

NORTH CAROLINA STATE UNIVERSITY  
ALUMNI ASSOCIATION, INC.

FINANCIAL REPORT

JUNE 30, 2016 and 2015

North Carolina State University Alumni Association, Inc.

Financial Report  
For The Years Ended June 30, 2016 and 2015

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## Independent Auditor's Report

To the Board of Directors  
North Carolina State University Alumni Association, Inc.  
Raleigh, North Carolina

We have audited the accompanying financial statements of North Carolina State University Alumni Association, Inc. (the "Association"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Other Information*

The 2015 financial statements of the Association were audited by other auditors, whose report dated December 2, 2015 expressed an unmodified opinion on those statements.



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina State University Alumni Association, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Disclaimer of Opinion on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BDO USA, LLP*

Raleigh, North Carolina  
November 18, 2016

North Carolina State University Alumni Association, Inc.

Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents (Note 1)	\$ 1,443,046	\$ 1,256,404
Intermediate investments (Note 1)	373,557	375,226
Long-term investments (Notes 1 and 3)	33,728,463	33,557,923
Pledges receivable, net (Notes 1 and 6)	434,651	800,001
Receivable - charitable lead trust (Note 1)	243,021	280,549
Surrender value of life insurance (Note 1)	273,250	284,906
Property and equipment, net of accumulated depreciation of \$2,291,737 and \$2,289,629 for 2016 and 2015, respectively (Note 1)	5,268	7,376
Other receivables (Note 1)	2,144	4,488
<b>Total Assets</b>	<b>\$36,503,400</b>	<b>\$36,566,873</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 1)	\$ 12,186	\$ 27,805
Deferred revenue (Note 12)	1,495,899	3,056,360
Life income funds payable (Note 5)	315,718	411,227
Due to others (Note 1)	174,486	173,294
<b>Total Liabilities</b>	<b>1,998,289</b>	<b>3,668,686</b>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	8,059,450	6,596,351
Undesignated - underwater endowments (Note 2)	(25,208)	-
Temporarily restricted (Note 8)	9,012,237	10,211,258
Permanently restricted (Note 9)	17,458,632	16,090,578
<b>Total Net Assets</b>	<b>34,505,111</b>	<b>32,898,187</b>
<b>Total Liabilities and Net Assets</b>	<b>\$36,503,400</b>	<b>\$36,566,873</b>

See notes to financial statements.

North Carolina State University Alumni Association, Inc.

Statement of Activities  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other income</b>				
Contributions (Note 1)	\$ 338,124	\$ 325,807	\$ 440,489	\$ 1,104,420
Change in pledges receivable, net (Note 6)	-	(292,568)	(72,782)	(365,350)
University Advancement support (Note 7)	1,717,914	-	-	1,717,914
Donated services and facilities (Note 7)	175,000	-	-	175,000
Net asset reclassification -				
underwater endowments (Note 2)	(25,208)	25,208	-	-
Investment (loss) income (Note 1)	(137,089)	(404,868)	12,628	(529,329)
Gain on life insurance	-	947,670	-	947,670
Change in surrender value of life insurance	-	1,516	-	1,516
Change in value of split interest agreements	-	-	24,106	24,106
Change in value of charitable lead trust	-	-	(37,528)	(37,528)
Membership dues (Note 12)	682,812	-	-	682,812
Advertising and Alumni Magazine	69,290	-	-	69,290
Events	113,890	-	-	113,890
Affinity program royalties	220,391	-	-	220,391
Credit card program (Note 12)	1,680,000	-	-	1,680,000
Rental income	106,734	-	-	106,734
Other program income	183,651	87,479	-	271,130
Net assets released from restrictions (Note 10)	1,387,705	(1,387,705)	-	-
<b>Total Revenues, Gains, and Other Income</b>	<b>6,513,214</b>	<b>(697,461)</b>	<b>366,913</b>	<b>6,182,666</b>
<b>Program Support</b>				
Caldwell scholarships and stipends	229,100	-	-	229,100
Other scholarships	355,956	-	-	355,956
Program and event support	1,169,357	-	-	1,169,357
Advancement salaries, benefits, and assessments	2,397,984	-	-	2,397,984
Administrative	459,340	-	-	459,340
<b>Total Program Support</b>	<b>4,611,737</b>	<b>-</b>	<b>-</b>	<b>4,611,737</b>
<b>Excess (Deficit) of Revenues, Gains, and Other Income Over Total Support</b>	<b>1,901,477</b>	<b>(697,461)</b>	<b>366,913</b>	<b>1,570,929</b>
<b>Net Transfers</b>				
From other University-associated entities	7,000	28,995	-	35,995
Among funds	(470,586)	(530,555)	1,001,141	-
<b>Total Net Transfers</b>	<b>(463,586)</b>	<b>(501,560)</b>	<b>1,001,141</b>	<b>35,995</b>
<b>Change in Net Assets</b>	<b>1,437,891</b>	<b>(1,199,021)</b>	<b>1,368,054</b>	<b>1,606,924</b>
<b>Net Assets</b>				
Beginning of year	6,596,351	10,211,258	16,090,578	32,898,187
End of year	\$ 8,034,242	\$ 9,012,237	\$ 17,458,632	\$ 34,505,111

See notes to financial statements.

North Carolina State University Alumni Association, Inc.

Statement of Activities  
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other income</b>				
Contributions (Note 1)	\$ 302,329	\$ 128,269	\$ 523,041	\$ 953,639
Change in pledges receivable, net (Note 6)	-	(119,153)	(33,869)	(153,022)
University Advancement support (Note 7)	1,630,414	-	-	1,630,414
Donated services and facilities (Note 7)	171,000	-	-	171,000
Investment income (Note 1)	779,257	1,889,279	33,702	2,702,238
Change in surrender value of life insurance	-	(60,340)	-	(60,340)
Change in value of split interest agreements	-	-	(42,716)	(42,716)
Change in value of charitable lead trust	-	-	(38,943)	(38,943)
Membership dues (Note 12)	651,757	-	-	651,757
Advertising and Alumni Magazine	67,580	-	-	67,580
Events	162,564	-	-	162,564
Affinity program royalties	190,870	-	-	190,870
Credit card program (Note 12)	672,000	-	-	672,000
Rental income	106,734	-	-	106,734
Other program income	190,788	75,741	-	266,529
Net assets released from restrictions (Note 10)	1,151,844	(1,151,844)	-	-
<b>Total Revenues, Gains, and Other income</b>	<b>6,077,137</b>	<b>761,952</b>	<b>441,215</b>	<b>7,280,304</b>
<b>Program Support</b>				
Caldwell scholarships and stipends	196,530	-	-	196,530
Other scholarships	308,009	-	-	308,009
Program and event support	1,049,208	-	-	1,049,208
Advancement salaries, benefits, and assessments	2,295,049	-	-	2,295,049
Administrative	458,501	-	-	458,501
<b>Total Program Support</b>	<b>4,307,297</b>	<b>-</b>	<b>-</b>	<b>4,307,297</b>
<b>Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>1,769,840</b>	<b>761,952</b>	<b>441,215</b>	<b>2,973,007</b>
<b>Net Transfers</b>				
From other University-associated entities	7,000	-	-	7,000
Among funds	(245,819)	280,890	(35,071)	-
<b>Total Net Transfers</b>	<b>(238,819)</b>	<b>280,890</b>	<b>(35,071)</b>	<b>7,000</b>
<b>Change in Net Assets</b>	<b>1,531,021</b>	<b>1,042,842</b>	<b>406,144</b>	<b>2,980,007</b>
<b>Net Assets</b>				
Beginning of year	5,065,330	9,168,416	15,684,434	29,918,180
End of year	\$ 6,596,351	\$10,211,258	\$16,090,578	\$32,898,187

See notes to financial statements.

North Carolina State University Alumni Association, Inc.

Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,606,924	\$ 2,980,007
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,108	2,107
Investment loss (income)	529,329	(2,702,238)
Investment income restricted for split interest agreements	(12,628)	(33,702)
Change in value of split interest agreements	(24,106)	42,716
Contributions restricted for permanent endowment	(440,489)	(523,041)
Decrease in:		
Pledges receivable, net	365,350	153,022
Receivable - charitable lead trust	37,528	38,943
Other receivables	2,344	1,423
(Decrease) increase in:		
Accounts payable	(15,619)	6,373
Deferred revenue	(1,560,461)	(507,374)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>490,280</b>	<b>(541,764)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	2,080,908	2,654,755
Purchases of investments	(2,779,108)	(2,949,096)
Proceeds from life insurance	13,172	-
Change in surrender value of life insurance	(1,516)	60,340
<b>Net Cash Used in Investing Activities</b>	<b>(686,544)</b>	<b>(234,001)</b>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for permanent endowment	440,489	523,041
Investment income restricted for split interest agreements	12,628	33,702
Payments on life income fund obligations	(70,211)	(72,584)
<b>Net Cash Provided by Financing Activities</b>	<b>382,906</b>	<b>484,159</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>186,642</b>	<b>(291,606)</b>
<b>Cash and Cash Equivalents</b>		
Beginning of year	1,256,404	1,548,010
End of year	<b>\$ 1,443,046</b>	<b>\$ 1,256,404</b>

(Continued)

See notes to financial statements.

North Carolina State University Alumni Association, Inc.

Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
<hr/>		
Supplemental Disclosures of Noncash Activities:		
University Advancement support	\$ 1,463,000	\$ 1,438,000
Donated services and facilities	\$ 175,000	\$ 171,000
Transfers among funds	\$ 1,001,141	\$ 280,890

See notes to financial statements.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina State University Alumni Association, Inc., (the "Association") is a non-profit organization whose primary objectives are to promote alumni affairs and promote awareness of North Carolina State University (the "University"). The Association acts as an organizer for alumni functions, publishes an alumni magazine, and manages various endowments.

A summary of the Association's significant accounting policies follows:

Basis of accounting and presentation: The financial statements of the Association are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Association's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or by the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the earnings on related investments for the donor-restricted purpose.

Cash and cash equivalents: For purposes of reporting cash flows, the Association considers all highly liquid instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times the Association places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consist of accounts with the State Treasurer's Short-Term Investment Fund (the "STIF") and an operating checking account with Wells Fargo Bank, N.A. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF") for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$373,557 and \$375,226 at June 30, 2016 and June 30, 2015, respectively. The cost of these investments was \$376,097 and \$380,638 at June 30, 2016 and June 30, 2015, respectively.

Long-term investments: Long-term investments are stated at fair value based on readily determinable fair values, when available. Investments for which readily determinable fair values are not available are carried at estimated fair values as provided by the respective fund managers of the investments. The Association, in accordance with investment policies promulgated by its Board of Directors ("Board"), invests with the NC State Investment Fund, Inc. Long Term Investment Pool (the "LTIP"). In addition, the Association has planned giving instruments invested with Wells Fargo.

Pledges receivable: Unconditional pledges receivable are recognized as support and assets in the period received. Conditional pledges are recognized when the conditions on which they depend are substantially met.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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Note 1. Nature of Activities and Significant Accounting Policies (continued)

Receivable – charitable lead trust: The receivable for the split-interest agreement is carried at fair value, which the Association has estimated based on the present value of its expected future cash inflows.

Surrender value of life insurance: Surrender value of life insurance includes beneficiary interests in life insurance policies contributed to the Association and the Association is the owner of these policies. These gifts are recorded at current cash surrender value, less any loans outstanding on the policies. Cash surrender values of these policies were \$273,250 and \$284,906 at June 30, 2016 and June 30, 2015, respectively.

Property and equipment: Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the respective assets using the straight-line method. The Foundation capitalizes all expenditures in excess of \$5,000 for property and equipment at cost.

Other receivables: Other receivables consists of sales tax receivable, accrued interest on the STIF account, and amounts due to the Association from the University and other University-associated entities.

Accounts payable: Accounts payable include amounts disbursed by the University on behalf of the Association for payment of various normal operating expenses and trade payables due to vendors.

Due to others: Due to others at June 30, 2016 and 2015 consists of \$174,486 and \$173,294, respectively, due to remainder beneficiaries of life income funds.

Contributions: Restricted contributions are segregated for income and expense reporting purposes; however, the assets are commingled. When a donor or grantor restriction expires because the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statements of activities.

The University has a gift assessment program that supports Central Development and college-level fundraising efforts. A one-time fee of 5% is assessed on gifts that support current operations and facilities.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the “unit value” method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$137,809 and \$121,486 for the years ended June 30, 2016 and 2015, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University’s gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, designated for University Advancement. In addition, an assessment of 0.55% is charged by the Association on the average twenty-quarter market value of the assets held in the investment portfolio, for the support of University Advancement.

Advancement salaries, benefits, and assessments: For the year ended June 30, 2016 Advancement salaries, benefits, and assessments included gift assessment fees of \$194,755, advancement allocation of \$250,000, donated salaries of \$1,463,000, and advancement salaries of \$490,229

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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**Note 1. Nature of Activities and Significant Accounting Policies (continued)**

Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private association. The Association had no significant unrelated trade or business income for 2016 and 2015. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

**Note 2. Endowment**

The Association's endowment consists of approximately 150 individual funds established for Caldwell scholarships and a variety of other purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Association Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the Association's signed endowment gift agreements with donors have donor-imposed restrictions which stipulate that principal shall not be used to fund spending.

Interpretation of relevant law: The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was adopted in North Carolina as NC General Statute 36E effective March 17, 2009. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Association's interpretation of UPMIFA and the signed endowment agreements with donors, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association's endowment spending policy.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were (\$25,208) and \$0 as of June 30, 2016 and 2015, respectively.

Note 2. Endowment (continued)

Investment return objectives and risk parameters: The Association has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the LTIP in a manner that is intended to produce results that exceed a 70% MSCI ACWI Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending policy: The Association has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many newer endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However, if the gift instrument does not allow spending of corpus, the Association does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Association considered the long-term expected return on its endowment. Spending budgets were calculated at \$704,100 and \$735,075 for fiscal years 2016 and 2017, respectively.

Strategies employed for achieving investment objectives: For the long term, the primary investment objective for the LTIP is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the LTIP and to meet the spending needs of the University. To meet this investment objective, the LTIP invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

The LTIP's investments are diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g., within common stocks by economic sector, geographic area, industry, quality, and size). In addition, the LTIP seeks to diversify exposure to all asset classes through the use of multiple managers that use a variety of investment approaches.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 9,562,157	\$ 7,802,362	\$ 16,090,578	\$ 33,455,097
Net asset reclassification - underwater endowments	(25,208)	25,208	-	-
Endowment net assets after reclassification	9,536,949	7,827,570	16,090,578	33,455,097
Total investment return	(149,006)	(404,844)	12,628	(541,222)
Contributions including change in accrued pledges and other income	383,439	7,460	367,707	758,606
Appropriations of endowment assets for expenditure	(473,000)	(867,490)	-	(1,340,490)
Change in value of split interest agreements	-	-	24,106	24,106
Change in value of charitable lead trust	-	-	(37,528)	(37,528)
Other changes:				
Transfers	100,000	190,000	1,001,141	1,291,141
Endowment net assets, end of year	\$ 9,398,382	\$ 6,752,696	\$ 17,458,632	\$ 33,609,710

The following represents endowment net asset composition by type of fund, as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (25,208)	\$ -	\$ -	\$ (25,208)
Board-designated endowment funds	9,420,248	-	-	9,420,248
Donor-designated endowment funds	3,342	6,752,696	17,458,632	24,214,670
Total Funds	\$ 9,398,382	\$ 6,752,696	\$ 17,458,632	\$ 33,609,710

The following represents changes in endowment net assets for the fiscal year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 8,516,642	\$ 6,675,895	\$ 15,684,434	\$ 30,876,971
Total investment return	773,565	1,955,367	33,702	2,762,634
Contributions including change in accrued pledges and other income	409,382	9,650	489,172	908,204
Appropriations of endowment assets for expenditure	(315,290)	(838,550)	-	(1,153,840)
Change in value of split interest agreements	-	-	(42,716)	(42,716)
Change in value of charitable lead trust	-	-	(38,943)	(38,943)
Other changes:				
Transfers	177,858	-	(35,071)	142,787
Endowment net assets, end of year	\$ 9,562,157	\$ 7,802,362	\$ 16,090,578	\$ 33,455,097

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 9,562,157	\$ -	\$ -	\$ 9,562,157
Donor-designated endowment funds	-	7,802,362	16,090,578	23,892,940
Total Funds	<u>\$ 9,562,157</u>	<u>\$ 7,802,362</u>	<u>\$ 16,090,578</u>	<u>\$ 33,455,097</u>

Note 3. Long-Term Investments

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

Long-term investments at June 30, 2016 and 2015 consisted of:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 62,496	\$ 62,496	\$ 294,880	\$ 294,880
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	24,012,424	32,794,267	22,824,314	32,308,969
Life Income Funds	824,776	871,700	882,361	954,074
	<u>\$ 24,899,696</u>	<u>\$ 33,728,463</u>	<u>\$ 24,001,555</u>	<u>\$ 33,557,923</u>

Investments held by the LTIP at June 30, 2015 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the State Treasurer's STIF. As of June 30, 2016, approximately 91.2% of these limited partnerships were with the UNC Management Company, 3.5% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 5.1% was invested in the LPP, and 0.2% was invested in the STIF. LTIP's net assets were valued at approximately \$683,380,000 and \$676,716,000 at June 30, 2016 and 2015, respectively. The Association's investment in the LTIP represents approximately 4.8% of the member equity of the LTIP at June 30, 2016 and 2015.

The Association's investments held in Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The fair value hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Valuations based on quoted prices in active markets for identical investments

Level 2 – Valuations based on quoted prices in inactive markets or for which all significant inputs are observable (including quoted prices for similar investments, interest rates, credit risks, etc.)

Level 3 – Valuations based on significant unobservable inputs (including the fund’s own assumptions in determining the fair value of investments)

The Foundation’s assets itemized below are measured at fair value on a recurring basis at June 30:

	2016			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 62,496	\$ -	\$ -	\$ 62,496
NC State Investment Fund, Inc. Intermediate				
Term Fund (ITF)	-	373,557	-	373,557
NC State Investment Fund, Inc. Long Term				
Investment Pool (LTIP)	-	-	32,794,267	32,794,267
Life Income Funds	-	871,700	-	871,700
Beneficial Interest in Life Insurance Policies	-	-	273,250	273,250
	<u>\$ 62,496</u>	<u>\$ 1,245,257</u>	<u>\$ 33,067,517</u>	<u>\$ 34,375,270</u>

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 294,880	\$ -	\$ -	\$ 294,880
NC State Investment Fund, Inc. Intermediate				
Term Fund (ITF)	-	375,226	-	375,226
NC State Investment Fund, Inc. Long Term				
Investment Pool (LTIP)	-	-	32,308,969	32,308,969
Life Income Funds	-	954,074	-	954,074
Beneficial Interest in Life Insurance Policies	-	-	284,906	284,906
	<u>\$ 294,880</u>	<u>\$ 1,329,300</u>	<u>\$ 32,593,875</u>	<u>\$ 34,218,055</u>

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement (continued)

The following is a reconciliation of the assets measured at fair value on a recurring basis in which significant unobservable inputs (Level 3) were used in determining value:

	2016		2015	
	NC State	Beneficial Interest	NC State	Beneficial Interest
	Investment Fund, Inc. LTIP	in Life Insurance Policies	Investment Fund, Inc. LTIP	in Life Insurance Policies
Beginning balance	\$ 32,308,969	\$ 284,906	\$ 29,691,277	\$ 345,246
Participant additions	2,380,000	-	1,570,000	-
Investment income	4,397	-	10,095	-
Realized gain	307,022	-	390,312	-
Unrealized (depreciation) appreciation	(702,812)	1,516	2,417,621	(60,340)
Participant withdrawals	(1,365,500)	(13,172)	(1,648,850)	-
Expenses	(137,809)	-	(121,486)	-
Ending balance	\$ 32,794,267	\$ 273,250	\$ 32,308,969	\$ 284,906

Following is a description of the valuation methodologies used for assets measured at fair value:

STIF – This investment has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

NC State Investment Fund, Inc. Intermediate Term Fund (ITF) – This investment is a combination of publicly traded mutual funds valued at quoted market prices.

The NC State Investment Fund, Inc. Long Term Investment Pool (LTIP) – The LTIP's investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. The LTIP's private equity investments are initially valued based on transaction price with subsequent valuation adjustments based on trading multiples of comparable public companies adjusted for differences in factors such as liquidity. The LTIP's investment in LPP is valued at the closing price of the exchange-traded fund's shares. The LTIP also has an investment in the STIF, valued as described above.

Life Income Funds – These investments are a combination of exchange-traded equity and fixed income securities valued at quoted market prices.

Beneficial Interest in Life Insurance Policies – Valued based on the cash surrender value of the policies. Because these values are based on significant unobservable inputs, they are categorized in Level 3 of the fair value hierarchy.

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Association is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2016 and 2015 have asset balances of \$871,700 and \$954,074, respectively.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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**Note 5. Life Income Funds (continued)**

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$315,718 and \$411,227 at June 30, 2016 and 2015, respectively. Payments from these funds were \$70,211 and \$72,584 during the years ended June 30, 2016 and 2015, respectively. An unrestricted reserve account has been established in the Association's Charitable Gift Annuity (CGA) pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Association's CGA pool. As of June 30, 2016 and 2015, there was a zero balance in this reserve.

**Note 6. Pledges Receivable**

Pledges receivable consisted of the following at June 30:

	2016	2015
Receivable in less than one year	\$ 211,800	\$ 319,630
Receivable in one to five years	252,204	535,479
Total pledges receivable, gross	464,004	855,109
Less allowance for uncollectible pledges	(24,000)	(43,000)
Less unamortized discount (discount rate of 0.55% to 1.17%)	(5,353)	(12,108)
Pledges receivable, net	\$ 434,651	\$ 800,001

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Association's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Two donors represent approximately \$310,000 of total undiscounted pledges receivable at June 30, 2016. Four donors represented approximately \$736,000 of total undiscounted pledges receivable at June 30, 2015.

**Note 7. Donated Salaries, Services and Facilities**

Donated salaries and benefits paid by the University for Alumni Association and Caldwell personnel in the amount of \$1,463,000 and \$1,438,000 for the years ended June 30, 2016 and 2015, respectively, have been reflected in the financial statements as part of University Advancement support. Donated services in the amount of \$39,000 and \$35,000 for the years ended June 30, 2016 and 2015, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. Donated facility support in the amount of approximately \$136,000 for the years ended June 30, 2016 and 2015 has been reflected in the accompanying financial statements for the use of the Dorothy and Roy Park Alumni Center.

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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**Note 8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Scholarships	\$ 995,625	\$ 967,838
Fellowships	22,140	\$ 12,480
Life insurance	273,250	284,906
Endowment cumulative balance	6,752,696	7,802,362
Other	968,526	1,143,672
	<u>\$ 9,012,237</u>	<u>\$ 10,211,258</u>

Temporarily restricted net asset grouping "Other" includes amounts designated for general University support. Cumulative net endowment earnings are included in the total.

**Note 9. Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to scholarships in the amounts of \$17,458,632 and \$16,090,578, respectively.

**Note 10. Net Assets Released From Restrictions**

Net assets were released from donor restrictions as restrictions were met via the passage of time or by incurring expenses satisfying the restricted purposes specified by donors as follows during the years ended June 30:

	2016	2015
Caldwell scholarships and stipends	\$ 229,100	\$ 196,530
Other scholarships	355,956	308,009
Other	802,649	647,305
	<u>\$ 1,387,705</u>	<u>\$ 1,151,844</u>

The grouping "Other" includes amounts spent for general Association support.

**Note 11. Description of Leasing Arrangements**

The Association had operating leases with total payments of \$13,406 for the years ended June 30, 2016 and 2015. Future minimum rental payments under the operating leases are as follows:

Years ending June 30:	
2017	\$ 2,953
Minimum lease payments	<u>\$ 2,953</u>

North Carolina State University Alumni Association, Inc.

Notes to Financial Statements  
For The Years Ended June 30, 2016 and 2015

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**Note 12. Deferred Revenue**

In August 2007, the Association entered into an affinity credit card agreement with a bank whereby the Association licensed the use of NC State University's name, trademark, logos and mailing lists to the bank for a period of ten years. Under terms of the agreement, the bank paid the Association \$7,000,000 in 2008. Revenue recognized related to this agreement totaled \$672,000 for the year ended June 30, 2015, leaving \$1,680,000 of deferred credit card program revenue. In September 2015, the Association was relieved of its existing affinity credit card agreement obligations. As a result, the Association recognized the remaining \$1,680,000 in fiscal year 2016.

The Association also recognizes deferred revenue related to purchases of lifetime memberships over thirty years and multi-year memberships over the life of the membership term. Deferred lifetime membership revenue was \$1,283,298 and \$1,178,563 at June 30, 2016 and 2015, respectively. Deferred multi-year membership revenue was \$212,601 and \$197,797 at June 30, 2016 and 2015, respectively.

**Note 13. Prior Year Reclassifications**

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported total net assets.

**Note 13. Subsequent Events**

The Association has evaluated subsequent events through November 18, 2016, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

North Carolina State University Alumni Association, Inc.

General Fund Budget vs. Actual - Unaudited  
Year Ended June 30, 2016

	Approved Budget	Actual	Variance (Under) Over
<b>Income</b>			
Affinity marketing	\$ 245,000	\$ 220,391	\$ (24,609)
Miscellaneous donations	13,000	47,120	34,120
Bricks and pavers	12,000	13,728	1,728
Event revenue	65,000	86,350	21,350
Homecoming sponsorship	20,000	16,000	(4,000)
Interest and dividends	4,000	4,735	735
Magazine advertising	65,000	62,290	(2,710)
Membership (annual)	625,000	645,163	20,163
Membership (lifetime)	43,560	43,560	-
Online store	16,000	28,388	12,388
Travel program revenue	65,000	77,241	12,241
Sponsorships	74,500	94,796	20,296
The State Club	80,050	106,734	26,684
Credit card contract	310,000	410,000	100,000
Magazine quasi endowment	7,000	7,000	-
Endowment assessment	99,015	99,015	-
Magazine support (University Advancement) *	254,914	254,914	-
Salary support (University Advancement) *	1,300,000	1,300,000	-
Caldwell salary support (University Advancement) *	163,000	163,000	-
<b>Total Income</b>	<b>3,462,039</b>	<b>3,680,425</b>	<b>218,386</b>
<b>Support</b>			
Administration	197,700	184,118	(13,582)
Operations	922,800	940,211	17,411
Professional services	49,500	49,500	-
Salaries	1,946,633	1,953,229	6,596
University support	373,015	374,392	1,377
Transfers to endow	-	100,000	100,000
<b>Total Support</b>	<b>3,489,648</b>	<b>3,601,450</b>	<b>111,802</b>
<b>Income (Less) Greater than Support</b>	<b>(27,609)</b>	<b>78,975</b>	<b>106,584</b>
<b>General fund balance</b>			
Beginning of year	43,068	43,068	-
Ending of year	\$ 15,459	\$ 122,043	\$ 106,584

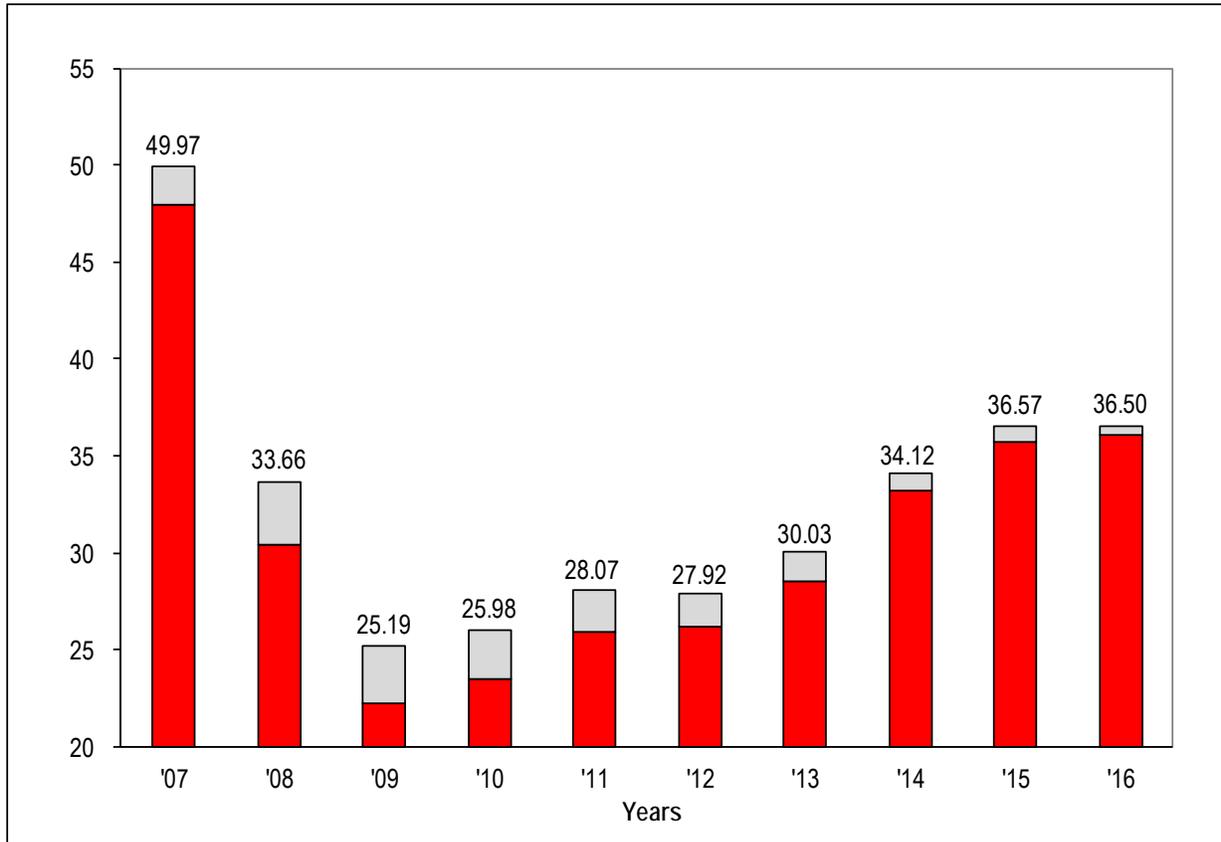
\* These items represent support from the University.

# North Carolina State University Alumni Association, Inc.

## Ten Year Summary of Asset Growth - Unaudited As of June 30

### Total Assets

(Dollars in Millions)



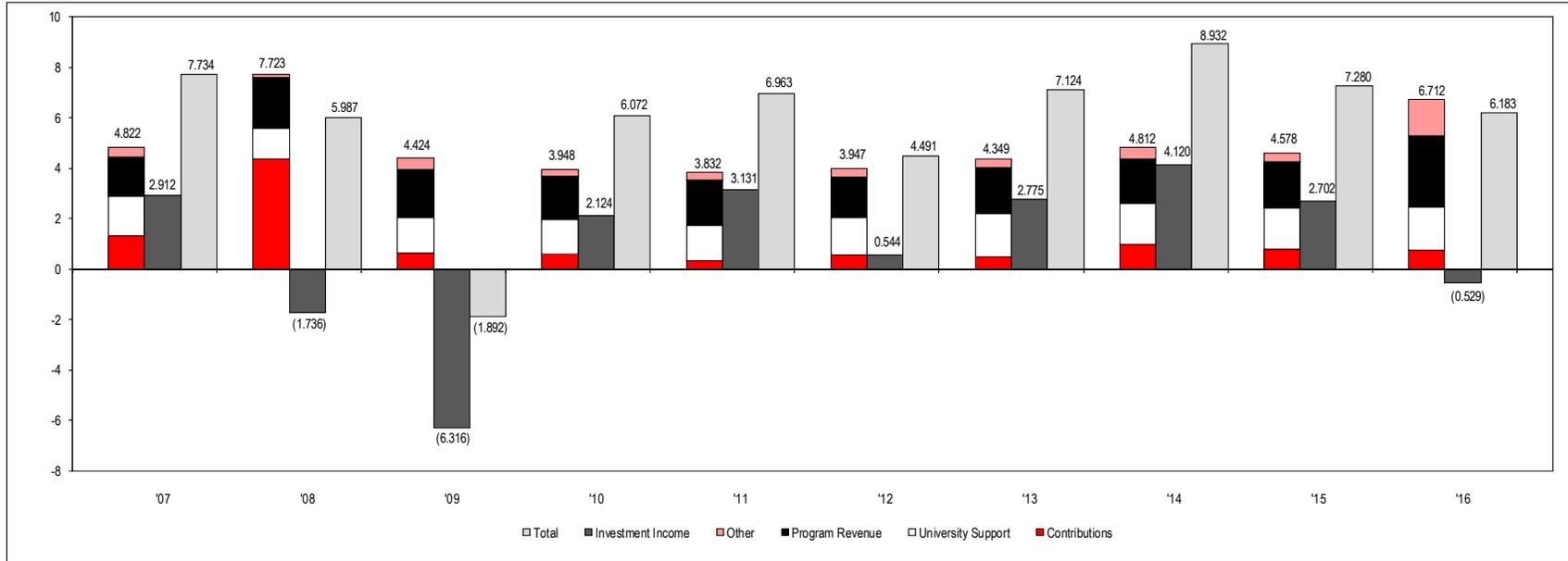
Note: In fiscal year 2008, the Dorothy and Roy Park Alumni Center was gifted to the University.

North Carolina State University Alumni Association, Inc.

Ten Year Summary of Revenues and Support - Unaudited  
Years Ended June 30

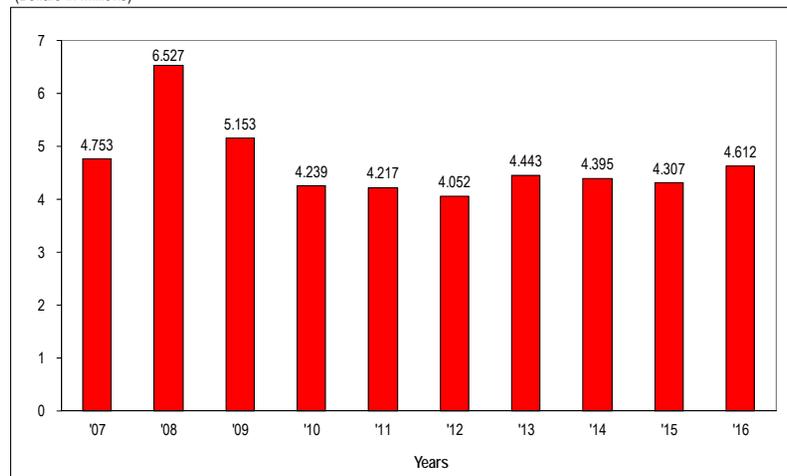
Total Revenues, Gains, and Other Income

(Dollars in Millions)



Total Support

(Dollars in Millions)



For the years ended June 30, 2016 and 2015, the NC State University Alumni Association, Inc. awarded a total of \$367,070 and \$236,440 Caldwell scholarships, respectively. In both years some amounts were paid by other University associated entities.