

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2017 and 2016

NC State Engineering Foundation, Inc.

Financial Report
For the Years Ended June 30, 2017 and 2016

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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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Engineering Foundation, Inc. as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years 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 18 through 20 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 13, 2017

NC State Engineering Foundation, Inc.

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents (Note 1)	\$ 18,087,344	\$ 11,777,349
Intermediate investments (Note 1)	9,256,683	8,402,791
Long-term investments (Notes 1 and 3)	77,637,269	68,929,744
Pledges receivable, net (Notes 1 and 6)	9,448,191	13,454,742
Externally managed irrevocable trust (Note 5)	110,100	110,100
Receivable from University-associated entities (Note 1)	143,422	168,575
Donated property and land (Note 1)	-	105,000
Other assets (Note 1)	89,330	36,632
Total Assets	\$ 114,772,339	\$ 102,984,933
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 1)	\$ 101,494	78,744
Due to others (Note 1)	-	577,233
Life income funds payable (Note 5)	1,569,689	1,672,068
Life income funds payable - externally managed irrevocable trust (Note 5)	64,181	53,392
Total Liabilities	1,735,364	2,381,437
Net Assets		
Unrestricted:		
Undesignated	981,408	860,829
Undesignated - underwater endowments (Note 2)	(432)	(77,471)
Board-designated - endowments (Note 2)	2,478,760	2,015,281
Temporarily restricted (Note 8)	60,353,436	52,333,314
Permanently restricted (Note 9)	49,223,803	45,471,543
Total Net Assets	113,036,975	100,603,496
Total Liabilities and Net Assets	\$ 114,772,339	\$ 102,984,933

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 874,786	\$ 12,420,883	\$ 2,871,960	\$ 16,167,629
Change in pledges receivable, net	-	(3,979,342)	(27,209)	(4,006,551)
Donated services, salaries, and facilities (Note 7)	789,000	-	-	789,000
Donated property and land	-	-	95,000	95,000
Net asset reclassification - underwater endowments (Note 2)	77,039	(77,039)	-	-
Net investment income	482,436	7,172,047	286,575	7,941,058
Interest and dividends	357,718	26,849	50,077	434,644
Change in value of split interest agreements	-	-	(190,971)	(190,971)
Disposal of other assets	-	-	(43,404)	(43,404)
Other income	-	253,619	26,541	280,160
Net assets released from restrictions (Note 10)	7,256,564	(7,256,564)	-	-
Total Revenues, Gains, and Other Income	9,837,543	8,560,453	3,068,569	21,466,565
Grants to Support the University Program:				
Scholarships and fellowships	3,288,670	-	-	3,288,670
Faculty support and professorships	1,065,642	-	-	1,065,642
Departmental support	1,337,883	-	-	1,337,883
Other current services	1,183,218	-	-	1,183,218
Total Program Support	6,875,413	-	-	6,875,413
Administrative	233,000	-	-	233,000
Fundraising	1,953,386	-	-	1,953,386
Total Other Support	2,186,386	-	-	2,186,386
Total Support	9,061,799	-	-	9,061,799
Excess of Revenues, Gains, and Other Income Over Total Support	775,744	8,560,453	3,068,569	12,404,766
Net Transfers				
From other University-associated entities	-	28,713	-	28,713
Among funds (Note 11)	(114,647)	(569,044)	683,691	-
Total Net Transfers	(114,647)	(540,331)	683,691	28,713
Change in Net Assets	661,097	8,020,122	3,752,260	12,433,479
Net Assets				
Beginning of year	2,798,639	52,333,314	45,471,543	100,603,496
End of year	\$ 3,459,736	\$ 60,353,436	\$ 49,223,803	\$ 113,036,975

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 entities	-	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.

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ 12,433,479	\$ 12,606,532
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for permanent endowment	(2,871,960)	(1,712,594)
Net investment (income) loss	(7,941,058)	1,132,396
Donated property and land	(95,000)	(80,251)
Investment income restricted for split interest agreements	(50,077)	(68,420)
Change in value of split interest agreements	190,971	49,872
Externally managed irrevocable trust, net of liability	-	(37,651)
Disposal of other assets	43,404	-
Decrease (increase) in:		
Pledges receivable, net	4,006,551	(7,904,461)
Receivable from University-associated entities	25,153	(166,406)
Other assets	(52,698)	(15,444)
Increase (decrease) in:		
Accounts payable	22,750	(4,660)
Due to others	(577,233)	577,233
Net Cash Provided by Operating Activities	5,134,282	4,376,146
Cash Flows From Investing Activities		
Proceeds from sale of donated property	156,596	-
Proceeds from sales of investments	4,286,729	3,331,835
Purchases of investments	(5,985,412)	(2,983,140)
Net Cash (Used in) Provided by Investing Activities	(1,542,087)	348,695
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	2,871,960	1,712,594
Investment income restricted for split interest agreements	50,077	68,420
Payments on life income fund obligations	(204,237)	(267,972)
Net Cash Provided by Financing Activities	2,717,800	1,513,042
Net Increase in Cash and Cash Equivalents	6,309,995	6,237,883
Cash and Cash Equivalents		
Beginning of year	11,777,349	5,539,466
End of year	\$ 18,087,344	\$ 11,777,349
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 789,000	\$ 526,000
Transfers among funds	\$ 683,691	\$ 150,978

See notes to financial statements.

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

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 provide 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 Paragon Bank. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of taxable municipal bonds, the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF"), and an account with the common fund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$9,256,683 and \$8,402,791 at June 30, 2017 and 2016, respectively. The cost of these investments was \$9,700,326 and \$8,730,612 as of June 30, 2017 and 2016, respectively.

Long-term investments: Long-term investments are stated at fair value based on readily determinable fair values, when available. Investments for which readily determinable fair values are not available are carried at estimated fair values as provided by the respective fund managers of the investments. The Foundation, in accordance with investment policies promulgated by its Board of Directors (the "Board"), invests with the NC State Investment Fund, Inc. Long-Term Investment Pool (the "LTIP"). In addition, the Foundation has planned giving instruments invested with Kaspick.

NC State Engineering Foundation, Inc.

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

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

Pledges receivable: Unconditional pledges receivable are recognized as 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 net any loans outstanding on the policy. The cash surrender value of the policy was \$40,600 and \$28,731 at June 30, 2017 and 2016, respectively. Other assets also includes accrued interest on municipal bonds, closely held stock, and stock held in an external brokerage account.

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 \$289,619 and \$283,442 for the years ended June 30, 2017 and 2016, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

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 \$101,494 and \$78,744 as of June 30, 2017 and 2016, respectively.

Due to others: Due to others at June 30, 2017 and 2016 consisted of \$0 and \$577,233, respectively, due to other associated entities.

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

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 2017 and 2016. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2013.

Note 2. Endowment

The Foundation's endowment consists of approximately 410 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.

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund or spending of corpus in accordance to the gift agreement. Deficiencies of this nature are reported in unrestricted net assets and were (\$432) and (\$77,471) as of June 30, 2017 and 2016, respectively.

Note 2. Endowment (continued)

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 \$1,992,880 and \$2,043,235 for fiscal years 2017 and 2018, respectively.

Strategies employed for achieving investment objectives: For the long term, the primary investment objective for the LTIP is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the LTIP and to meet the spending needs of the University. To 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, 2017 and 2016

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,088,009	\$ 20,882,809	\$ 45,471,543	\$ 68,442,361
Net asset reclassification - underwater endowments	77,039	(77,039)	-	-
Endowment net assets after reclassification	2,165,048	20,805,770	45,471,543	68,442,361
Total investment return	740,091	7,039,175	293,248	8,072,514
Contributions, including change in accrued pledges and other income	-	12,440	2,966,292	2,978,732
Appropriations of endowment assets for expenditure	(218,910)	(2,484,430)	-	(2,703,340)
Change in value of split interest agreements	-	-	(190,971)	(190,971)
Other changes:				
Transfers	-	(173,721)	683,691	509,970
Endowment net assets, end of year	<u>\$ 2,686,229</u>	<u>\$ 25,199,234</u>	<u>\$ 49,223,803</u>	<u>\$ 77,109,266</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (432)	\$ -	\$ -	\$ (432)
Board-designated endowment funds	2,478,760	-	-	2,478,760
Donor-designated endowment funds	207,901	25,199,234	49,223,803	74,630,938
Total funds	<u>\$ 2,686,229</u>	<u>\$ 25,199,234</u>	<u>\$ 49,223,803</u>	<u>\$ 77,109,266</u>

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	<u>\$ 2,088,009</u>	<u>\$ 20,882,809</u>	<u>\$ 45,471,543</u>	<u>\$ 68,442,361</u>

NC State Engineering Foundation, Inc.

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

Note 2. Endowment (continued)

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

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

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 consisted of the following at June 30:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 793,650	\$ 793,650	\$ 234,516	\$ 234,516
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	47,624,990	74,072,152	45,641,609	64,946,286
Life Income Funds	2,650,621	2,771,467	3,607,292	3,748,942
	<u>\$ 51,069,261</u>	<u>\$ 77,637,269</u>	<u>\$ 49,483,417</u>	<u>\$ 68,929,744</u>

As of June 30, 2017, approximately 88.9% of the LTIP was invested with the UNC Management Company ("UNCMC"), 2.2% was committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 8.3% was invested in Blackrock Liquid Policy Portfolio (the "LPP"), and 0.6% was invested in the STIF. The LTIP's net assets were valued at approximately \$870,450,000 and \$683,380,000 at June 30, 2017 and 2016, respectively. The Foundation's investment in LTIP represents approximately 8.5% and 9.5% of the member's equity of the LTIP at June 30, 2017 and 2016, 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.

NC State Engineering Foundation, Inc.

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

Note 4. Fair Value Measurement (continued)

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

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

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

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

The Foundation's assets itemized below are measured at fair value on a recurring basis as of June 30:

	2017			Total Fair Value
	Level 1	Level 2	Level 3	
STIF	\$ 793,650	\$ -	\$ -	\$ 793,650
Municipal Bonds	-	2,004,051	-	2,004,051
Commonfund Intermediate Term Fund	-	2,967,638	-	2,967,638
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,284,994	-	4,284,994
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	74,072,152	74,072,152
Life Income Funds	-	2,771,467	-	2,771,467
	<u>\$ 793,650</u>	<u>\$ 12,028,150</u>	<u>\$ 74,072,152</u>	<u>\$ 86,893,952</u>

	2016			Total Fair Value
	Level 1	Level 2	Level 3	
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>

NC State Engineering Foundation, Inc.

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

Note 4. Fair Value Measurement (continued)

The following is a reconciliation of the assets measured at fair value on a recurring basis in which significant unobservable inputs (Level 3) were used in determining value for the years ended June 30:

	2017	2016
	NC State Investment Fund, Inc. LTIP	NC State Investment Fund, Inc. LTIP
Beginning balance	\$ 64,946,286	\$ 65,772,642
Participant additions	3,990,000	2,805,000
Investment income	36,020	8,928
Realized gains	933,443	619,466
Unrealized appreciation (depreciation)	7,142,485	(1,402,909)
Participant withdrawals	(2,703,340)	(2,578,518)
Expenses	(272,742)	(278,323)
Ending balance	<u>\$ 74,072,152</u>	<u>\$ 64,946,286</u>

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.

NC State Engineering Foundation, Inc.

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

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is 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, 2017 and 2016 have asset balances of \$2,771,467 and \$3,748,942, 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 \$1,569,689 and \$1,672,068 at June 30, 2017 and June 30, 2016, respectively. Payments from these funds were \$204,237 and \$267,972 during the years ended June 30, 2017 and 2016, 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, 2017 and 2016, the CGA reserve balance was \$11,894 and \$12,201, respectively.

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 \$64,181 and \$53,392 as of June 30, 2017 and 2016, respectively. 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:

	2017	2016
Receivable in less than one year	\$ 2,683,758	\$ 7,172,531
Receivable in one to five years	6,038,036	5,059,023
Receivable in greater than five years	1,792,500	2,374,999
Total pledges receivable, gross	<u>10,514,294</u>	<u>14,606,553</u>
Less allowance for uncollectible pledges	(526,000)	(731,000)
Less unamortized discount (discount rates of 1.20% to 2.19%)	(540,103)	(420,811)
Pledges receivable, net	<u>\$ 9,448,191</u>	<u>\$ 13,454,742</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.

Two donors represent approximately \$3.2 million of the total undiscounted pledges receivable at June 30, 2017. Six donors represented approximately \$11.9 million of the total undiscounted pledges receivable at June 30, 2016.

NC State Engineering Foundation, Inc.

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

Note 7. Donated Services, Salaries, and Facilities

Donated services in the amount of \$158,000 and \$129,000 for the years ended June 30, 2017 and 2016, 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 \$631,000 and \$397,000 for the years ended June 30, 2017 and 2016, respectively, have been reflected in the accompanying financial statements.

Note 8. Temporarily Restricted Net Assets

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

	2017	2016
Scholarships and fellowships	\$ 2,112,151	\$ 2,145,305
Faculty support and professorships	779,338	866,633
Research support	4,817,322	4,731,494
Pledges receivable, net	8,452,423	12,431,766
Oval Project Fund	13,608,723	6,403,312
Endowment cumulative balance	25,199,234	20,882,809
Other	5,384,245	4,871,995
	<u>\$ 60,353,436</u>	<u>\$ 52,333,314</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 are restricted as follows at June 30:

	2017	2016
Scholarships and fellowships	\$ 43,989,163	\$ 39,719,372
Faculty support and professorships	6,564,864	4,994,298
Research support	405,323	375,510
Pledges receivable, net	995,768	1,022,976
NC State Engineering Foundation Academic Enhancement Fund	4,836,206	4,451,805
Amounts reported as unrestricted or temporarily restricted net assets	(27,885,463)	(22,970,818)
Other	20,317,942	17,878,400
	<u>\$ 49,223,803</u>	<u>\$ 45,471,543</u>

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

NC State Engineering Foundation, Inc.

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

Note 10. Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions as restrictions were met via the passage of time or by incurring expenses satisfying the restricted purposes specified by donors as follows during the years ended June 30:

	2017	2016
Scholarships and fellowships	\$ 2,839,941	\$ 2,816,919
Faculty support and professorships	1,065,642	1,075,435
Departmental support	1,274,937	1,416,959
Administrative and fundraising	892,826	706,111
Other	1,183,218	1,078,310
	<u>\$ 7,256,564</u>	<u>\$ 7,093,734</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, 2017 and 2016, net endowment transfers among funds were \$683,691 and \$40,750 respectively.

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 13, 2017 the date which the financial statements were available to be issued, and there were none to report.

NC State Engineering Foundation, Inc.

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

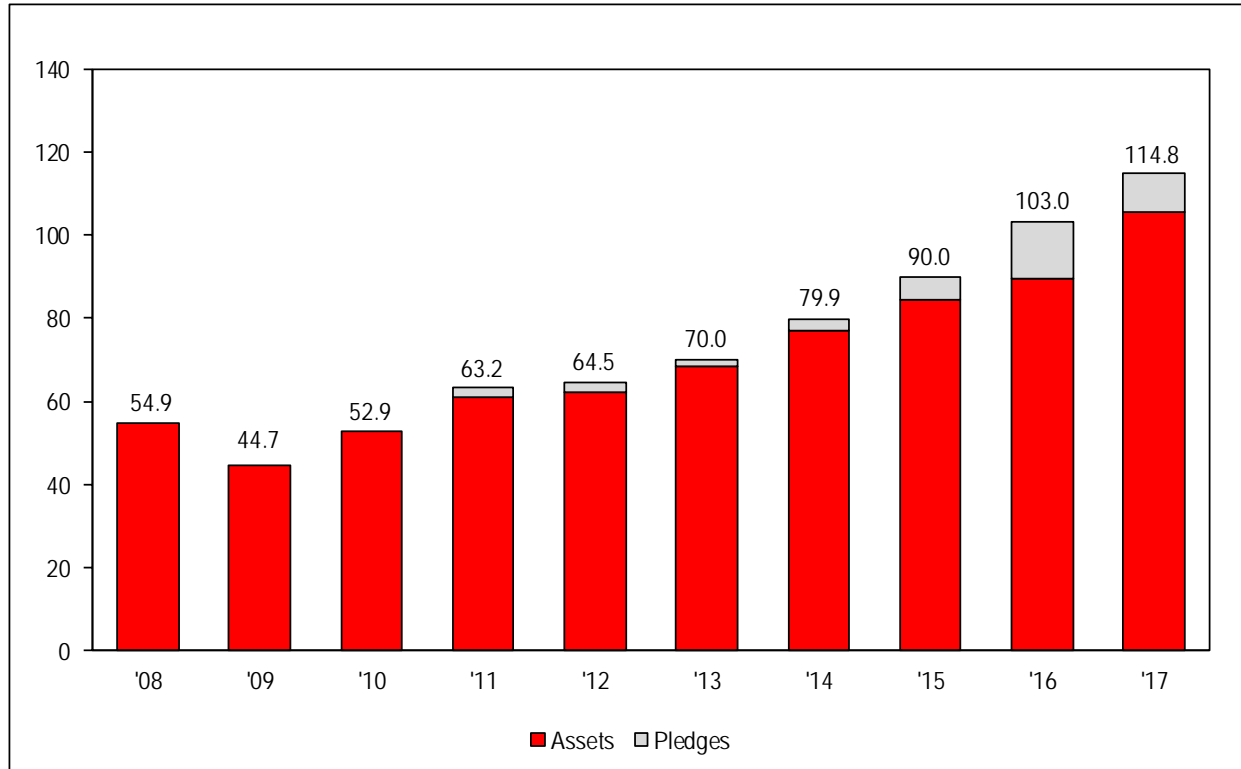
	Budget	Actual	Variance Over (Under)
Income			
Contributions			
Annual Fund	\$ 515,000	\$ 606,405	\$ 91,405
Engineering Enhancement	500	633	133
Engineering Leadership Fund	150,000	132,515	(17,485)
Directors	140,000	123,271	(16,729)
Other	100	115	15
Total Contributions	805,600	862,939	57,339
Endowment assessments	477,455	477,455	-
Interest and dividends	160,000	164,332	4,332
Total Income	1,443,055	1,504,726	61,671
Support			
Program support	451,000	448,729	(2,271)
Advancement services	111,855	111,855	-
Foundation administration	876,500	895,160	18,660
Total Support	1,439,355	1,455,744	16,389
Income Less Support	3,700	48,982	45,282
General Fund Balance			
Beginning of year	901,883	901,883	-
End of year	\$ 905,583	\$ 950,865	\$ 45,282

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 \$2,163,474 which benefit the College of Engineering. These gifts were received due to the efforts of Foundation members and the College Development Staff.

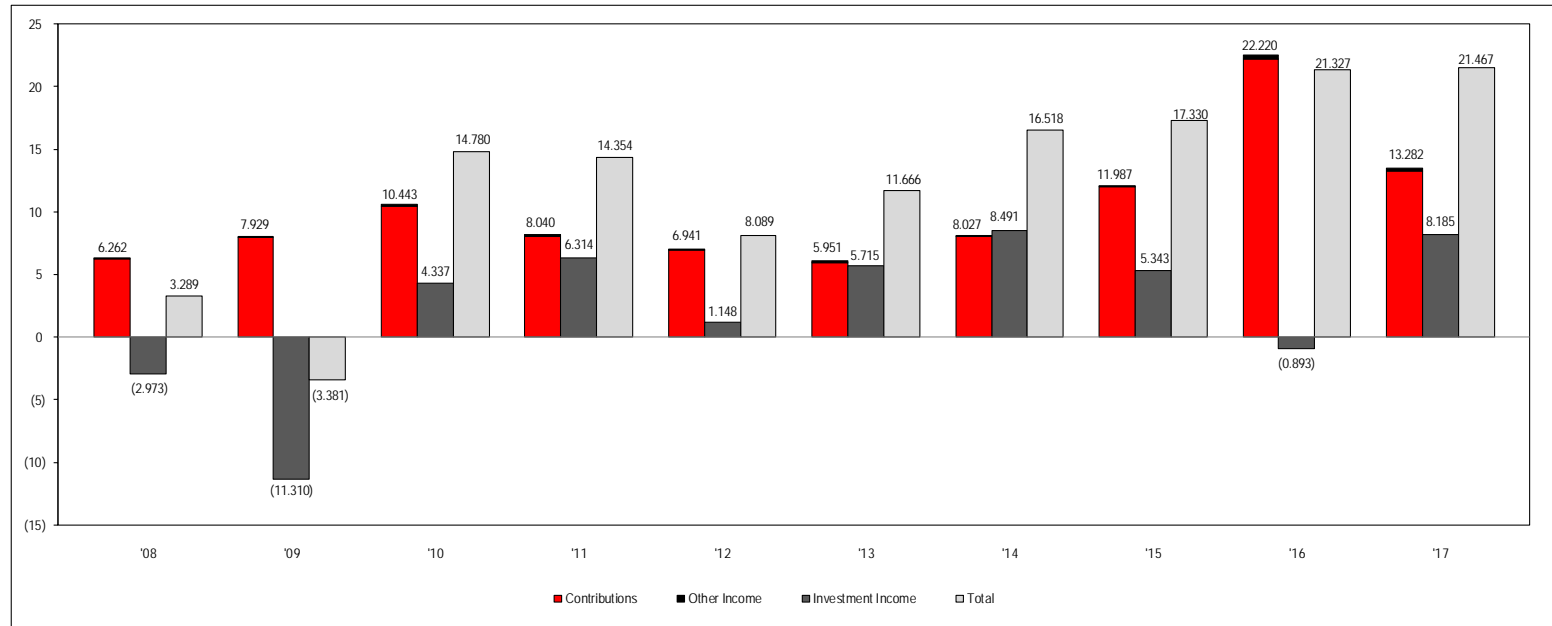
*Fiscal years 2011 - 2017 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

NC State Engineering Foundation, Inc.

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

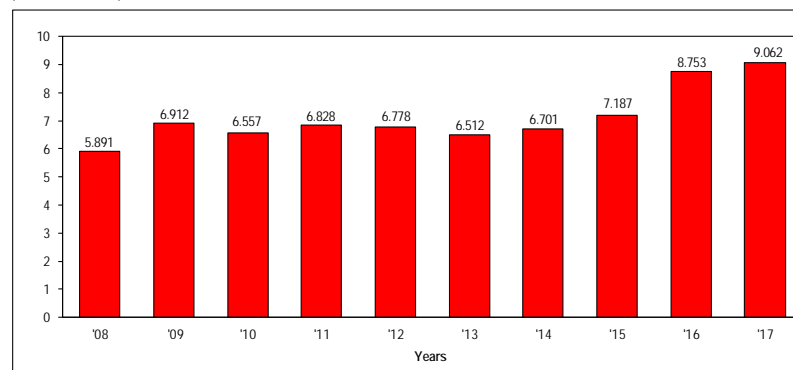
Total Revenues, Gains, and Other Income*

(Dollars in Millions)



Total Support*

(Dollars in Millions)



*Fiscal years 2011 - 2017 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.