	144,980
Lab	2,233
Supplies	77,840
Professional Fees and Services	6,383
Operating Fees & Services	12,863
Office Supplies	3,111
Postage	860
Printing	734
Communications	1,003
Dues and Subscriptions	874
Office Equipment	20,502
Capital Outlay	673,073
Repairs and Maintenance	60
Building and Grounds	9,941
Travel	72,184
Waivers, Scholarships and Fellowships	153,392
Professional Development	1,201
Food and Clothing	<u>27</u>
Total Expenditures	<u>\$ 2,075,993</u>

REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u> </u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
 PETROLEUM RESEARCH, EDUCATION, AND ENTREPRENEURIAL CENTER OF EXCELLENCE
 PROJECT #UND0014250
 STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
 For the Grant Period January 7, 2009 (Inception) to June 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$1,507,510	\$ 894,731		\$ (612,779)
Fringe Benefits and Payroll Taxes	253,834	144,980		(108,854)
Lab		2,233		2,233
Supplies	861,985	77,840		(784,145)
Professional Fees and Services		6,383		6,383
Operating Fees & Services		12,863		12,863
Office Supplies		3,111		3,111
Postage		860		860
Printing		734		734
Communications		1,003		1,003
Dues and Subscriptions		874		874
Office Equipment		20,502		20,502
Capital Outlay		673,073		673,073
Repairs and Maintenance		60		60
Building and Grounds		9,941		9,941
Travel	99,000	72,184		(26,816)
Waivers, Scholarships and Fellowships	279,846	153,392		(126,454)
Professional Development		1,201		1,201
Food and Clothing		27		27
Total Expenditures	<u>\$3,002,175</u>	<u>\$2,075,993</u>	<u>\$ -</u>	<u>\$ (926,182)</u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
PETROLEUM RESEARCH, EDUCATION, AND ENTREPRENEURIAL CENTER OF EXCELLENCE
PROJECT #UND0014250
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the University of North Dakota Petroleum Research, Education, and Entrepreneurship (PREEC) Center of Excellence grant is to focus on improving our understanding of the Williston Basin oil deposits with special attention to the Bakken Formation. The Center aims to develop enhanced oil recovery techniques as well as address other challenges and opportunities relating to petroleum exploration and production such as CO2 sequestration and geothermal energy.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence (Project #UND0014250) was \$3,000,000. In addition, interest income of \$2,175 had been earned as of June 30, 2011 and was available for expenditures. As of June 30, 2011, \$2,075,993 had been spent and \$2,213,106 had been received from the North Dakota Department of Commerce.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

University of North Dakota
Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence

We have audited the accompanying modified cash basis financial statements of the fund information of University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence as of and for the cumulative grant period ended June 30, 2011, which collectively comprise University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

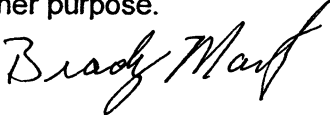
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of North Dakota Petroleum Research, Education, and Entrepreneurial (PREEC) Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, appearing to read "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
PETROLEUM RESEARCH, EDUCATION, AND ENTERPRENEURIAL CENTER OF EXCELLECECE
PROJECT #UND0014250
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

___ yes X none reported

Non-compliance material to financial

Statements noted?

___ yes X no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section

**UNIVERSITY OF NORTH DAKOTA
RESEARCH FOUNDATION**

CENTER OF EXCELLENCE IN PASSIVE
THERAPEUTICS - SPECIFIC AUDIT

June 30, 2011

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT


To the Specified Users of the Report:
University of North Dakota Research Foundation
North Dakota Department of Commerce
State Board of Higher Education
North Dakota Legislative Council – Budget Section
Centers of Excellence Commission
North Dakota Economic Development Foundation

We have audited the accompanying schedule of Center of Excellence program award expenditures - budget to actual for the Center of Excellence in Passive Therapeutics grant of the University of North Dakota Research Foundation (the "Foundation") for the period from the first disbursement of award funds through June 30, 2011. This financial statement is the responsibility of the University of North Dakota Research Foundation's management. Our responsibility is to express an opinion on the financial statement of the grant based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and North Dakota Century Code 15-69-05.1. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of Center of Excellence program award expenditures - budget to actual referred to above presents fairly, in all material respects, the expenditures of awards under the Center of Excellence in Passive Therapeutics grant of the University of North Dakota Research Foundation for the period from the first disbursement of award funds through June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the University of North Dakota Research Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Minneapolis, Minnesota
October 27, 2011

**UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION
CENTER OF EXCELLENCE IN PASSIVE THERAPEUTICS**

SCHEDULE OF CENTER OF EXCELLENCE PROGRAM AWARD
EXPENDITURES - BUDGET TO ACTUAL
From First Disbursement of Award Funds Through June 30, 2011

	<u>Application Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance with Revised Budget</u>
Wages & Benefits	\$ 968,007	\$ 590,191	\$ 109,521	\$ 480,670
Research Equipment	689,780	244,624	86,602	158,022
Materials & Supplies	254,000	207,525	79,936	127,589
Training	20,000	7,000	-	7,000
IT & Computers	50,000	278	278	-
Travel	40,000	5,781	2,781	3,000
Lab Fit-out Costs / Construction	628,213	1,526,384	1,526,384	-
Research / Admin Office	<u>-</u>	<u>68,217</u>	<u>8,938</u>	<u>59,279</u>
 TOTAL EXPENDITURES	 <u>\$ 2,650,000</u>	 <u>\$ 2,650,000</u>	 <u>\$ 1,814,440</u>	 <u>\$ 835,560</u>

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

**NOTES TO SCHEDULE OF CENTER OF EXCELLENCE PROGRAM AWARD
EXPENDITURES - BUDGET TO ACTUAL
From First Disbursement of Award Funds Through June 30, 2011**

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Center of Excellence Program Award Expenditures - Budget to Actual includes grant activity for the Passive Therapeutics grant of the University of North Dakota Research Foundation and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of North Dakota Century Code 15-69.

NOTE 2 - EXPENDITURE ACTIVITY AND BUDGET

Expenditures of the Passive Therapeutics grant are ongoing. The grant is budgeted to be spent through 2013. There were several amendments to the application budget; the most recent being approved by the Center of Excellence commission on August 10, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF
CENTER OF EXCELLENCE PROGRAM AWARD EXPENDITURES - BUDGET TO ACTUAL
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
University of North Dakota Research Foundation
Grand Forks, North Dakota

We have audited the schedule of Center of Excellence program award expenditures - budget to actual for the Center of Excellence in Passive Therapeutics grant of the University of North Dakota Research Foundation (the "Foundation") for the period from the first disbursement of award funds through June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University of North Dakota Research Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedule of Center of Excellence program award expenditures - budget to actual, but not for the purpose of expressing an opinion on the effectiveness of the University of North Dakota Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of North Dakota Research Foundation's schedule of Center of Excellence program award expenditures - budget to actual is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule of Center of Excellence program award expenditures - budget to actual amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University of North Dakota Research Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit University of North Dakota Research Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Foundation's management, the Board of Directors, others within the Foundation, the North Dakota Department of Commerce, the State Board of Higher Education, the North Dakota Legislative Council – Budget Section, the Centers of Excellence Commission, and the North Dakota Economic Development Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brian Tully, CPA". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
October 27, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON THE CENTER OF EXCELLENCE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH NORTH DAKOTA CENTURY CODE 15-69-05.1
AND APPLICABLE PURCHASING REQUIREMENTS

To the Board of Directors
University of North Dakota Research Foundation
Grand Forks, North Dakota

Compliance

We have audited the compliance of the University of North Dakota Research Foundation (the "Foundation") with the types of compliance requirements described in the North Dakota Century Code ("NDCC") 15-69-05.1 and applicable purchasing requirements that could have a direct and material effect on the Center of Excellence in Passive Therapeutics grant for the period from the first disbursement of award funds through June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the grant is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and NDCC 15-69-05.1. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Center of Excellence in Passive Therapeutics grant program occurred. An audit includes examining, on a test basis, evidence about University of North Dakota Research Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on University of North Dakota Research Foundation's compliance with those requirements.

In our opinion, the University of North Dakota Research Foundation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Center of Excellence in Passive Therapeutics grant for the period from the first disbursement of award funds through June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with NDCC 15-69-05.1 and which are described in the accompanying schedule of findings and questioned costs as items 2011-3 and 2011-4.

Internal Control Over Compliance

Management of the University of North Dakota Research Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Center of Excellence programs. In planning and performing our audit, we considered the University of North Dakota Research Foundation's internal control over compliance with requirements that could have a direct and material effect on its Center of Excellence in Passive Therapeutics grant program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with NDCC 15-69-05.1, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University of North Dakota Research Foundation's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Center of Excellence program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Center of Excellence program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-4 to be a material weakness.

University of North Dakota Research Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit University of North Dakota Research Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Foundation's management, the Board of Directors, others within the Foundation, the North Dakota Department of Commerce, the State Board of Higher Education, the North Dakota Legislative Council – Budget Section, the Centers of Excellence Commission, and the North Dakota Economic Development Foundation, and is not intended to be and should not be used by anyone other than these specified parties.



Minneapolis, Minnesota
October 27, 2011

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Schedule of Center of Excellence Program Award Expenditures - Budget to Actual

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to the schedule of expenditures noted?	No

Center of Excellence Program

Internal control over the program:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Type of auditors' report issued on compliance for the program?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with NDCC 15-69-05.1?	Yes
Auditee qualified as low-risk auditee?	N/A

SECTION II - SCHEDULE OF EXPENDITURES FINDINGS

Finding 2011-1: Internal Control over Financial Reporting

Criteria

Auditing standards require us to report a material weakness in internal control over financial reporting if any of these two factors are relevant: 1) material journal entries are discovered during the course of the audit; or 2) lack of complete documentation of a system of internal control over significant transaction cycles.

Condition

During the course of the audit, adjusting journal entries were identified that were material to the financial statements including a restatement of prior year net assets related to an error in net asset classification. In addition, the Foundation has not documented controls over significant transaction cycles such as payroll, disbursements, receipts and financial reporting.

Effect

Without adequate controls over financial reporting, misstatements may not be prevented or detected and corrected on a timely basis. Without complete documentation, controls may lapse during periods of turnover at the Foundation.

Cause

Material journal entries were not prepared by the Foundation.

Recommendation

We recommend the Foundation develop an action plan to ensure that all material year-end adjustments are recorded by Foundation staff prior to audit fieldwork and prepare documentation of key controls over significant transaction cycles such as payroll, disbursements, receipts and financial reporting.

Management's Response

In response to the 2010 audit, it was management's decision to contract with an independent accounting firm to assist in determining required entries. The Foundation will continue to work toward having all entries made when it becomes cost effective to do so with qualified staff.

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION II - SCHEDULE OF EXPENDITURES FINDINGS (cont.)

Finding 2011-2: Separation of Duties

Criteria

The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another.

Condition

The Foundation operates its accounting and reporting function with a limited number of individuals, which precludes a proper segregation of duties over receipts, payroll, disbursements and financial reporting. The Foundation has several compensating controls in place to address the lack of segregation of duties, however, they are not sufficient to eliminate the risk of misstatement.

Effect

Misstatements in the accounting records may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cause

The Foundation has a limited number of staff and has experienced significant turnover in employees during the fiscal year.

Recommendation

It is important for those charged with governance to be aware of this condition and realize that the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in those charged with governance's knowledge and monitoring of matters relating to the Foundation's affairs. The Foundation should also review the internal control processes and determine whether job responsibilities (including backup responsibilities) and general ledger access can be modified to ensure adequate separation of duties exists in all key processes.

Management's Response

Current management is aware that the limited number of individuals is not desirable from an internal control point of view. Because of this awareness, the Foundation did contract with an independent accounting firm to assist management in processing its financial transactions. In addition, the current management is attempting to mitigate internal control concerns to the extent possible i.e., receipt of accounts payable and preparation of vouchers is separate from the review and approval of vouchers; the duties are then separated again when checks are signed by one of the two board members that have signature authority. Management will implement other improvements when it becomes cost effective.

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION III - CENTER OF EXCELLENCE PROGRAM FINDINGS AND QUESTIONED COSTS

Finding 2011-3: Effort-Reporting Documentation

Criteria

The Center of Excellence ("COE") program requires effort reporting. Labor charged to the grant should be supported by adequate documentation such as certifications or time records.

Condition

Labor for five employees was charged to the grant in the year ended June 30, 2011. The wage rates and benefits were traced to supporting documentation. The Foundation did not maintain effort-reporting documentation for two of the five employees with salary and benefits charged to the grant.

Context

Not applicable.

Effect

The payroll amounts charged to the program may not be for personnel that worked on the grant program.

Questioned Costs

No specific questioned costs have been identified, however total salary and benefits for the individuals allocated to the grant without effort-reporting were \$20,393.

Cause

The Foundation experienced significant turnover in management and accounting staff during the year.

Recommendation

We recommend the Foundation implement procedures to ensure wages and benefits charged to the grant are supported by adequate certifications or time records as required by the COE.

Management's Response

Three effort certifications were completed during the 2011 FY to account for \$40,039 in salary and fringe benefits. As part of the payroll process and documentation, a process and schedule has been implemented for the FY2012 to ensure timely completion of personnel activity reports.

UNIVERSITY OF NORTH DAKOTA RESEARCH FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS From First Disbursement of Award Funds Through June 30, 2011

SECTION III - CENTER OF EXCELLENCE PROGRAM FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2011-4: Use of COE Cash on Hand

Criteria

COE grant funds can only be used for expenditures specified in the grant application. Grant funds cannot be used to supplant operating costs.

Condition

COE grant funds have been received from the North Dakota Department of Commerce before related COE expenditures have been made. The excess of funds received over expenditures made should be the amount of cash on hand for future COE expenditures. At June 30, 2011, there should be \$835,560 of cash on hand for future COE expenditures, however there was a deficiency of \$19,302 of COE cash on hand. This means COE grant funds have been temporarily used for non-COE expenditures.

Context

Not applicable.

Effect

COE grant funds are temporarily not being used for their intended purpose.

Questioned Costs

No specific questioned costs have been identified, however \$19,302 of COE grant awards is temporarily being used for operating costs.

Cause

The Foundation experienced cash flow shortages during fiscal year 2011. The Board of Directors took action to correct this cash shortage mid-year, however at June 30, 2011 remaining Foundation cash was less than unspent grant funds.

Recommendation

We recommend the Foundation implement procedures to ensure COE cash is not used on a temporary basis for operating costs.

Management's Response

Management acknowledged the cash flow situation during FY11. Changes in leadership occurred during FY11 and the accounting system was changed. There is cash-on-hand; procedures are evolving and being implemented to ensure the funds are appropriately expended.

**UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2011**

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* * * * *



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

University of North Dakota
Space Technology and Operations Center of Excellence

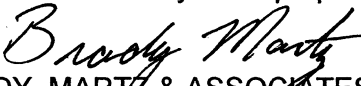
We have audited the balance sheet-modified cash basis of the University of North Dakota Space Technology and Operations Center of Excellence (Project #UND0014235) as of June 30, 2011, and the related statements of revenues, expenditures and fund balance- modified cash basis, and budgeted, incurred and questioned costs-modified cash basis for the time period December 1, 2008 (inception) through June 30, 2011. These financial statements are the responsibility of the Grantee. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the University of North Dakota Space Technology and Operations Center of Excellence (Project #UND0014235) as of June 30, 2011, and the results of its operations for the cumulative grant period then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the University of North Dakota, Centers for Excellence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.


BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
PROJECT #UND0014235
BALANCE SHEET – MODIFIED CASH BASIS
As of June 30, 2011

ASSETS

Cash	<u>\$ 22,151</u>
------	------------------

LIABILITIES

Deferred Revenue	\$ 22,151
------------------	-----------

FUND BALANCE

-

Total Liabilities and Fund Balance	<u>\$ 22,151</u>
------------------------------------	------------------

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
PROJECT #UND0014235
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCE –MODIFIED CASH BASIS
For the Grant Period December 1, 2008 (Inception) to June 30, 2011

REVENUES	Total
Grant Revenues	\$ 93,359
Interest Income	<u>231</u>
Total Revenues	<u>\$ 93,590</u>

EXPENDITURES

Salaries	\$ 65,060
Fringe Benefits and Payroll Taxes	11,884
Operating Fees & Services	1,122
Office Supplies	449
Printing	11
Promotion & Advertising	334
Communication	200
Travel	10,983
Waivers, Scholarships and Fellowships	<u>3,546</u>
Total Expenditures	<u>\$ 93,590</u>

REVENUES OVER EXPENDITURES	\$ -
Fund Balance, Beginning of Period	<u>-</u>
FUND BALANCE, END OF PERIOD	<u><u>\$ -</u></u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
PROJECT #UND0014235
STATEMENT OF BUDGETED, INCURRED AND QUESTIONED COSTS – MODIFIED CASH BASIS
For the Grant Period December 1, 2008 (Inception) to June 30, 2011

	Budgeted Cost	Incurred Cost	Questioned Cost	Over (Under)
Salaries	\$ 829,139	\$ 65,060		\$ (764,079)
Payroll Taxes	130,600	11,884		(118,716)
Operating Fees & Services	14,951	1,122		(13,829)
Office Supplies	5,710	450		(5,260)
Printing		11		11
Promotion & Advertising		334		334
Communication		200		200
Travel	19,830	10,983		(8,847)
Waivers, Scholarships and Fellowships		3,546		3,546
Total Expenditures	<u>\$ 1,000,230</u>	<u>\$ 93,590</u>	<u>\$ -</u>	<u>\$ (906,640)</u>

See Accompanying Notes to Financial Statements

UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
PROJECT #UND0014235
NOTES TO THE FINANCIAL STATEMENTS
As of June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The purpose of the Space Technology and Operations Center of Excellence grant is promote and conduct research to further the weather forecast technique of using a network of satellites that continually take atmospheric measurements simultaneously in hundreds of places around the world.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The grant is accounted for using the modified cash basis method of accounting. Revenues are recognized when all the eligibility criteria have been met.

Expenditures are generally recognized using the modified cash basis of accounting when the expenses are paid.

Deferred Revenue

Deferred revenue arises when assets are recognized in the financial statements before the revenue recognition criteria have been satisfied. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Cash Deposits

Cash balances for the Center of Excellence are pooled with cash funds of the University of North Dakota and deposited in the Bank of North Dakota. All deposits of the Bank of North Dakota are backed by the State of North Dakota.

NOTE 2 GRANT

The total grant to the University of North Dakota Space Technology and Operations Center of Excellence (Project #UND0014235) was \$1,000,000. In addition, interest income of \$231 had been earned as of June 30, 2011 and was used for additional expenditures. As of June 30, 2011, \$93,590 had been expended and \$115,510 in grant funds had been received.

NOTE 3 CONTINGENCIES

The disbursement of funds received under this program generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become an additional liability requiring funding from an alternative source. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

University of North Dakota
Space Technology and Operations Center of Excellence

We have audited the accompanying modified cash basis financial statements of the fund information of University of North Dakota Space Technology and Operations Center of Excellence (Project #UND0014235) as of and for the cumulative grant year ended June 30, 2011, which collectively comprise University of North Dakota Space Technology and Operations Center of Excellence's basic financial statements and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University of North Dakota Space Technology and Operations Center of Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

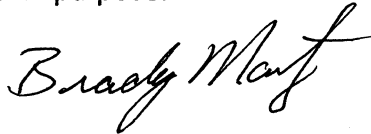
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of North Dakota Space Technology and Operations Center of Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for filing with the State Board of Higher Education, the Budget Section of the legislative management and the North Dakota Department of Commerce, and is not intended for any other purpose.

A handwritten signature in cursive script, appearing to read "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 28, 2011

UNIVERSITY OF NORTH DAKOTA
SPACE TECHNOLOGY AND OPERATIONS CENTER OF EXCELLENCE
PROJECT #UND0014235
SCHEDULE OF FINDINGS AND RESPONSES
As of June 30, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified that are

Not considered to be material weaknesses

☐ yes ☒ none reported

Non-compliance material to financial

Statements noted?

☐ yes ☒ no

SECTION II – FINDINGS, RECOMMENDATIONS, AND CENTER RESPONSES

There were no findings to be reported in this section