

**NC STATE ENGINEERING  
FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2018 and 2017**

**NC State Engineering Foundation, Inc.**

**Financial Report  
For the Years Ended June 30, 2018 and 2017**

**Contents**

---

<b>Independent Auditor's Report</b>	1 - 2
-------------------------------------	-------

---

**Financial Statements**

Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17

---

**Supplementary Information**

General Fund Budget vs. Actual - Unaudited	18
Ten Year Summary of Asset Growth - Unaudited	19
Ten Year Summary of Revenues and Support - Unaudited	20

---



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

421 Fayetteville Street  
Suite 300  
Raleigh, NC 27601

## 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, 2018 and 2017, 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, 2018 and 2017, 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 15, 2018

**NC State Engineering Foundation, Inc.**

**Statements of Financial Position  
June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents (Note 1)	\$ 23,464,447	\$ 18,087,344
Intermediate investments (Note 1)	9,044,218	9,256,683
Long-term investments (Notes 1 and 3)	86,272,619	77,637,269
Pledges receivable, net (Notes 1 and 6)	24,354,815	9,448,191
Externally managed irrevocable trust (Note 5)	110,100	110,100
Receivable from University-associated entities (Note 1)	-	143,422
Donated property and land (Note 1)	125,000	-
Other assets (Note 1)	57,036	89,330
<b>Total Assets</b>	<b>\$ 143,428,235</b>	<b>\$ 114,772,339</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable (Note 1)	\$ 106,675	\$ 101,494
Life income funds payable (Note 5)	1,537,670	1,569,689
Life income funds payable - externally managed irrevocable trust (Note 5)	62,320	64,181
<b>Total Liabilities</b>	<b>\$ 1,706,665</b>	<b>\$ 1,735,364</b>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	1,069,280	981,408
Undesignated - underwater endowments (Note 2)	(270)	(432)
Board-designated - endowments (Note 2)	2,942,804	2,478,760
Temporarily restricted (Note 8)	85,740,364	60,353,436
Permanently restricted (Note 9)	51,969,392	49,223,803
<b>Total Net Assets</b>	<b>141,721,570</b>	<b>113,036,975</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 143,428,235</b>	<b>\$ 114,772,339</b>

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other Income</b>				
Contributions (Note 1)	\$ 1,900,340	\$ 9,055,065	\$ 3,162,445	\$ 14,117,850
Change in pledges receivable, net	-	15,411,328	(504,704)	14,906,624
Donated services, salaries, and facilities (Note 7)	790,000	-	-	790,000
Donated property and land	-	125,000	-	125,000
Net asset reclassification - underwater endowments (Note 2)	162	(162)	-	-
Net investment income	434,793	8,030,671	91,532	8,556,996
Interest and dividends	334,298	199,362	33,671	567,331
Change in value of split interest agreements	-	-	(142,348)	(142,348)
Other income	-	377,485	-	377,485
Net assets released from restrictions (Note 10)	7,894,237	(7,894,237)	-	-
<b>Total Revenues, Gains, and Other Income</b>	<b>11,353,830</b>	<b>25,304,512</b>	<b>2,640,596</b>	<b>39,298,938</b>
<b>Grants to Support the University</b>				
<b>Program:</b>				
Scholarships and fellowships	3,018,487	-	-	3,018,487
Faculty support and professorships	1,185,053	-	-	1,185,053
Departmental support	1,735,183	-	-	1,735,183
Facility support	997,614	-	-	997,614
Other current services	1,575,103	-	-	1,575,103
<b>Total Program Support</b>	<b>8,511,440</b>	<b>-</b>	<b>-</b>	<b>8,511,440</b>
Administrative	182,000	-	-	182,000
Fundraising	1,922,738	-	-	1,922,738
<b>Total Other Support</b>	<b>2,104,738</b>	<b>-</b>	<b>-</b>	<b>2,104,738</b>
<b>Total Support</b>	<b>10,616,178</b>	<b>-</b>	<b>-</b>	<b>10,616,178</b>
<b>Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>737,652</b>	<b>25,304,512</b>	<b>2,640,596</b>	<b>28,682,760</b>
<b>Net Transfers</b>				
From other University-associated entities	-	1,835	-	1,835
Among funds (Note 11)	(185,574)	80,581	104,993	-
<b>Total Net Transfers</b>	<b>(185,574)</b>	<b>82,416</b>	<b>104,993</b>	<b>1,835</b>
<b>Change in Net Assets</b>	<b>552,078</b>	<b>25,386,928</b>	<b>2,745,589</b>	<b>28,684,595</b>
<b>Net Assets</b>				
Beginning of year	3,459,736	60,353,436	49,223,803	113,036,975
End of year	\$ 4,011,814	\$ 85,740,364	\$ 51,969,392	\$ 141,721,570

See notes to financial statements.

**NC State Engineering Foundation, Inc.**

**Statement of Activities  
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other Income</b>				
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)	-	-
<b>Total Revenues, Gains, and Other Income</b>	<b>9,837,543</b>	<b>8,560,453</b>	<b>3,068,569</b>	<b>21,466,565</b>
<b>Grants to Support the University Program:</b>				
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
<b>Total Program Support</b>	<b>6,875,413</b>	<b>-</b>	<b>-</b>	<b>6,875,413</b>
Administrative	233,000	-	-	233,000
Fundraising	1,953,386	-	-	1,953,386
<b>Total Other Support</b>	<b>2,186,386</b>	<b>-</b>	<b>-</b>	<b>2,186,386</b>
<b>Total Support</b>	<b>9,061,799</b>	<b>-</b>	<b>-</b>	<b>9,061,799</b>
<b>Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>775,744</b>	<b>8,560,453</b>	<b>3,068,569</b>	<b>12,404,766</b>
<b>Net Transfers</b>				
From other University-associated entities	-	28,713	-	28,713
Among funds (Note 11)	(114,647)	(569,044)	683,691	-
<b>Total Net Transfers</b>	<b>(114,647)</b>	<b>(540,331)</b>	<b>683,691</b>	<b>28,713</b>
<b>Change in Net Assets</b>	<b>661,097</b>	<b>8,020,122</b>	<b>3,752,260</b>	<b>12,433,479</b>
<b>Net Assets</b>				
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.

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

	2018	2017
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 28,684,595	\$ 12,433,479
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for permanent endowment	(3,162,445)	(2,871,960)
Net investment income	(8,556,996)	(7,941,058)
Donated property and land	(125,000)	(95,000)
Investment income restricted for split interest agreements	(33,671)	(50,077)
Change in value of split interest agreements	142,348	190,971
Disposal of other assets	-	43,404
(Increase) decrease in:		
Pledges receivable, net	(14,906,624)	4,006,551
Receivable from University-associated entities	143,422	25,153
Other assets	32,294	(52,698)
Increase (decrease) in:		
Accounts payable	5,181	22,750
Due to others	-	(577,233)
<b>Net Cash Provided by Operating Activities</b>	<b>2,223,104</b>	<b>5,134,282</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of donated property	-	156,596
Proceeds from sales of investments	3,765,836	4,286,729
Purchases of investments	(3,631,725)	(5,985,412)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>134,111</b>	<b>(1,542,087)</b>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for permanent endowment	3,162,445	2,871,960
Investment income restricted for split interest agreements	33,671	50,077
Payments on life income fund obligations	(176,228)	(204,237)
<b>Net Cash Provided by Financing Activities</b>	<b>3,019,888</b>	<b>2,717,800</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>5,377,103</b>	<b>6,309,995</b>
<b>Cash and Cash Equivalents</b>		
Beginning of year	18,087,344	11,777,349
End of year	<b>\$ 23,464,447</b>	<b>\$ 18,087,344</b>
<b>Supplemental Disclosures of Noncash Activities</b>		
Donated services, salaries, and facilities	\$ 790,000	\$ 789,000
Transfers among funds	<b>\$ 185,574</b>	<b>\$ 683,691</b>

See notes to financial statements.



## NC State Engineering Foundation, Inc.

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

---

#### 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 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 \$9,044,218 and \$9,256,683 at June 30, 2018 and 2017, respectively. The cost of these investments was \$9,657,956 and \$9,700,326 as of June 30, 2018 and 2017, respectively.

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

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.

**NC State Engineering Foundation, Inc.**

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

---

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

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 \$44,082 and \$40,600 at June 30, 2018 and 2017, 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. For the year ended June 30, 2018, a one-time fee of 7% was assessed on gifts that support current operations and facilities, with 4% designated for Central Development and 3% designated to the fundraising entity receiving the gift. For the year ended June 30, 2017, a one-time fee of 5% was assessed, with 3% designated for Central Development and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For 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 approximately \$373,000 and \$290,000 for the years ended June 30, 2018 and 2017, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University's gift assessment program, an annual fee is assessed on the average twenty-quarter market value of assets held in the investment portfolio. For the year ended June 30, 2018, the annual fee was 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts. For the year ended June 30, 2017, the annual fee was 0.50%, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, for the year ended June 30, 2017, an assessment of 0.75% was charged by the Foundation on the average twenty-quarter market value of assets held in the investment portfolio, for the support 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 \$106,675 and \$101,494 as of June 30, 2018 and 2017, respectively.

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.

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

---

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

Income taxes and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2018 and 2017. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

**Note 2. Endowment**

The Foundation's endowment consists of approximately 420 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 either spending of corpus in accordance to the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were (\$270) and (\$432) as of June 30, 2018 and 2017, respectively.

Investment return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the LTIP in a manner that is intended to produce results that exceed a 70% MSCI/ACWI Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

**NC State Engineering Foundation, Inc.**

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

**Note 2. Endowment (continued)**

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 \$2,043,235 and \$2,533,370 for fiscal years 2018 and 2019, respectively.

Strategies employed for achieving investment objectives: For the long term, the primary investment objective for the LTIP is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the LTIP and to meet the spending needs of the University. To 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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,686,229	\$ 25,199,234	\$ 49,223,803	\$ 77,109,266
Net asset reclassification - underwater endowments	162	(162)	-	-
Endowment net assets after reclassification	2,686,391	25,199,072	49,223,803	77,109,266
Total investment return	777,579	7,948,487	125,203	8,851,269
Contributions, including change in accrued pledges and other income	-	5,112	2,657,741	2,662,853
Appropriations of endowment assets for expenditure	(256,090)	(3,056,150)	-	(3,312,240)
Change in value of split interest agreements	-	-	(142,348)	(142,348)
Other changes:				
Transfers	-	-	104,993	104,993
Endowment net assets, end of year	\$ 3,207,880	\$ 30,096,521	\$ 51,969,392	\$ 85,273,793

**NC State Engineering Foundation, Inc.**

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

**Note 2. Endowment (continued)**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (270)	\$ -	\$ -	\$ (270)
Board-designated endowment funds	2,942,804	-	-	2,942,804
Donor-designated endowment funds	265,346	30,096,521	51,969,392	82,331,259
Total funds	<u>\$ 3,207,880</u>	<u>\$ 30,096,521</u>	<u>\$ 51,969,392</u>	<u>\$ 85,273,793</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 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>

## NC State Engineering Foundation, Inc.

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

#### 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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 1,448	\$ 1,448	\$ 793,650	\$ 793,650
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	49,044,872	83,505,452	47,624,990	74,072,152
Life Income Funds	2,602,050	2,765,719	2,650,621	2,771,467
	<u>\$ 51,648,370</u>	<u>\$ 86,272,619</u>	<u>\$ 51,069,261</u>	<u>\$ 77,637,269</u>

As of June 30, 2018, approximately 87.4% of the LTIP was invested with the UNC Management Company, 9.2% in the LPP, 1.8% in other managers in private equity funds, and 1.6% in the STIF. The LTIP's net assets were valued at approximately \$1,008,370,000 and \$870,450,000 at June 30, 2018 and 2017, respectively. The Foundation's investment in LTIP represents approximately 8.3% and 8.5% of the member's equity of the LTIP at June 30, 2018 and 2017, 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, 2018 and 2017

**Note 4. Fair Value Measurement (continued)**

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

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 1,448	\$ -	\$ -	\$ 1,448
Municipal Bonds	-	1,938,361	-	1,938,361
<i>commonfund</i> Intermediate Term Fund	-	2,919,000	-	2,919,000
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,186,857	-	4,186,857
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	83,505,452	83,505,452
Life Income Funds	-	2,765,719	-	2,765,719
Beneficial Interest in Life Insurance Policies	-	-	44,082	44,082
	<b>\$ 1,448</b>	<b>\$ 11,809,937</b>	<b>\$ 83,549,534</b>	<b>\$ 95,360,919</b>

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 793,650	\$ -	\$ -	\$ 793,650
Municipal Bonds	-	2,004,051	-	2,004,051
<i>commonfund</i> 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
Beneficial Interest in Life Insurance Policies	-	-	40,600	40,600
	<b>\$ 793,650</b>	<b>\$ 12,028,150</b>	<b>\$ 74,112,752</b>	<b>\$ 86,934,552</b>

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:

	2018		2017	
	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 74,072,152	\$ 40,600	\$ 64,946,286	\$ 28,731
Participant additions	4,065,000	-	3,990,000	-
Investment income	37,167	-	36,020	-
Realized gains	992,885	-	933,443	-
Unrealized appreciation	8,013,418	3,482	7,142,485	11,869
Participant withdrawals	(3,311,180)	-	(2,703,340)	-
Expenses	(363,990)	-	(272,742)	-
Ending balance	<b>\$ 83,505,452</b>	<b>\$ 44,082</b>	<b>\$ 74,072,152</b>	<b>\$ 40,600</b>

## NC State Engineering Foundation, Inc.

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

---

#### 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, 2018 and 2017 have asset balances of \$2,765,719 and \$2,771,467, 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 \$1,537,670 and \$1,569,689 at June 30, 2018 and June 30, 2017, respectively. Payments from these funds were \$176,228 and \$204,237 during the years ended June 30, 2018 and 2017, respectively. An unrestricted reserve account was established in the Foundation’s Charitable Gift Annuity (“CGA”) pool to receive 10% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation’s CGA pool. As of June 30, 2018 and 2017, the CGA reserve balance was \$14,359 and \$11,894, respectively.



**NC State Engineering Foundation, Inc.**

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

---

**Note 5. Life Income Funds (continued)**

In addition to the above life income funds, the Foundation was named the recipient of an externally managed irrevocable trust in 2016 which represents irrevocable life income funds with a market value totaling \$110,100 and life income funds payable of \$62,320 and \$64,181 as of June 30, 2018 and 2017, 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:

	<b>2018</b>	2017
Receivable in less than one year	<b>\$ 16,273,555</b>	\$ 2,683,758
Receivable in one to five years	<b>8,416,089</b>	6,038,036
Receivable in greater than five years	<b>2,542,898</b>	1,792,500
Total pledges receivable, gross	<b>27,232,542</b>	10,514,294
Less allowance for uncollectible pledges	<b>(1,362,000)</b>	(526,000)
Less unamortized discount (discount rates of 2.33% to 2.91%)	<b>(1,515,727)</b>	(540,103)
Pledges receivable, net	<b>\$ 24,354,815</b>	\$ 9,448,191

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 represented approximately \$16.4 million and \$3.2 million of the total undiscounted pledges receivable at June 30, 2018 and 2017, respectively.

**Note 7. Donated Services, Salaries, and Facilities**

Donated services in the amount of \$103,000 and \$158,000 for the years ended June 30, 2018 and 2017, 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 \$687,000 and \$631,000 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017**

---

**Note 8. Temporarily Restricted Net Assets**

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

	<b>2018</b>	<b>2017</b>
Scholarships and fellowships	<b>\$ 2,465,384</b>	\$ 2,112,151
Faculty support and professorships	<b>1,104,047</b>	779,338
Research support	<b>4,367,834</b>	4,817,322
Pledges receivable, net	<b>23,863,751</b>	8,452,423
Fitts-Woolard Hall Project Fund	<b>17,937,363</b>	13,608,723
Endowment cumulative balance	<b>30,096,521</b>	25,199,234
Other	<b>5,905,464</b>	5,384,245
	<b><u>\$ 85,740,364</u></b>	<b><u>\$ 60,353,436</u></b>

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:

	<b>2018</b>	<b>2017</b>
Scholarships and fellowships	<b>\$ 49,161,530</b>	\$ 43,989,163
Faculty support and professorships	<b>7,725,531</b>	6,564,864
Research support	<b>435,852</b>	405,323
Pledges receivable, net	<b>491,064</b>	995,768
NC State Engineering Foundation Academic Enhancement Fund	<b>5,221,530</b>	4,836,206
Amounts reported as unrestricted or temporarily restricted net assets	<b>(33,304,401)</b>	(27,885,463)
Other	<b>22,238,286</b>	20,317,942
	<b><u>\$ 51,969,392</u></b>	<b><u>\$ 49,223,803</u></b>

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, 2018 and 2017**

---

**Note 10. Net Assets Released From Donor Restrictions**

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

	<b>2018</b>	<b>2017</b>
Scholarships and fellowships	<b>\$ 2,573,431</b>	\$ 2,839,941
Faculty support and professorships	<b>1,185,053</b>	1,065,642
Departmental support	<b>1,707,977</b>	1,274,937
Facility support	<b>67,614</b>	-
Administrative and fundraising	<b>785,059</b>	892,826
Other	<b>1,575,103</b>	1,183,218
	<b>\$ 7,894,237</b>	<b>\$ 7,256,564</b>

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, 2018 and 2017, net endowment transfers among funds were \$104,993 and \$683,691, respectively.

**Note 12. Subsequent Events**

The Foundation has evaluated subsequent events through October 15, 2018 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, 2018

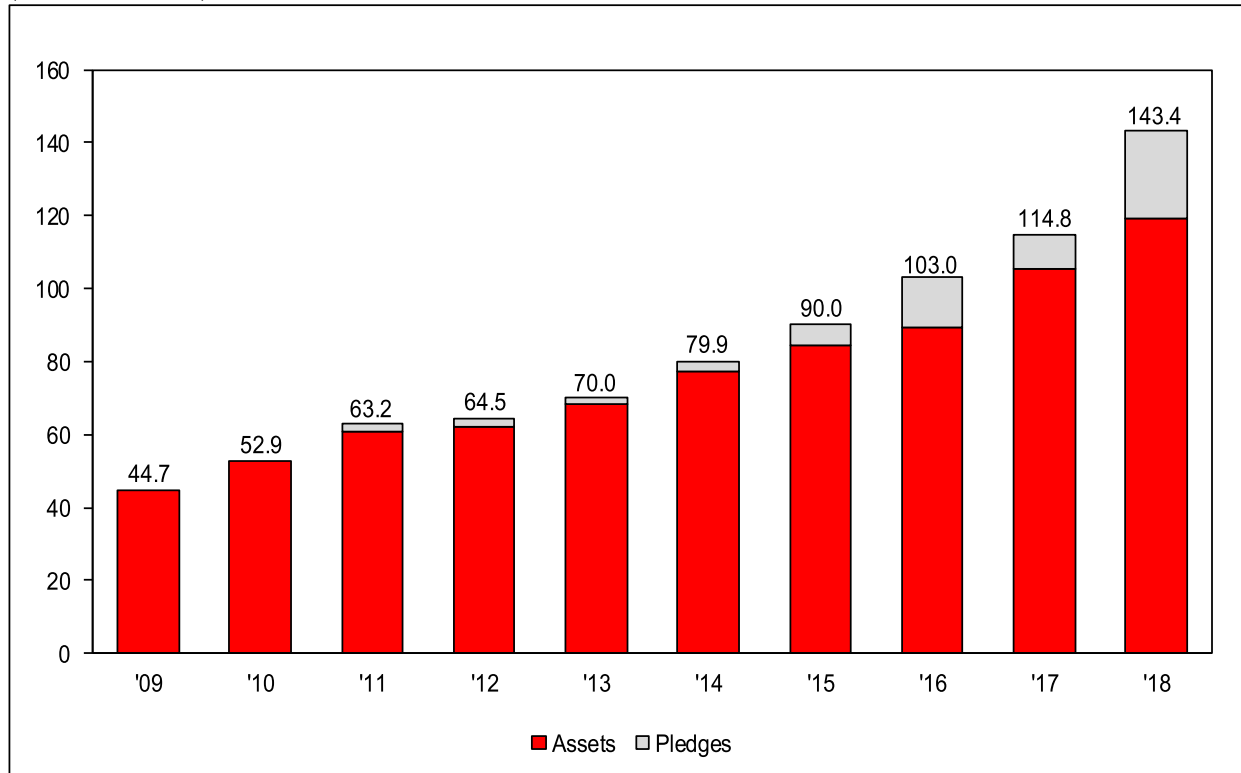
	Budget	Actual	Variance (Under) Over
<b>Income</b>			
<b>Contributions</b>			
Directors - Engineering Leadership	\$ 665,600	\$ 449,582	\$ (216,018)
Engineering Leadership Fund	1,070,000	1,337,158	267,158
<b>Total Contributions</b>	<b>1,735,600</b>	<b>1,786,740</b>	<b>51,140</b>
Endowment assessments	139,290	139,290	-
Interest and dividends	176,000	176,376	376
<b>Total Income</b>	<b>2,050,890</b>	<b>2,102,406</b>	<b>51,516</b>
<b>Support</b>			
Program support	450,000	443,750	(6,250)
Transfers to Engineering Oval Building	930,000	930,000	-
Commonfund reserve	25,000	25,000	-
Foundation administration	645,470	649,664	4,194
<b>Total Support</b>	<b>2,050,470</b>	<b>2,048,414</b>	<b>(2,056)</b>
<b>Income Less Support</b>	<b>420</b>	<b>53,992</b>	<b>53,572</b>
<b>General Fund Balance</b>			
Beginning of year	950,865	950,865	-
End of year	\$ 951,285	\$ 1,004,857	\$ 53,572

# NC State Engineering Foundation, Inc.

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

### Total Assets\*

(Dollars in Millions)

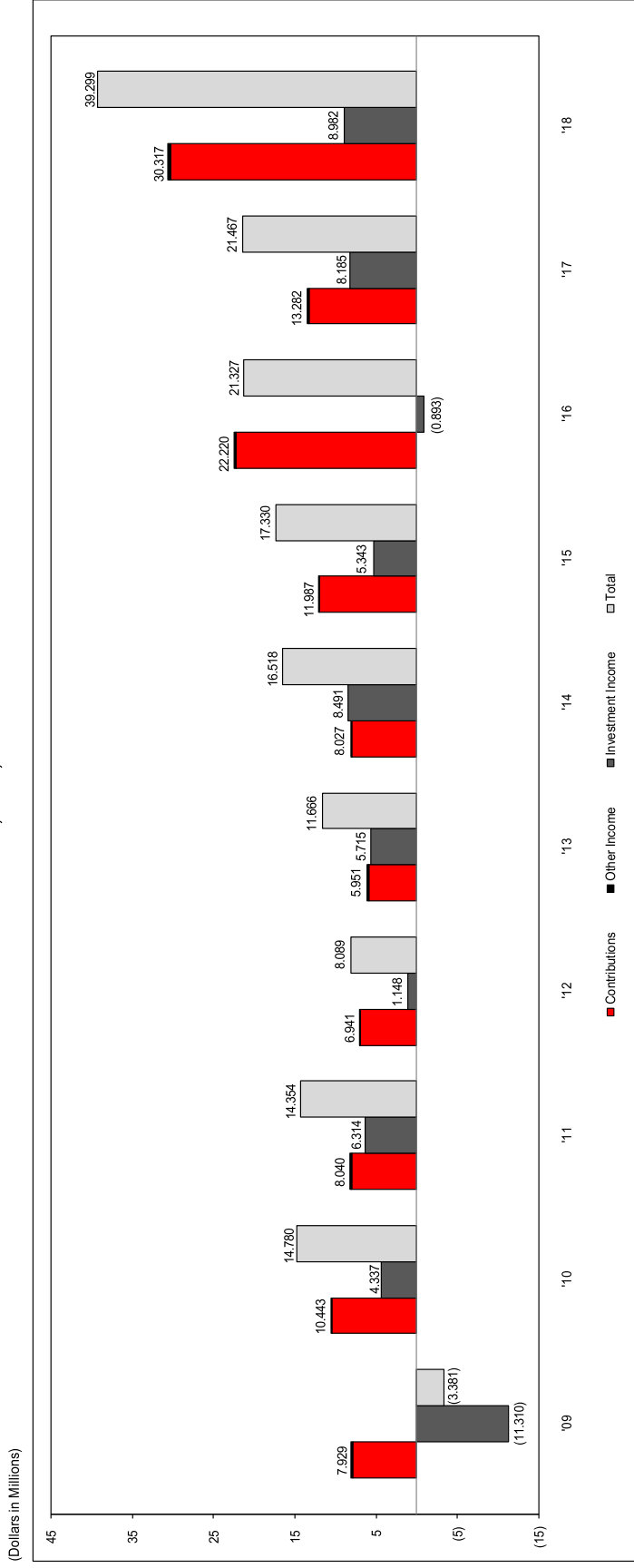


\*Fiscal years 2011 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

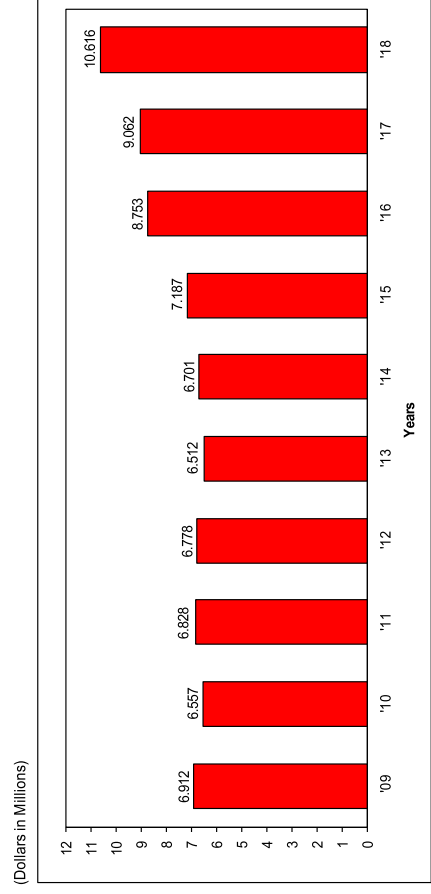
**NC State Engineering Foundation, Inc.**

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

**Total Revenues, Gains, and Other Income\***



**Total Support\***



\*Fiscal years 2011 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.