

**NC STATE NATURAL
RESOURCES FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2012 and 2011

NC State Natural Resources Foundation, Inc.

**Financial Report
For the years ended June 30, 2012 and 2011**

Contents

Independent Auditors' Report	1
------------------------------	---

Financial Statements	
Statements of financial position	2
Statements of activities	3 – 4
Statements of cash flows	5
Notes to financial statements	6 – 18

Supplementary Information	
General fund budget vs. actual – unaudited	19 – 20
Details of general fund expenses budget vs. actual – unaudited	21 – 23
Ten year summary of asset growth – unaudited	24
Ten year summary of revenues and support – unaudited	25

Other Information	
Independent Auditors' Communication with the Board of Directors	26 – 28



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of NC State Natural Resources Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 13, during the year ended June 30, 2012 the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended June 30, 2011 have been retrospectively adjusted to reflect the accrual basis of accounting adopted in the year ended June 30, 2012.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams Overman Pierce, LLP

Raleigh, North Carolina
December 7, 2012

Raleigh • Greensboro

2501 Atrium Drive, Suite 500 Raleigh, NC 27607 • P: 919.782.3444 F: 919.782.2552
www.wopcpa.com

NC State Natural Resources Foundation, Inc.

Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents (Note 1)	\$ 3,849,733	\$ 3,875,448
Intermediate investments (Note 1)	1,219,786	1,204,272
Marketable securities (Notes 1 and 3)	20,300,801	20,742,053
Pledges receivable (Notes 1 and 5)	320,528	220,110
Cash surrender value of life insurance	91,522	86,991
Land and timber (Note 1)	773,411	781,437
Land improvements, net of accumulated depreciation of \$12,393 and \$4,131 at 2012 and 2011 respectively (Note 1)	152,842	161,104
Equipment, net of accumulated depreciation of \$443,468 and \$351,049 at 2012 and 2011 respectively (Note 1)	153,252	187,796
Accounts receivable (Note 1)	56,851	94,857
Hofmann Mitigation Trust	-	34,336
Total assets	\$ 26,918,726	\$ 27,388,404
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable - North Carolina State University (Note 1)	\$ 2,758	\$ 2,459
Accounts payable (Note 1)	335,449	117,617
Due to others (Note 1)	308,592	108,301
Life income funds payable (Note 6)	1,301,506	1,368,232
Total liabilities	1,948,305	1,596,609
Net Assets:		
Unrestricted:		
Undesignated (Note 1)	1,500,056	2,519,198
Undesignated - underwater endowments (Note 2)	(5,490)	(23,301)
Board designated - endowments (Note 2)	4,845,695	4,735,923
Temporarily restricted (Note 9)	5,939,519	6,472,670
Permanently restricted (Note 10)	12,690,641	12,087,305
Total net assets	24,970,421	25,791,795
Total liabilities and net assets	\$ 26,918,726	\$ 27,388,404

NC State Natural Resources Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Income from Hofmann Forest operations	\$ 4,062,976	\$ -	\$ -	\$ 4,062,976
Contributions	43,886	622,836	271,983	938,705
Change in pledges receivable	-	153,371	(52,953)	100,418
Donated services and salaries (Note 8)	15,000	-	-	15,000
Net asset reclassification - underwater endowments (Note 2)	17,811	(17,811)	-	-
Net investment gains	246,292	(125,705)	357,136	477,723
Change in value of split interest agreement	-	-	(55,857)	(55,857)
Other income	6,377	296,329	4,270	306,976
Net assets released from restrictions (Note 11)	1,201,417	(1,201,417)	-	-
Total revenues, gains and other income	5,593,759	(272,397)	524,579	5,845,941
Grants to support the University:				
Program:				
Scholarships and fellowships	523,339	-	-	523,339
Faculty support and professorships	359,759	-	-	359,759
Departmental support	272,405	-	-	272,405
Other current services	518,178	-	-	518,178
Facility support	34,686	-	-	34,686
Hofmann Forest operations	2,265,042	-	-	2,265,042
Hofmann Forest management	879,491	-	-	879,491
College support	1,032,113	-	-	1,032,113
Special projects	283,668	-	-	283,668
Total program support	6,168,681	-	-	6,168,681
Administrative	48,800	-	-	48,800
Fundraising	409,444	-	-	409,444
Total other support	458,244	-	-	458,244
Total support	6,626,925	-	-	6,626,925
Excess (deficit) of revenues, gains and other income over support	(1,033,166)	(272,397)	524,579	(780,984)
Net transfers:				
From (to) other University-associated entity	-	(40,390)	-	(40,390)
Among funds (Note 12)	141,607	(220,364)	78,757	-
Total net transfers	141,607	(260,754)	78,757	(40,390)
Change in net assets	(891,559)	(533,151)	603,336	(821,374)
Net assets:				
Beginning	7,231,820	6,472,670	12,087,305	25,791,795
Ending	\$ 6,340,261	\$ 5,939,519	\$ 12,690,641	\$ 24,970,421

NC State Natural Resources Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Income from Hofmann Forest operations	\$ 4,765,614	\$ -	\$ -	\$ 4,765,614
Contributions	41,587	485,560	1,039,226	1,566,373
Change in pledges receivable	-	105,280	16,018	121,298
Donated services and salaries (Note 8)	36,000	-	-	36,000
Net asset reclassification - underwater endowments (Note 2)	363,806	(363,806)	-	-
Net investment gains	509,871	2,101,621	66,098	2,677,590
Change in value of split interest agreement	-	-	(138,485)	(138,485)
Other income	55,727	-	4,590	60,317
Net assets released from restrictions (Note 11)	(427,607)	427,607	-	-
Total revenues, gains and other income	5,344,998	2,756,262	987,447	9,088,707
Grants to support the University:				
Program:				
Scholarships and fellowships	478,891	-	-	478,891
Faculty support and professorships	309,228	-	-	309,228
Departmental support	381,675	-	-	381,675
Other current services	266,853	-	-	266,853
Facility support	101,584	-	-	101,584
Hofmann Forest operations	2,356,244	-	-	2,356,244
Hofmann Forest management	853,258	-	-	853,258
College support	1,072,482	-	-	1,072,482
Special projects	106,801	-	-	106,801
Total program support	5,927,016	-	-	5,927,016
Administrative	66,650	-	-	66,650
Fundraising	344,266	-	-	344,266
Total other support	410,916	-	-	410,916
Total support	6,337,932	-	-	6,337,932
Excess (deficit) of revenues, gains and other income over support	(992,934)	2,756,262	987,447	2,750,775
Net transfers:				
Among funds (Note 12)	(174,442)	(321,240)	495,682	-
Total net transfers	(174,442)	(321,240)	495,682	-
Change in net assets	(1,167,376)	2,435,022	1,483,129	2,750,775
Net assets:				
Beginning	8,399,196	4,037,648	10,604,176	23,041,020
Ending	\$ 7,231,820	\$ 6,472,670	\$ 12,087,305	\$ 25,791,795

NC State Natural Resources Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets:	\$ (821,374)	\$ 2,750,775
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net investment gains	(477,723)	(2,677,590)
Increase in pledges receivable	(100,418)	(121,298)
Increase in cash value of life insurance	(4,531)	(4,590)
Contributions restricted for permanent endowment	(271,983)	(1,039,226)
Investment income restricted for split interest agreements	(38,764)	(34,777)
Actuarial change in value of split interest agreements	55,857	138,485
(Increase) decrease in value of land and timber	8,026	(179,851)
Decrease in value of land improvements	-	161,104
Depreciation	100,680	92,775
Performance bond	-	(1,500)
(Increase) decrease in accounts receivable	38,006	(94,857)
Hofmann Mitigation Trust losses	-	664
Increase in accounts payable - North Carolina State University	299	2,459
Increase in accounts payable	217,832	117,617
Increase in due to others	200,291	105,004
Net cash used in operating activities	(1,093,802)	(784,806)
Cash Flows From Investing Activities:		
Decrease in mitigation trust	34,336	-
Proceeds from sales of investments	1,819,323	81,719
Purchases of investments	(915,862)	(599,205)
Purchases of equipment	(57,874)	(256,385)
Net cash provided by (used in) investing activities	879,923	(773,871)
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	271,983	1,039,226
Investment income restricted for split interest agreements	38,764	34,777
Payments to beneficiaries of life income funds	(122,583)	(125,520)
Net cash provided by financing activities	188,164	948,483
Net decrease in cash and cash equivalents	(25,715)	(610,194)
Cash and cash equivalents		
Beginning	3,875,448	4,485,642
Ending	\$ 3,849,733	\$ 3,875,448
Supplemental Disclosures of Noncash Activity:		
Donated services and salaries	\$ 15,000	\$ 36,000
Transfers among funds	\$ 220,364	\$ 495,682

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements For the Years Ended June 30, 2012 and 2011

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Natural Resources Foundation, Inc., (the "Foundation") is one of a group of foundations that provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation was formed July 1, 2008 with the merger of The North Carolina Forestry Foundation, Inc. and the Pulp and Paper Foundation, Inc. The Foundation promotes education and research in the College of Natural Resources of North Carolina State University through tutorial services, faculty development programs, assistance in constructing needed facilities, and various other means as well as aids and promotes, by financial assistance and otherwise, all types of education, research, and extension in the College of Natural Resources.

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:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the earnings on related investments for the donor-restricted purpose.

Cash and cash equivalents: For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments to be cash equivalents. Cash designated or restricted for long-term purposes is included with marketable securities. 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 consist of accounts with BNY Mellon's Liquidity DIRECT, the State Treasurer's Short Term Investment Fund ("STIF"), and an operating checking account with Wells Fargo Bank, N.A. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of 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 \$1,219,786 and \$1,204,272 at June 30, 2012 and 2011, respectively. The cost of these investments was \$1,306,096 as of June 30, 2012 and 2011.

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

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

Marketable securities: Long-term investments and marketable securities 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 ("Board"), invests with the NC State Investment Fund, Inc. ("NCSIF"). In addition, the Foundation has planned giving instruments invested with Wells Fargo.

Pledges receivable: Unconditional pledges receivable are recognized as support and assets in the period received. Conditional pledges are recognized when the conditions on which they depend are substantially met.

Land and timber: Land and timber is recorded at appraised value at the date of contribution, plus capitalized expenditures, less allocated cost of timber sold, and is to be used for research, public recreation, and education in the natural sciences. Certain land and timber contributions are restricted and cannot be sold by the Foundation.

Land improvements: Land improvements are stated at cost. Depreciation is computed by use of the straight-line method over twenty years, the estimated useful lives of the assets.

Equipment: Equipment is stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which is typically five years.

Accounts receivable: Accounts receivable represents trade receivables due to the Foundation primarily as a result of Hofmann Forest operations at June 30, 2012.

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 the 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.

In fiscal year 2011, the University instituted a gift assessment program in support of Central Development and college-level fundraising efforts. Beginning October 1, 2010, a one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments and board designated nonexpendable funds, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted or temporarily restricted, as appropriate. Earnings from investments are net of investment fees of approximately \$77,000 and \$74,000 for the years ended June 30, 2012 and 2011, 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, beginning October 1, 2010, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for Central Development and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.50% is charged by the Foundation on the average twenty-quarter market value of the assets held in the investment portfolio, for the support of Foundation's fundraising activities.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements For the Years Ended June 30, 2012 and 2011

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

Accounts payable - North Carolina State University: Accounts payable to the University include amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses.

Accounts payable: Accounts payable represents trade payables due to vendors at June 30, 2012.

Due to others: Due to others at June 30, 2012 and 2011, consists of \$308,592 and \$108,301, respectively, due to the North Carolina State University Foundation, Inc and Southeastern Dry Kiln.

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 and 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 2012 and 2011. 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, 2012, 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 2008.

Note 2. Endowment

The Foundation's endowment consists of approximately 205 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, 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.

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 2. Endowment (continued)

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations, which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets, and were \$(5,490) and \$(23,301) as of June 30, 2012 and 2011, 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 NCSIF in a manner that is intended to produce results that exceed a 70% S&P 500 Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many 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 \$547,845 and \$643,720 for fiscal years 2012 and 2013, respectively.

Strategies employed for achieving investment objectives:

For the long term, the primary investment objective for the NCSIF 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 NCSIF and to meet the spending needs of the University. To meet this investment objective, the NCSIF 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.

NCSIF's investments are 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 general, the NCSIF seeks to diversify exposure to all asset classes by hiring multiple managers that use a variety of investment approaches.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,712,622	\$ 4,873,998	\$ 12,087,305	\$ 21,673,925
Net Asset reclassification - underwater endowments	17,811	(17,811)	-	-
Endowment net assets after reclassification	4,730,433	4,856,187	12,087,305	21,673,925
Total investment return	23,062	1,432,894	357,136	1,813,092
Contributions, including change in accrued pledges	-	-	223,300	223,300
Appropriations of endowment assets for expenditure	86,710	(2,643,702)	-	(2,556,992)
Change in value of split interest agreements	-	-	(55,857)	(55,857)
Other changes:				
Transfers	-	-	78,757	78,757
Endowment net assets, end of year	\$ 4,840,205	\$ 3,645,379	\$ 12,690,641	\$ 21,176,225

The following represents endowment net asset composition by type of fund, as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (5,490)	\$ -	\$ -	\$ (5,490)
Board-designated endowment funds	4,845,695	-	-	4,845,695
Donor restricted endowment funds	-	3,645,379	12,690,641	16,336,020
Total funds	\$ 4,840,205	\$ 3,645,379	\$ 12,690,641	\$ 21,176,225

The following represents changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,856,010	\$ 3,982,254	\$ 10,604,176	\$18,442,440
Net asset reclassification - underwater endowments	363,806	(363,806)	-	-
Endowment net assets after reclassification	4,219,816	3,618,448	10,604,176	18,442,440
Total investment return	492,806	1,748,660	66,098	2,307,564
Contributions, including change in accrued pledges	-	-	1,059,834	1,059,834
Appropriations of endowment assets for expenditure	-	(493,110)	-	(493,110)
Change in value of split interest agreements	-	-	(138,485)	(138,485)
Other changes:				
Transfers	-	-	495,682	495,682
Endowment net assets, end of year	\$ 4,712,622	\$ 4,873,998	\$ 12,087,305	\$21,673,925

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (23,301)	\$ -	\$ -	\$ (23,301)
Board-designated endowment funds	4,735,923	-	-	4,735,923
Donor restricted endowment funds	-	4,873,998	12,087,305	16,961,303
Total funds	\$ 4,712,622	\$ 4,873,998	\$ 12,087,305	\$ 21,673,925

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 at June 30, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 6,066	\$ 6,066	\$ 54,192	\$ 54,192
NC State Investment Fund, Inc.	17,073,862	18,388,821	17,709,242	18,649,625
Wells Fargo - Life Income Funds	1,946,882	1,905,914	1,704,525	2,038,236
	\$ 19,026,810	\$ 20,300,801	\$ 19,467,959	\$ 20,742,053

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the State Treasurer's Short Term Investment Fund ("STIF"). As of June 30, 2012, approximately 87% of these limited partnerships were with the UNC Management Company ("UNCMC"), 7% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, and 6% invested in STIF. NCSIF's net assets were valued at approximately \$397,192,000 and \$378,260,000 at June 30, 2012 and 2011, respectively. The Foundation's investment in the NCSIF represents approximately 4.6% and 4.9% of the member equity of NCSIF at June 30, 2012 and 2011, respectively.

The Foundation's investments held by Wells Fargo – Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

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.

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

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.)

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

To measure fair value, there are three general valuation techniques that may be used, as described below:

A) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

C) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 4. Fair Value Measurement (continued)

Assets itemized below are measured at fair value on a recurring basis using market and income approaches. The market approach was used for level 2 and the income approach was used for level 3. While the NCSIF is categorized below as a Level 3 investment, as a member of the UNCMC, the NCSIF has full redemption privileges with a 60 day notice requirement.

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 6,066	\$ -	\$ -	\$ 6,066
commonfund Intermediate Term Fund	-	1,219,786	-	1,219,786
NC State Investment Fund, Inc.	-	-	18,388,821	18,388,821
Wells Fargo - Life Income Funds	-	1,905,914	-	1,905,914
Beneficial Interest in Life Insurance Policies	-	-	91,522	91,522
	\$ 6,066	\$ 3,125,700	\$ 18,480,343	\$ 21,612,109

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 54,192	\$ -	\$ -	\$ 54,192
commonfund Intermediate Term Fund	-	1,204,272	-	1,204,272
NC State Investment Fund, Inc.	-	-	18,649,625	18,649,625
Wells Fargo - Life Income Funds	-	2,038,236	-	2,038,236
Beneficial Interest in Life Insurance Policies	-	-	86,991	86,991
	\$ 54,192	\$ 3,242,508	\$ 18,736,616	\$ 22,033,316

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:

	2012		2011	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 18,649,625	\$ 86,991	\$ 15,611,477	\$ 82,401
Unrealized gain on investments	374,576	4,531	2,399,313	4,590
Realized gain on investments	137,081	-	19,690	-
Net investment income	(772,461)	-	619,145	-
Ending balance	\$ 18,388,821	\$ 91,522	\$ 18,649,625	\$ 86,991

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 5. Pledges Receivable

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

	2012	2011
Receivable in less than one year	\$ 105,432	\$ 73,280
Receivable in one to five years	231,167	158,107
Receivable in greater than five years	5,500	6,500
Total gross pledges receivable	342,099	237,887
Less allowance for uncollectible pledges	(18,000)	(12,000)
Less unamortized discount	(3,571)	(5,777)
Net pledges receivable	\$ 320,528	\$ 220,110

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 bi-annually by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Note 6. Life Income Funds

The financial statements include assets and liabilities of a charitable gift annuity and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their deaths. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2012 and 2011 have asset balances of \$1,905,914 and \$2,038,236, 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 \$1,301,506 and \$1,368,232 at June 30, 2012 and 2011, respectively. Payments from these funds were \$122,583 and \$125,520 during the years ended June 30, 2012 and 2011, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2012 and 2011, the CGA reserve balance was \$0.

Note 7. Forestry Operations

The Foundation manages the Hofmann Forest (the "Forest") for The Endowment Fund of North Carolina State University under a 1987 agreement with no term. The operations of the Forest consist primarily of harvesting timber and other forest management activities and are reflected in unrestricted net assets. According to the agreement, the income from the Forest operations is used at the Foundation's discretion to maintain the Forest and to support programs in the College of Natural Resources. The Foundation's board periodically approves amounts of unrestricted net assets to be designated for future Forest expenditures.

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 8. Donated Services and Salaries

Donated services in the amount of \$0 and \$22,000 for the year ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries paid by the University for college development personnel in the amount of \$15,000 and \$14,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and June 30, 2011 are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 553,485	\$ 361,241
Fellowships	50,540	56,534
Professorships	154,113	131,968
Research support	380,505	255,762
Endowment cumulative balance	3,645,379	4,873,998
Other	1,155,497	793,167
	<u>\$ 5,939,519</u>	<u>\$ 6,472,670</u>

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

Note 10. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2012 and June 30, 2011 are restricted to:

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income from which is expendable to support		
Scholarships	\$ 9,304,868	\$ 9,308,989
Fellowships	1,638,605	1,629,106
Professorships	2,567,505	2,683,787
Amounts reported as unrestricted or temporarily restricted net assets	(8,485,584)	(9,586,620)
Other	7,665,247	8,052,043
	<u>\$ 12,690,641</u>	<u>\$ 12,087,305</u>

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

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 11. 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:

	2012	2011
Scholarships and fellowships	\$ 162,889	\$ 296,211
Professorships	77,065	118,837
Other	961,463	12,559
	<u>\$ 1,201,417</u>	<u>\$ 427,607</u>

Net assets released from restriction grouping "Other" includes amounts designated for general college support, research, and funds with multiple purposes.

Note 12. 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, 2012 and 2011 net endowment transfers among funds were \$78,757 and \$495,682, respectively.

Note 13. Prior Year Reclassifications and Restatement

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation with no effect on previously reported net assets.

In previous years, the Foundation prepared its financial statements using the modified cash basis of accounting. In fiscal year 2012, the Foundation adopted accounting principles generally accepted in the United States of America as the basis for its financial statements. The fiscal year 2011 comparative financial statements have been restated to conform with the new basis of accounting. Accordingly, as a result of the differences between accounting principles generally accepted in the United States of America and the modified cash basis of accounting, temporarily restricted, and permanently restricted net assets at the beginning of fiscal year 2011 are \$51,387 higher, and \$47,425 higher, respectively and the change in unrestricted, temporarily restricted, and permanently restricted net assets is \$1,213,632 lower, \$1,246,152 higher, and \$16,018 higher, respectively, than the amounts previously reported.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011

Note 13. Prior Year Reclassifications and Restatement (continued)

Statement of financial position at June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Assets:			
Pledges receivable	\$ -	\$ 220,110	\$ 220,110
Accounts receivable	-	94,857	94,857
Total assets	<u>\$ -</u>	<u>\$ 314,967</u>	<u>\$ 314,967</u>
Liabilities:			
Accounts payable - North Carolina State University	\$ -	\$ 2,459	\$ 2,459
Accounts payable	-	117,617	117,617
Due to others	60,760	47,541	108,301
Total liabilities	<u>\$ 60,760</u>	<u>\$ 167,617</u>	<u>\$ 228,377</u>
Net Assets:			
Unrestricted:			
Undesignated	\$ 3,602,605	\$ (1,083,407)	\$ 2,519,198
Undesignated - underwater endowments	(23,301)	-	(23,301)
Board designated - endowments	4,866,148	(130,225)	4,735,923
Temporarily restricted	5,175,131	1,297,539	6,472,670
Permanently restricted	12,023,862	63,443	12,087,305
Total net assets	<u>\$ 25,644,445</u>	<u>\$ 147,350</u>	<u>\$ 25,791,795</u>

Statement of activities for the year ended June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Revenues, gains, and other income:			
Income from Hofmann Forest operations	\$ 4,678,645	\$ 86,969	\$ 4,765,614
Change in pledges receivable	-	121,298	121,298
Total revenues, gains and other income	<u>4,678,645</u>	<u>208,267</u>	<u>4,886,912</u>
Grants to support the University:			
Program:			
Faculty support and professorships	314,531	(5,303)	309,228
Departmental support	372,378	9,297	381,675
Other current services	153,230	113,623	266,853
Hofmann Forest operations	2,363,709	(7,465)	2,356,244
Hofmann Forest management	853,681	(423)	853,258
Special projects	56,801	50,000	106,801
Administrative	80,650	(14,000)	66,650
Fundraising	330,266	14,000	344,266
Total support	<u>4,525,246</u>	<u>159,729</u>	<u>4,684,975</u>
Change in net assets	<u>\$ 2,702,237</u>	<u>\$ 48,538</u>	<u>\$ 2,750,775</u>
Total beginning net assets	<u>\$ 22,942,208</u>	<u>\$ 98,812</u>	<u>\$ 23,041,020</u>

NC State Natural Resources Foundation, Inc.

**Notes To Financial Statements
For the Years Ended June 30, 2012 and 2011**

Note 14. Subsequent Events

The Foundation has evaluated subsequent events through December 7, 2012, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

NC State Natural Resources Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2012

	Approved Budget	Actual	Variance Over/(Under)
Hofmann Forest Receipts:			
Farm	\$ 100,000	\$ 100,509	\$ 509
Game hunting	260,000	243,753	(16,247)
Miscellaneous	15,000	25,613	10,613
Mitigation credit	200,000	127,647	(72,353)
Stumpage:			
Natural harvest	300,000	252,032	(47,968)
Plantation harvest	3,000,000	2,513,058	(486,942)
Thinnings	750,000	800,364	50,364
Total Hofmann Forest receipts	4,625,000	4,062,976	(562,024)
Hofmann Forest Expenditures	3,223,850	3,202,407	(21,443)
Hofmann receipts less expenditures	1,401,150	860,569	(540,581)
Other Foundation Receipts:			
Investment income	56,000	33,221	(22,779)
Annual Fund	30,000	43,887	13,887
CNR Development Events	-	6,377	6,377
Endowment Spending Budget from Quasi	192,885	192,885	-
Endowment assessments	20,675	20,675	-
Endowment assessments - Advancement	20,675	20,675	-
Total other foundation receipts	320,235	317,720	(2,515)
Other Foundation Expenditures:			
College of Natural Resources support	1,533,185	1,411,377	(121,808)
Foundation administration and development support	367,475	411,583	44,108
Special projects	100,000	83,668	(16,332)
	2,000,660	1,906,628	(94,032)
Receipts less expenditures	(279,275)	(728,339)	(449,064)

(Continued)

NC State Natural Resources Foundation, Inc.

General Fund Budget vs. Actual - Unaudited (continued)

Year Ended June 30, 2012

	Approved Budget	Actual	Variance Over/(Under)
General Fund Balance - Beginning			
Cash	1,875,158	1,875,158	-
Hofmann Mitigation Trust	34,336	34,336	-
CNR Endowment	2,625,992	2,625,992	-
Hofmann Forest Endowment	2,063,007	2,063,007	-
Total beginning general fund balance	6,598,493	6,598,493	-
Market value appreciation on quasi endowments	-	(167,143)	(167,143)
Liquidation of Hofmann Mitigation Trust	-	(34,336)	(34,336)
General Fund Balance - Ending			
Cash	1,595,883	1,146,819	(449,064)
Hofmann Mitigation Trust	34,336	-	(34,336)
CNR Endowment	2,625,992	2,532,389	(93,603)
Hofmann Forest Endowment	2,063,007	1,989,467	(73,540)
Total ending general fund balance	\$ 6,319,218	\$ 5,668,675	\$ (650,543)

NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited
Year Ended June 30, 2012

	Approved Budget	Actual	Variance Over/(Under)
Hofmann Forest :			
Administrative:			
Supplies	\$ 15,000	\$ 12,024	\$ (2,976)
Building maintenance	25,000	22,403	(2,597)
Hofmann Forest administration	541,390	588,105	46,715
Legal	5,000	13,360	8,360
Property/general liability insurance	11,260	13,083	1,823
Hofmann technical liaison	90,000	91,197	1,197
Development office salary allocation	50,000	63,000	13,000
Hofmann General and Administration	50,000	55,119	5,119
Treasurer's Division support	21,200	21,200	-
Total Hofmann Forest administration	808,850	879,491	70,641
Operations:			
Storm Repairs	-	2,363	2,363
Boundary maintenance	5,000	7,005	2,005
Regeneration	1,500,000	1,506,865	6,865
Water management	250,000	190,927	(59,073)
Prescribed burning	5,000	2,439	(2,561)
Timber stand improvement	50,000	39,497	(10,503)
Farm maintenance	5,000	-	(5,000)
Fire protection	37,000	24,332	(12,668)
Equipment maintenance	75,000	79,195	4,195
Road maintenance	300,000	300,252	252
New roads	10,000	473	(9,527)
Wildlife management program	5,000	5,220	220
Contracted Forestry services	35,000	7,947	(27,053)
Hofmann environmental expense	8,000	31,577	23,577
Fuel	70,000	68,625	(1,375)
Equipment purchases	60,000	56,199	(3,801)
Total Hofmann Forest operations	2,415,000	2,322,916	(92,084)
Total Hofmann Forest administration and operations	3,223,850	3,202,407	(21,443)
Special Projects:			
Hofmann Special Projects	50,000	28,376	(21,624)
Centennial Golf Course	50,000	50,000	-
Bachelor's Delight Mitigation Bank	-	38	38
Other forests expense	-	254	254
Tree improvement co-op membership	-	5,000	5,000
Total special projects	100,000	83,668	(16,332)

(Continued)

NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited (continued)
Year Ended June 30, 2012

	Approved Budget	Actual	Variance Over/(Under)
College of Natural Resources Budget			
Student tutorials	4,000	3,742	(258)
Student recruitment	74,255	75,449	1,194
Teaching and advising award	1,050	-	(1,050)
Pinetum	3,000	-	(3,000)
Communications	90,000	91,646	1,646
Forest Biomat & Biotech #1	-	90	90
CNR academic affairs	93,720	60,620	(33,100)
CNR diversity	15,000	11,048	(3,952)
Program enhancement	135,500	106,451	(29,049)
CNR discretionary fund	2,000	1,125	(875)
Total College of Natural Resources support	418,525	350,171	(68,354)
Forestry Department Budget			
Continuing education	45,000	35,046	(9,954)
Environmental support	5,000	5,000	-
Graduate student support	60,000	60,000	-
Development recruiting	25,000	25,000	-
Student activities	10,000	10,000	-
Departmental support	19,920	19,920	-
Scholarships	75,000	61,000	(14,000)
FER Hofmann graduate fellowships	130,000	130,000	-
Program enhancement	218,000	199,568	(18,432)
Fish and wildlife enhancement	20,000	20,000	-
FER discretionary fund	5,000	4,890	(110)
Total Forestry department support	612,920	570,424	(42,496)
Parks, Recreation & Tourism Management Budget			
Scholarships and graduate fellowships	20,000	19,297	(703)
PRTM Hofmann graduate fellowships	100,000	100,000	-
Program enhancement	88,000	88,060	60
Natural resources mapping	35,000	35,000	-
Program support, IPARC	30,000	30,000	-
Total Parks, Recreation & Tourism Management support	273,000	272,357	(643)
Wood & Paper Science Budget			
Student recruitment	25,000	16,555	(8,445)
Alumni scholarships	10,000	10,000	-
Program enhancement	41,740	41,740	-
WPS discretionary fund	2,000	130	(1,870)
WPS Hofmann graduate fellowships	150,000	150,000	-
Total Wood & Paper Science support	228,740	218,425	(10,315)
Total College of Natural Resources support	1,533,185	1,411,377	(121,808)

(Continued)

NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited (continued)
 Year Ended June 30, 2012

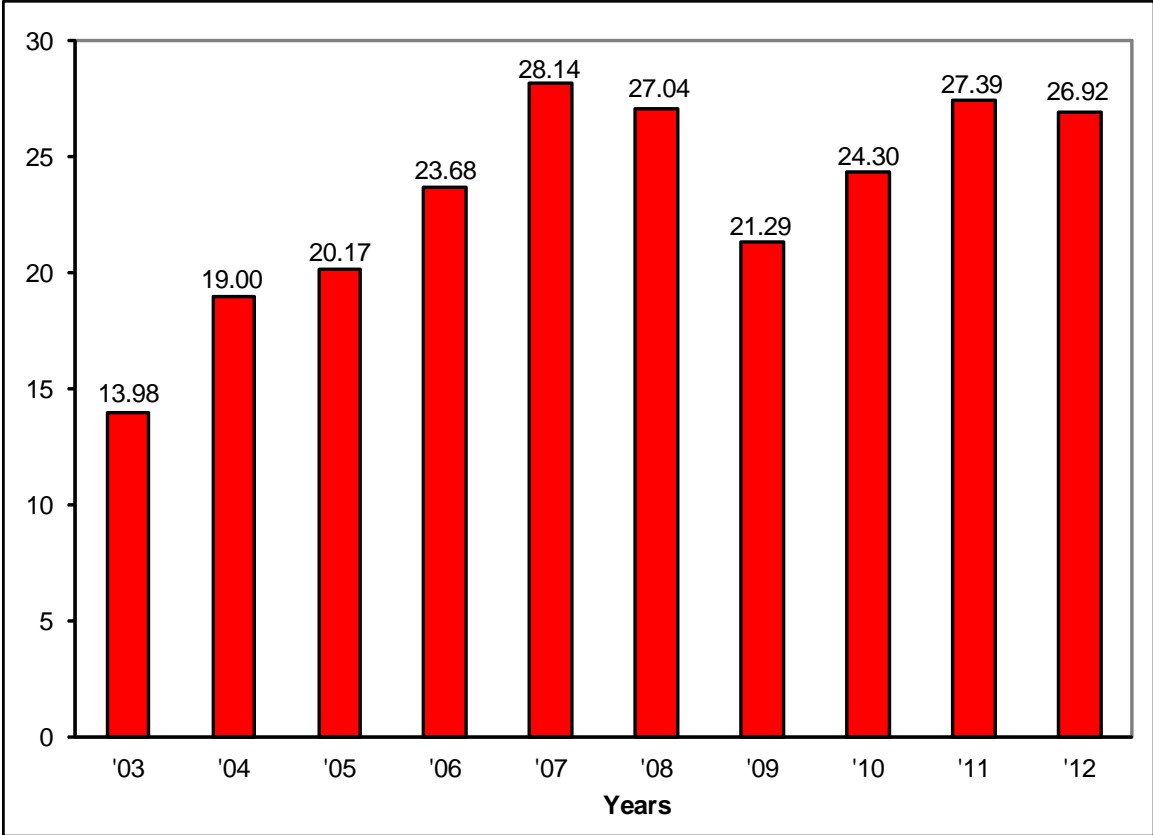
	Approved Budget	Actual	Variance Over/(Under)
Foundation Administration and Development			
Audit and tax preparation expenses	17,000	17,000	-
Legal	10,000	675	(9,325)
Meeting expenses	1,000	7,876	6,876
Telephone and postage	12,000	18,798	6,798
Salaries and benefits	200,000	212,877	12,877
Insurance	10,000	30,000	20,000
Car insurance	4,000	-	(4,000)
Travel	20,000	32,595	12,595
Campaign assessment fee	20,675	20,675	-
Treasurer's Division support	31,800	31,800	-
Donor/prospect relations	35,000	33,287	(1,713)
NCSU Real Estate Office services	6,000	6,000	-
Total Foundation administration and fund raising	367,475	411,583	44,108
Total General Fund expenses	\$ 5,224,510	\$ 5,109,035	\$ (115,475)

NC State Natural Resources Foundation, Inc.

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

Total Assets

(Dollars in Millions)

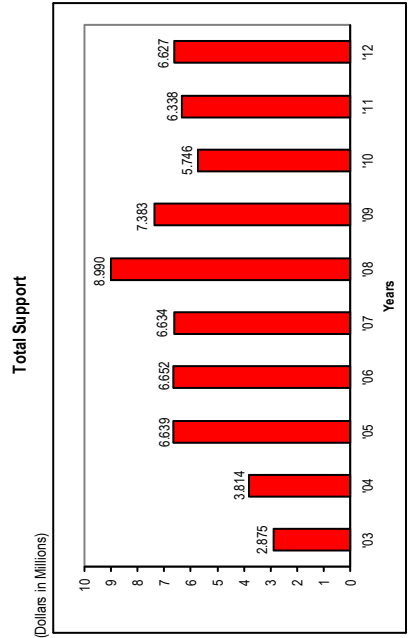
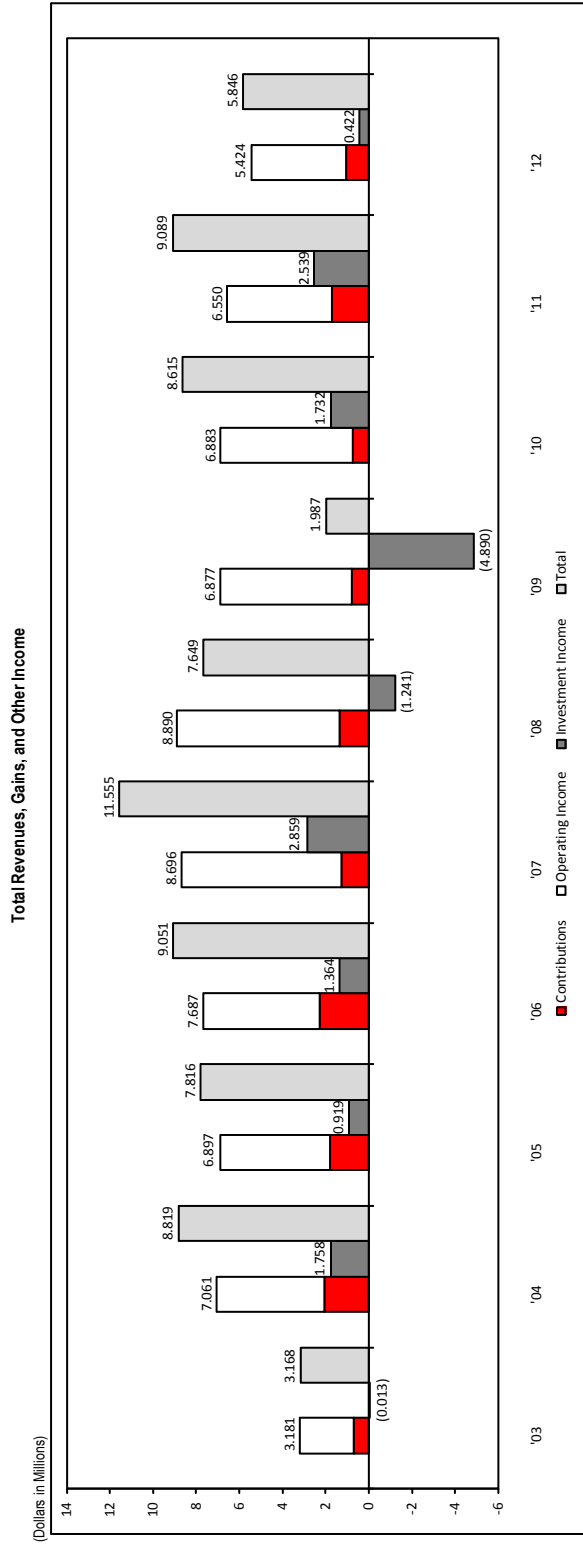


The North Carolina Forestry Foundation, Inc. and Pulp and Paper Foundation, Inc. merged on July 1, 2008 to form the NC State Natural Resources Foundation, Inc. The chart on this page and those on the next page reflect the data for the new foundation beginning with fiscal year 2009. For prior fiscal years, the numbers for each of the merged foundations have been combined.

*Fiscal years 2011 and 2012 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

NC State Natural Resources Foundation, Inc.

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



*Fiscal years 2011 and 2012 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

December 7, 2012

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

We have audited the financial statements of NC State Natural Resources Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 13, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NC State Natural Resources Foundation, Inc. are described in Note 1 to the financial statements. As described in Note 13, the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America during the year ended June 30, 2012. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements except for one uncorrected misstatement that is summarized in the attached schedule. Management has indicated that this uncorrected misstatement will be corrected during the next fiscal year. Management has determined that the effects of this uncorrected misstatement are immaterial, both individually and in the aggregate, to the current year financial statements taken as whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles selected by the Foundation, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. However, we did not audit the supplementary information and, therefore, do not express an opinion on it.

Closing

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve the NC State Natural Resources Foundation, Inc.

This information is intended solely for the use of the Board of Directors and management of NC State Natural Resources Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Williams Dverman Pierce, LLP



NC State Natural Resources Foundation, Inc.
Summary of Passed Adjustments
Year Ended June 30, 2012

Effect of Misstatement
Overstatement (Understatement)

	<u>Assets</u>	<u>Liabilities</u>	<u>Beginning Net Assets</u>	<u>Change in Net Assets</u>	<u>Ending Net Assets</u>
Year ended June 30, 2012:					
Due to others overstatement	\$ -	\$ 58,592	\$ -	\$ (58,592)	\$ (58,592)
Financial statement adjustment at June 30, 2012	<u>\$ -</u>	<u>\$ 58,592</u>	<u>\$ -</u>	<u>\$ (58,592)</u>	<u>\$ (58,592)</u>