

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

FINANCIAL REPORT

JUNE 30, 2018 and 2017

NC State Natural Resources Foundation, Inc.

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of NC State Natural Resources Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NC State Natural Resources Foundation, Inc. as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 18 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BDO USA, LLP

Raleigh, North Carolina
November 28, 2018

NC State Natural Resources Foundation, Inc.

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents (Note 1)	\$ 3,511,932	\$ 3,386,213
Intermediate investments (Note 1)	1,195,195	1,215,109
Long-term investments (Notes 1 and 3)	33,175,806	29,896,277
Pledges receivable, net (Notes 1 and 5)	325,455	328,364
Accounts receivable (Note 1)	92,209	2,997
Land and timber (Note 1)	764,673	764,673
Land improvements, net of accumulated depreciation of \$61,963 and \$53,701 at 2018 and 2017, respectively (Note 1)	103,272	111,534
Equipment, net of accumulated depreciation of \$502,955 and \$483,481 at 2018 and 2017, respectively (Note 1)	33,087	52,561
Other assets (Note 1)	153,188	147,271
Total Assets	\$ 39,354,817	\$ 35,904,999
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 31,737	\$ 16,898
Accounts payable (Note 1)	364	10,971
Life income funds payable (Note 6)	960,173	947,569
Total Liabilities	992,274	975,438
Net Assets		
Unrestricted:		
Undesignated	1,484,004	1,261,437
Board designated - endowments (Note 2)	4,913,694	5,019,543
Temporarily restricted (Note 9)	13,278,854	11,585,550
Permanently restricted (Note 10)	18,685,991	17,063,031
Total Net Assets	38,362,543	34,929,561
Total Liabilities and Net Assets	\$ 39,354,817	\$ 35,904,999

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 82,790	\$ 892,609	\$ 1,607,886	\$ 2,583,285
Change in pledges receivable, net (Note 5)	-	16,294	(19,203)	(2,909)
Donated salaries and facilities (Note 8)	388,000	-	-	388,000
Net investment income	684,827	2,572,195	50,307	3,307,329
Interest and dividends	57,991	20,779	17,617	96,387
Change in value of split interest agreement	-	-	(94,492)	(94,492)
Gain on sale of equipment	92,209	-	-	92,209
Hofmann Forest operations (Note 7)	315,696	-	-	315,696
Other income	-	62,028	5,894	67,922
Net assets released from restrictions (Note 11)	1,687,362	(1,687,362)	-	-
Total Revenues, Gains, and Other Income	3,308,875	1,876,543	1,568,009	6,753,427
Grants to Support the University				
Program:				
Scholarships and fellowships	921,623	-	-	921,623
Faculty support and professorships	472,659	-	-	472,659
Departmental support	447,118	-	-	447,118
Other current services	322,139	-	-	322,139
Hofmann Forest operations (Note 7)	79,272	-	-	79,272
Special projects	36,800	-	-	36,800
Total Program Support	2,279,611	-	-	2,279,611
Administrative	108,000	-	-	108,000
Fundraising	919,879	-	-	919,879
Total Other Support	1,027,879	-	-	1,027,879
Total Support	3,307,490	-	-	3,307,490
Excess of Revenues, Gains, and Other Income Over Total Support	1,385	1,876,543	1,568,009	3,445,937
Net Transfers				
To other University-associated entities	-	(12,955)	-	(12,955)
Among funds (Note 12)	115,333	(170,284)	54,951	-
Total Net Transfers	115,333	(183,239)	54,951	(12,955)
Change in Net Assets	116,718	1,693,304	1,622,960	3,432,982
Net Assets				
Beginning of year	6,280,980	11,585,550	17,063,031	34,929,561
End of year	\$ 6,397,698	\$ 13,278,854	\$ 18,685,991	\$ 38,362,543

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 74,336	\$ 652,508	\$ 750,108	\$ 1,476,952
Change in pledges receivable, net (Note 5)	-	185,019	(177,704)	7,315
Donated salaries and facilities (Note 8)	403,000	-	-	403,000
Net asset reclassification - underwater endowments (Note 2)	39,607	(39,607)	-	-
Net investment income	684,132	2,355,715	89,134	3,128,981
Interest and dividends	39,293	20,937	21,735	81,965
Change in value of split interest agreement	-	-	(283,254)	(283,254)
Gain on sale of equipment	39,265	-	-	39,265
Hofmann Forest operations (Note 7)	226,462	-	-	226,462
Other income	-	333,088	5,948	339,036
Net assets released from restrictions (Note 11)	1,717,505	(1,717,505)	-	-
Total Revenues, Gains, and Other Income	3,223,600	1,790,155	405,967	5,419,722
Grants to Support the University				
Program:				
Scholarships and fellowships	786,759	-	-	786,759
Faculty support and professorships	307,042	-	-	307,042
Departmental support	694,476	-	-	694,476
Other current services	171,016	-	-	171,016
Hofmann Forest operations (Note 7)	187,808	-	-	187,808
Special projects	208,497	-	-	208,497
Total Program Support	2,355,598	-	-	2,355,598
Administrative	107,000	-	-	107,000
Fundraising	898,686	-	-	898,686
Total Other Support	1,005,686	-	-	1,005,686
Total Support	3,361,284	-	-	3,361,284
(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support	(137,684)	1,790,155	405,967	2,058,438
Net Transfers				
Among funds (Note 12)	(125,543)	52,468	73,075	-
Total Net Transfers	(125,543)	52,468	73,075	-
Change in Net Assets	(263,227)	1,842,623	479,042	2,058,438
Net Assets				
Beginning of year	6,544,207	9,742,927	16,583,989	32,871,123
End of year	\$ 6,280,980	\$ 11,585,550	\$ 17,063,031	\$ 34,929,561

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

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

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 3,432,982	\$ 2,058,438
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowment	(1,607,886)	(750,108)
Net investment income	(3,307,329)	(3,128,981)
Investment income restricted for split interest agreements	(17,617)	(21,735)
Actuarial change in value of split interest agreements	94,492	283,254
Gain on sale of equipment	(92,209)	(39,265)
Depreciation	27,736	37,445
Decrease (increase) in:		
Pledges receivable, net	2,909	(7,315)
Accounts receivable	(89,212)	1,027,296
Other assets	(5,917)	(5,949)
Increase (decrease) in:		
Accounts payable - North Carolina State University	14,839	(53,395)
Accounts payable	(10,607)	(14,248)
Due to others	-	(297,478)
Net Cash Used in Operating Activities	(1,557,819)	(912,041)
Cash Flows From Investing Activities		
Proceeds from sales of equipment	92,209	39,265
Proceeds from sales of investments	1,900,871	1,152,109
Purchases of investments	(1,853,157)	(1,021,725)
Net Cash Provided by Investing Activities	139,923	169,649
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	1,607,886	750,108
Investment income restricted for split interest agreements	17,617	21,735
Payments on life income fund obligations	(81,888)	(74,985)
Proceeds from life income fund obligations	-	31,182
Net Cash Provided by Financing Activities	1,543,615	728,040
Net Increase (Decrease) in Cash and Cash Equivalents	125,719	(14,352)
Cash and Cash Equivalents		
Beginning of year	3,386,213	3,400,565
End of year	\$ 3,511,932	\$ 3,386,213
Supplemental Disclosures of Noncash Activities		
Donated salaries and facilities	\$ 388,000	\$ 403,000
Transfers among funds	\$ 170,284	\$ 125,543

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

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

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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 (the "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 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 consist of accounts with the State Treasurer's Short-Term Investment Fund (the "STIF") and Paragon Bank. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of 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 \$1,195,195 and \$1,215,109 at June 30, 2018 and 2017, respectively. The cost of these investments was \$1,298,769 and \$1,300,721 at June 30, 2018 and 2017, respectively.

NC State Natural Resources Foundation, Inc.

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

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

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

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.

Accounts receivable: Accounts receivable represents amounts due from auction sales of Hofmann equipment and interest earned but not yet received on the STIF account.

Land and timber: Land and timber are recorded at appraised value at the date of contribution and are 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 the estimated useful lives of the assets, which is typically twenty years.

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

Other assets: Other assets include beneficiary 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 values. Cash surrender values of these policies were \$153,188 and \$147,271 at June 30, 2018 and 2017, 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 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.

The University has a gift assessment program that supports Central Advancement and college-level fundraising efforts. For the year ended June 30, 2018, a one-time fee of 7% was assessed on gifts that support current operations and facilities, with 4% designated for Central Advancement and 3% designated to the fundraising entity receiving the gift. For the year ended June 30, 2017, a one-time fee of 5% was assessed, with 3% designated for Central Advancement and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted or temporarily restricted, as appropriate. Earnings from investments are net of investment fees of approximately \$139,000 and \$111,000 for the years ended June 30, 2018 and 2017, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

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

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

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

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 and sales tax payable.

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 Service Revenue ("IRS") Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2018 and 2017. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

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

Note 2. Endowment

The Foundation's endowment consists of approximately 240 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.

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

Note 2. Endowment (continued)

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

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets, and were \$0 for the years ended June 30, 2018 and 2017.

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% MCSI 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, many newer endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However, if the gift instrument does not allow spending of corpus, the Foundation does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Foundation considered the long-term expected return on its endowment. Spending budgets were calculated at \$786,740 and \$803,570 for fiscal years 2018 and 2019, 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 Natural Resources Foundation, Inc.

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

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 by hiring multiple managers that use a variety of investment approaches.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,055,353	\$ 7,792,974	\$ 17,063,031	\$ 29,911,358
Total investment return	698,669	2,593,768	67,924	3,360,361
Contributions, including change in accrued pledges and other income	-	7,712	1,594,577	1,602,289
Appropriations of endowment assets for expenditure	(732,586)	(986,906)	-	(1,719,492)
Change in value of split interest agreements	-	-	(94,492)	(94,492)
Other changes:				
Transfers	-	50,000	54,951	104,951
Endowment net assets, end of year	<u>\$ 5,021,436</u>	<u>\$ 9,457,548</u>	<u>\$ 18,685,991</u>	<u>\$ 33,164,975</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 4,913,694	\$ -	\$ -	\$ 4,913,694
Donor-designated endowment funds	107,742	9,457,548	18,685,991	28,251,281
Total funds	<u>\$ 5,021,436</u>	<u>\$ 9,457,548</u>	<u>\$ 18,685,991</u>	<u>\$ 33,164,975</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,560,620	\$ 6,161,666	\$ 16,583,989	\$ 27,306,275
Net asset reclassification - underwater endowments	39,607	(39,607)	-	-
Endowment net assets after reclassification	4,600,227	6,122,059	16,583,989	27,306,275
Total investment return	695,154	2,379,307	110,869	3,185,330
Contributions, including change in accrued pledges and other income	-	9,153	578,352	587,505
Appropriations of endowment assets for expenditure	(240,028)	(762,987)	-	(1,003,015)
Change in value of split interest agreements	-	-	(283,254)	(283,254)
Other changes:				
Transfers	-	45,442	73,075	118,517
Endowment net assets, end of year	<u>\$ 5,055,353</u>	<u>\$ 7,792,974</u>	<u>\$ 17,063,031</u>	<u>\$ 29,911,358</u>

NC State Natural Resources Foundation, Inc.

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

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 5,019,543	\$ -	\$ -	\$ 5,019,543
Donor-designated endowment funds	35,810	7,792,974	17,063,031	24,891,815
Total funds	<u>\$ 5,055,353</u>	<u>\$ 7,792,974</u>	<u>\$ 17,063,031</u>	<u>\$ 29,911,358</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 such changes could materially affect the amounts reported in the statements of financial position.

Long-term investments consisted of the following at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 30,145	\$ 30,145	\$ 94,226	\$ 94,226
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	18,207,217	31,667,319	17,890,227	28,337,148
Life Income Funds	1,378,943	1,478,342	1,393,277	1,464,903
	<u>\$ 19,616,305</u>	<u>\$ 33,175,806</u>	<u>\$ 19,377,730</u>	<u>\$ 29,896,277</u>

As of June 30, 2018, approximately 87.4% of the LTIP was invested with the UNC Management Company, 9.2% in the LPP, 1.8% in other managers in private equity funds, and 1.6% in the STIF. The LTIP's net assets were valued at approximately \$1,008,370,000 and \$870,450,000 at June 30, 2018 and 2017, respectively. The Foundation's investment in the LTIP represents approximately 3.1% and 3.3% of the member equity of the LTIP at June 30, 2018 and 2017, respectively.

The Foundation's investments in Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

NC State Natural Resources Foundation, Inc.

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

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 – 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 at June 30:

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 30,145	\$ -	\$ -	\$ 30,145
commonfund Intermediate Term Fund	-	1,195,195	-	1,195,195
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	31,667,319	31,667,319
Life Income Funds	-	1,478,342	-	1,478,342
Beneficial Interest in Life Insurance Policies	-	-	153,188	153,188
	\$ 30,145	\$ 2,673,537	\$ 31,820,507	\$ 34,524,189

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 94,226	\$ -	\$ -	\$ 94,226
commonfund Intermediate Term Fund	-	1,215,109	-	1,215,109
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	28,337,148	28,337,148
Life Income Funds	-	1,464,903	-	1,464,903
Beneficial Interest in Life Insurance Policies	-	-	147,271	147,271
	\$ 94,226	\$ 2,680,012	\$ 28,484,419	\$ 31,258,657

NC State Natural Resources Foundation, Inc.

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

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 at June 30:

	2018		2017	
	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc. LTIP	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 28,337,148	\$ 147,271	\$ 25,438,623	\$ 141,322
Participant additions	1,790,000	-	860,000	-
Investment income	13,850	-	13,897	-
Realized gains	373,404	-	361,052	-
Unrealized appreciation	3,013,181	5,917	2,772,346	5,949
Participant withdrawals	(1,723,005)	-	(1,003,015)	-
Expenses	(137,259)	-	(105,755)	-
Ending balance	<u>\$ 31,667,319</u>	<u>\$ 153,188</u>	<u>\$ 28,337,148</u>	<u>\$ 147,271</u>

Following is a description of the valuation methodologies used for assets measured at fair value:

STIF - This investment has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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. Long-Term Investment Pool (the "LTIP") - The LTIP's investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. The LTIP's private equity investments are initially valued based on transaction price with subsequent valuation adjustments based on trading multiples of comparable public companies adjusted for differences in factors such as liquidity. The LTIP's investment in LPP is valued at the closing price of the exchange-traded fund's shares. The LTIP also has an investment in the STIF, valued as described above.

Life Income Funds - These investments are a combination of exchange-traded equity and fixed income securities valued at quoted market prices.

Beneficial Interest in Life Insurance Policies - Valued based on the 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.

NC State Natural Resources Foundation, Inc.

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

Note 5. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2018		2017
Receivable in less than one year	\$ 123,094	\$	92,454
Receivable in one to five years	241,917		268,934
Total pledges receivable, gross	365,011		361,388
Less allowance for uncollectible pledges	(19,000)		(19,000)
Less unamortized discount (discount rate of 2.33% to 2.78%)	(20,556)		(14,024)
Pledges receivable, net	\$ 325,455	\$	328,364

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.

One donor represents \$200,000 of the total undiscounted pledges receivable at June 30, 2018. Two donors represent \$295,000 of the total undiscounted pledges receivable at June 30, 2017.

Note 6. Life Income Funds

The financial statements include assets and liabilities of 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 and marked to market thereafter. Life income funds at June 30, 2018 and 2017 have asset balances of \$1,478,342 and \$1,464,903, 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 \$960,173 and \$947,569 at June 30, 2018 and 2017, respectively. Payments from these funds were \$81,888 and \$74,985 during the years ended June 30, 2018 and 2017, respectively.

Note 7. Forestry Operations

The Foundation manages the operations of the Hofmann Forest (the "Forest") on behalf of The Endowment Fund of North Carolina State University (the "Endowment Fund") under a 1987 agreement with no terms. The operations of the Forest consist primarily of land use leases and other forest management activities. All rights, title and interest in and to timber and timber byproducts were relinquished effective June 30, 2016 upon the signing of a timber deed. Any income from 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 approved 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, 2018 and 2017**

Note 8. Donated Salaries and Facilities

Donated salaries and facilities provided by the University for college development personnel in the amount of \$388,000 and \$403,000 respectively, for the years ended June 30, 2018 and 2017, have been reflected in the accompanying financial statements.

Note 9. Temporarily Restricted Net Assets

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

	2018	2017
Scholarships and fellowships	\$ 1,341,167	\$ 1,198,592
Faculty support and professorships	1,058,101	643,714
Research support	319,877	104,729
Endowment cumulative balance	9,457,548	7,792,974
Other	1,102,161	1,845,541
	\$ 13,278,854	\$ 11,585,550

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 are restricted as follows at June 30:

	2018	2017
Scholarships and fellowships	\$ 20,563,911	\$ 15,338,103
Faculty support and professorships	3,822,179	3,576,252
Research support	356,827	277,118
Amounts reported as unrestricted or temporarily restricted net assets	(14,478,984)	(12,848,327)
Other	8,422,058	10,719,885
	\$ 18,685,991	\$ 17,063,031

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

NC State Natural Resources Foundation, Inc.

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

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 during the years ended June 30:

	2018	2017
Scholarships and fellowships	\$ 763,196	\$ 786,759
Faculty support and professorships	225,708	307,042
Departmental	294,329	279,245
Administrative and fundraising	114,268	210,890
Other	289,861	133,569
	\$ 1,687,362	\$ 1,717,505

Net assets released from restriction grouping "Other" includes amounts designated for general college support 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, 2018 and 2017, net endowment transfers among funds were \$54,951 and \$73,075, respectively.

Note 13. Subsequent Events

The Foundation has evaluated events through November 28, 2018, the date which the financial statements were available to be issued, and there were none to report.

NC State Natural Resources Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2018

	Approved Budget	Actual	Variance Over (Under)
Income			
Hofmann income	\$ 370,000	\$ 407,905	\$ 37,905
Investment income	38,500	38,920	420
CNR Enhancement Fund	60,000	80,487	20,487
Endowment Spending Budget from Quasi	158,555	158,555	-
Additional withdrawal from Quasi	669,142	669,142	-
Total Income	1,296,197	1,355,009	58,812
Expenses			
Hofmann expenses	207,000	79,272	(127,728)
Other expenses	1,587,295	1,569,657	(17,638)
Total Expenses	1,794,295	1,648,929	(145,366)
Receipts Less Expenditures	(498,098)	(293,920)	204,178
General Fund Balance - Beginning of year			
Cash	601,779	601,779	-
CNR Endowment	4,887,952	4,887,952	-
Total Beginning General Fund Balance	5,489,731	5,489,731	-
Net change in market value on quasi endowment	-	(141,213)	(141,213)
General Fund Balance - Ending of year			
Cash	103,681	307,859	204,178
CNR Endowment	4,887,952	4,746,739	(141,213)
Total Ending General Fund Balance	\$ 4,991,633	\$ 5,054,598	\$ 62,965

NC State Natural Resources Foundation, Inc.

Details of General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2018

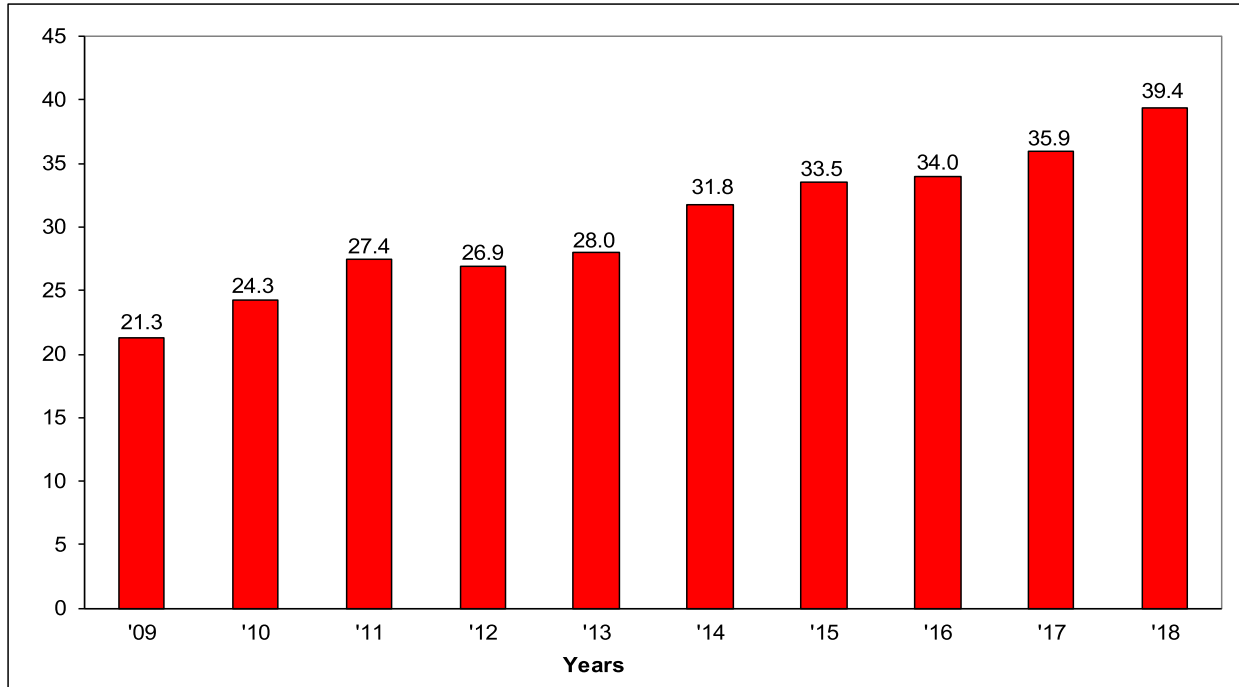
	Approved Budget	Actual	Variance Over (Under)
Hofmann Income			
Farm receipts	\$ 140,000	\$ 156,427	\$ 16,427
Miscellaneous receipts	80,000	122,197	42,197
Mitigation credit - Bachelor's Delight	150,000	129,281	(20,719)
Total Hofmann Income	\$ 370,000	\$ 407,905	\$ 37,905
Hofmann Expenses			
Maintenance	\$ 52,000	\$ 19,739	\$ (32,261)
On-site operating	18,000	12,581	(5,419)
Hofmann special projects	125,000	28,569	(96,431)
Property/general liability insurance	12,000	18,383	6,383
Total Hofmann Expenses	\$ 207,000	\$ 79,272	\$ (127,728)
Other Expenses			
Exec director - salary, benefits, operating	\$ 390,000	\$ 389,178	\$ (822)
Natural Resources scholarships	35,000	35,000	-
College enhancement	25,000	25,000	-
Faculty startups	1,000,000	995,906	(4,094)
Registration for solicitation	2,000	90	(1,910)
Auto expense	15,000	9,374	(5,626)
Meeting expenses	20,000	20,000	-
Audit and tax preparation expenses	19,500	19,500	-
Legal	5,000	-	(5,000)
Directors and officers insurance	7,295	7,109	(186)
Treasurer's Division support	68,500	68,500	-
Total Other Expenses	\$ 1,587,295	\$ 1,569,657	\$ (17,638)

NC State Natural Resources Foundation, Inc.

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

Total Assets*

(Dollars in Millions)



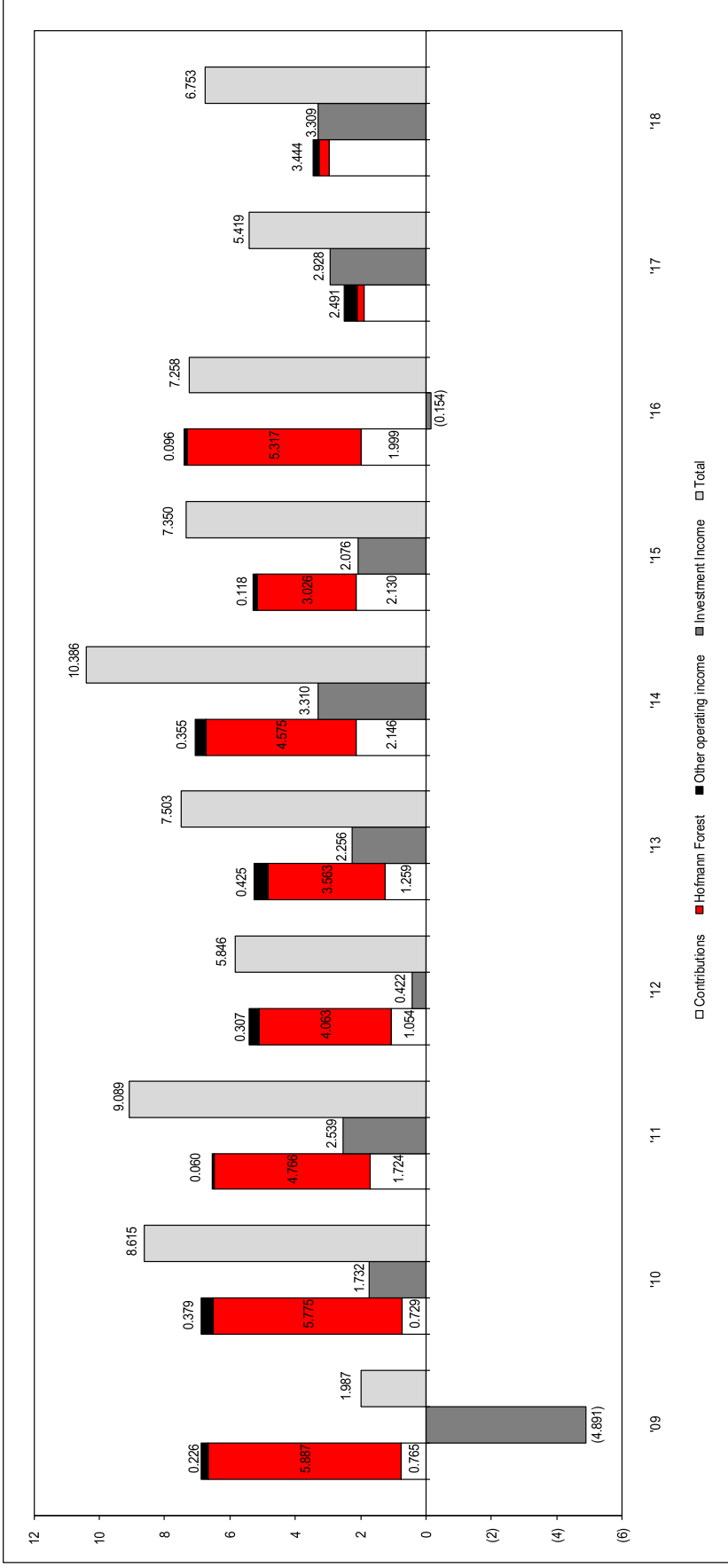
*Fiscal years 2011 - 2018 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

NC State Natural Resources Foundation, Inc.

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

Total Revenues, Gains, and Other Income*

(Dollars in Millions)



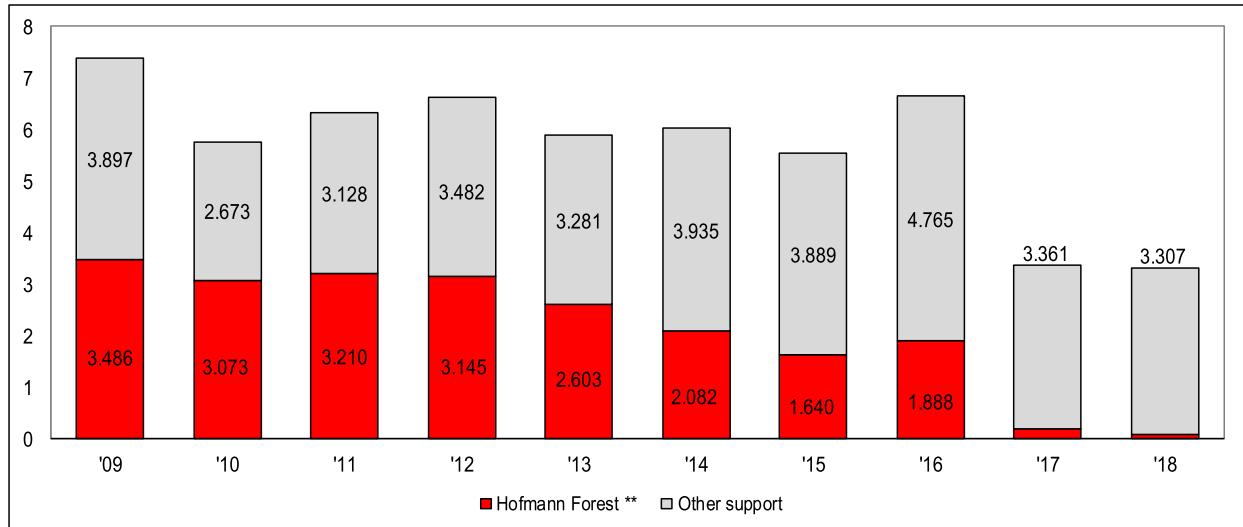
*Fiscal years 2011 - 2018 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

NC State Natural Resources Foundation, Inc.

Ten Year Summary of Support - Unaudited Years Ended June 30

Total Support*

(Dollars in Millions)



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

**Effective June 30, 2016, The Endowment Fund entered into a timber deed, receiving approximately \$78 million in exchange for all rights, title and interest in and to all timber and timber byproducts until June 30, 2066. Proceeds from the timber deed were endowed in the Endowment Fund and future spending from this endowment will benefit the College of Natural Resources.