

NORTH CAROLINA STATE UNIVERSITY
COLLEGE OF SCIENCES FOUNDATION, INC.

FINANCIAL REPORT

JUNE 30, 2017 and 2016

North Carolina State University College of Sciences Foundation, Inc.
Financial Report
For the Years Ended June 30, 2017 and 2016

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Tel: 919-754-9370
Fax: 919-754-9369
www.bdo.com

421 Fayetteville Street
Suite 300
Raleigh, NC 27601

Independent Auditor's Report

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

We have audited the accompanying financial statements of North Carolina State University College of Sciences Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

Auditor's 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 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.



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, 2017 and 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
October 27, 2017

North Carolina State University College of Sciences Foundation, Inc.

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents (Note 1)	\$ 2,293,458	\$ 1,723,966
Intermediate investments (Note 1)	2,440,259	2,473,765
Long-term investments (Notes 1 and 3)	17,135,087	14,390,836
Pledges receivable, net (Notes 1 and 6)	323,571	712,401
Externally managed irrevocable trust (Note 5)	-	804,000
Accounts receivable (Note 1)	6,244	1,178
Donated property and land (Note 1)	1,473,000	1,643,000
Copyright, net of accumulated amortization of \$510,661 and \$345,041 for 2017 and 2016, respectively (Note 1)	317,438	483,058
Other assets (Note 1)	25,720	24,543
Total Assets	\$ 24,014,777	\$ 22,256,747
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 38,713	\$ 9,950
Due to others (Note 1)	-	42,500
Life income funds payable (Note 5)	768,887	126,628
Life income funds payable - externally managed irrevocable trust (Note 5)	-	667,778
Total Liabilities	807,600	846,856
Net Assets		
Unrestricted:		
Undesignated	2,047,983	2,039,107
Undesignated - underwater endowments (Note 2)	(176)	(15,468)
Board-designated - endowments (Note 2)	99,575	(16,030)
Temporarily restricted (Note 8)	11,171,771	10,270,487
Permanently restricted (Note 9)	9,888,024	9,131,795
Total Net Assets	23,207,177	21,409,891
Total Liabilities and Net Assets	\$ 24,014,777	\$ 22,256,747

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 408,918	\$ 1,020,078	\$ 590,101	\$ 2,019,097
Change in pledges receivable, net	-	(361,425)	(27,405)	(388,830)
Donated services, salaries, and facilities (Note 7)	178,000	-	-	178,000
Donated property and land (Note 1)	-	-	70,000	70,000
Net asset reclassification - underwater endowments (Note 2)	15,292	(15,292)	-	-
Net investment income	182,154	1,512,700	27,127	1,721,981
Interest and dividends	49,535	13,751	12,417	75,703
Change in value of split interest agreements	-	-	(39,513)	(39,513)
Loss on disposal of donated property	-	(52,498)	(95,411)	(147,909)
Royalties	-	173,126	11,721	184,847
Other income	-	58,556	28,836	87,392
Net assets released from restrictions (Note 10)	1,165,386	(1,165,386)	-	-
Total Revenues, Gains, and Other Income	1,999,285	1,183,610	577,873	3,760,768
Grants to Support the University				
Program:				
Scholarships and fellowships	383,256	-	-	383,256
Faculty support and professorships	263,152	-	-	263,152
Departmental support	329,951	-	-	329,951
Other current services	380,434	-	-	380,434
Total Program Support	1,356,793	-	-	1,356,793
Administrative	82,197	-	-	82,197
Fundraising	524,492	-	-	524,492
Total Other Support	606,689	-	-	606,689
Total Support	1,963,482	-	-	1,963,482
Excess of Revenues, Gains, and Other Income Over Total Support	35,803	1,183,610	577,873	1,797,286
Net Transfers				
Among funds (Note 11)	103,970	(282,326)	178,356	-
Total Net Transfers	103,970	(282,326)	178,356	-
Change in Net Assets	139,773	901,284	756,229	1,797,286
Net Assets				
Beginning of year	2,007,609	10,270,487	9,131,795	21,409,891
End of year	\$ 2,147,382	\$ 11,171,771	\$ 9,888,024	\$ 23,207,177

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 372,047	\$ 923,730	\$ 237,816	\$ 1,533,593
Change in pledges receivable, net	-	(427,121)	12,400	(414,721)
Donated services, salaries, and facilities (Note 7)	282,000	-	-	282,000
Donated property and land (Note 1)	-	-	136,222	136,222
Net asset reclassification - underwater endowments (Note 2)	(15,468)	15,468	-	-
Net investment loss	(20,420)	(212,507)	(755)	(233,682)
Interest and dividends	40,754	9,300	4,165	54,219
Change in value of split interest agreements	-	-	(19,415)	(19,415)
Royalties	-	-	164,345	164,345
Other income	-	100,906	1,352	102,258
Net assets released from restrictions (Note 10)	912,189	(912,189)	-	-
Total Revenues, Gains, and Other Income	1,571,102	(502,413)	536,130	1,604,819
Grants to Support the University Program:				
Scholarships and fellowships	467,306	-	-	467,306
Faculty support and professorships	157,154	-	-	157,154
Departmental support	202,783	-	-	202,783
Other current services	307,774	-	-	307,774
Total Program Support	1,135,017	-	-	1,135,017
Administrative	84,272	-	-	84,272
Fundraising	498,934	-	-	498,934
Total Other Support	583,206	-	-	583,206
Total Support	1,718,223	-	-	1,718,223
(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support	(147,121)	(502,413)	536,130	(113,404)
Net Transfers				
From other University-associated entities	-	12,128	-	12,128
Among funds (Note 11)	(18,643)	(156,244)	174,887	-
Total Net Transfers	(18,643)	(144,116)	174,887	12,128
Change in Net Assets	(165,764)	(646,529)	711,017	(101,276)
Net Assets				
Beginning of year	2,173,373	10,917,016	8,420,778	21,511,167
End of year	\$ 2,007,609	\$ 10,270,487	\$ 9,131,795	\$ 21,409,891

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 1,797,286	\$ (101,276)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization expense	165,620	165,620
Contributions restricted for permanent endowment	(590,101)	(237,816)
Donated copyright	-	-
Donated property and land	(70,000)	-
Net investment (income) loss	(1,721,981)	233,682
Investment income restricted for split interest agreements	(12,417)	(4,165)
Change in value of split interest agreements	39,513	19,415
Externally managed irrevocable trust, net of liability	415	(136,222)
Loss on sale of donated property	147,909	-
(Increase) decrease in:		
Pledges receivable, net	388,830	414,721
Accounts receivable	(5,066)	(411)
Other assets	(1,177)	(1,352)
Decrease (increase) in:		
Accounts payable - North Carolina State University	28,763	(21,116)
Accounts payable	-	(14,377)
Due to others	-	-
Net Cash Provided by Operating Activities	<u>167,594</u>	<u>316,703</u>
Cash Flows From Investing Activities		
Proceeds from sales of donated property	853,591	-
Proceeds from sales of investments	744,019	769,715
Purchases of investments	(1,732,783)	(1,108,058)
Net Cash Used in Investing Activities	<u>(135,173)</u>	<u>(338,343)</u>
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	590,101	237,816
Investment income restricted for split interest agreements	12,417	4,165
Payments on life income fund obligations	(65,447)	(24,598)
Net Cash Provided by Financing Activities	<u>537,071</u>	<u>217,383</u>
Net Increase in Cash and Cash Equivalents	569,492	195,743
Cash and Cash Equivalents		
Beginning of year	1,723,966	1,528,223
End of year	<u>\$ 2,293,458</u>	<u>\$ 1,723,966</u>

(Continued)

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 178,000	\$ 282,000
Transfers among funds	<u>\$ 282,326</u>	<u>\$ 174,887</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, 2017 and 2016

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina State University College of Sciences Foundation, Inc., (the "Foundation") is one of a group of foundations which provide financial support exclusively to one or more of the colleges at North Carolina State University (the "University"). The Foundation, established July 1, 1983, provides financial support for all types of education and research in physical, mathematical, and biological 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 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 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 the State Treasurer's Short-Term Investment Fund (the "STIF") and Paragon Bank. 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") and an account with the common/fund 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 \$2,440,259 and \$2,473,765 as of June 30, 2017 and 2016, respectively. The cost of these investments was \$2,691,872 and \$2,700,952 as of June 30, 2017 and 2016, 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 Foundation, in accordance with investment policies promulgated by its Board of Directors (the "Board"), invests with the NC State Investment Fund, Inc. Long-Term Investment Pool (the "LTIP"). In addition, the Foundation has planned giving instruments invested with Kaspick.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

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

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.

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 and land: Donated property and land are stated at cost. Cost for property acquired by gift is defined as market value on the date of the gift.

Software license: A donated software license is recorded net of accumulated amortization totaling \$536,352 as of June 30, 2017 and 2016. As of June 30, 2017 and 2016, the software license was fully amortized.

Copyright: A donated copyright (with an estimated useful life of 5 years) is recorded net of accumulated amortization of \$510,661 and \$345,041 as of June 30, 2017 and 2016, respectively.

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 surrender value, less any loans outstanding on the policies. Cash surrender values of these policies were \$25,720 and \$24,543 at June 30, 2017 and 2016, 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.

Due to others: Due to others at June 30, 2017 and 2016 consisted of \$0 and \$42,500, respectively, owed to other organizations.

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 fund raising 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 fund raising 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 \$69,266 and \$59,496 for the years ended June 30, 2017 and 2016, 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.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

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

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 University Advancement 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.

Estimates: The preparation of financial statements in accordance with the 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 2017 and 2016. 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, 2017 and 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 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 2013.

Note 2. Endowment

The Foundation's endowment consists of approximately 145 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.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 2. Endowment (continued)

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 or spending of corpus in accordance to the gift agreement. Deficiencies of this nature are reported in unrestricted net assets and were (\$176) and (\$15,468) as of June 30, 2017 and 2016, respectively.

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 LTIP 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 \$389,930 and \$427,025 for fiscal years 2017 and 2018, 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 help 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.

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 College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 512,908	\$ 4,984,318	\$ 9,131,795	\$ 14,629,021
Net asset reclassification - underwater endowments	15,292	(15,292)	-	-
Endowment net assets after reclassification	528,200	4,969,026	9,131,795	14,629,021
Total investment return	210,837	1,527,794	(55,867)	1,682,764
Contributions, including change in accrued pledges and other income	-	14,471	673,253	687,724
Appropriations of endowment assets for expenditure	(34,010)	(535,780)	-	(569,790)
Change in value of split interest agreements	-	-	(39,513)	(39,513)
Other changes:				
Transfers	-	-	178,356	178,356
Endowment net assets, end of year	\$ 705,027	\$ 5,975,511	\$ 9,888,024	\$ 16,568,562

The following represents endowment net asset composition by type of fund, as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (176)	\$ -	\$ -	\$ (176)
Board-designated endowment funds	99,575	-	-	99,575
Donor-designated endowment funds	605,628	5,975,511	9,888,024	16,469,163
Total funds	\$ 705,027	\$ 5,975,511	\$ 9,888,024	\$ 16,568,562

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	\$ 589,245	\$ 5,362,691	\$ 8,420,778	\$ 14,372,714
Net asset reclassification - underwater endowments	(15,468)	15,468	-	-
Endowment net assets after reclassification	573,777	5,378,159	8,420,778	14,372,714
Total investment return	(29,339)	(203,086)	3,410	(229,015)
Contributions, including change in accrued pledges and other income	-	164,375	552,135	716,510
Appropriations of endowment assets for expenditure	(31,530)	(465,130)	-	(496,660)
Change in value of split interest agreements	-	-	(19,415)	(19,415)
Other changes:				
Transfers	-	110,000	174,887	284,887
Endowment net assets, end of year	\$ 512,908	\$ 4,984,318	\$ 9,131,795	\$ 14,629,021

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 2. Endowment (continued)

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	\$ (15,468)	\$ -	\$ -	\$ (15,468)
Board-designated endowment funds	544,406	-	-	544,406
Donor-designated endowment funds	(16,030)	4,984,318	9,131,795	14,100,083
Total funds	\$ 512,908	\$ 4,984,318	\$ 9,131,795	\$ 14,629,021

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 consisted of the following at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 127,214	\$ 127,214	\$ 375,395	\$ 375,395
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	11,095,050	16,121,326	10,341,999	13,822,546
Life Income Funds	840,114	886,547	185,499	192,895
	<u>\$ 12,062,378</u>	<u>\$ 17,135,087</u>	<u>\$ 10,902,893</u>	<u>\$ 14,390,836</u>

As of June 30, 2017, approximately 88.9% of the LTIP was with the UNC Management Company ("UNCMC"), 2.2% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 8.3% was invested in the Blackrock Liquid Policy Portfolio (the "LPP"), and 0.6% was invested in the STIF. The LTIP's net assets were valued at approximately \$870,450,000 and \$683,380,000 at June 30, 2017 and 2016, respectively. The Foundation's investment in the LTIP represents approximately 1.9% and 2.0% of the member equity of the LTIP at June 30, 2017 and 2016, respectively.

The Foundation's investments held in 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, 2017 and 2016

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 at June 30:

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 127,214	\$ -	\$ -	\$ 127,214
common/fund Intermediate Term Fund	-	2,051,329	-	2,051,329
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	388,930	-	388,930
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	16,121,326	16,121,326
Life Income Funds	-	886,547	-	886,547
Beneficial Interest in Life Insurance Policies	-	-	25,720	25,720
	\$ 127,214	\$ 3,326,806	\$ 16,147,046	\$ 19,601,066

	2016			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 375,395	\$ -	\$ -	\$ 375,395
common/fund Intermediate Term Fund	-	2,081,199	-	2,081,199
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	392,566	-	392,566
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	13,822,546	13,822,546
Life Income Funds	-	192,895	-	192,895
Beneficial Interest in Life Insurance Policies	-	-	24,543	24,543
	\$ 375,395	\$ 2,666,660	\$ 13,847,089	\$ 16,889,144

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

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 at June 30:

	2017		2016	
	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 13,822,546	\$ 24,543	\$ 13,886,615	\$ 23,191
Participant additions	1,170,000	-	660,000	-
Investment income	7,819	-	1,895	-
Realized gains	204,202	-	131,407	-
Unrealized appreciation (depreciation)	1,545,730	1,177	(301,680)	1,352
Participant withdrawals	(569,790)	-	(496,660)	-
Expenses	(59,181)	-	(59,031)	-
Ending balance	\$ 16,121,326	\$ 25,720	\$ 13,822,546	\$ 24,543

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.

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.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements 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 and marked to market thereafter. Life income funds at June 30, 2017 and 2016 have asset balances of \$886,547 and \$192,895, 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 \$768,887 and \$126,628 at June 30, 2017 and 2016, respectively. Payments from these funds to beneficiaries were \$65,447 and \$24,598 during the years ended June 30, 2017 and 2016, 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, 2017 and 2016, there was a zero balance in this reserve.

In fiscal year 2016, the Foundation was named the recipient of an externally managed trust which represented irrevocable life income funds with a market value totaling \$804,000 and life income funds payable of \$677,778 as of June 30, 2016. In fiscal year 2017, the Foundation began serving as trustee for these funds. These life income funds have been reflected in the accompanying financial statements at their fair value as part of long-term investments and externally managed irrevocable trust in 2017 and 2016, respectively. Estimated future distributions to the beneficiaries have been reflected in the accompanying financial statements and were computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2017	2016
Receivable in less than one year	\$ 155,967	\$ 418,201
Receivable in one to five years	195,636	345,049
Total pledges receivable, gross	<u>351,603</u>	<u>763,250</u>
Less allowance for uncollectible pledges	(18,000)	(39,000)
Less unamortized discount (discount rates of 1.20% to 1.77%)	(10,032)	(11,849)
Pledges receivable, net	<u>\$ 323,571</u>	<u>\$ 712,401</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.

Five donors represented approximately \$287,000 of the total undiscounted pledges receivable at June 30, 2017. Four donors represented approximately \$432,000 of the total undiscounted pledges receivable at June 30, 2016.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 7. Donated Services, Salaries, and Facilities

Donated services and facilities in the amounts of \$49,000 and \$41,000 for the years ended June 30, 2017 and 2016, respectively, have been reflected in the financial statements for facilities and accounting services provided by the University Finance Division. In addition, donated salaries paid by the University for Foundation personnel in the amount of \$129,000 and \$241,000 for the years ended June 30, 2017 and 2016, respectively, have been reflected in the accompanying financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2017	2016
Scholarships and fellowships	\$ 1,764,842	\$ 1,721,864
Faculty support and professorships	28,361	27,079
Bob Simpson Visiting Scholars and Research - Land	1,473,000	1,473,000
Building fund/facility support	622,855	748,885
Pledges receivable, net	146,928	508,353
Endowment cumulative balance	5,975,511	4,984,318
Other	1,160,274	806,988
	<u>\$ 11,171,771</u>	<u>\$ 10,270,487</u>

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

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted as follows at June 30:

	2017	2016
Scholarships and fellowships	\$ 10,424,629	\$ 9,062,361
Faculty support and professorships	482,028	448,701
Wertz Chemistry Endowment	1,129,804	1,041,051
Pledges receivable, net	176,643	204,048
Amounts reported as unrestricted or temporarily restricted net assets	(6,680,538)	(5,497,226)
Other	4,355,458	3,872,860
	<u>\$ 9,888,024</u>	<u>\$ 9,131,795</u>

Permanently restricted net asset grouping "Other" includes amounts designated for research, 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, 2017 and 2016

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 during the years ended June 30:

	2017	2016
Scholarships and fellowships	\$ 353,256	\$ 444,342
Faculty support and professorships	206,369	94,433
Departmental support	262,533	181,489
Fundraising and administrative	128,414	49,770
Other	214,814	142,155
	<u>\$ 1,165,386</u>	<u>\$ 912,189</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, 2017 and 2016, net endowment transfers to permanently restricted were \$178,356 and \$174,887, respectively.

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 27, 2017, the date which the financial statements were available to be issued, and there were none to report.

North Carolina State University College of Sciences Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2017

	Approved Budget	Actual	Variance Over (Under)
Income			
Annual Fund	\$ 110,000	\$ 154,591	\$ 44,591
Contributions	185,000	241,741	56,741
Endowment assessments	49,990	49,990	-
Interest income	40,000	40,288	288
GF Revenue Transfers	126,030	126,030	-
Total Income	511,020	612,640	101,620
Support			
Program support	214,200	154,202	(59,998)
Foundation administration and development support	370,205	350,264	(19,941)
Total Support	584,405	504,466	(79,939)
Income (Less) Greater than Support	(73,385)	108,174	181,559
General Fund Balance			
Beginning of year	1,210,481	1,210,481	-
End of year	\$ 1,137,096	\$ 1,318,655	\$ 181,559

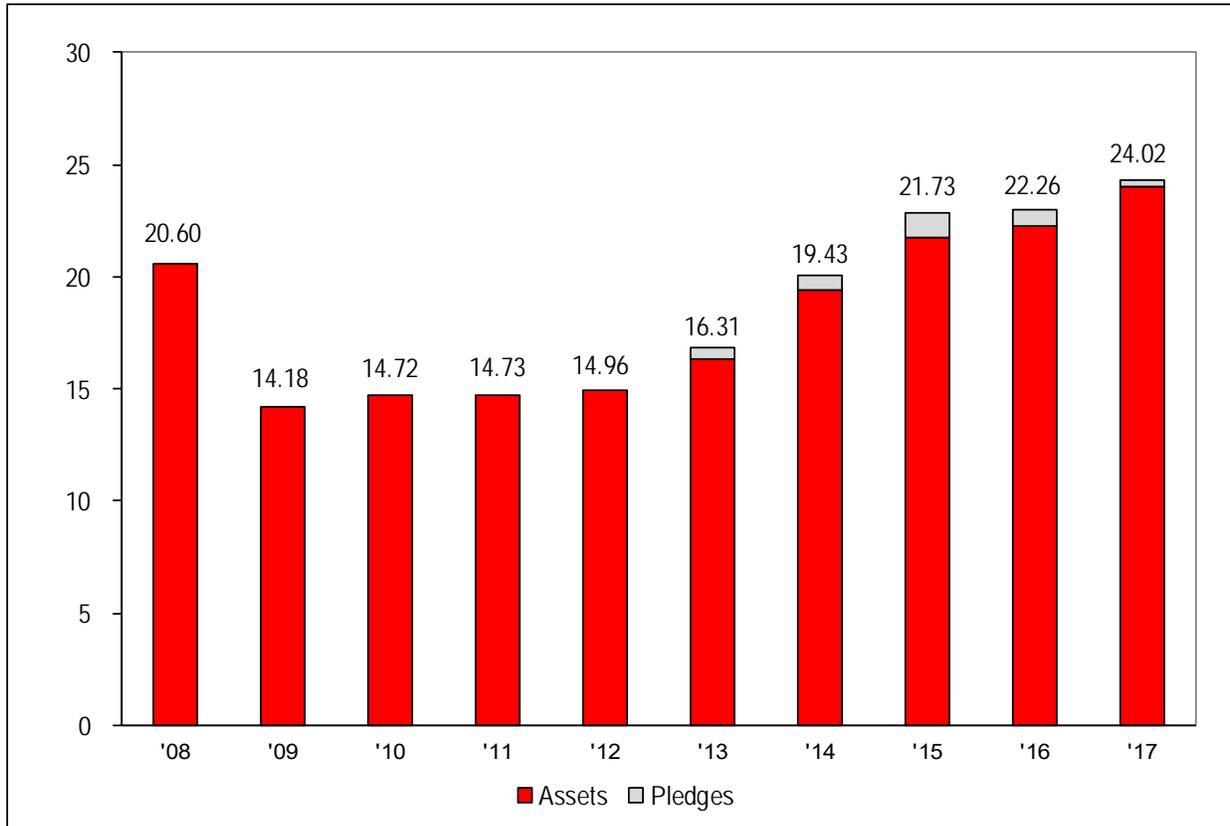
North Carolina State University College of Sciences Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited

As of June 30

TOTAL ASSETS

(Dollars in Millions)



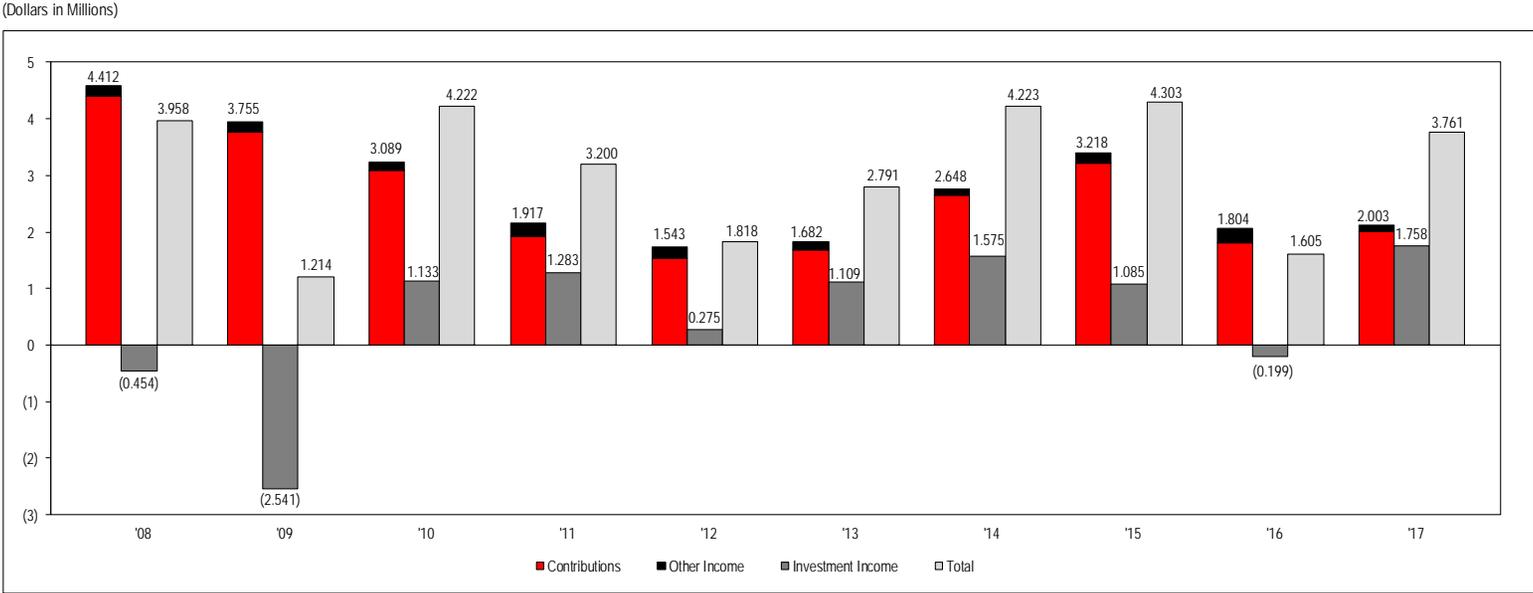
Not reflected above for FY '17 are gifts-in-kind of \$812,597 which benefit the College of Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

*Fiscal years 2013 - 2017 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

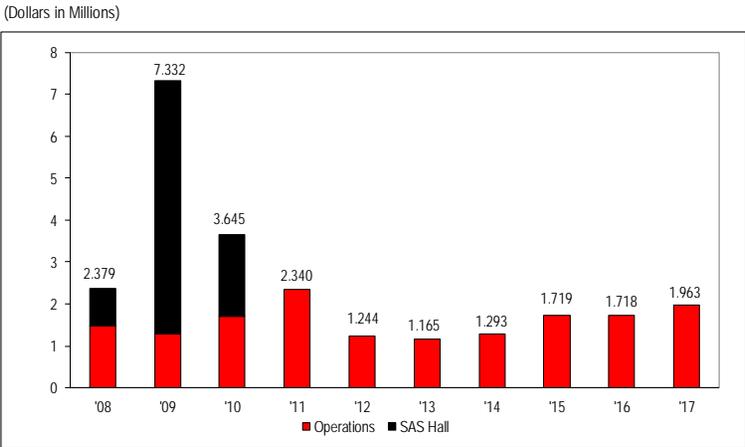
North Carolina State University College of Sciences Foundation, Inc.

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

Total Revenues, Gains, and Other Income



Total Support



*Fiscal years 2013 - 2017 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.