

**NORTH CAROLINA STATE UNIVERSITY
COLLEGE OF SCIENCES FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2014 and 2013

North Carolina State University College of Sciences Foundation, Inc.
Financial Statements
For The Years Ended June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Carolina State University College of Sciences Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of financial position of North Carolina State University College of Sciences Foundation, Inc. ("Foundation"), a nonprofit organization, as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina State University College of Sciences Foundation, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 12, in 2014 the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended June 30, 2013 have been retrospectively adjusted to reflect the accrual basis of accounting adopted in the year ended June 30, 2014. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 20 through 22, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
October 28, 2014

North Carolina State University College of Sciences Foundation, Inc.

Statements of Financial Position
June 30, 2014 and 2013 (As Restated)

	2014	2013
ASSETS		
Cash and cash equivalents (Note 1)	\$ 1,588,116	\$ 1,393,389
Intermediate investments (Note 1)	3,090,354	3,083,879
Long-term investments (Notes 1 and 3)	11,815,787	9,786,457
Pledges receivable (Notes 1 and 6)	630,650	552,154
Accounts receivable (Note 1)	550	529
Donated property (Note 1)	1,473,000	1,473,000
Copyright, net of \$13,802 accumulated amortization (Note 1)	814,297	-
Other assets (Note 1)	18,780	17,425
Total assets	\$ 19,431,534	\$ 16,306,833
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable - North Carolina State University (Note 1)	\$ 26,941	\$ 17,262
Life income funds payable (Note 5)	136,283	139,995
Total liabilities	163,224	157,257
Net Assets:		
Unrestricted:		
Undesignated	2,229,398	1,186,238
Temporarily restricted (Note 8)	9,120,347	7,654,645
Permanently restricted (Note 9)	7,918,565	7,308,693
Total net assets	19,268,310	16,149,576
Total liabilities and net assets	\$ 19,431,534	\$ 16,306,833

See Notes to Financial Statements.

North Carolina State University College of Sciences Foundation, Inc.

Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 318,440	\$ 932,250	\$ 94,443	\$ 1,345,133
Change in pledges receivable	-	80,847	(2,351)	78,496
Donated services, salaries, and facilities (Note 7)	282,000	-	-	282,000
Donated copyright (Note 1)	828,099	-	-	828,099
Net investment income	105,495	1,435,694	7,142	1,548,331
Interest and dividends	26,432	16,868	4,026	47,326
Actuarial change in value of split interest agreements	-	-	(21,133)	(21,133)
Other income	10,630	102,659	1,355	114,644
Net assets released from restrictions (Note 10)	702,185	(702,185)	-	-
Total revenues, gains, and other income	2,273,281	1,866,133	83,482	4,222,896
Grants to support the University:				
Program:				
Scholarships and fellowships	536,411	-	-	536,411
Faculty support	53,573	-	-	53,573
Departmental support	145,822	-	-	145,822
Other current services	133,024	-	-	133,024
Total program support	868,830	-	-	868,830
Administrative	54,870	-	-	54,870
Fundraising	370,117	-	-	370,117
Total other support	424,987	-	-	424,987
Total support	1,293,817	-	-	1,293,817
Excess of revenues, gains, and other income over total support	979,464	1,866,133	83,482	2,929,079
Net transfers:				
Among funds (Note 11)	63,696	(458,867)	395,171	-
From other University-associated entities	-	58,436	131,219	189,655
Total net transfers	63,696	(400,431)	526,390	189,655
Change in net assets	1,043,160	1,465,702	609,872	3,118,734
Net assets:				
Beginning, as restated	1,186,238	7,654,645	7,308,693	16,149,576
Ending	\$ 2,229,398	\$ 9,120,347	\$ 7,918,565	\$ 19,268,310

See Notes to Financial Statements.

North Carolina State University College of Sciences Foundation, Inc.

Statement of Activities

Year Ended June 30, 2013 (As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 230,704	\$ 939,339	\$ 81,269	\$ 1,251,312
Change in pledges receivable	-	(51,844)	(12,601)	(64,445)
Donated services, salaries, and facilities (Note 7)	228,000	-	-	228,000
Donated property (Note 1)	-	128,400	-	128,400
Net asset reclassification - underwater endowments (Note 2)	8,794	(8,794)	-	-
Net investment income	204,984	862,612	567	1,068,163
Interest and dividends	37,167	18,690	5,132	60,989
Actuarial change in value of split interest agreements	-	-	(20,418)	(20,418)
Loss on disposal of donated property	-	(3,858)	-	(3,858)
Other income	150	141,184	1,367	142,701
Net assets released from restrictions (Note 10)	755,332	(755,332)	-	-
Total revenues, gains, and other income	1,465,131	1,270,397	55,316	2,790,844
Grants to support the University:				
Program:				
Scholarships and fellowships	451,370	-	-	451,370
Faculty support	111,319	-	-	111,319
Departmental support	122,414	-	-	122,414
Other current services	101,379	-	-	101,379
Total program support	786,482	-	-	786,482
Administrative	43,300	-	-	43,300
Fundraising	335,077	-	-	335,077
Total other support	378,377	-	-	378,377
Total support	1,164,859	-	-	1,164,859
Excess of revenues, gains, and other income over total support	300,272	1,270,397	55,316	1,625,985
Net transfers:				
Among funds (Note 11)	(58,356)	(322,487)	380,843	-
To the Endowment Fund of North Carolina State University	-	(302,262)	(600,871)	(903,133)
Total net transfers	(58,356)	(624,749)	(220,028)	(903,133)
Change in net assets	241,916	645,648	(164,712)	722,852
Net assets:				
Beginning	944,322	7,008,997	7,473,405	15,426,724
Ending	\$ 1,186,238	\$ 7,654,645	\$ 7,308,693	\$ 16,149,576

See Notes to Financial Statements.

North Carolina State University College of Sciences Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2014 and 2013 (As Restated)

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets:	\$ 3,118,734	\$ 722,852
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization expense	13,802	8,939
Contributions restricted for permanent endowment	(94,443)	(81,269)
Donated copyright	(828,099)	-
Net investment income	(1,548,331)	(1,068,163)
Investment income restricted for split interest agreements	(4,026)	(5,132)
Actuarial change in value of split interest agreements	21,133	20,418
(Increase) decrease in:		
Pledges receivable	(78,496)	64,445
Accounts receivable	(21)	172
Other assets	(1,355)	(1,366)
Increase (decrease) in:		
Accounts payable - North Carolina State University	9,679	14,588
Net cash provided by (used in) operating activities	608,577	(324,516)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	460,086	973,409
Purchases of investments	(947,560)	(765,691)
Net cash (used in) provided by investing activities	(487,474)	207,718
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	94,443	81,269
Investment income restricted for split interest agreements	4,026	5,132
Payments on life income fund obligations	(24,845)	(24,418)
Net cash provided by financing activities	73,624	61,983
Net increase (decrease) in cash and cash equivalents	194,727	(54,815)
Cash and cash equivalents:		
Beginning	1,393,389	1,448,204
Ending	<u>\$ 1,588,116</u>	<u>\$ 1,393,389</u>
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	<u>\$ 282,000</u>	<u>\$ 228,000</u>
Transfers among funds	<u>\$ 458,867</u>	<u>\$ 380,843</u>

See Notes to Financial Statements.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements For The Years Ended June 30, 2014 and 2013 (As Restated)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina State University College of Sciences Foundation, Inc., ("Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation, established July 1, 1983, provides financial support for all types of education and research in the field of physical and mathematical sciences in the College of Sciences at the University.

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

Basis of accounting and presentation: The Foundation's policy is to prepare its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. In preparing its financial statements, the Foundation'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 Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets 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 Foundation 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 Foundation. Generally, the donors of these assets permit the Foundation 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 Foundation considers all highly liquid debt instruments to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times the Foundation 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 BNY Mellon's Liquidity DIRECT, the State Treasurer's Short-Term Investment Fund ("STIF"), and 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 an account with the Commonfund Intermediate Term Fund 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 \$3,090,354 and \$3,083,879 as of June 30, 2014 and 2013, respectively. The cost of these investments was \$3,410,108 as of June 30, 2014 and 2013.

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 Foundation, in accordance with investment policies promulgated by its Board of Directors ("Board"), invests with the NC State Investment Fund, Inc. ("NCSIF"). In addition, the Foundation 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 College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

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

Accounts receivable: Accounts receivable consists of amounts due from other University associated entities and interest earned but not yet received on the STIF account.

Donated property: Donated property is recorded at fair value at the date of the donation and is held in accordance with donor restrictions. Property in the amount of \$128,400 was donated and subsequently sold by the Foundation during the year ended June 30, 2013 and has been reflected in the financial statements.

Software license: A donated software license is recorded net of accumulated amortization totaling \$536,352 as of June 30, 2014 and 2013. As of June 30, 2013 and 2014 the software license was fully amortized.

Copyright: A donated copyright is recorded net of accumulated amortization totaling \$13,802 as of June 30, 2014.

Other assets: Other assets include beneficiary interests in life insurance policies contributed to the Foundation and the Foundation is the owner of these policies. These gifts are recorded at current cash value less any loans outstanding on the policies. Cash surrender values of these policies were \$18,780 and \$17,425 at June 30, 2014 and 2013, respectively.

Accounts payable – North Carolina State University: Accounts payable to the University include amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses.

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 the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement 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, with 3% designated for Central Development and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowment funds, 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 \$39,453 and \$35,970 for the years ended June 30, 2014 and 2013, 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, with 0.25% designated for Central Development and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.55% is charged by the Foundation on the average twenty-quarter market value of the assets held in the investment portfolio, for the support of Foundation fundraising activities.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

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 and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2014 and 2013. 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 Foundation, and has concluded that as of June 30, 2014, 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 Foundation 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 2010.

Note 2. Endowment

The Foundation's endowment consists of approximately 120 individual funds established for a variety of purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Foundation 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 Foundation'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 Foundation's interpretation of UPMIFA and the signed endowment agreements with donors, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 Foundation'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 \$0 as of June 30, 2014 and June 30, 2013.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 2. Endowment (continued)

Investment return objectives and risk parameters:

The Foundation 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 NCSIF in a manner that is intended to produce results that exceed a 70% MSCI ACWI/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending policy:

The Foundation 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 Foundation'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 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 Foundation 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 Foundation considered the long-term expected return on its endowment. Spending budgets were calculated at \$263,365 and \$322,400 for fiscal years 2014 and 2015, respectively.

Strategies employed for achieving investment objectives:

For the long term, the primary investment objective for the NCSIF 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 NCSIF and to meet the spending needs of the University. To help meet this investment objective, the NCSIF 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.

NCSIF'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 NCSIF 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 College of Sciences Foundation, Inc.

Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 303,673	\$ 2,255,747	\$ 7,308,693	\$ 9,868,113
Net asset reclassification - underwater endowments	-	-	-	-
Endowment net assets after reclassification	303,673	2,255,747	7,308,693	9,868,113
Total investment return	99,612	1,471,213	11,168	1,581,993
Contributions, including change in accrued pledges and other income	108,000	143,262	93,447	344,709
Appropriations of endowment assets for expenditure	(26,215)	(377,410)	-	(403,625)
Change in value of split interest agreements	-	-	(21,133)	(21,133)
Other changes:				
Transfers	-	-	526,390	526,390
Endowment net assets, end of year	\$ 485,070	\$ 3,492,812	\$ 7,918,565	\$ 11,896,447

The following represents endowment net asset composition by type of fund, as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 485,070	\$ 3,492,812	\$ 7,918,565	\$ 11,896,447
Total funds	\$ 485,070	\$ 3,492,812	\$ 7,918,565	\$ 11,896,447

The following represents changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 233,103	\$ 1,350,409	\$ 7,473,405	\$ 9,056,917
Net asset reclassification - underwater endowments	8,794	(8,794)	-	-
Endowment net assets after reclassification	241,897	1,341,615	7,473,405	9,056,917
Total investment return	114,216	939,393	5,699	1,059,308
Contributions, including change in accrued pledges and other income	-	261,399	70,035	331,434
Appropriations of endowment assets for expenditure	(52,440)	(286,660)	-	(339,100)
Change in value of split interest agreements	-	-	(20,418)	(20,418)
Other changes:				
Transfers	-	-	(220,028)	(220,028)
Endowment net assets, end of year	\$ 303,673	\$ 2,255,747	\$ 7,308,693	\$ 9,868,113

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 303,673	\$ 2,255,747	\$ 7,308,693	\$ 9,868,113
Total funds	\$ 303,673	\$ 2,255,747	\$ 7,308,693	\$ 9,868,113

Note 3. Long-Term Investments

The Foundation 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 that such changes could materially affect the amounts reported in the statements of financial position.

Long-term investments at June 30, 2014 and 2013 consisted of:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 51,182	\$ 51,182	\$ 20,241	\$ 20,241
NC State Investment Fund, Inc.	8,694,206	11,520,922	8,120,271	9,524,694
Wells Fargo - Life Income Funds	222,485	243,683	236,161	241,522
	\$ 8,967,873	\$ 11,815,787	\$ 8,376,673	\$ 9,786,457

Investments held by the NCSIF at June 30, 2014 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, 2014, approximately 87.9% of these investments were with the UNC Management Company, 5.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.8% was invested in the LPP, and 0.2% was invested in the STIF. NCSIF's net assets were valued at approximately \$597,884,000 and \$484,974,000 at June 30, 2014 and 2013, respectively. The Foundation's investment in the NCSIF represents approximately 1.9% and 2.0% of the member equity of the NCSIF at June 30, 2014 and 2013, respectively.

The Foundation's investments held by Wells Fargo – Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 4. Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 820, provides a framework for measuring fair value. 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.

	2014			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 51,182	\$ -	\$ -	\$ 51,182
Commonfund Intermediate Term Fund	-	3,090,354	-	3,090,354
NC State Investment Fund, Inc.	-	-	11,520,922	11,520,922
Wells Fargo - Life Income Funds	-	243,683	-	243,683
Beneficial Interest in Life Insurance Policies	-	-	18,780	18,780
	\$ 51,182	\$ 3,334,037	\$ 11,539,702	\$ 14,924,921

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 20,241	\$ -	\$ -	\$ 20,241
Commonfund Intermediate Term Fund	-	3,083,879	-	3,083,879
NC State Investment Fund, Inc.	-	-	9,524,694	9,524,694
Wells Fargo - Life Income Funds	-	241,522	-	241,522
Beneficial Interest in Life Insurance Policies	-	-	17,425	17,425
	\$ 20,241	\$ 3,325,401	\$ 9,542,119	\$ 12,887,761

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

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:

	2014		2013	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 9,524,694	\$ 17,425	\$ 8,665,188	\$ 16,059
Unrealized gain on investments	1,422,293	1,355	942,108	1,366
Realized gain on investments	134,575	-	111,433	-
Purchases	710,000	-	755,000	-
Sales	(270,640)	-	(949,035)	-
Ending balance	\$ 11,520,922	\$ 18,780	\$ 9,524,694	\$ 17,425

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.

Commonfund Intermediate Term Fund – Valued using the net asset value (“NAV”) per share of the fund provided by the fund manager. The Foundation considers this the best estimate of fair value for investments that do not have a quoted market price but calculate NAV.

NC State Investment Fund, Inc. – The NCSIF’s investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. While categorized as a Level 3 investment, the NCSIF has full redemption privileges from UNCMC with a 60-day notice requirement. The NCSIF’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 NCSIF’s investment in LPP is valued at the closing price of the exchange-traded fund’s shares. The NCSIF also has an investment in the STIF, valued as described above.

Wells Fargo 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.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and a unitrust agreement for which the Foundation 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, 2014 and 2013 have asset balances of \$243,683 and \$241,522, respectively.

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 expectancies of the beneficiaries, and totaled \$136,283 and \$139,995 at June 30, 2014 and 2013, respectively. Payments from these funds to beneficiaries were \$24,845 and \$24,418 during the years ended June 30, 2014 and 2013, respectively. An unrestricted reserve account has been established in the Foundation'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 Foundation's CGA pool. As of June 30, 2014 and 2013, there was a zero balance in this reserve.

Note 6. Pledges Receivable

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 469,621	\$ 370,245
Receivable in one to five years	200,279	214,566
Receivable in greater than five years	100	200
Total gross pledges receivable	<u>670,000</u>	585,011
Less allowance for uncollectible pledges	(34,000)	(30,000)
Less unamortized discount	(5,350)	(2,857)
Net pledges receivable	<u>\$ 630,650</u>	<u>\$ 552,154</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation'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.

Note 7. Donated Services, Salaries, and Facilities

Donated services and facilities in the amounts of \$24,000 and \$23,000 for the years ended June 30, 2014 and 2013, respectively, have been reflected in the financial statements for facilities and accounting services provided by the University Treasurer's Division. In addition, donated salaries paid by the University for Foundation development personnel in the amount of \$258,000 and \$205,000 for the years ended June 30, 2014 and 2013, respectively, have been reflected in the financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	2014	2013
Scholarships	\$ 288,673	\$ 367,142
Fellowships	944,699	895,266
Professorships	112,826	55,245
Research	49,579	42,147
Bob Simpson Visiting Scholars and Research - Land	1,473,000	1,473,000
Building fund/Facility support	748,885	748,885
Endowment cumulative balance	3,492,812	2,255,747
Other	2,009,873	1,817,213
	<u>\$ 9,120,347</u>	<u>\$ 7,654,645</u>

Temporarily restricted net asset grouping "Other" includes amounts designated for general college support and funds with multiple purposes.

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 and 2013 are restricted to:

	2014	2013
Investment in perpetuity, the income from which is expendable to support		
Scholarships	\$ 5,543,783	\$ 4,963,229
Fellowships	2,531,247	1,834,514
Professorships	451,787	406,590
Research	241,927	216,846
Amounts reported as unrestricted or temporarily restricted net assets	(3,977,882)	(2,559,420)
Other	3,127,703	2,446,934
	<u>\$ 7,918,565</u>	<u>\$ 7,308,693</u>

Permanently restricted net asset grouping "Other" includes amounts designated for general college support and funds with multiple purposes.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 10. Net Assets Released From Donor 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:

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 100,306	\$ 113,477
Fellowships	354,181	328,175
Professorships	11,030	34,119
Research	19,714	12,095
Other	216,954	267,466
	<u>\$ 702,185</u>	<u>\$ 755,332</u>

Net assets released from restriction grouping "Other" includes amounts spent for general college support and funds with multiple purposes.

Note 11. Transfers Among Funds to Permanently Restricted

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level, due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2014 and 2013, net endowment transfers were \$395,171 and \$380,843, respectively.

Note 12. Prior Year Reclassifications and Restatement

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation with no effect on previously reported net assets.

In previous years, the Foundation prepared its financial statements using the modified cash basis of accounting. In fiscal year 2014, the Foundation adopted accounting principles generally accepted in the United States of America as the basis for its financial statements. The fiscal year 2013 comparative financial statements have been restated to conform with the new basis of accounting. Accordingly, as a result of the difference between accounting principles generally accepted in the United States of America and the modified cash basis of accounting, temporarily restricted and permanently restricted net assets at the beginning of fiscal year 2013 are \$539,766 and \$76,833 higher, respectively. The change in temporarily restricted and permanently restricted net assets on the 2013 Statement of Activities is \$402,513 lower and \$322,695 higher, respectively, than the amounts previously reported. After adjustments, the total change in net assets on the 2013 Statement of Activities as restated is a \$79,818.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)

Note 12. Prior Year Reclassifications and Restatement (continued)

The statement of financial position at June 30, 2013 has been restated as follows:

	2013 as previously reported	Restatement	2013 as restated
Assets:			
Pledges receivable	\$ -	\$ 552,154	\$ 552,154
Total assets	\$ -	\$ 552,154	\$ 552,154
Liabilities:			
Accounts payable - North Carolina State University	\$ -	\$ 17,262	\$ 17,262
Due to others	1,889	(1,889)	-
Total liabilities	\$ 1,889	\$ 15,373	\$ 17,262
Net Assets:			
Unrestricted:			
Undesignated	\$ 1,186,238	\$ -	\$ 1,186,238
Temporarily restricted	7,517,392	137,253	7,654,645
Permanently restricted	6,909,165	399,528	7,308,693
Total net assets	\$ 15,612,795	\$ 536,781	\$ 16,149,576

Certain items presented in the statement of activities for the year ended June 30, 2013 have been restated as follows:

	2013 as previously reported	Restatement	2013 as restated
Revenues, gains, and other income:			
Changes in pledges receivable:			
Temporarily restricted	\$ -	\$ (51,844)	\$ (51,844)
Permanently restricted	-	(12,601)	(12,601)
Net assets released from restrictions:			
Unrestricted	739,959	15,373	755,332
Temporarily restricted	(739,959)	(15,373)	(755,332)
Grants to support the University:			
Program:			
Other current services - unrestricted	86,006	15,373	101,379
Net transfers:			
Among funds:			
Temporarily restricted	12,809	(335,296)	(322,487)
Permanently restricted	45,547	335,296	380,843

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For The Years Ended June 30, 2014 and 2013 (As Restated)**

Note 13. Subsequent Events

As of October 16, 2014, UNCMC revised their redemption policy. The policies surrounding normal spending distributions and withdrawals less than \$10 million will remain at a thirty day notice period. For withdrawals in excess of \$10 million (excluding spending distributions), a ninety day notice is expected to be required and funds may be withdrawn on a quarterly basis. After the ninety day notice period, requests up to \$200 million will be fulfilled via \$50 million payments per quarter until the redemption is complete. For requests in excess of \$200 million, \$50 million will be paid quarterly for the first four quarters. The following four quarters will pay the greater of \$50 million or 25% excess over \$200 million until the redemption is complete. The change in redemption policy is effective January 1, 2015.

The Foundation has evaluated subsequent events through October 28, 2014, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

SUPPLEMENTARY INFORMATION

North Carolina State University College of Sciences Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2014

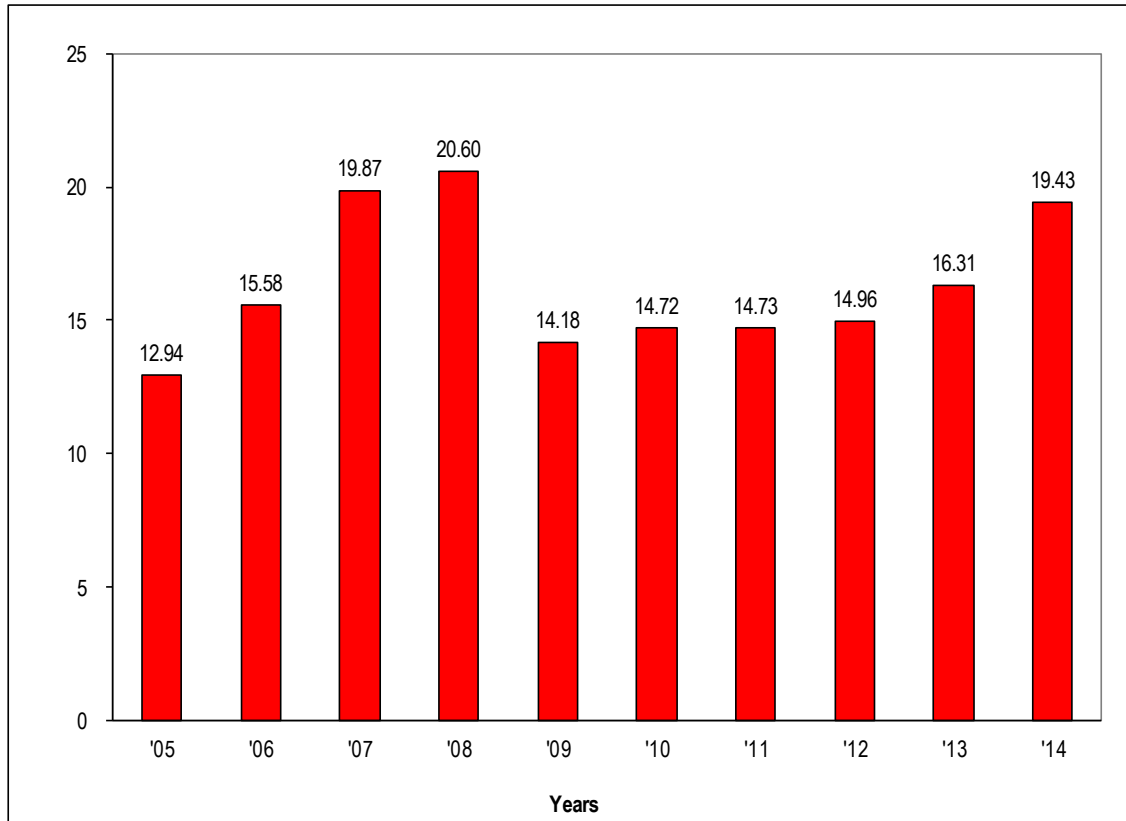
	Approved Budget	Actual	Variance Over/(Under)
Income:			
Annual Fund	\$ 93,000	\$ 129,689	\$ 36,689
Contributions	160,000	190,910	30,910
Endowment assessments	26,835	26,835	-
Interest income	37,000	36,635	(365)
Total income	316,835	384,069	67,234
Support:			
Program support	170,100	171,173	1,073
Foundation administration and development support	304,350	123,476	(180,874)
Total support	474,450	294,649	(179,801)
Income greater (less) than support	(157,615)	89,420	247,035
General fund balance:			
Beginning	1,116,106	1,116,106	-
Ending	\$ 958,491	\$ 1,205,526	\$ 247,035

North Carolina State University College of Sciences Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited Years Ended June 30

TOTAL ASSETS

(Dollars in Millions)

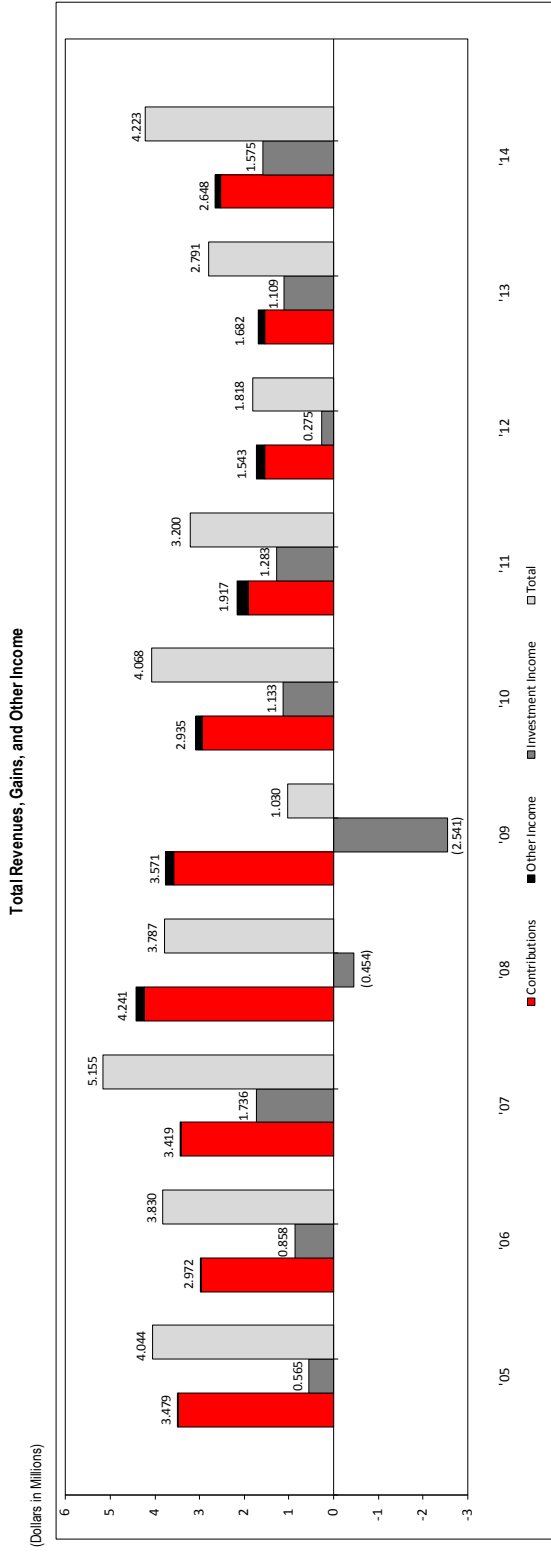


Not reflected above for FY '14 are gifts-in-kind of \$168,900 which benefit the College of Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

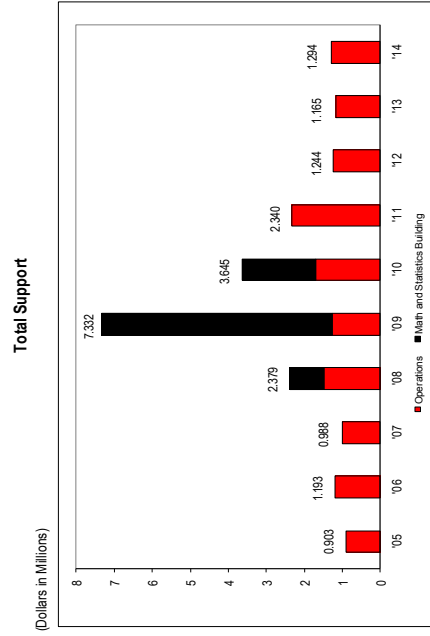
*Fiscal years 2013 - 2014 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

North Carolina State University College of Sciences Foundation, Inc.

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

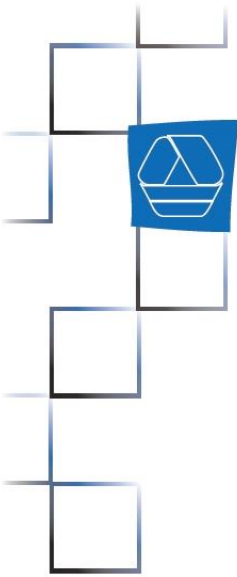


The labels on this graph represent income. The bars in this graph represent each income category separately and may not be to scale.



*Fiscal years 2013 - 2014 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

October 28, 2014

To the Board of Directors
North Carolina State University College of Sciences Foundation, Inc.
Raleigh, North Carolina

We have audited the financial statements of North Carolina State University College of Sciences Foundation, Inc. ("Foundation"), a nonprofit organization, for the year ended June 30, 2014, and have issued our report thereon dated October 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Carolina State University College of Sciences Foundation, Inc. are described in Note 1 to the financial statements. As described in Note 12, the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America during the year ended June 30, 2014. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No material misstatements were identified as a result of audit procedures and, as such, no adjustments were necessary.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Board of Directors and management of North Carolina State University College of Sciences Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Closing

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve North Carolina State University College of Sciences Foundation, Inc.

Williams Dverman Pierce, LLP