

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

FINANCIAL REPORT

JUNE 30, 2018 and 2017

North Carolina State University College of Sciences Foundation, Inc.
Financial Report
For the Years Ended June 30, 2018 and 2017

Contents

Independent Auditor's Report	1 - 2
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Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 18

Supplementary Information	
General Fund Budget vs. Actual - Unaudited	19
Ten Year Summary of Asset Growth - Unaudited	20
Ten Year Summary of Revenues and Support - Unaudited	21



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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, 2018 and 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2018 and 2017, 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 5, 2018

North Carolina State University College of Sciences Foundation, Inc.

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents (Note 1)	\$ 3,212,936	\$ 2,293,458
Intermediate investments (Note 1)	2,397,731	2,440,259
Long-term investments (Notes 1 and 3)	19,841,844	17,135,087
Pledges receivable, net (Notes 1 and 6)	524,135	323,571
Accounts receivable (Note 1)	-	6,244
Donated property and land (Note 1)	-	1,473,000
Copyright, net of accumulated amortization of \$676,281 and \$510,661 for 2018 and 2017, respectively (Note 1)	151,818	317,438
Other assets (Note 1)	26,514	25,720
Total Assets	\$ 26,154,978	\$ 24,014,777
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 6,190	\$ 38,713
Life income funds payable (Note 5)	791,028	768,887
Total Liabilities	797,218	807,600
Net Assets		
Unrestricted:		
Undesignated	1,967,031	2,047,983
Undesignated - underwater endowments (Note 2)	(851)	(176)
Board-designated - endowments (Note 2)	187,889	99,575
Temporarily restricted (Note 8)	11,830,778	11,171,771
Permanently restricted (Note 9)	11,372,913	9,888,024
Total Net Assets	25,357,760	23,207,177
Total Liabilities and Net Assets	\$ 26,154,978	\$ 24,014,777

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income:				
Contributions (Note 1)	\$ 359,242	\$ 1,203,234	\$ 1,390,497	\$ 2,952,973
Change in pledges receivable, net (Note 6)	-	135,259	65,305	200,564
Donated services, salaries, and facilities (Note 7)	233,000	-	-	233,000
Return of donated property and land (Note 1)	-	(1,473,000)	-	(1,473,000)
Net asset reclassification - underwater endowments (Note 2)	(675)	675	-	-
Net investment income	156,283	1,767,361	30,032	1,953,676
Interest and dividends	78,137	12,767	10,396	101,300
Change in value of split interest agreements	-	-	(68,828)	(68,828)
Royalties	-	272,428	-	272,428
Other income	-	12,427	794	13,221
Net assets released from restrictions (Note 10)	1,291,655	(1,291,655)	-	-
Total Revenues, Gains, and Other Income	2,117,642	639,496	1,428,196	4,185,334
Grants to Support the University Program:				
Scholarships and fellowships	410,710	-	-	410,710
Faculty support and professorships	219,998	-	-	219,998
Departmental support	274,219	-	-	274,219
Other current services	455,811	-	-	455,811
Total Program Support	1,360,738	-	-	1,360,738
Administrative	76,449	-	-	76,449
Fundraising	646,095	-	-	646,095
Total Other Support	722,544	-	-	722,544
Total Support	2,083,282	-	-	2,083,282
Excess of Revenues, Gains, and Other Income Over Total Support	34,360	639,496	1,428,196	2,102,052
Net Transfers				
From other University-associated entities	-	46,107	2,424	48,531
Among funds (Note 11)	(27,673)	(26,596)	54,269	-
Total Net Transfers	(27,673)	19,511	56,693	48,531
Change in net assets	6,687	659,007	1,484,889	2,150,583
Net Assets				
Beginning of year	2,147,382	11,171,771	9,888,024	23,207,177
End of year	\$ 2,154,069	\$ 11,830,778	\$ 11,372,913	\$ 25,357,760

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 (Note 6)	-	(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.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 2,150,583	\$ 1,797,286
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	(1,390,497)	(590,101)
Return (receipt) of donated property and land	1,473,000	(70,000)
Net investment income	(1,953,676)	(1,721,981)
Investment income restricted for split interest agreements	(10,396)	(12,417)
Change in value of split interest agreements	68,828	39,513
Externally managed irrevocable trust, net of liability	-	415
Loss on sale of donated property	-	147,909
(Increase) decrease in:		
Pledges receivable, net	(200,564)	388,830
Accounts receivable	6,244	(5,066)
Other assets	(794)	(1,177)
(Decrease) increase in:		
Accounts payable - North Carolina State University	(32,523)	28,763
Net Cash Provided by Operating Activities	275,825	167,594
Cash Flows From Investing Activities		
Proceeds from sales of donated property	-	853,591
Proceeds from sales of investments	925,858	744,019
Purchases of investments	(1,636,411)	(1,732,783)
Net Cash Used in Investing Activities	(710,553)	(135,173)
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	1,390,497	590,101
Investment income restricted for split interest agreements	10,396	12,417
Payments on life income fund obligations	(46,687)	(65,447)
Net Cash Provided by Financing Activities	1,354,206	537,071
Net Increase in Cash and Cash Equivalents	919,478	569,492
Cash and Cash Equivalents		
Beginning of year	2,293,458	1,723,966
End of year	\$ 3,212,936	\$ 2,293,458

(Continued)

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 233,000	\$ 178,000
Transfers among funds	\$ 54,269	\$ 282,326

See notes to financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

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 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 \$2,397,731 and \$2,440,259 as of June 30, 2018 and 2017, respectively. The cost of these investments was \$2,685,037 and \$2,691,872 as of June 30, 2018 and 2017, 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 TIAA Kaspick.

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

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, 2018 and 2017. As of June 30, 2018 and 2017, the software license was fully amortized.

Copyright: A donated copyright is recorded net of accumulated amortization of \$676,281 and \$510,661 as of June 30, 2018 and 2017, 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 \$26,514 and \$25,720 at June 30, 2018 and 2017, 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. For the year ended June 30, 2018, a one-time fee of 7% is assessed on gifts that support current operations and facilities, with 4% designated for Central Development and 3% designated to the fundraising entity receiving the gift. For the year ended June 30, 2017, a one-time fee of 5% was assessed, 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 approximately \$86,000 and \$69,000 for the years ended June 30, 2018 and 2017, 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.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

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

As part of the University's gift assessment program, an annual fee is assessed on the average twenty-quarter market value of assets held in the investment portfolio. For the year ended June 30, 2018, the annual fee was of 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts. For the year ended June 30, 2017, the annual fee was 0.50%, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, for the year ended June 30, 2017, an assessment of 0.55% was charged by the Foundation on the average twenty-quarter market value of 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 2018 and 2017. 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, 2018 and 2017, 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 2014.

Note 2. Endowment

The Foundation's endowment consists of approximately 150 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.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

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 either spending of corpus in accordance to the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were (\$851) and (\$176) as of June 30, 2018 and 2017, 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 \$427,025 and \$561,545 for fiscal years 2018 and 2019, 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, 2018 and 2017

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 705,027	\$ 5,975,511	\$ 9,888,024	\$ 16,568,562
Net asset reclassification - underwater endowments	(675)	675	-	-
Endowment net assets after reclassification	704,352	5,976,186	9,888,024	16,568,562
Total investment return	234,243	1,801,855	40,428	2,076,526
Contributions, including change in accrued pledges and other income	-	-	1,456,596	1,456,596
Appropriations of endowment assets for expenditure	(80,386)	(684,765)	-	(765,151)
Change in value of split interest agreements	-	-	(68,828)	(68,828)
Other changes:				
Transfers	-	-	56,693	56,693
Endowment net assets, end of year	<u>\$ 858,209</u>	<u>\$ 7,093,276</u>	<u>\$ 11,372,913</u>	<u>\$ 19,324,398</u>

The following represents endowment net asset composition by type of fund, as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (851)	\$ -	\$ -	\$ (851)
Board-designated endowment funds	187,889	-	-	187,889
Donor-designated endowment funds	671,171	7,093,276	11,372,913	19,137,360
Total funds	<u>\$ 858,209</u>	<u>\$ 7,093,276</u>	<u>\$ 11,372,913</u>	<u>\$ 19,324,398</u>

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	<u>\$ 705,027</u>	<u>\$ 5,975,511</u>	<u>\$ 9,888,024</u>	<u>\$ 16,568,562</u>

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 2. Endowment (continued)

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	<u>\$ 705,027</u>	<u>\$ 5,975,511</u>	<u>\$ 9,888,024</u>	<u>\$ 16,568,562</u>

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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 2,457	\$ 2,457	\$ 127,214	\$ 127,214
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	12,104,361	18,943,472	11,095,050	16,121,326
Life Income Funds	833,854	895,915	840,114	886,547
	<u>\$ 12,940,672</u>	<u>\$ 19,841,844</u>	<u>\$ 12,062,378</u>	<u>\$ 17,135,087</u>

As of June 30, 2018, approximately 87.4% of the LTIP was invested with the UNC Management Company, 9.2% in the LPP, 1.8% in other managers in private equity funds, and 1.6% in the STIF. The LTIP's net assets were valued at approximately \$1,008,370,000 and \$870,450,000 at June 30, 2018 and 2017, respectively. The Foundation's investment in the LTIP represents approximately 1.9% of the member equity of the LTIP at June 30, 2018 and 2017.

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, 2018 and 2017**

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:

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 2,457	\$ -	\$ -	\$ 2,457
commonfund Intermediate Term Fund	-	2,017,709	-	2,017,709
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	380,022	-	380,022
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	18,943,472	18,943,472
Life Income Funds	-	895,915	-	895,915
Beneficial Interest in Life Insurance Policies	-	-	26,514	26,514
	\$ 2,457	\$ 3,293,646	\$ 18,969,986	\$ 22,266,089

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 127,214	\$ -	\$ -	\$ 127,214
commonfund 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

North Carolina State University College of Sciences Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

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:

	2018		2017	
	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	\$ 16,121,326	\$ 25,720	\$ 13,822,546	\$ 24,543
Participant additions	1,623,206	-	1,170,000	-
Investment income	8,434	-	7,819	-
Realized gains	225,284	-	204,202	-
Unrealized appreciation	1,812,835	794	1,545,730	1,177
Participant withdrawals	(765,151)	-	(569,790)	-
Expenses	(82,462)	-	(59,181)	-
Ending balance	\$ 18,943,472	\$ 26,514	\$ 16,121,326	\$ 25,720

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, 2018 and 2017**

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. Life income funds at June 30, 2018 and 2017 have asset balances of \$895,915 and \$886,547, 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 \$791,028 and \$768,887 at June 30, 2018 and 2017, respectively. Payments from these funds to beneficiaries were \$46,687 and \$65,447 during the years ended June 30, 2018 and 2017, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% 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 10% of the total value of the Foundation's CGA pool. As of June 30, 2018 and 2017, there was a zero balance in this reserve.

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2018	2017
Receivable in less than one year	\$ 226,568	\$ 155,967
Receivable in one to five years	358,686	195,636
Total pledges receivable, gross	585,254	351,603
Less allowance for uncollectible pledges	(30,000)	(18,000)
Less unamortized discount (discount rates of 2.33% to 2.78%)	(31,119)	(10,032)
Pledges receivable, net	\$ 524,135	\$ 323,571

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.

Three donors represented approximately \$228,000 of the total undiscounted pledges receivable at June 30, 2018. Five donors represented approximately \$287,000 of the total undiscounted pledges receivable at June 30, 2017.

Note 7. Donated Services, Salaries, and Facilities

Donated services and facilities in the amounts of \$36,000 and \$49,000 for the years ended June 30, 2018 and 2017, 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 \$197,000 and \$129,000 for the years ended June 30, 2018 and 2017, respectively, have been reflected in the accompanying financial statements.

North Carolina State University College of Sciences Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

Note 8. Temporarily Restricted Net Assets

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

	2018	2017
Scholarships and fellowships	\$ 2,239,067	\$ 1,764,842
Faculty support and professorships	45,615	28,361
Bob Simpson Visiting Scholars and Research - Land	-	1,473,000
Building fund/facility support	416,825	622,855
Pledges receivable, net	277,067	146,928
Endowment cumulative balance	7,093,276	5,975,511
Other	1,758,928	1,160,274
	<u>\$ 11,830,778</u>	<u>\$ 11,171,771</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:

	2018	2017
Scholarships and fellowships	\$ 11,817,046	\$ 10,424,629
Faculty support and professorships	515,548	482,028
Wertz Chemistry Endowment	1,208,364	1,129,804
Pledges receivable, net	247,068	176,643
Amounts reported as unrestricted or temporarily restricted net assets	(7,951,485)	(6,680,538)
Other	5,536,372	4,355,458
	<u>\$ 11,372,913</u>	<u>\$ 9,888,024</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, 2018 and 2017**

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 at June 30:

	2018		2017
Scholarships and fellowships	\$ 410,710	\$	353,256
Faculty support and professorships	219,998		206,369
Departmental support	274,219		262,533
Fundraising and administrative	96,536		128,414
Other	290,192		214,814
	\$ 1,291,655	\$	1,165,386

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, 2018 and 2017, net endowment transfers to permanently restricted were \$54,269 and \$178,356, respectively.

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 5, 2018, 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, 2018

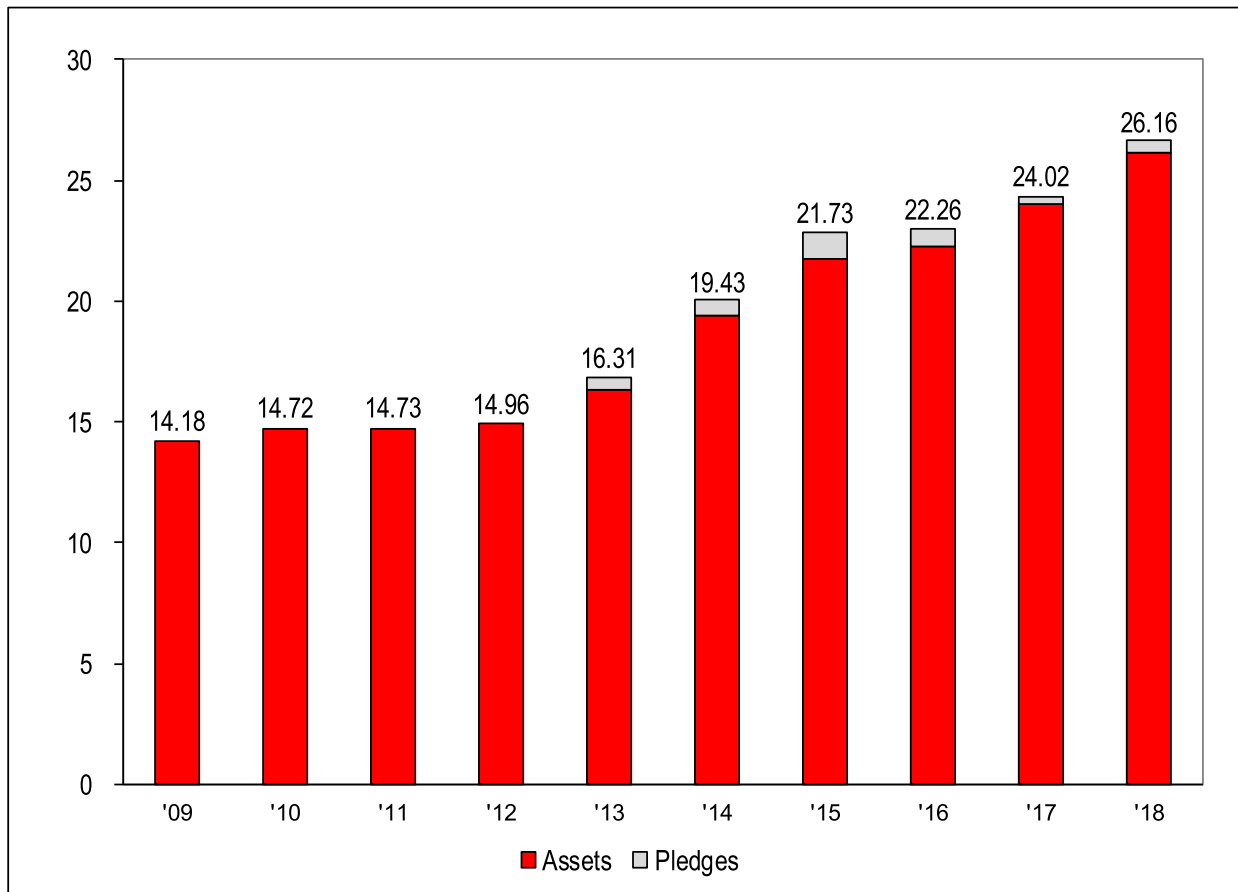
	Approved Budget	Actual	Variance Over/(Under)
Income			
Contributions	\$ 310,000	\$ 338,698	\$ 28,698
Interest income	44,000	44,249	249
Transfer from Essentials Building fund	320,000	206,030	(113,970)
Total Income	674,000	588,977	(85,023)
Support			
Program support	146,700	136,684	(10,016)
Foundation administration and development support	552,720	452,293	(100,427)
Total Support	699,420	588,977	(110,443)
Income Less than Support	(25,420)	-	25,420
General Fund Balance			
Beginning of year	1,318,655	1,318,655	-
End of year	\$ 1,293,235	\$ 1,318,655	\$ 25,420

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)



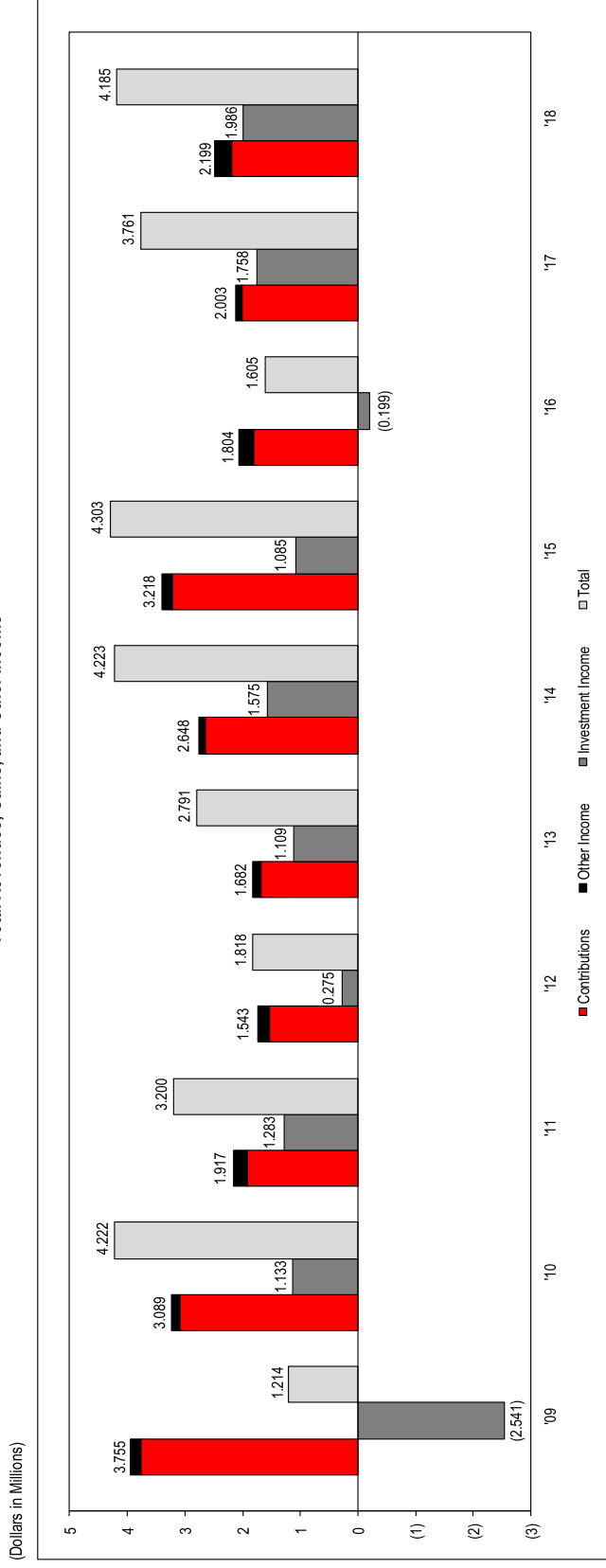
Not reflected above for FY '18 are gifts-in-kind of \$1,019,078 which benefit the College of Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

*Fiscal years 2013 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

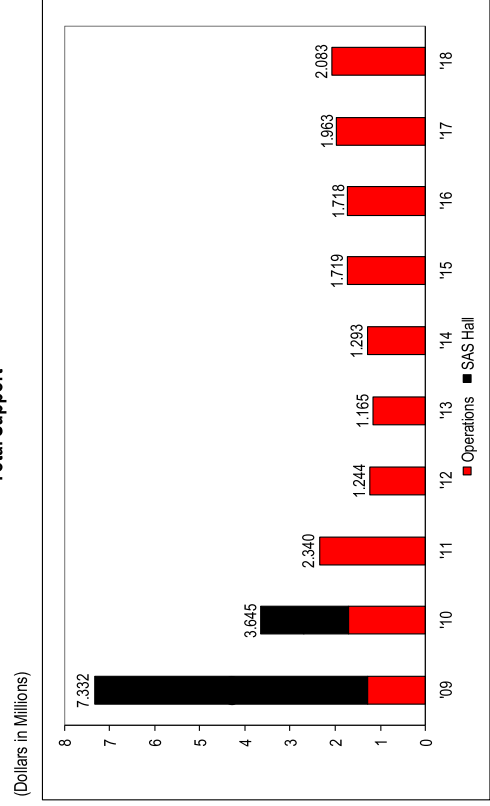
North Carolina State University College of Sciences Foundation, Inc.

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

Total Revenues, Gains, and Other Income*



Total Support



*Fiscal years 2013 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.