

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2013 and 2012

NC State Engineering Foundation, Inc.

**Financial Report
For the years ended June 30, 2013 and 2012**

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NC State Engineering Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of financial position of NC State Engineering Foundation, Inc. ("Foundation"), a nonprofit organization, as of June 30, 2013 and 2012, 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.

Raleigh • Greensboro

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Engineering Foundation, Inc. as of June 30, 2013 and 2012, 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.

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 19 through 21, 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 Overman Pierce, LLP

Raleigh, North Carolina
October 18, 2013

NC State Engineering Foundation, Inc.

**Statements of Financial Position
June 30, 2013 and 2012**

	2013	2012
ASSETS		
Cash and cash equivalents (Note 1)	\$ 9,153,866	\$ 9,200,307
Intermediate investments (Note 1)	3,389,293	2,979,058
Long-term investments (Notes 1 and 3)	55,794,439	50,063,853
Pledges receivable (Notes 1 and 6)	1,661,711	2,210,067
Property held for others	7,500	11,000
Other assets	1,738	1,500
Total assets	\$ 70,008,547	\$ 64,465,785
LIABILITIES AND NET ASSETS		
Accounts payable - North Carolina State University (Note 1)	\$ 97,841	\$ 65,007
Due to others (Note 1)	7,500	11,000
Life income funds payable (Note 5)	1,911,268	1,628,020
Total liabilities	2,016,609	1,704,027
Net Assets:		
Unrestricted:		
Undesignated (Note 1)	605,300	1,032,254
Undesignated - underwater endowments (Note 2)	(10,630)	(88,093)
Board-designated - endowments (Note 2)	1,392,593	1,192,237
Temporarily restricted (Note 8)	28,263,475	24,197,307
Permanently restricted (Note 9)	37,741,200	36,428,053
Total net assets	67,991,938	62,761,758
Total liabilities and net assets	\$ 70,008,547	\$ 64,465,785

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 707,637	\$ 3,690,549	\$ 1,336,369	\$ 5,734,555
Change in pledges receivable	30,353	(399,037)	(179,672)	(548,356)
Donated services, salaries, and facilities (Note 7)	605,000	-	-	605,000
Net asset reclassification - underwater endowments (Note 2)	77,463	(77,463)	-	-
Net investment income	736,395	4,941,186	10,539	5,688,120
Interest and dividends	79,924	23,345	68,551	171,820
Change in value of split interest agreements	-	-	(144,885)	(144,885)
Other income	-	160,070	-	160,070
Net assets released from restrictions (Note 10)	4,661,530	(4,661,530)	-	-
Total revenues, gains, and other income	6,898,302	3,677,120	1,090,902	11,666,324
Grants to support the University:				
Program:				
Scholarships and fellowships	2,530,988	-	-	2,530,988
Faculty support and professorships	849,871	-	-	849,871
Departmental support	1,158,487	-	-	1,158,487
Other current services	482,997	-	-	482,997
Total program support	5,022,343	-	-	5,022,343
Administrative	187,112	-	-	187,112
Fund-raising	1,302,266	-	-	1,302,266
Total other support	1,489,378	-	-	1,489,378
Total support	6,511,721	-	-	6,511,721
Excess of revenues, gains, and other income over total support	386,581	3,677,120	1,090,902	5,154,603
Net transfers:				
From other University-associated entity	-	75,577	-	75,577
Among funds (Note 11)	(535,716)	313,471	222,245	-
Total net transfers	(535,716)	389,048	222,245	75,577
Change in net assets	(149,135)	4,066,168	1,313,147	5,230,180
Net assets:				
Beginning	2,136,398	24,197,307	36,428,053	62,761,758
Ending	\$ 1,987,263	\$ 28,263,475	\$ 37,741,200	\$ 67,991,938

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 659,502	\$ 4,361,912	\$ 1,604,297	\$ 6,625,711
Change in pledges receivable	(18,541)	(463,147)	256,249	(225,439)
Donated services, salaries, and facilities (Note 7)	449,000	-	-	449,000
Net asset reclassification - underwater endowments (Note 2)	57,517	(57,517)	-	-
Net investment income	11,130	465,356	552,299	1,028,785
Interest and dividends	91,797	31,626	62,999	186,422
Change in value of split interest agreements	-	-	(66,872)	(66,872)
Other income	-	91,774	-	91,774
Net assets released from restrictions (Note 10)	5,255,318	(5,255,318)	-	-
Total revenues, gains, and other income	6,505,723	(825,314)	2,408,972	8,089,381
Grants to support the University:				
Program:				
Scholarships and fellowships	2,730,738	-	-	2,730,738
Faculty support and professorships	1,078,592	-	-	1,078,592
Departmental support	1,179,745	-	-	1,179,745
Other current services	545,913	-	-	545,913
Total program support	5,534,988	-	-	5,534,988
Administrative	141,496	-	-	141,496
Fund-raising	1,101,070	-	-	1,101,070
Total other support	1,242,566	-	-	1,242,566
Total support	6,777,554	-	-	6,777,554
Excess (deficit) of revenues, gains, and other income over total support	(271,831)	(825,314)	2,408,972	1,311,827
Net transfers:				
From other University-associated entity	-	1,538	-	1,538
Among funds (Note 11)	227,823	(322,910)	95,087	-
Total net transfers	227,823	(321,372)	95,087	1,538
Change in net assets	(44,008)	(1,146,686)	2,504,059	1,313,365
Net assets:				
Beginning	2,180,406	25,343,993	33,923,994	61,448,393
Ending	\$ 2,136,398	\$ 24,197,307	\$ 36,428,053	\$ 62,761,758

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

**Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets:	\$ 5,230,180	\$ 1,313,365
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net investment income	(5,688,120)	(1,028,785)
Investment income restricted for split interest agreements	(68,551)	(62,999)
Actuarial change in value of split interest agreements	144,885	66,872
Contributions restricted for permanent endowment	(1,336,369)	(1,604,297)
Decrease in pledges receivable	548,356	225,439
Decrease in property held for others	3,500	-
Increase in other assets	(238)	-
Increase (decrease) in accounts payable - North Carolina State University	32,834	(5,720)
Decrease in due to others	(3,500)	-
Net cash used in operating activities	(1,137,023)	(1,096,125)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	2,247,958	4,453,601
Purchases of investments	(2,700,659)	(3,770,214)
Net cash (used in) provided by investing activities	(452,701)	683,387
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	1,336,369	1,604,297
Investment income restricted for split interest agreements	68,551	62,999
Payments on life income fund obligations	(239,244)	(211,446)
Proceeds from life income fund obligations	377,607	80,874
Net cash provided by financing activities	1,543,283	1,536,724
Net (decrease) increase in cash and cash equivalents	(46,441)	1,123,986
Cash and cash equivalents:		
Beginning	9,200,307	8,076,321
Ending	<u>\$ 9,153,866</u>	<u>\$ 9,200,307</u>
Supplemental Disclosures of Noncash Activities:		
Donated services, salaries, and facilities	<u>\$ 605,000</u>	<u>\$ 449,000</u>
Transfers among funds	<u>\$ 535,716</u>	<u>\$ 322,910</u>

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

Notes to Financial Statements For the years ended June 30, 2013 and 2012

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Engineering 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 in 1944, aids and promotes, by financial assistance and otherwise, education, research, and extension at the University's College of Engineering.

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

Basis of accounting and presentation: The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In preparing its financial statements, the 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 that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the 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 consisted of accounts with BNY Mellon's Liquidity DIRECT, the State Treasurer's Short Term Investment Fund ("STIF"), and an operating checking account with Wells Fargo Bank, N.A. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of taxable municipal bonds purchased during fiscal year 2013 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 needs. These investments are reported at readily determinable fair values of \$3,389,293 and \$2,979,058 at June 30, 2013 and 2012, respectively. The cost of these investments was \$3,767,067 and \$3,363,389 as of June 30, 2013 and 2012, respectively.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

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

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 value 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.

Contributions: Restricted contributions are segregated for income and expense reporting purposes; however, the assets are commingled. When a donor or grantor restriction expires because the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the 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 endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$196,161 and \$191,101 for the years ended June 30, 2013 and 2012, 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 0.50% 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.

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, 2013 and 2012 consists of \$7,500 and \$11,000, respectively, due to external parties.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

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 2013 and 2012. 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, 2013, 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 2009.

Note 2. Endowment

The Foundation's endowment consists of approximately 350 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's 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, 2013 and 2012

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. Deficiencies of this nature are reported in unrestricted net assets and were \$(10,630) and \$(88,093) as of June 30, 2013 and 2012, 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 NCSIF in a manner that is intended to produce results that exceed a 70% MSCI/ACWI Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending policy:

The 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 newer endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However, if the gift instrument does not allow spending of corpus, the 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 \$1,469,115 and \$1,438,295 for fiscal years 2013 and 2014, 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 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.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

Note 2. Endowment (continued)

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 general, the NCSIF seeks to diversify exposure to all asset classes by hiring multiple managers that use a variety of investment approaches.

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	\$ 1,104,144	\$ 13,320,043	\$ 36,428,053	\$ 50,852,240
Net asset reclassification - underwater endowments	77,463	(77,463)	-	-
Endowment net assets after reclassification	1,181,607	13,242,580	36,428,053	50,852,240
Total investment return	502,609	5,476,320	79,090	6,058,019
Contributions, including change in accrued pledges	-	4,593	1,156,697	1,161,290
Appropriations of endowment assets for expenditure	(351,750)	(1,394,005)	-	(1,745,755)
Change in value of split interest agreements	-	-	(144,885)	(144,885)
Other changes:				
Transfers	-	-	222,245	222,245
Endowment net assets, end of year	\$ 1,332,466	\$ 17,329,488	\$ 37,741,200	\$ 56,403,154

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (10,630)	\$ -	\$ -	\$ (10,630)
Board-designated endowment funds	1,392,593	-	-	1,392,593
Donor restricted endowment funds	(49,497)	17,329,488	37,741,200	55,021,191
Total funds	\$ 1,332,466	\$ 17,329,488	\$ 37,741,200	\$ 56,403,154

NC State Engineering Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 976,131	\$ 15,388,356	\$ 33,923,994	\$ 50,288,481
Net asset reclassification - underwater endowments	57,517	(57,517)	-	-
Endowment net assets after reclassification	1,033,648	15,330,839	33,923,994	50,288,481
Total investment return	(98,259)	(52,671)	615,298	464,368
Contributions, including change in accrued pledges	-	1,593	1,860,546	1,862,139
Appropriations of endowment assets for expenditure	168,755	(1,959,718)	-	(1,790,963)
Change in value of split interest agreements	-	-	(66,872)	(66,872)
Other changes:				
Transfers	-	-	95,087	95,087
Endowment net assets, end of year	\$ 1,104,144	\$ 13,320,043	\$ 36,428,053	\$ 50,852,240

The following represents endowment net asset composition by type of fund, as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (88,093)	\$ -	\$ -	\$ (88,093)
Board-designated endowment funds	1,192,237	-	-	1,192,237
Donor restricted endowment funds	-	13,320,043	36,428,053	49,748,096
Total funds	\$ 1,104,144	\$ 13,320,043	\$ 36,428,053	\$ 50,852,240

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.

NC State Engineering Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

Note 3. Long-Term Investments (continued)

Long-term investments at June 30, 2013 and 2012 consisted of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 3,174	\$ 3,174	\$ 250,508	\$ 250,508
NC State Investment Fund, Inc.	43,820,188	51,998,216	43,499,685	46,544,288
Wells Fargo - Life Income Funds	3,745,839	3,793,049	3,352,230	3,269,057
	<u>\$ 47,569,201</u>	<u>\$ 55,794,439</u>	<u>\$ 47,102,423</u>	<u>\$ 50,063,853</u>

Investments held by the NCSIF at June 30, 2013 were made up of limited partnerships, an investment with a Blackrock Limited Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the State Treasurer's STIF. As of June 30, 2013, approximately 88.5% of these limited partnerships were with the UNC Management Company, 6.3% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 4.7% was invested in the LPP, and 0.5% was invested in the STIF. NCSIF's net assets were valued at approximately \$484,974,000 and \$397,192,000 at June 30, 2013 and 2012, respectively. The Foundation's investment in the NCSIF represents approximately 10.7% and 11.7% of the member equity of NCSIF at June 30, 2013 and 2012, respectively.

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

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 under generally accepted accounting principles. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

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

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

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

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

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

Note 4. Fair Value Measurement (continued)

The Foundation's assets itemized below are measured at fair value on a recurring basis.

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 3,174	\$ -	\$ -	\$ 3,174
Municipal Bonds	-	373,054	-	373,054
Commonfund Intermediate Term Fund	-	3,016,239	-	3,016,239
NC State Investment Fund, Inc.	-	-	51,998,216	51,998,216
Wells Fargo - Life Income Funds	-	3,793,049	-	3,793,049
	\$ 3,174	\$ 7,182,342	\$ 51,998,216	\$ 59,183,732

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 250,508	\$ -	\$ -	\$ 250,508
Commonfund Intermediate Term Fund	-	2,979,058	-	2,979,058
NC State Investment Fund, Inc.	-	-	46,544,288	46,544,288
Wells Fargo - Life Income Funds	-	3,269,057	-	3,269,057
	\$ 250,508	\$ 6,248,115	\$ 46,544,288	\$ 53,042,911

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:

	2013	2012
	NC State Investment Fund, Inc.	NC State Investment Fund, Inc.
Beginning balance	\$ 46,544,288	\$ 46,052,623
Unrealized gain on investments	5,133,425	954,479
Realized gain on investments	608,186	344,029
Purchases	1,630,000	2,070,000
Sales	(1,917,683)	(2,876,843)
Ending balance	\$ 51,998,216	\$ 46,544,288

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

Note 4. Fair Value Measurement (continued)

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

STIF – Categorized in Level 1 of the fair value hierarchy because it 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.

Municipal Bonds – Valued by the custodian using a computerized pricing service or, for less actively traded issues, using a yield-based matrix system.

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.

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, 2013 and 2012 have asset balances of \$3,793,049 and \$3,269,057, respectively.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreement, and the life expectancy of the beneficiaries. Liabilities were \$1,911,268 and \$1,628,020 at June 30, 2013 and June 30, 2012, respectively. Payments from these funds were \$239,244 and \$211,446 during the years ended June 30, 2013 and 2012, respectively. An unrestricted reserve account was 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, 2013 and 2012, the CGA reserve balance was \$4,812 and \$4,323, respectively.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

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>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 1,161,221	\$ 1,315,855
Receivable in one to five years	596,611	1,023,794
Total gross pledges receivable	1,757,832	2,339,649
Less allowance for uncollectible pledges	(88,000)	(117,000)
Less unamortized discount	(8,121)	(12,582)
Net pledges receivable	<u>\$ 1,661,711</u>	<u>\$ 2,210,067</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 in the amount of \$104,000 and \$87,000 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries and facilities provided by the University for college development personnel in the amount of \$501,000 and \$362,000 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 1,102,147	\$ 1,217,496
Fellowships	386,742	328,740
Professorships	810,795	789,878
Research support	5,152,529	4,837,837
Endowment cumulative balance	17,329,488	13,320,043
Other	3,481,774	3,703,313
	<u>\$ 28,263,475</u>	<u>\$ 24,197,307</u>

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

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 25,768,058	\$ 24,123,394
Fellowships	6,824,000	6,233,889
Professorships	4,278,566	3,995,916
Research support	301,849	270,773
NC State Engineering Foundation Academic Enhancement	3,926,366	3,621,087
Amounts reported as unrestricted or temporarily restricted net assets	(18,661,954)	(14,424,187)
Other	15,304,315	12,607,181
	<u>\$ 37,741,200</u>	<u>\$ 36,428,053</u>

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

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>2013</u>	<u>2012</u>
Scholarships	\$ 857,096	\$ 771,290
Fellowships	273,469	276,744
Professorships	121,768	163,405
Research support	1,102,804	1,563,394
Other	2,306,393	2,480,485
	<u>\$ 4,661,530</u>	<u>\$ 5,255,318</u>

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

NC State Engineering Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

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, 2013 and 2012, net endowment transfers among funds were \$222,245 and \$95,087, respectively.

Note 12. Prior Year Reclassifications and Restatement

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation with no effect on previously reported net assets.

During fiscal year 2013 it was determined that certain donated salaries should not have been recognized in the prior year. The Foundation has restated donated services, salaries, and facilities to reflect this change in the accompanying comparative financial statements. As a result, donated services, salaries, and facilities for fiscal year 2012 decreased from \$689,000 to \$362,000. This restatement had no effect on previously reported net assets.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 18, 2013, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

NC State Engineering Foundation, Inc.

Enhancement Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2013

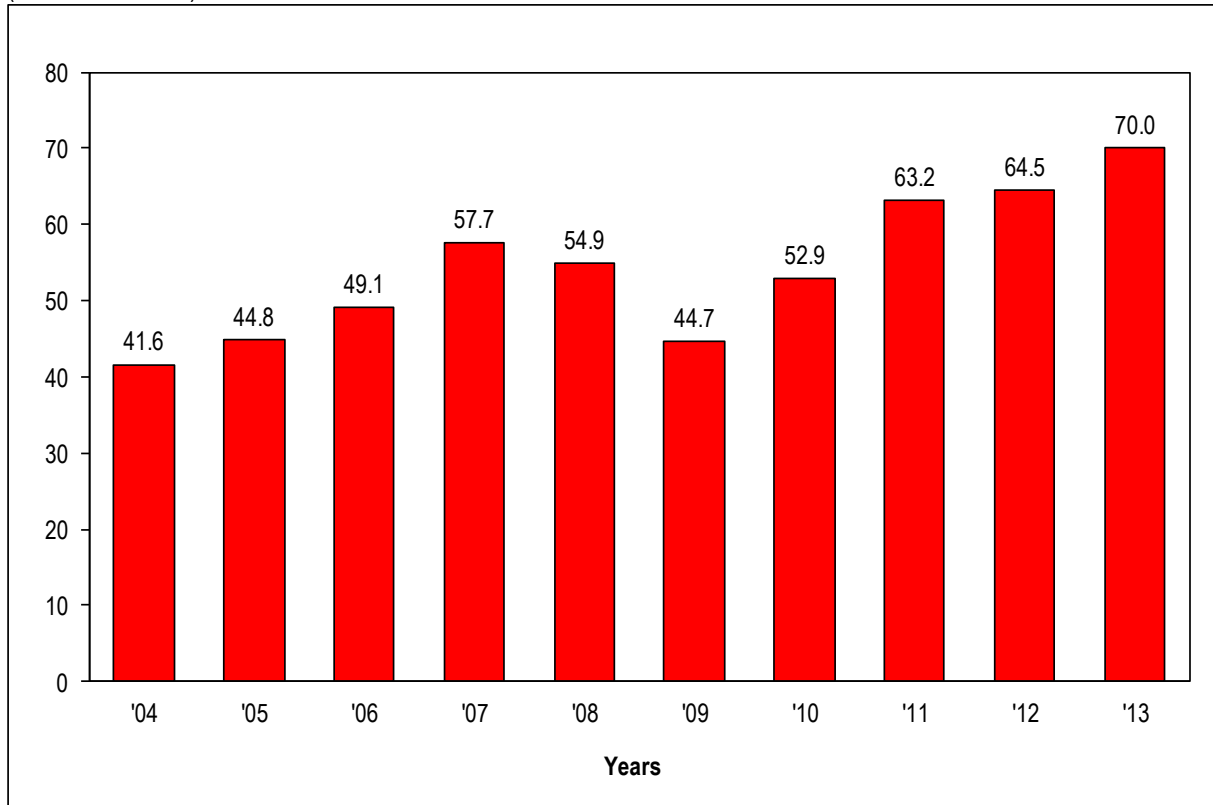
	Budget	Actual	Variance
Income:			
Contributions:			
Annual Fund	\$ 450,000	\$ 403,762	\$ (46,238)
Engineering Leadership Fund - Annual Fund	500	300	(200)
Engineering Leadership Fund	220,000	175,094	(44,906)
Directors	160,000	113,594	(46,406)
Other	100	114	14
Total contributions	830,600	692,864	(137,736)
Endowment assessments	352,100	351,750	(350)
Interest and dividends	105,000	78,170	(26,830)
Total income	1,287,700	1,122,784	(164,916)
Support:			
Program support	470,000	401,475	(68,525)
Advancement services	71,260	71,260	-
Foundation administration	767,000	683,611	(83,389)
Total support	1,308,260	1,156,346	(151,914)
Income less support	(20,560)	(33,562)	(13,002)
Enhancement Fund Cash Balance:			
Beginning	894,579	894,579	-
Ending	\$ 874,019	\$ 861,017	\$ (13,002)

NC State Engineering Foundation, Inc.

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

Total Assets*

(Dollars in Millions)

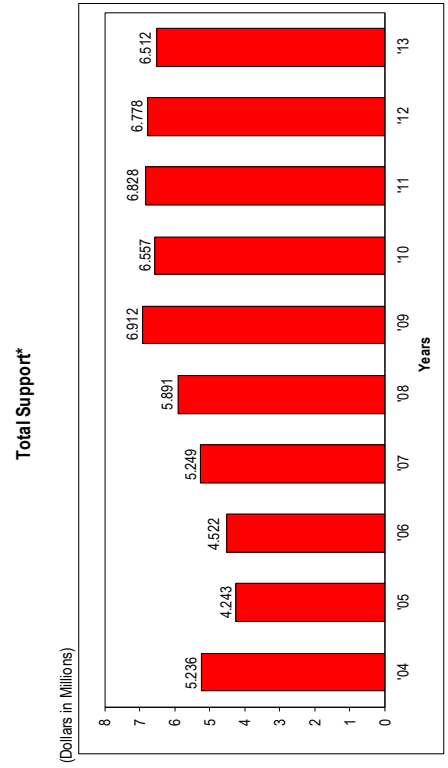
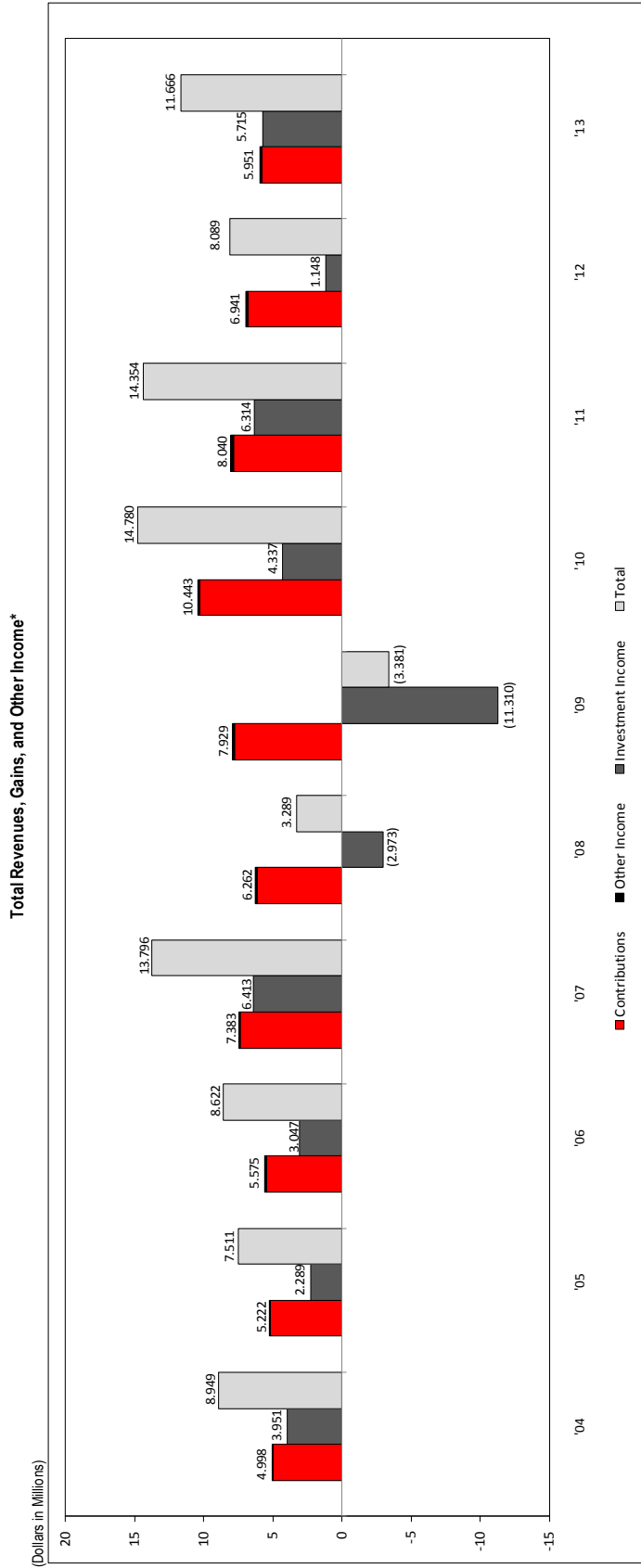


Not reflected in the chart above are contributions deposited with the University in the amount of \$203,759 which benefit the College of Engineering. These gifts were received due to the efforts of Foundation members and the College Development Staff.

*Fiscal years 2011 - 2013 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

NC State Engineering Foundation, Inc.

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



*Fiscal years 2011 - 2013 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 18, 2013

To the Board of Directors
NC State Engineering Foundation, Inc.
Raleigh, North Carolina

We have audited the financial statements of NC State Engineering Foundation, Inc. ("Foundation"), a nonprofit organization, for the year ended June 30, 2013, and have issued our report thereon dated October 18, 2013. 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 May 13, 2013. 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 NC State Engineering Foundation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. 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.

Raleigh • Greensboro

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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 18, 2013.

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 Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Board of Directors and management of NC State Engineering 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 NC State Engineering Foundation, Inc.

Williams Dverman Pierce, LLP