

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2015 and 2014

NC State Engineering Foundation, Inc.

**Financial Report
For the years ended June 30, 2015 and 2014**

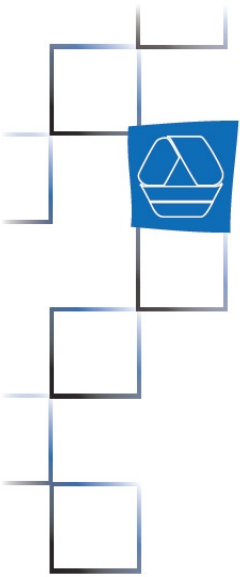
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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

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 the NC State Engineering Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Engineering Foundation, Inc. as of June 30, 2015 and 2014, 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 Dverman Pierce, LLP

Raleigh, North Carolina
October 12, 2015

NC State Engineering Foundation, Inc.

**Statements of Financial Position
June 30, 2015 and 2014**

	2015	2014
ASSETS		
Cash and cash equivalents (Note 1)	\$ 5,539,466	\$ 9,433,916
Intermediate investments (Note 1)	7,909,526	3,405,058
Long-term investments (Notes 1 and 3)	71,009,391	64,198,452
Pledges receivable (Notes 1 and 6)	5,550,281	2,806,125
Receivable from University-associated entities (Note 1)	2,169	3,205
Other assets	21,188	14,024
Total assets	\$ 90,032,021	\$ 79,860,780
LIABILITIES AND NET ASSETS		
Accounts payable - North Carolina State University (Note 1)	\$ 83,305	\$ 113,442
Accounts payable (Note 1)	99	-
Life income funds payable (Note 5)	1,951,653	1,928,632
Total liabilities	2,035,057	2,042,074
Net Assets:		
Unrestricted:		
Undesignated	984,518	1,008,224
Board-designated - endowments (Note 2)	2,287,361	1,977,323
Temporarily restricted (Note 8)	40,897,053	33,781,246
Permanently restricted (Note 9)	43,828,032	41,051,913
Total net assets	87,996,964	77,818,706
Total liabilities and net assets	\$ 90,032,021	\$ 79,860,780

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 816,860	\$ 4,991,702	\$ 2,757,359	\$ 8,565,921
Change in pledges receivable	-	3,328,934	(584,778)	2,744,156
Donated services, salaries and facilities (Note 7)	571,000	-	-	571,000
Net investment income	343,280	4,906,383	64,611	5,314,274
Interest and dividends	187,797	23,465	72,269	283,531
Change in value of split interest agreements	-	-	(254,430)	(254,430)
Other income	-	105,997	-	105,997
Net assets released from restrictions (Note 10)	5,265,698	(5,265,698)	-	-
Total revenues, gains, and other income	7,184,635	8,090,783	2,055,031	17,330,449
Grants to support the University:				
Program:				
Scholarships and fellowships	2,792,280	-	-	2,792,280
Faculty support and professorships	722,424	-	-	722,424
Departmental support	1,183,234	-	-	1,183,234
Other current services	817,865	-	-	817,865
Total program support	5,515,803	-	-	5,515,803
Administrative	184,000	-	-	184,000
Fundraising	1,487,048	-	-	1,487,048
Total other support	1,671,048	-	-	1,671,048
Total support	7,186,851	-	-	7,186,851
Excess of revenues, gains, and other income over total support	(2,216)	8,090,783	2,055,031	10,143,598
Net transfers:				
From other University-associated entity	-	34,660	-	34,660
Among funds (Note 11)	288,548	(1,009,636)	721,088	-
Total net transfers	288,548	(974,976)	721,088	34,660
Change in net assets	286,332	7,115,807	2,776,119	10,178,258
Net assets:				
Beginning	2,985,547	33,781,246	41,051,913	77,818,706
Ending	\$ 3,271,879	\$ 40,897,053	\$ 43,828,032	\$ 87,996,964

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 809,620	\$ 3,431,654	\$ 2,009,361	\$ 6,250,635
Change in pledges receivable	-	(52,846)	1,197,260	1,144,414
Donated services, salaries, and facilities (Note 7)	554,000	-	-	554,000
Net asset reclassification - underwater endowments (Note 2)	10,630	(10,630)	-	-
Net investment income	876,574	7,585,430	91,420	8,553,424
Interest and dividends	91,554	13,763	59,394	164,711
Change in value of split interest agreements	-	-	(226,726)	(226,726)
Disposal of other assets	-	3,101	(12,537)	(9,436)
Other income	-	86,632	-	86,632
Net assets released from restrictions (Note 10)	4,897,234	(4,897,234)	-	-
Total revenues, gains, and other income	7,239,612	6,159,870	3,118,172	16,517,654
Grants to support the University:				
Program:				
Scholarships and fellowships	2,556,127	-	-	2,556,127
Faculty support and professorships	748,247	-	-	748,247
Departmental support	1,241,761	-	-	1,241,761
Other current services	691,122	-	-	691,122
Total program support	5,237,257	-	-	5,237,257
Administrative	174,000	-	-	174,000
Fundraising	1,289,373	-	-	1,289,373
Total other support	1,463,373	-	-	1,463,373
Total support	6,700,630	-	-	6,700,630
Excess of revenues, gains, and other income over total support	538,982	6,159,870	3,118,172	9,817,024
Net transfers:				
From other University-associated entity	550	6,056	3,138	9,744
Among funds (Note 11)	111,793	(301,196)	189,403	-
Total net transfers	112,343	(295,140)	192,541	9,744
Change in net assets	651,325	5,864,730	3,310,713	9,826,768
Net assets:				
Beginning	2,334,222	27,916,516	37,741,200	67,991,938
Ending	\$ 2,985,547	\$ 33,781,246	\$ 41,051,913	\$ 77,818,706

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Change in net assets:	\$ 10,178,258	\$ 9,826,768
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net investment income	(5,314,274)	(8,553,424)
Investment income restricted for split interest agreements	(72,269)	(59,394)
Actuarial change in value of split interest agreements	254,430	226,726
Contributions restricted for permanent endowment	(2,757,359)	(2,009,361)
(Increase) decrease in:		
Pledges receivable	(2,744,156)	(1,144,414)
Receivable from University-associated entities	1,036	(507)
Property held for others	-	7,500
Other assets	(7,164)	(12,286)
Increase (decrease) in:		
Accounts payable - North Carolina State University	(30,137)	15,601
Accounts payable	99	-
Due to others	-	(7,500)
Net cash used in operating activities	(491,536)	(1,710,291)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	3,082,560	3,372,036
Purchases of investments	(9,083,693)	(3,238,390)
Net cash (used in) provided by investing activities	(6,001,133)	133,646
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	2,757,359	2,009,361
Investment income restricted for split interest agreements	72,269	59,394
Payments on life income fund obligations	(282,355)	(256,242)
Proceeds from life income fund obligations	50,946	46,880
Net cash provided by financing activities	2,598,219	1,859,393
Net (decrease) increase in cash and cash equivalents	(3,894,450)	282,748
Cash and cash equivalents:		
Beginning	9,433,916	9,151,168
Ending	\$ 5,539,466	\$ 9,433,916
Supplemental Disclosures of Noncash Activities:		
Donated services, salaries, and facilities	\$ 571,000	\$ 554,000
Transfers among funds	\$ 1,009,636	\$ 301,196

See Notes to Financial Statements.

NC State Engineering Foundation, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Engineering Foundation, Inc., (the "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 (the "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 (the "STIF"), and Wells Fargo Bank, N.A. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of taxable municipal bonds, 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 \$7,909,526 and \$3,405,058 at June 30, 2015 and 2014, respectively. The cost of these investments was \$8,349,497 and \$3,767,067 as of June 30, 2015 and 2014.

NC State Engineering Foundation, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

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 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 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.

Receivable from University-associated entities: Receivable from University-associated entities consisted of amounts due to the Foundation from other University-associated entities.

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 \$251,497 and \$211,060 for the years ended June 30, 2015 and 2014, 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 University Advancement and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.75% 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.

Accounts payable: Accounts payable represents trade payables due to vendors.

Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

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 2015 and 2014. 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, 2015, 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 2011.

Note 2. Endowment

The Foundation's endowment consists of approximately 380 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 the Financial Statements
For the Years Ended June 30, 2015 and 2014

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 would be reported in unrestricted net assets.

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 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 \$1,849,990 and \$1,732,420 for fiscal years 2016 and 2015, respectively.

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

The LTIP is 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.

NC State Engineering Foundation, Inc.

Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,134,945	\$ 22,817,568	\$ 41,051,913	\$ 66,004,426
Total investment return	558,989	4,788,902	136,880	5,484,771
Contributions, including change in accrued pledges and other income	-	7,161	2,172,581	2,179,742
Appropriations of endowment assets for expenditure	(211,045)	(2,193,965)	-	(2,405,010)
Change in value of split interest agreements	-	-	(254,430)	(254,430)
Other changes:				
Transfers	-	500,000	721,088	1,221,088
Endowment net assets, end of year	\$ 2,482,889	\$ 25,919,666	\$ 43,828,032	\$ 72,230,587

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 2,287,361	\$ -	\$ -	\$ 2,287,361
Donor restricted endowment funds	195,528	25,919,666	43,828,032	69,943,226
Total funds	\$ 2,482,889	\$ 25,919,666	\$ 43,828,032	\$ 72,230,587

NC State Engineering Foundation, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,461,192	\$ 17,200,762	\$ 37,741,200	\$ 56,403,154
Net asset reclassification - underwater endowments	10,630	(10,630)	-	-
Endowment net assets after reclassification	1,471,822	17,190,132	37,741,200	56,403,154
Total investment return	867,268	7,235,299	138,277	8,240,844
Contributions, including change in accrued pledges and other income	-	3,057	3,206,621	3,209,678
Appropriations of endowment assets for expenditure	(204,145)	(1,610,920)	-	(1,815,065)
Change in value of split interest agreements	-	-	(226,726)	(226,726)
Other changes:				
Transfers	-	-	192,541	192,541
Endowment net assets, end of year	<u>\$ 2,134,945</u>	<u>\$ 22,817,568</u>	<u>\$ 41,051,913</u>	<u>\$ 66,004,426</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 1,977,323	\$ -	\$ -	\$ 1,977,323
Donor restricted endowment funds	157,622	22,817,568	41,051,913	64,027,103
Total funds	<u>\$ 2,134,945</u>	<u>\$ 22,817,568</u>	<u>\$ 41,051,913</u>	<u>\$ 66,004,426</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 change could materially affect the amounts reported in the statements of financial position.

NC State Engineering Foundation, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 3. Long-Term Investments (continued)

Long-term investments at June 30, 2015 and 2014 consisted of:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 1,070,699	\$ 1,070,699	\$ 423,116	\$ 423,116
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	45,065,055	65,772,642	43,746,647	59,535,751
Wells Fargo - Life Income Funds	3,923,569	4,166,050	3,863,543	4,239,585
	<u>\$ 50,059,323</u>	<u>\$ 71,009,391</u>	<u>\$ 48,033,306</u>	<u>\$ 64,198,452</u>

Investments held by the LTIP at June 30, 2015 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the STIF. As of June 30, 2015, approximately 89.4% of these limited partnerships were with the UNC Management Company (UNCMC), 4.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.2% was invested in the LPP, and 0.3% was invested in the STIF. The LTIP's net assets were valued at approximately \$676,716,000 and \$597,884,000 at June 30, 2015 and 2014, respectively. The Foundation's investment in the LTIP represents approximately 9.7% and 10.0% of the member equity of LTIP at June 30, 2015 and 2014, 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 the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 4. Fair Value Measurement (continued)

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

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 1,070,699	\$ -	\$ -	\$ 1,070,699
Municipal Bonds	-	561,911	-	561,911
Commonfund Intermediate Term Fund	-	3,003,233	-	3,003,233
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,344,382	-	4,344,382
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	65,772,642	65,772,642
Wells Fargo - Life Income Funds	-	4,166,050	-	4,166,050
	\$ 1,070,699	\$ 12,075,576	\$ 65,772,642	\$ 78,918,917

	2014			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 423,116	\$ -	\$ -	\$ 423,116
Municipal Bonds	-	382,486	-	382,486
Commonfund Intermediate Term Fund	-	3,022,572	-	3,022,572
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	59,535,751	59,535,751
Wells Fargo - Life Income Funds	-	4,239,585	-	4,239,585
	\$ 423,116	\$ 7,644,643	\$ 59,535,751	\$ 67,603,510

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:

	2015	2014
	NC State Investment Fund, Inc. LTIP	NC State Investment Fund, Inc. LTIP
Beginning balance	\$ 59,535,751	\$ 51,998,216
Participant additions	3,248,750	1,625,000
Investment Income	20,557	29,278
Realized gains	793,900	708,502
Unrealized appreciation	4,918,483	7,611,075
Participant withdrawals	(2,497,760)	(2,225,260)
Expenses	(247,039)	(211,060)
Ending balance	\$ 65,772,642	\$ 59,535,751

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 4. Fair Value Measurement (continued)

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.

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.

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.

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, 2015 and 2014 have asset balances of \$4,166,050 and \$4,239,585, 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 \$1,951,653 and \$1,928,632 at June 30, 2015 and June 30, 2014, respectively. Payments from these funds were \$282,355 and \$256,242 during the years ended June 30, 2015 and 2014, 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, 2015 and 2014, the CGA reserve balance was \$13,350 and \$10,326, respectively.

NC State Engineering Foundation, Inc.

Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

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, ranging from .28% to 2.36% for June 2015, and are as follows:

	2015	2014
Receivable in less than one year	\$ 1,453,192	\$ 1,030,885
Receivable in one to five years	3,404,817	1,989,045
Receivable in greater than five years	1,300,200	-
Total gross pledges receivable	6,158,209	3,019,930
Less allowance for uncollectible pledges	(308,000)	(151,000)
Less unamortized discount	(299,928)	(62,805)
Net pledges receivable	\$ 5,550,281	\$ 2,806,125

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 represent approximately \$4.4 million of the total undiscounted pledges receivable at June 30, 2015.

Note 7. Donated Services, Salaries, and Facilities

Donated services in the amount of \$108,000 and \$101,000 for the years ended June 30, 2015 and 2014, 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 \$463,000 and \$453,000 for the years ended June 30, 2015 and 2014, respectively, have been reflected in the financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	2015	2014
Scholarships	\$ 592,850	\$ 973,913
Fellowships	541,788	472,580
Professorships	707,803	784,913
Research support	4,669,905	4,574,230
Endowment cumulative balance	25,919,666	22,817,568
Other	8,465,041	4,158,042
	\$ 40,897,053	\$ 33,781,246

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 the Financial Statements
For the Years Ended June 30, 2015 and 2014

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2015 and 2014 are restricted to:

	2015	2014
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 31,679,688	\$ 29,715,694
Fellowships	9,113,995	7,950,465
Professorships	5,045,951	4,762,871
Research support	385,853	335,420
NC State Engineering Foundation Academic Enhancement Fund	4,661,771	4,403,672
Amounts reported as unrestricted or temporarily restricted net assets	(28,402,555)	(24,952,513)
Other	21,343,329	18,836,304
	\$ 43,828,032	\$ 41,051,913

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:

	2015	2014
Scholarships	\$ 1,202,831	\$ 1,019,939
Fellowships	398,821	300,606
Professorships	179,823	187,269
Research support	1,314,205	1,309,256
Other	2,170,018	2,080,164
	\$ 5,265,698	\$ 4,897,234

Net assets released from restriction grouping "Other" includes amounts designated 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, 2015 and 2014, net endowment transfers among funds were \$721,088 and \$189,403 respectively.

NC State Engineering Foundation, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014**

Note 12. Prior Year Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation with no effect on previously reported net assets.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 12, 2015 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, 2015**

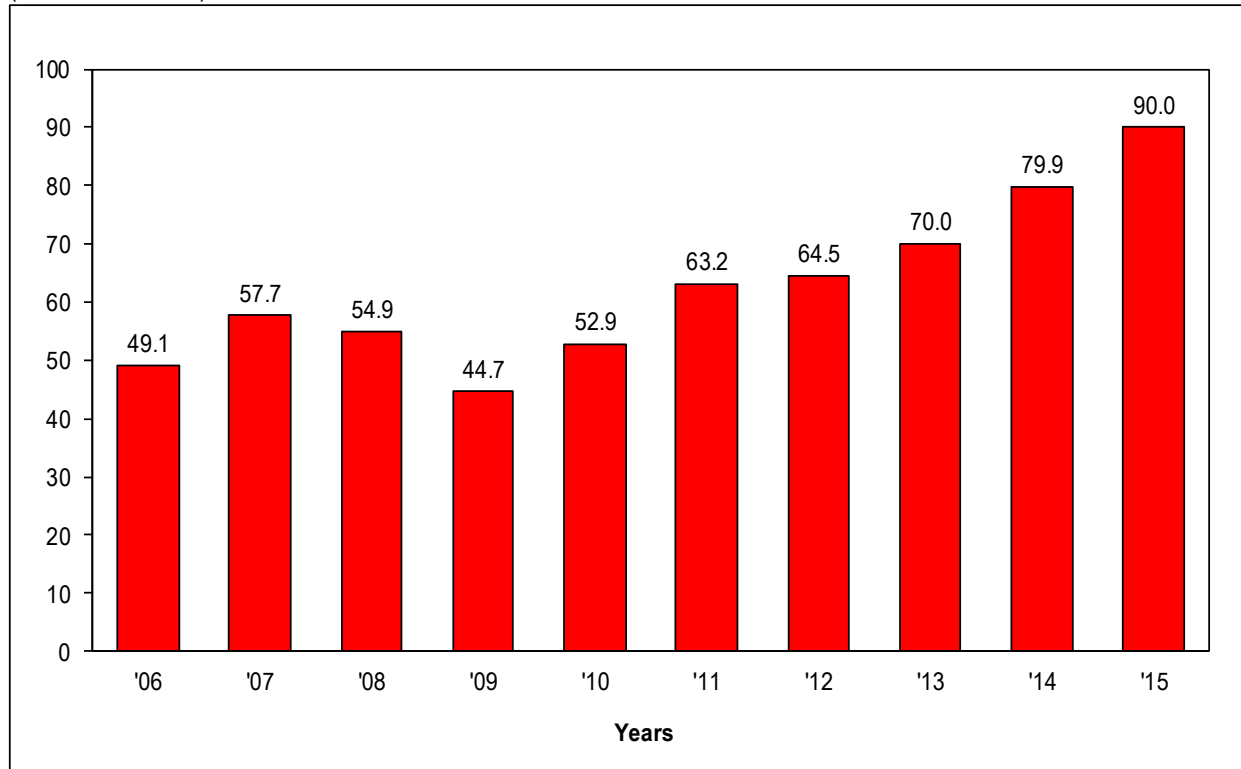
	Budget	Actual	Variance
Income:			
Contributions:			
Annual Fund	\$ 460,000	\$ 529,023	\$ 69,023
Engineering Leadership Fund - Annual Fund	500	343	(157)
Engineering Leadership Fund	200,000	128,621	(71,379)
Directors	140,000	144,389	4,389
Other	100	114	14
Total contributions	800,600	802,490	1,890
Endowment assessments	427,465	427,465	-
Interest and dividends	65,000	155,708	90,708
Total income	1,293,065	1,385,663	92,598
Support:			
Program support	450,000	408,615	(41,385)
Advancement services	99,085	99,085	-
Foundation administration	802,000	794,408	(7,592)
Total support	1,351,085	1,302,108	(48,977)
Income less support	(58,020)	83,555	141,575
Enhancement Fund Cash Balance:			
Beginning	846,068	846,068	-
Ending	\$ 788,048	\$ 929,623	\$ 141,575

NC State Engineering Foundation, Inc.

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

Total Assets*

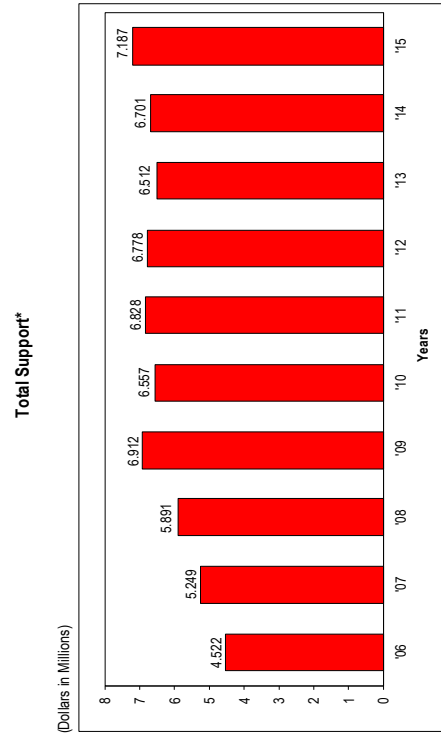
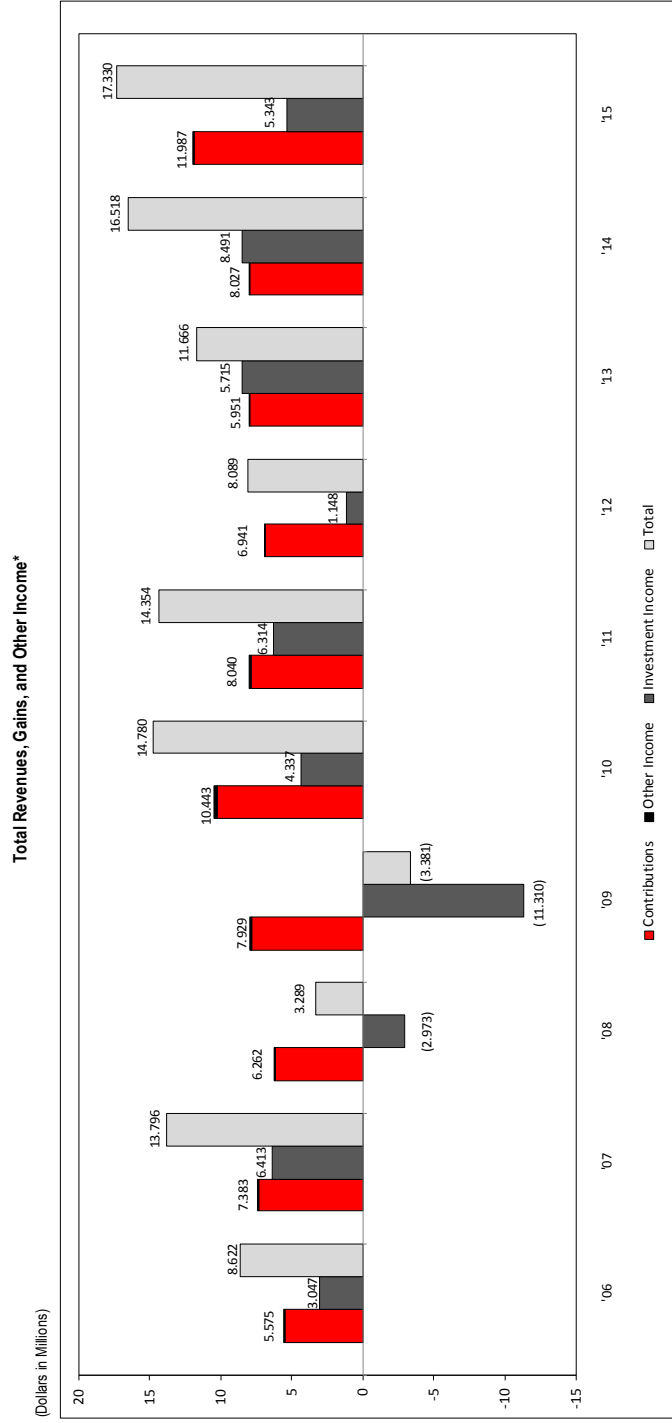
(Dollars in Millions)



Not reflected in the chart above are contributions deposited with the University in the amount of \$109,641 which benefit the College of Engineering. These gifts were received due to the efforts of Foundation members and the College Development Staff.

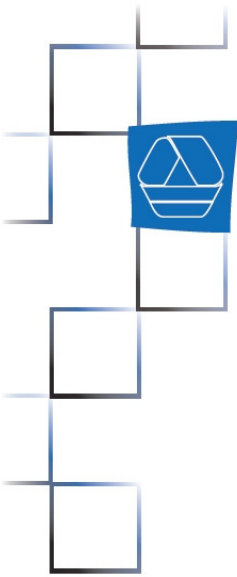
*Fiscal years 2011 - 2015 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

NC State Engineering Foundation, Inc.
Ten Year Summary of Revenues and Support - Unaudited
Years Ended June 30



*Fiscal years 2011 - 2015 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 12, 2015

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

We have audited the financial statements of the NC State Engineering Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2015, and have issued our report thereon dated October 12, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 9, 2015. 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 2015. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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



Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2015.

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