

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2019 and 2018

NC State Engineering Foundation, Inc.

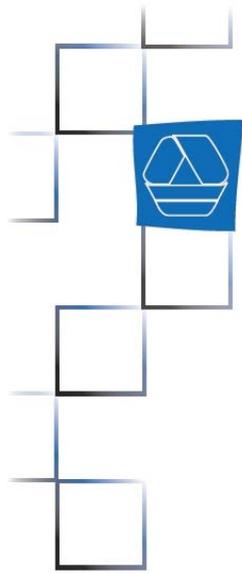
Financial Report
For the Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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

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, 2019, 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.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Engineering Foundation, Inc., as of June 30, 2019, and the changes in its net assets 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 financial statements as a whole. The supplementary information on pages 20 through 22, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Financial Statements

The 2018 financial statements of the Foundation were audited by other auditors, whose report dated October 15, 2018 expressed an unmodified opinion on those statements.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
October 24, 2019

NC State Engineering Foundation, Inc.

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents (Note 1)	\$ 28,361,164	\$ 23,464,447
Intermediate investments (Note 1)	9,280,573	9,044,218
Long-term investments (Notes 1 and 3)	90,779,350	86,272,619
Pledges receivable, net (Notes 1 and 7)	23,816,479	24,354,815
Externally managed irrevocable trust (Note 6)	104,252	110,100
Donated property and land (Note 1)	-	125,000
Other assets (Note 1)	55,906	57,036
Total Assets	\$ 152,397,724	\$ 143,428,235
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 1)	\$ 100,797	\$ 106,675
Life income funds payable (Note 6)	1,016,631	1,537,670
Life income funds payable - externally managed irrevocable trust (Note 6)	57,203	62,320
Total Liabilities	1,174,631	1,706,665
Net Assets		
Without donor restrictions:		
Undesignated	2,673,685	1,069,280
Board-designated - endowments (Note 2)	3,168,547	2,942,804
With donor restrictions:		
Perpetual in nature (Note 9)	54,315,817	51,969,392
Purpose restricted (Note 9)	91,065,044	85,740,094
Total Net Assets	151,223,093	141,721,570
Total Liabilities and Net Assets	\$ 152,397,724	\$ 143,428,235

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Income			
Contributions (Note 1)	\$ 1,740,436	\$ 9,011,393	\$ 10,751,829
Change in pledges receivable, net (Note 7)	-	(538,336)	(538,336)
Donated services, salaries, and facilities (Note 8)	776,000	-	776,000
Net investment income	576,799	5,702,463	6,279,262
Interest and dividends	614,604	221,287	835,891
Change in value of split interest agreements	-	400,753	400,753
Loss on disposal of donated property and land	-	(44,605)	(44,605)
Loss on disposal of other asset	(1,500)	-	(1,500)
Other income	-	189,756	189,756
Net assets released from restrictions (Note 10)	7,399,129	(7,399,129)	-
Total Revenues, Gains, and Other Income	11,105,468	7,543,582	18,649,050
Grants to Support the University Program:			
Scholarships and fellowships	3,183,563	-	3,183,563
Faculty support and professorships	718,722	-	718,722
Departmental support	3,169,153	-	3,169,153
Total Program Support	7,071,438	-	7,071,438
Administrative	222,750	-	222,750
Fundraising	1,860,539	-	1,860,539
Total Other Support	2,083,289	-	2,083,289
Total Support (Note 11)	9,154,727	-	9,154,727
Excess of Revenues, Gains, and Other Income Over Total Support	1,950,741	7,543,582	9,494,323
Net Transfers			
From other University-associated entities	-	7,200	7,200
Among funds	(120,593)	120,593	-
Total Net Transfers	(120,593)	127,793	7,200
Change in Net Assets	1,830,148	7,671,375	9,501,523
Net Assets			
Beginning of year	4,012,084	137,709,486	141,721,570
End of year	\$ 5,842,232	\$ 145,380,861	\$ 151,223,093

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Income			
Contributions (Note 1)	\$ 1,900,340	\$ 12,217,510	\$ 14,117,850
Change in pledges receivable, net (Note 7)	-	14,906,624	14,906,624
Donated services, salaries, and facilities (Note 8)	790,000	-	790,000
Donated property and land (Note 1)	-	125,000	125,000
Net investment income	434,793	8,122,203	8,556,996
Interest and dividends	334,298	233,033	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)	-
Total Revenues, Gains, and Other Income	11,353,668	27,945,270	39,298,938
Grants to Support the University Program:			
Scholarships and fellowships	3,018,487	-	3,018,487
Faculty support and professorships	1,185,053	-	1,185,053
Departmental support	3,310,286	-	3,310,286
Facility support	997,614	-	997,614
Total Program Support	8,511,440	-	8,511,440
Administrative	182,000	-	182,000
Fundraising	1,922,738	-	1,922,738
Total Other Support	2,104,738	-	2,104,738
Total Support (Note 11)	10,616,178	-	10,616,178
Excess of Revenues, Gains, and Other Income Over Total Support	737,490	27,945,270	28,682,760
Net Transfers			
From other University-associated entities	-	1,835	1,835
Among funds	(185,574)	185,574	-
Total Net Transfers	(185,574)	187,409	1,835
Change in Net Assets	551,916	28,132,679	28,684,595
Net Assets			
Beginning of year	3,460,168	109,576,807	113,036,975
End of year	\$ 4,012,084	\$ 137,709,486	\$ 141,721,570

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 9,501,523	\$ 28,684,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for permanent endowment	(1,885,080)	(3,162,445)
Net investment income	(6,279,262)	(8,556,996)
Donated property and land	-	(125,000)
Investment income restricted for split interest agreements	(29,113)	(33,671)
Change in value of split interest agreements	(395,636)	144,209
Change in value of externally managed trust	(5,117)	(1,861)
Loss on disposal of donated property and land	44,605	-
Loss on disposal of other asset	1,500	-
(Increase) decrease in:		
Pledges receivable, net	538,336	(14,906,624)
Receivable from University-associated entities	-	143,422
Other assets	(370)	32,294
Increase (decrease) in:		
Accounts payable	(5,878)	5,181
Net Cash Provided by Operating Activities	1,485,508	2,223,104
Cash Flows From Investing Activities		
Proceeds from sale of donated property	80,395	-
Proceeds from sales of investments	5,343,673	3,765,836
Purchases of investments	(3,801,649)	(3,631,725)
Net Cash Provided by Investing Activities	1,622,419	134,111
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	1,885,080	3,162,445
Investment income restricted for split interest agreements	29,113	33,671
Payments on life income fund obligations	(125,403)	(176,228)
Net Cash Provided by Financing Activities	1,788,790	3,019,888
Net Increase in Cash and Cash Equivalents	4,896,717	5,377,103
Cash and Cash Equivalents		
Beginning of year	23,464,447	18,087,344
End of year	\$ 28,361,164	\$ 23,464,447
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 776,000	\$ 790,000
Donated property and land	\$ -	\$ 125,000

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 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, 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:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that are either to be maintained permanently by the Foundation or will be released either by actions of the Foundation and/or by the passage of time. 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 TowneBank. 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 needs. These investments are reported at readily determinable fair values of \$9,280,573 and \$9,044,218 at June 30, 2019 and 2018, respectively. The cost of these investments was \$9,653,820 and \$9,657,956 as of June 30, 2019 and 2018, 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, net: 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.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

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

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

Other assets: Other assets includes a beneficial interest in life insurance policies contributed to the Foundation and the Foundation is the owner of these policies. These gifts are recorded at current cash surrender values. The cash surrender value of these policies was \$44,452 and \$44,082 at June 30, 2019 and 2018, respectively. Other assets also includes accrued interest on municipal bonds.

Accounts payable: Accounts payable includes amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses of \$100,797 and \$106,675 as of June 30, 2019 and 2018, respectively.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 years ended June 30, 2019 and 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.

Investment income: Investment income is allocated on the basis of average fund balances for net assets with and without donor restrictions. 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 with or without donor restrictions, as appropriate. Earnings from investments are net of investment fees of approximately \$394,000 and \$373,000 for the years ended June 30, 2019 and 2018, 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 endowment investment portfolio. For the years ended June 30, 2019 and 2018, the annual fee was 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts.

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 2019 and 2018. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

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

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 not 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, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the accompanying 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 tax year 2015.

Reclassifications: Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation with no effect on previously reported total net assets. Additional amounts have been reclassified to conform to the ASU 2016-14 presentation resulting in the following changes to net assets classes.

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, as previously presented:			
Unrestricted:			
Undesignated	\$ 1,069,280	\$ -	\$ 1,069,280
Undesignated - underwater endowments	(270)	-	(270)
Board-designated endowments	2,942,804	-	2,942,804
Temporarily restricted	-	85,740,364	85,740,364
Permanently restricted	-	51,969,392	51,969,392
Total Net Assets	4,011,814	137,709,756	141,721,570
Reclassifications to implement ASU 2016-14:			
Underwater endowments	270	(270)	-
Net assets, as reclassified	\$ 4,012,084	\$ 137,709,486	\$ 141,721,570

Note 2. Endowment

The Foundation's endowment consists of approximately 440 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 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. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets perpetual in nature (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment funds that is not classified in net assets perpetual in nature is classified as purpose 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 (underwater endowments). These deficiencies generally result from either spending of corpus in accordance with the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Deficiencies of this nature are reported in net assets with donor restrictions and were \$0 and (\$270) as of June 30, 2019 and 2018, 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 proceeding 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 endowments may not be able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, it is the Foundation’s policy to allow up to 15% of the corpus of an endowment to 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 endowments. Spending budgets were calculated at \$2,533,370 and \$2,823,690 for fiscal years 2019 and 2020, respectively.

Strategies employed for achieving investment objectives: For the long term, the primary investment objective 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 or manager will have a disproportionate impact on the performance of the total fund.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 2. Endowment (continued)

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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,208,150	\$ 82,065,643	\$ 85,273,793
Total investment return	518,936	5,594,935	6,113,871
Contributions, including change in accrued pledges and other income	-	1,596,996	1,596,996
Appropriations of endowment assets for expenditure	(269,570)	(3,406,465)	(3,676,035)
Change in value of split interest agreements	-	400,753	400,753
Other changes:			
Transfers	-	297,652	297,652
Endowment net assets, end of year	\$ 3,457,516	\$ 86,549,514	\$ 90,007,030

The following represents endowment net asset composition by type of fund, as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,168,547	\$ -	\$ 3,168,547
Donor-designated endowment funds			
Corpus	-	54,315,817	54,315,817
Appreciation	288,969	32,233,697	32,522,666
Total funds	\$ 3,457,516	\$ 86,549,514	\$ 90,007,030

The following represents changes in endowment net assets for the fiscal year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,686,661	\$ 74,422,605	\$ 77,109,266
Total investment return	777,579	8,073,690	8,851,269
Contributions, including change in accrued pledges and other income	-	2,662,853	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	\$ 3,208,150	\$ 82,065,643	\$ 85,273,793

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 2. Endowment (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,942,804	\$ -	\$ 2,942,804
Donor-designated endowment funds			
Corpus	-	51,969,392	51,969,392
Appreciation	265,346	30,096,521	30,361,867
Underwater endowments	-	(270)	(270)
Total funds	<u>\$ 3,208,150</u>	<u>\$ 82,065,643</u>	<u>\$ 85,273,793</u>

Note 3. Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments consisted of the following at June 30:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 424,550	\$ 424,550	\$ 1,448	\$ 1,448
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	49,458,715	88,852,115	49,044,872	83,505,452
Life Income Funds	1,439,855	1,502,685	2,602,050	2,765,719
	<u>\$ 51,323,120</u>	<u>\$ 90,779,350</u>	<u>\$ 51,648,370</u>	<u>\$ 86,272,619</u>

Note 4. Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (“FASB”) 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 Financial Statements
For the Years Ended June 30, 2019 and 2018

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:

	2019			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 424,550	\$ -	\$ -	\$ 424,550
Municipal Bonds	-	2,041,448	-	2,041,448
common/fund Intermediate Term Fund	-	2,964,458	-	2,964,458
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,274,667	-	4,274,667
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	88,852,115	88,852,115
Life Income Funds	-	1,502,685	-	1,502,685
Beneficial Interest in Life Insurance Policies	-	-	44,452	44,452
	<u>\$ 424,550</u>	<u>\$ 10,783,258</u>	<u>\$ 88,896,567</u>	<u>\$ 100,104,375</u>

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 1,448	\$ -	\$ -	\$ 1,448
Municipal Bonds	-	1,938,361	-	1,938,361
common/fund 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
	<u>\$ 1,448</u>	<u>\$ 11,809,937</u>	<u>\$ 83,549,534</u>	<u>\$ 95,360,919</u>

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

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:

	2019		2018	
	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	\$ 83,505,452	\$ 44,082	\$ 74,072,152	\$ 40,600
Participant additions	2,995,000	-	4,065,000	-
Investment income	37,872	-	37,167	-
Realized gains	1,443,885	-	992,885	-
Unrealized appreciation	4,932,820	370	8,013,418	3,482
Participant withdrawals	(3,677,095)	-	(3,311,180)	-
Expenses	(385,819)	-	(363,990)	-
Ending balance	\$ 88,852,115	\$ 44,452	\$ 83,505,452	\$ 44,082

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.

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 a Blackrock Liquid Policy Portfolio (“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.

Beneficial Interest in Life Insurance Policies – Valued based on cash surrender value of the policies. Because these values are based on significant unobservable inputs, they are categorized in Level 3 of the fair value hierarchy.

You can find additional information regarding the LTIP and the ITF on the Foundations Accounting and Investments homepage at <https://foundationsaccounting.ofa.ncsu.edu/>.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 5. Financial Assets and Liquidity Resources

The Foundation's endowment funds consist of donor-designated endowments and board-designated endowments. Income from most donor-designated endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The LTIP is responsible for managing liquidity in a manner that balances the short-term liquidity needs with the Fund's longer-term return objectives. However, both the board-designated endowments and donor-designated endowments contain investments with redemption provisions that could impact the availability of funds. In addition, the Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

The Foundation has board-designated endowments of approximately \$3.17 million. Although the Foundation does not intend to spend from these board-designated endowments, other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation process, amounts could be made available if necessary. As described in Note 1, 0.60% of the annual endowment assessment fee is designated to college-level fundraising efforts. Approximately \$395,000 of endowment assessments will be available within the next 12 months. As described in Note 2, endowments have a spending rate of 4%. Approximately \$217,000 of appropriations from the board-designated endowments and \$30,000 from unrestricted donor-designated endowments will be available within the next 12 months.

As of June 30, 2019, financial assets available within one year for general expenditure, such as administrative and fundraising expenses, were as follows:

Total financial assets	\$ 152,397,724
Less those unavailable for general expenditures within one year, due to:	
Donor imposed restrictions:	
Restricted by donor in perpetuity	(54,315,817)
Subject to appropriation and satisfaction of donor restrictions	(90,929,156)
Board-designated endowments	(2,951,272)
Accrued liabilities	(1,174,631)
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,026,848</u>

Note 6. 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, 2019 and 2018 have asset balances of \$1,502,685 and \$2,765,719, 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, and totaled \$1,016,631 and \$1,537,670 at June 30, 2019 and 2018, respectively. Payments from these funds were \$125,403 and \$176,228 during the years ended June 30, 2019 and 2018, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order 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, 2019 and 2018, the CGA reserve balance was \$14,636 and \$14,359, respectively.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 6. 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 \$104,252 and \$110,100 and life income funds payable of \$57,203 and \$62,320 as of June 30, 2019 and 2018, respectively. The Foundation is not serving as trustee for these funds. Estimated future distributions to the beneficiaries have been reflected in the accompanying 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 7. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2019	2018
Receivable in less than one year	\$ 9,708,495	\$ 16,273,555
Receivable in one to five years	14,516,092	8,416,089
Receivable in greater than five years	2,014,345	2,542,898
Total pledges receivable, gross	26,238,932	27,232,542
Less allowance for uncollectible pledges	(1,312,000)	(1,362,000)
Less unamortized discount (discount rates of 1.78% to 2.00%)	(1,110,453)	(1,515,727)
Pledges receivable, net	<u>\$ 23,816,479</u>	<u>\$ 24,354,815</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 represented approximately \$16.0 million and \$16.4 million of the total undiscounted pledges receivable at June 30, 2019 and 2018, respectively.

Note 8. Donated Services, Salaries, and Facilities

Donated services in the amount of \$141,000 and \$103,000 for the years ended June 30, 2019 and 2018, respectively, have been reflected in the accompanying financial statements for services provided by the University Finance Division. In addition, donated salaries and facilities provided by the University for college development personnel in the amount of \$635,000 and \$687,000 for the years ended June 30, 2019 and 2018, respectively, have been reflected in the accompanying financial statements.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 9. Net Assets With Donor Restriction

Net assets with donor restriction were available for the following purposes at June 30:

	2019	2018
Subject to expenditure for specified purpose:		
Scholarships and fellowships	\$ 3,275,680	\$ 2,465,384
Faculty support and professorships	968,151	1,104,047
Research support	3,968,582	4,367,834
Pledges receivable, net	23,619,217	23,863,751
Fitts-Woolard Hall Project Fund	20,727,792	17,937,363
Other	6,227,473	5,861,382
	<u>58,786,895</u>	<u>55,599,761</u>
Subject to passage of time:		
Beneficial interest in life insurance policies	44,452	44,082
Assets held under split-interest agreements, net	533,103	1,275,829
	<u>577,555</u>	<u>1,319,911</u>
Endowments:		
Subject to Foundation endowment spending policy and appropriation:		
Scholarships and fellowships	51,772,937	49,161,530
Faculty support and professorships	8,094,795	7,725,531
Research support	449,047	435,852
Pledges receivable, net	197,262	491,064
NC State Engineering Foundation Academic Enhancement Fund	5,414,894	5,221,530
Other	20,087,476	17,754,307
	<u>86,016,411</u>	<u>80,789,814</u>
Total Net Assets With Donor Restrictions	<u>\$ 145,380,861</u>	<u>\$ 137,709,486</u>

The "Other" grouping includes amounts designated for general college support, general University support, facility support and funds with multiple purposes.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

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:

	2019	2018
Scholarships and fellowships	\$ 2,775,294	\$ 2,573,431
Faculty support and professorships	718,722	1,185,053
Departmental support	3,134,892	2,353,080
Facility support	-	997,614
Administrative and fundraising	770,221	785,059
	<u>\$ 7,399,129</u>	<u>\$ 7,894,237</u>

Note 11. Functional Expense

The Foundation's primary program is to provide financial support to the College of Engineering at NC State University. Expenses by functional classification for the year ended June 30, 2019 were as follows:

	Total Program	Supporting Activities		Total Support
		Management Support	Fundraising Support	
Grants	\$ 3,934,896	\$ -	\$ 810,452	\$ 4,745,348
Legal	10,000	-	7,666	17,666
Accounting	-	63,750	-	63,750
Advertising	63,711	-	21,323	85,034
Office Expenses	39,391	-	69,329	108,720
Occupancy	191,410	-	-	191,410
Travel	651,572	-	73,562	725,134
Conferences and Meetings	101,058	-	23,730	124,788
Insurance	8,848	-	6,016	14,864
Departmental Equipment	122,164	-	2,002	124,166
Equip Rental and Maintenance	67,761	-	25,948	93,709
Contracted Services	44,079	-	3,050	47,129
Miscellaneous Services and Fees	1,336,744	159,000	702,540	2,198,284
Printing and Binding	82,898	-	94,524	177,422
Dues and Subscriptions	34,214	-	757	34,971
Supplies	382,692	-	19,640	402,332
Total	<u>\$ 7,071,438</u>	<u>\$ 222,750</u>	<u>\$ 1,860,539</u>	<u>\$ 9,154,727</u>

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 11. Functional Expense (continued)

Expenses by functional classification for the year ended June 30, 2018 were as follows:

	Total Program Support	Supporting Activities		Total Support
		Management Support	Fundraising Support	
Grants	\$ 4,208,022	\$ -	\$ 836,827	\$ 5,044,849
Legal	3,694	-	7,032	10,726
Accounting	-	61,000	-	61,000
Advertising	93,781	-	15,901	109,682
Office Expenses	23,515	-	58,347	81,862
Occupancy	58,751	-	1,385	60,136
Travel	708,425	-	64,535	772,960
Conferences and Meetings	147,472	-	37,944	185,416
Insurance	1,244	-	6,014	7,258
Departmental Equipment	202,691	-	1,866	204,557
Equip Rental and Maintenance	82,313	-	25,672	107,985
Contracted Services	74,283	-	12,915	87,198
Miscellaneous Services and Fees	1,385,236	121,000	729,259	2,235,495
Printing and Binding	68,562	-	103,237	171,799
Dues and Subscriptions	51,964	-	2,398	54,362
Supplies	403,873	-	19,406	423,279
Capital Transfers	997,614	-	-	997,614
Total	\$ 8,511,440	\$ 182,000	\$ 1,922,738	\$ 10,616,178

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 24, 2019 the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

NC State Engineering Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2019

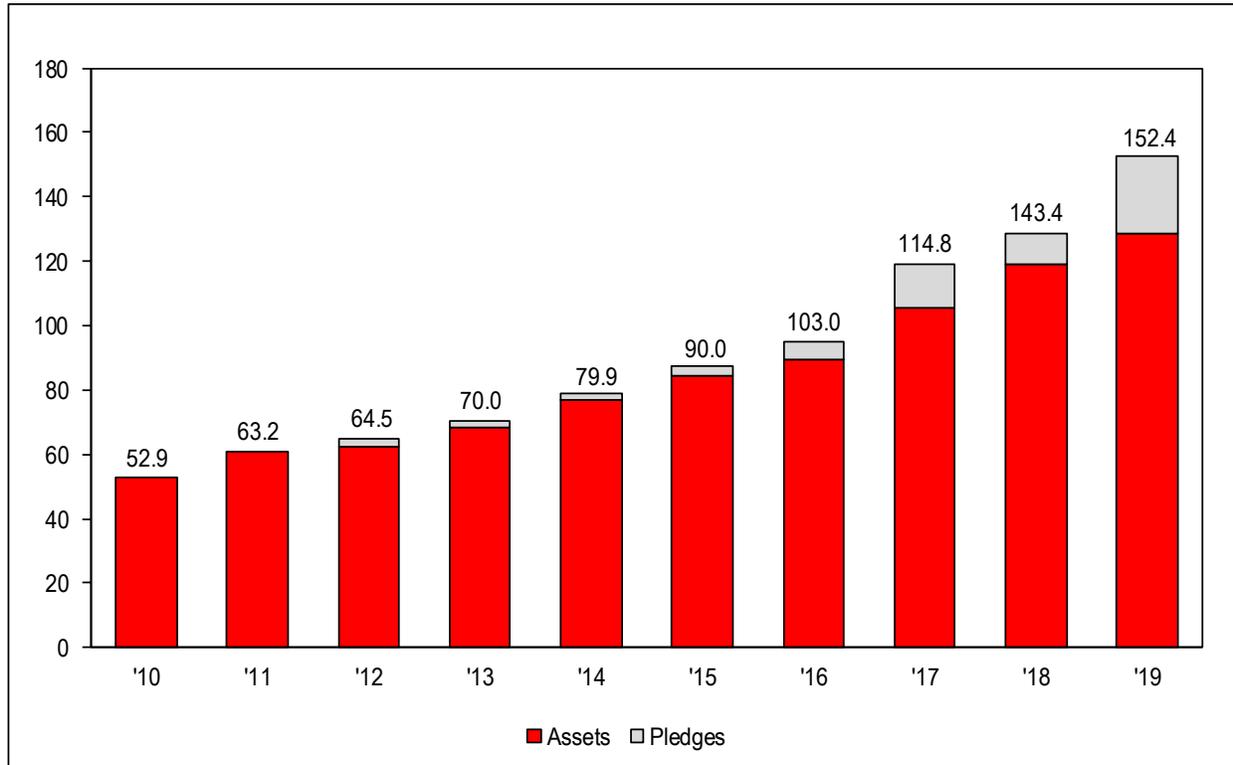
	Budget	Actual	Variance (Under)/Over
Income			
Contributions			
Directors - Engineering Leadership	\$ 140,000	\$ 122,539	\$ (17,461)
Engineering Leadership Fund	1,544,944	1,557,897	12,953
Total Contributions	<u>1,684,944</u>	<u>1,680,436</u>	<u>(4,508)</u>
Endowment assessments	166,675	166,675	-
Interest and dividends	200,000	244,865	44,865
Total Income	<u>2,051,619</u>	<u>2,091,976</u>	<u>40,357</u>
Support			
Program support	451,000	443,331	(7,669)
Transfers to Engineering Oval Building	879,344	-	(879,344)
Transfers to Opportunity Award project	5,000	5,000	-
Commonfund reserve	25,000	25,000	-
Foundation administration	685,750	681,504	(4,246)
Total Support	<u>2,046,094</u>	<u>1,154,835</u>	<u>(891,259)</u>
Income Less Support	5,525	937,141	931,616
General Fund Balance			
Beginning of year	1,004,857	1,004,857	-
End of year	<u>\$ 1,010,382</u>	<u>\$ 1,941,998</u>	<u>\$ 931,616</u>

NC State Engineering Foundation, Inc.

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

Total Assets*

(Dollars in Millions)



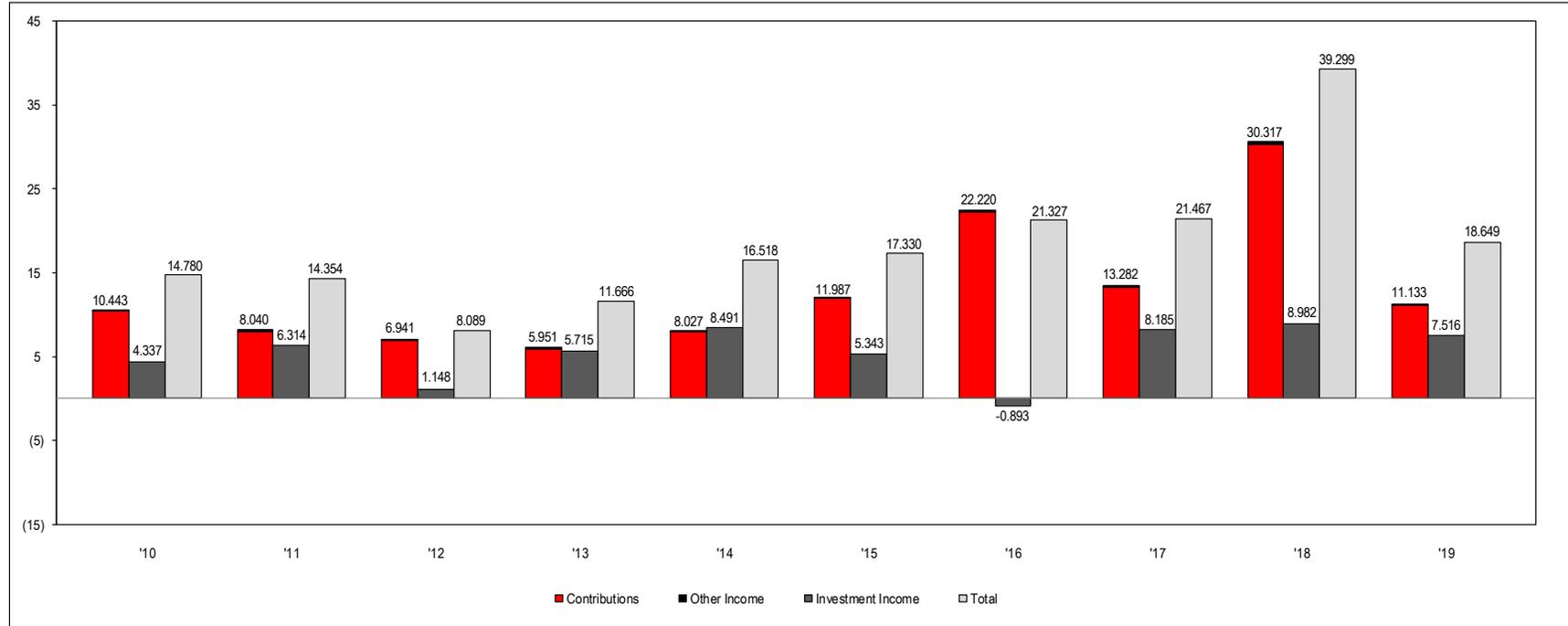
*Fiscal years 2011 - 2019 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

NC State Engineering Foundation, Inc.

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

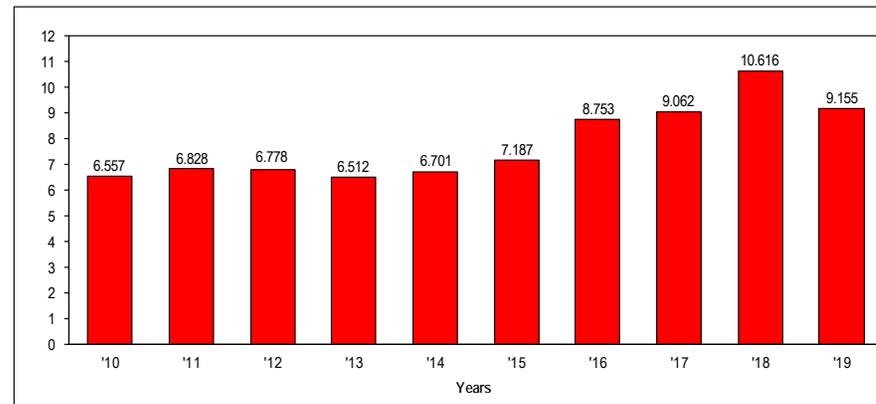
Total Revenues, Gains, and Other Income*

(Dollars in Millions)



Total Support*

(Dollars in Millions)



*Fiscal years 2011 - 2019 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.