

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2016 and 2015

NC State Engineering Foundation, Inc.

Financial Report
For the Years Ended June 30, 2016 and 2015

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

5430 Wade Park Boulevard
Suite 208
Raleigh, NC 27607

Independent Auditor's Report

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

We have audited the accompanying financial statements of NC State Engineering Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Other Information

The 2015 financial statements of the Foundation were audited by other auditors, whose report dated October 12, 2015 expressed an unmodified opinion on those statements.



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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BDO USA, LLP

Raleigh, North Carolina
October 7, 2016

NC State Engineering Foundation, Inc.

Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents (Note 1)	\$ 11,777,349	\$ 5,539,466
Intermediate investments (Note 1)	8,402,791	7,909,526
Long-term investments (Notes 1 and 3)	68,929,744	71,009,391
Pledges receivable, net (Notes 1 and 6)	13,454,742	5,550,281
Externally managed irrevocable trust (Note 5)	110,100	-
Receivable from University-associated entities (Note 1)	168,575	2,169
Donated property and land (Note 1)	105,000	-
Other assets (Note 1)	36,632	21,188
Total Assets	\$ 102,984,933	\$ 90,032,021
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 1)	\$ 78,744	83,404
Due to others (Note 1)	577,233	-
Life income funds payable (Note 5)	1,672,068	1,951,653
Life income funds payable - externally managed irrevocable trust (Note 5)	53,392	-
Total Liabilities	2,381,437	2,035,057
Net Assets		
Unrestricted:		
Undesignated	860,829	984,518
Undesignated - underwater endowments (Note 2)	(77,471)	-
Board-designated - endowments (Note 2)	2,015,281	2,287,361
Temporarily restricted (Note 8)	52,333,314	40,897,053
Permanently restricted (Note 9)	45,471,543	43,828,032
Total Net Assets	100,603,496	87,996,964
Total Liabilities and Net Assets	\$ 102,984,933	\$ 90,032,021

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 866,875	\$ 10,827,220	\$ 1,712,594	\$ 13,406,689
Change in pledges receivable, net	-	8,102,682	(198,221)	7,904,461
Donated services, salaries, and facilities (Note 7)	526,000	-	-	526,000
Donated property and land	-	-	80,251	80,251
Net asset reclassification - underwater endowments (Note 2)	(77,471)	77,471	-	-
Net investment loss	(130,146)	(991,839)	(10,411)	(1,132,396)
Interest and dividends	151,656	69,415	68,420	289,491
Change in value of split interest agreements	-	-	(49,872)	(49,872)
Other income	-	302,483	-	302,483
Net assets released from restrictions (Note 10)	7,093,734	(7,093,734)	-	-
Total Revenues, Gains, and Other Income	8,430,648	11,293,698	1,602,761	21,327,107
Grants to Support the University Program:				
Scholarships and fellowships	3,266,581	-	-	3,266,581
Faculty support and professorships	1,075,435	-	-	1,075,435
Departmental support	1,589,172	-	-	1,589,172
Other current services	1,078,310	-	-	1,078,310
Total Program Support	7,009,498	-	-	7,009,498
Administrative	206,000	-	-	206,000
Fundraising	1,537,412	-	-	1,537,412
Total Other Support	1,743,412	-	-	1,743,412
Total Support	8,752,910	-	-	8,752,910
(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support	(322,262)	11,293,698	1,602,761	12,574,197
Net Transfers				
From other University-associated entity	-	32,335	-	32,335
Among funds (Note 11)	(150,978)	110,228	40,750	-
Total Net Transfers	(150,978)	142,563	40,750	32,335
Change in Net Assets	(473,240)	11,436,261	1,643,511	12,606,532
Net Assets				
Beginning of year	3,271,879	40,897,053	43,828,032	87,996,964
End of year	\$ 2,798,639	\$ 52,333,314	\$ 45,471,543	\$ 100,603,496

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, net	-	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)	5,693,163	(5,693,163)	-	-
Total Revenues, Gains, and Other Income	7,612,100	7,663,318	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	425,249	7,663,318	2,055,031	10,143,598
Net Transfers				
From other University-associated entity	-	34,660	-	34,660
Among funds (Note 11)	(138,917)	(582,171)	721,088	-
Total Net Transfers	(138,917)	(547,511)	721,088	34,660
Change in Net Assets	286,332	7,115,807	2,776,119	10,178,258
Net Assets				
Beginning of year	2,985,547	33,781,246	41,051,913	77,818,706
End of year	\$ 3,271,879	\$ 40,897,053	\$ 43,828,032	\$ 87,996,964

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 12,606,532	\$ 10,178,258
Adjustments to reconcile change in net assets to net cash provided by (cash used) in operating activities:		
Contributions restricted for permanent endowment	(1,674,943)	(2,757,359)
Donated property and land	(61,194)	-
Net investment loss (income)	1,132,396	(5,314,274)
Investment income restricted for split interest agreements	(68,420)	(72,269)
Change in value of split interest agreements	49,872	254,430
Externally managed irrevocable trusts, net of liability	(56,708)	-
(Increase) decrease in:		
Pledges receivable, net	(7,904,461)	(2,744,156)
Receivable from University-associated entities	(166,406)	1,036
Other assets	(15,444)	(7,164)
(Decrease) increase in:		
Accounts payable	(4,660)	(30,038)
Due to others	577,233	-
Net Cash Provided by (Used in) Operating Activities	4,413,797	(491,536)
Cash Flows From Investing Activities		
Proceeds from sales of investments	3,331,835	3,082,560
Purchases of investments	(2,983,140)	(9,083,693)
Net Cash Provided by (Used in) Investing Activities	348,695	(6,001,133)
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	1,674,943	2,757,359
Investment income restricted for split interest agreements	68,420	72,269
Payments on life income fund obligations	(267,972)	(282,355)
Proceeds from life income fund obligations	-	50,946
Net Cash Provided by Financing Activities	1,475,391	2,598,219
Net Increase (Decrease) in Cash and Cash Equivalents	6,237,883	(3,894,450)
Cash and Cash Equivalents		
Beginning of year	5,539,466	9,433,916
End of year	\$ 11,777,349	\$ 5,539,466
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 526,000	\$ 571,000
Transfers among funds	\$ 150,978	\$ 721,088

See notes to financial statements.

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 instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times, the Foundation places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consisted of accounts with 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 common/und 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 \$8,402,791 and \$7,909,526 at June 30, 2016 and 2015, respectively. The cost of these investments was \$8,730,612 and \$8,349,497 as of June 30, 2016 and 2015, respectively.

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 revenue 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.

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

Other assets: Other assets includes a beneficial interest in a life insurance policy contributed to the Foundation and the Foundation is the owner of this policy. This gift is recorded at current cash surrender value less any loans outstanding on the policy. The cash surrender value of the policy was \$28,731 and \$17,205 at June 30, 2016 and 2015, respectively. Other assets also includes accrued interest on municipal bonds and closely held stock.

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 \$283,442 and \$251,497 for the years ended June 30, 2016 and 2015, 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.

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

As part of the University's gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.75% 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: Accounts payable includes amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses of \$78,744 and \$83,305 as of June 30, 2016 and 2015, respectively, and trade payables due to vendors of \$0 and \$99 at June 30, 2016 and 2015, respectively.

Due to others: Due to others at June 30, 2016 consisted of \$577,233 due to other associated entities.

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 2016 and 2015. 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, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

Note 2. Endowment

The Foundation's endowment consists of approximately 390 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.

Note 2. Endowment (continued)

Interpretation of relevant law: The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was adopted in North Carolina as NC General Statute 36E effective March 17, 2009. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation’s interpretation of UPMIFA and the signed endowment agreements with donors, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation’s endowment spending policy.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were (\$77,471) and \$0 as of June 30, 2016 and 2015, respectively.

Investment return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the LTIP in a manner that is intended to produce results that exceed a 70% MSCI/ACWI 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 \$1,992,880 for fiscal years 2016 and 2017, respectively.

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

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.

The following represents changes in endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,482,889	\$ 23,968,014	\$ 43,828,032	\$ 70,278,935
Net asset reclassification - underwater endowments	(77,471)	77,471	-	-
Endowment net assets after reclassification	2,405,418	24,045,485	43,828,032	70,278,935
Total investment return	(104,064)	(1,045,402)	58,009	(1,091,457)
Contributions, including change in accrued pledges and other income	-	1,481	1,594,624	1,596,105
Appropriations of endowment assets for expenditure	(213,345)	(2,352,920)	-	(2,566,265)
Change in value of split interest agreements	-	-	(49,872)	(49,872)
Other changes:				
Transfers	-	234,165	40,750	274,915
Endowment net assets, end of year	\$ 2,088,009	\$ 20,882,809	\$ 45,471,543	\$ 68,442,361

The following represents endowment net asset composition by type of fund, as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (77,471)	\$ -	\$ -	\$ (77,471)
Board-designated endowment funds	150,199	-	-	150,199
Donor-designated endowment funds	2,015,281	20,882,809	45,471,543	68,369,633
Total funds	\$ 2,088,009	\$ 20,882,809	\$ 45,471,543	\$ 68,442,361

NC State Engineering Foundation, Inc.

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

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	\$ 20,888,936	\$ 41,051,913	\$ 64,075,794
Total investment return	558,989	4,765,882	136,880	5,461,751
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	\$ 23,968,014	\$ 43,828,032	\$ 70,278,935

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-designated endowment funds	195,528	23,968,014	43,828,032	67,991,574
Total funds	\$ 2,482,889	\$ 23,968,014	\$ 43,828,032	\$ 70,278,935

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.

Long-term investments at June 30, 2016 and 2015 consisted of:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 234,516	\$ 234,516	\$ 1,070,699	\$ 1,070,699
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	45,641,609	64,946,286	45,065,055	65,772,642
Life Income Funds	3,607,292	3,748,942	3,923,569	4,166,050
	\$ 49,483,417	\$ 68,929,744	\$ 50,059,323	\$ 71,009,391

Note 3. Long-Term Investments (continued)

Investments held by the LTIP at June 30, 2016 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, 2016, approximately 91.2% of these limited partnerships were with the UNC Management Company (“UNCMC”), 3.5% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 5.1% was invested in the LPP, and 0.2% was invested in the STIF. The LTIP’s net assets were valued at approximately \$683,380,000 and \$676,716,000 at June 30, 2016 and 2015, respectively. The Foundation’s investment in the LTIP represents approximately 9.5% and 9.7% of the member equity of LTIP at June 30, 2016 and 2015, respectively.

The Foundation’s investments in 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, 2016 and 2015

Note 4. Fair Value Measurement (continued)

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

	2016			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 234,516	\$ -	\$ -	\$ 234,516
Municipal Bonds	-	1,066,885	-	1,066,885
Commonfund Intermediate Term Fund	-	3,010,850	-	3,010,850
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,325,056	-	4,325,056
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	64,946,286	64,946,286
Life Income Funds	-	3,748,942	-	3,748,942
	<u>\$ 234,516</u>	<u>\$ 12,151,733</u>	<u>\$ 64,946,286</u>	<u>\$ 77,332,535</u>

	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
Life Income Funds	-	4,166,050	-	4,166,050
	<u>\$ 1,070,699</u>	<u>\$ 12,075,576</u>	<u>\$ 65,772,642</u>	<u>\$ 78,918,917</u>

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:

	2016	2015
	NC State Investment Fund, Inc. LTIP	NC State Investment Fund, Inc. LTIP
Beginning balance	\$ 65,772,642	\$ 59,535,751
Participant additions	2,805,000	3,248,750
Investment Income	8,928	20,557
Realized gains	619,466	793,900
Unrealized (depreciation) appreciation	(1,402,909)	4,918,483
Participant withdrawals	(2,578,518)	(2,497,760)
Expenses	(278,323)	(247,039)
Ending balance	<u>\$ 64,946,286</u>	<u>\$ 65,772,642</u>

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.

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 the 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, 2016 and 2015 have asset balances of \$3,748,942 and \$4,166,050, 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 \$1,672,068 and \$1,951,653 at June 30, 2016 and June 30, 2015, respectively. Payments from these funds were \$267,972 and \$282,355 during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the CGA reserve balance was \$12,201 and \$13,350, respectively.

NC State Engineering Foundation, Inc.

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 5. Life Income Funds (continued)

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2016 which represents irrevocable life income funds with a market value totaling \$110,100 and life income funds payable of \$53,392 as of June 30, 2016. The Foundation is not serving as trustee for these funds. These life income funds have been reflected in the accompanying consolidated financial statements at their fair value. Estimated future distributions to the beneficiaries have been reflected in the accompanying consolidated financial statements and were computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2016	2015
Receivable in less than one year	\$ 7,172,531	\$ 1,453,192
Receivable in one to five years	5,059,023	3,404,817
Receivable in greater than five years	2,374,999	1,300,200
Total pledges receivable, gross	<u>14,606,553</u>	<u>6,158,209</u>
Less allowance for uncollectible pledges	(731,000)	(308,000)
Less unamortized discount (discount rates of 0.55% to 1.64%)	(420,811)	(299,928)
Pledges receivable, net	<u>\$ 13,454,742</u>	<u>\$ 5,550,281</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.

Six donors represent approximately \$11.9 million of the total undiscounted pledges receivable at June 30, 2016. Three of these six donors represented 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 \$129,000 and \$108,000 for the years ended June 30, 2016 and 2015, respectively, have been reflected in the accompanying 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 \$397,000 and \$463,000 for the years ended June 30, 2016 and 2015, respectively, have been reflected in the accompanying financial statements.

NC State Engineering Foundation, Inc.

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Scholarships	\$ 1,412,302	\$ 1,401,860
Fellowships	733,003	788,563
Professorships	866,633	855,228
Research support	4,731,494	4,669,905
Pledges receivable, net	12,431,766	4,329,084
Oval Project Fund	6,403,312	285,000
Endowment cumulative balance	20,882,809	23,968,014
Other	4,871,995	4,599,399
	<u>\$ 52,333,314</u>	<u>\$ 40,897,053</u>

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

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to:

	2016	2015
Scholarships	\$ 31,035,238	\$ 31,679,688
Fellowships	8,684,134	9,113,995
Professorships	4,994,298	5,045,951
Research support	375,510	385,853
Pledges receivable, net	1,022,976	1,221,197
NC State Engineering Foundation Academic Enhancement Fund	4,451,805	4,661,771
Amounts reported as unrestricted or temporarily restricted net assets	(22,970,818)	(26,450,903)
Other	17,878,400	18,170,480
	<u>\$ 45,471,543</u>	<u>\$ 43,828,032</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:

	2016	2015
Scholarships	\$ 1,064,244	\$ 1,202,831
Fellowships	565,636	398,821
Professorships	206,912	179,823
Research support	1,486,020	1,314,205
Other	3,770,922	2,597,483
	<u>\$ 7,093,734</u>	<u>\$ 5,693,163</u>

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, 2016 and 2015, net endowment transfers among funds were \$40,750 and \$721,088 respectively.

Note 12. Prior Year Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported net assets.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 7, 2016 the date which the financial statements were available to be issued, and there were none to report.

NC State Engineering Foundation, Inc.

Enhancement Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2016

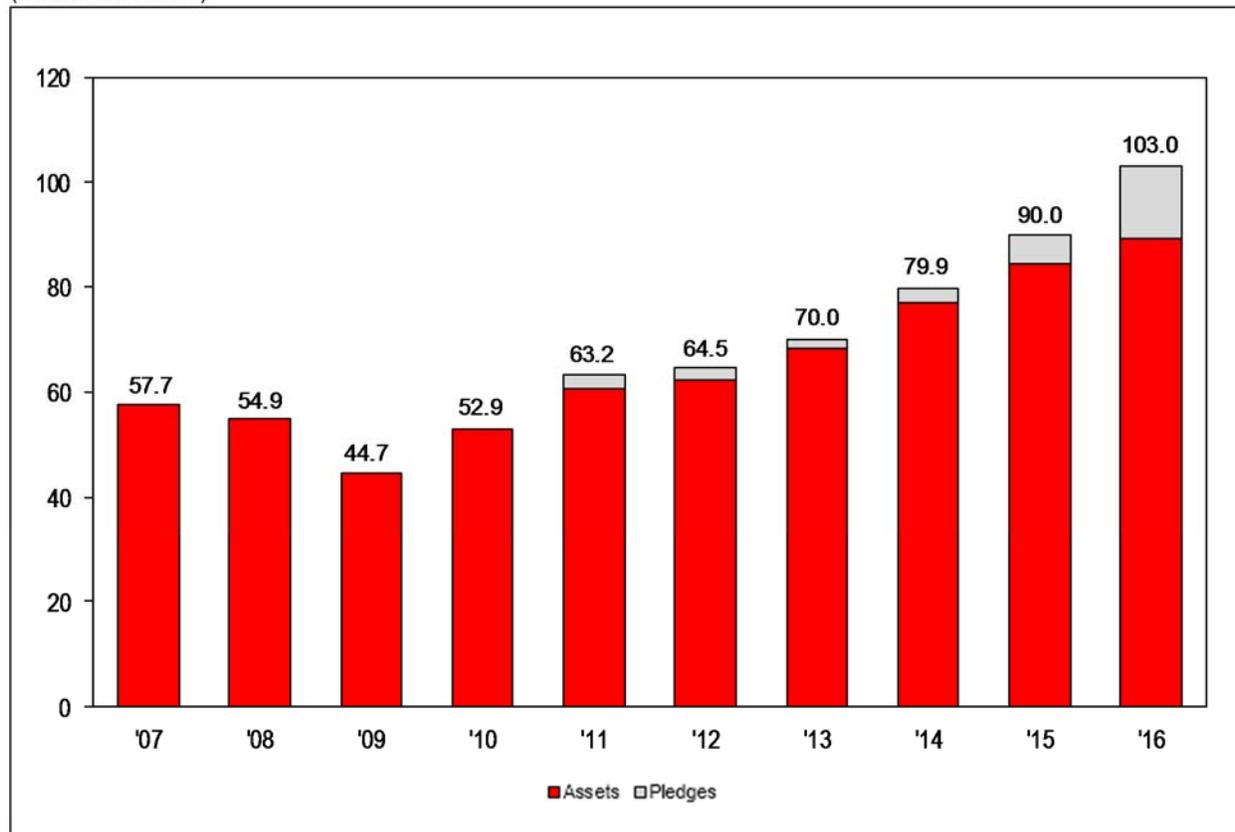
	Budget	Actual	Variance
Income			
Contributions			
Annual Fund	\$ 460,000	\$ 499,739	\$ 39,739
Engineering Enhancement	500	419	(81)
Engineering Leadership Fund	200,000	174,892	(25,108)
Directors	190,000	174,037	(15,963)
Other	100	95	(5)
Total Contributions	<u>850,600</u>	<u>849,182</u>	<u>(1,418)</u>
Endowment assessments	462,070	462,070	-
Interest and dividends	130,000	134,041	4,041
Total Income	<u>1,442,670</u>	<u>1,445,293</u>	<u>2,623</u>
Support			
Program support	451,000	449,662	(1,338)
Advancement services	107,525	107,525	-
Foundation administration	852,500	865,846	13,346
Transfer to Oval Project Fund	50,000	50,000	-
Total Support	<u>1,461,025</u>	<u>1,473,033</u>	<u>12,008</u>
Income Less Support	(18,355)	(27,740)	(9,385)
Enhancement Fund Cash Balance			
Beginning of year	929,623	929,623	-
Ending of year	<u>\$ 911,268</u>	<u>\$ 901,883</u>	<u>\$ (9,385)</u>

NC State Engineering Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited As of June 30

Total Assets*

(Dollars in Millions)



Not reflected in the chart above are contributions deposited with the University in the amount of \$772,981 which benefit the College of Engineering. These gifts were received due to the efforts of Foundation members and the College Development Staff.

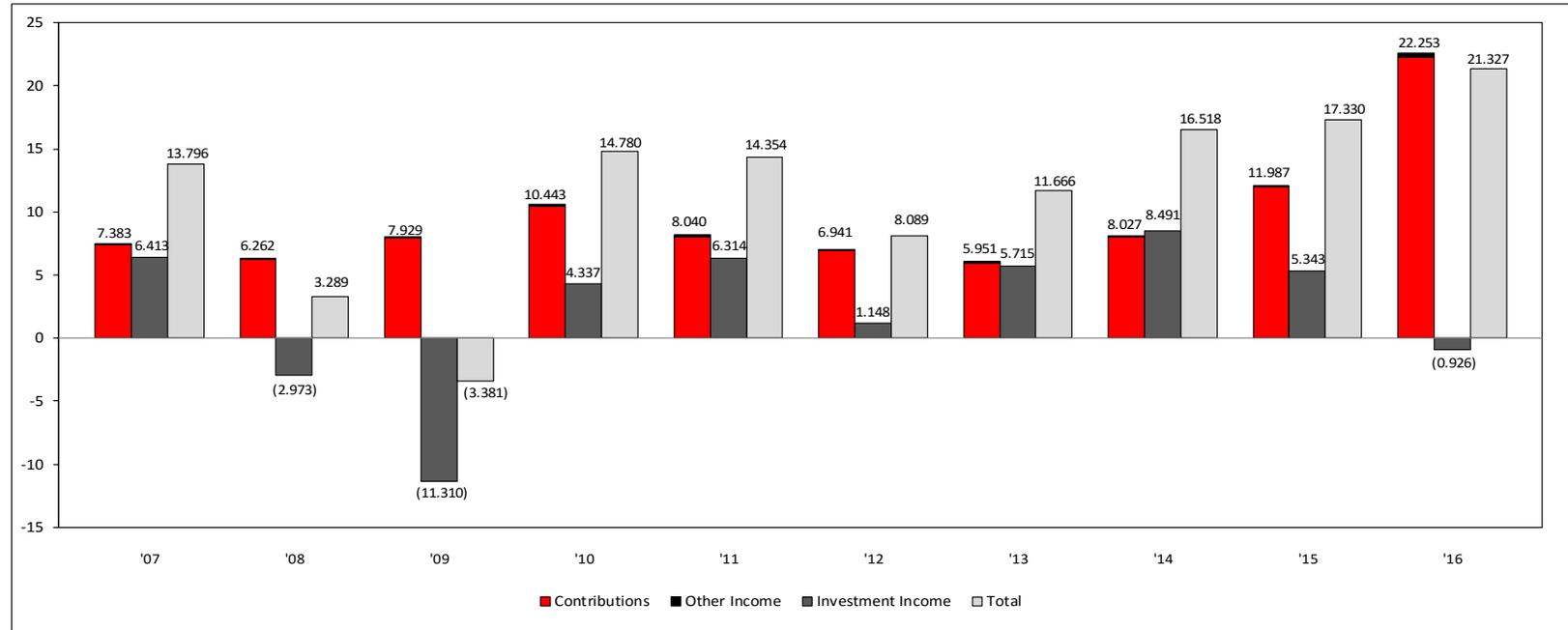
*Fiscal years 2011 - 2016 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

NC State Engineering Foundation, Inc.

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

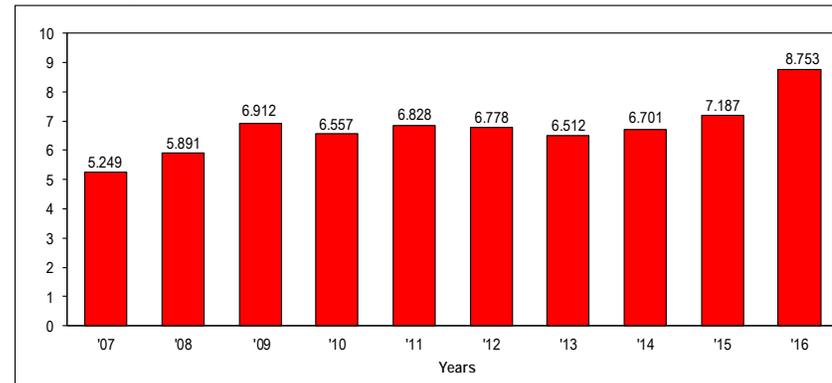
Total Revenues, Gains, and Other Income*

(Dollars in Millions)



Total Support*

(Dollars in Millions)



*Fiscal years 2011 - 2016 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.