

NC STATE NATURAL
RESOURCES FOUNDATION, INC.

FINANCIAL REPORT
JUNE 30, 2016 and 2015

NC State Natural Resources Foundation, Inc.

Financial Report
For the Years Ended June 30, 2016 and 2015

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Other Information

The 2015 financial statements of the Foundation were audited by other auditors, whose report dated November 20, 2015 expressed an unmodified opinion on those statements.



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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 19 through 26 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
December 9, 2016

NC State Natural Resources Foundation, Inc.

Statements of Financial Position

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents (Note 1)	\$ 3,400,565	\$ 3,587,808
Intermediate investments (Note 1)	1,232,803	1,229,684
Long-term investments (Notes 1 and 3)	26,879,986	26,972,055
Pledges receivable, net (Notes 1 and 5)	321,049	588,641
Accounts receivable (Note 1)	1,030,293	2,748
Land and timber (Note 1)	764,673	764,673
Land improvements, net of accumulated depreciation of \$45,440 and \$37,178 at 2016 and 2015, respectively (Note 1)	119,795	128,057
Equipment, net of accumulated depreciation of \$604,591 and \$565,384 at 2016 and 2015, respectively (Note 1)	81,745	72,159
Other assets (Note 1)	141,322	135,459
Total Assets	\$ 33,972,231	\$ 33,481,284
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 70,293	\$ 46,160
Accounts payable (Note 1)	25,219	103,481
Due to others (Note 1)	297,478	116,480
Life income funds payable (Note 6)	708,118	941,278
Total Liabilities	1,101,108	1,207,399
Net Assets		
Unrestricted:		
Undesignated	1,983,587	1,120,891
Undesignated - underwater endowments (Note 2)	(39,607)	(487)
Board designated - endowments (Note 2)	4,600,227	4,836,928
Temporarily restricted (Note 9)	9,742,927	10,433,037
Permanently restricted (Note 10)	16,583,989	15,883,516
Total Net Assets	32,871,123	32,273,885
Total Liabilities and Net Assets	\$ 33,972,231	\$ 33,481,284

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Income from Hofmann Forest operations (Note 7)	\$ 5,317,292	\$ -	\$ -	\$ 5,317,292
Contributions	56,870	1,447,294	617,306	2,121,470
Change in pledges receivable, net (Note 5)	-	(33,689)	(233,903)	(267,592)
Donated salaries and facilities (Note 8)	145,000	-	-	145,000
Net asset reclassification - underwater endowments (Note 2)	(39,120)	39,120	-	-
Net investment loss	(87,903)	(334,587)	(15,193)	(437,683)
Interest and dividends	32,625	9,731	29,823	72,179
Change in value of split interest agreement	-	-	211,499	211,499
Gain on sale of equipment	-	1,000	-	1,000
Other income	32	89,007	5,863	94,902
Net assets released from restrictions (Note 11)	1,969,619	(1,969,619)	-	-
Total Revenues, Gains, and Other Income	7,394,415	(751,743)	615,395	7,258,067
Grants to Support the University Program:				
Scholarships and fellowships	816,142	-	-	816,142
Faculty support and professorships	620,234	-	-	620,234
Departmental support	213,279	-	-	213,279
Other current services	274,600	-	-	274,600
Hofmann Forest operations (Note 7)	1,103,197	-	-	1,103,197
Hofmann Forest management (Note 7)	785,185	-	-	785,185
College support	1,148,629	-	-	1,148,629
Special projects	774,082	-	-	774,082
Total Program Support	5,735,348	-	-	5,735,348
Administrative	82,713	-	-	82,713
Fundraising	835,268	-	-	835,268
Total Other Support	917,981	-	-	917,981
Total Support	6,653,329	-	-	6,653,329
Excess (Deficit) of Revenues, Gains, and Other Income Over Total Support	741,086	(751,743)	615,395	604,738
Net Transfers				
To other University-associated entities	(7,500)	-	-	(7,500)
Among funds (Note 12)	(146,711)	61,633	85,078	-
Total Net Transfers	(154,211)	61,633	85,078	(7,500)
Change in Net Assets	586,875	(690,110)	700,473	597,238
Net Assets				
Beginning of year	5,957,332	10,433,037	15,883,516	32,273,885
End of year	\$ 6,544,207	\$ 9,742,927	\$ 16,583,989	\$ 32,871,123

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Income from Hofmann Forest operations (Note 7)	\$ 3,026,169	\$ -	\$ -	\$ 3,026,169
Contributions	58,841	816,651	1,495,320	2,370,812
Change in pledges receivable, net (Note 5)	-	(88,567)	(177,403)	(265,970)
Donated salaries and facilities (Note 8)	25,000	-	-	25,000
Net asset reclassification - underwater endowments (Note 2)	(487)	487	-	-
Net investment income	519,032	1,517,281	15,810	2,052,123
Interest and dividends	23,009	12,007	32,414	67,430
Change in value of split interest agreement	-	-	(44,061)	(44,061)
Other income	552	112,126	5,803	118,481
Net assets released from restrictions (Note 11)	2,625,058	(2,625,058)	-	-
Total Revenues, Gains, and Other Income	6,277,174	(255,073)	1,327,883	7,349,984
Grants to Support the University				
Program:				
Scholarships and fellowships	641,682	-	-	641,682
Faculty support and professorships	612,045	-	-	612,045
Departmental support	303,511	-	-	303,511
Other current services	253,487	-	-	253,487
Hofmann Forest operations (Note 7)	968,455	-	-	968,455
Hofmann Forest management (Note 7)	671,448	-	-	671,448
College support	1,062,290	-	-	1,062,290
Special projects	276,015	-	-	276,015
Total Program Support	4,788,933	-	-	4,788,933
Administrative	81,068	-	-	81,068
Fundraising	658,851	-	-	658,851
Total Other Support	739,919	-	-	739,919
Total Support	5,528,852	-	-	5,528,852
Excess (Deficit) of Revenues, Gains, and Other Income Over Total Support	748,322	(255,073)	1,327,883	1,821,132
Net Transfers				
From other University-associated entities	-	500	-	500
Among funds (Note 12)	(1,161,226)	1,108,528	52,698	-
Total Net Transfers	(1,161,226)	1,109,028	52,698	500
Change in Net Assets	(412,904)	853,955	1,380,581	1,821,632
Net Assets				
Beginning of year	6,370,236	9,579,082	14,502,935	30,452,253
End of year	\$ 5,957,332	\$ 10,433,037	\$ 15,883,516	\$ 32,273,885

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 597,238	\$ 1,821,632
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowment	(617,306)	(1,495,320)
Net investment loss (income)	437,683	(2,052,123)
Investment income restricted for split interest agreements	(29,823)	(32,414)
Actuarial change in value of split interest agreements	(211,499)	44,061
Gain on sale of equipment	(1,000)	-
Depreciation	47,469	48,808
Decrease (increase) in:		
Pledges receivable, net	267,592	265,970
Accounts receivable	(1,027,545)	19,149
Other assets	(5,863)	(5,803)
Increase (decrease) in:		
Accounts payable - North Carolina State University	24,133	17,118
Accounts payable	(78,262)	(40,975)
Due to others	180,998	(50,191)
Net Cash Used in Operating Activities	(416,185)	(1,460,088)
Cash Flows From Investing Activities		
Proceeds from sales of investments	1,919,735	2,190,561
Proceeds from sales of equipment	1,000	-
Purchases of investments	(2,268,468)	(2,171,537)
Purchases of equipment	(48,793)	(28,969)
Net Cash Used in Investing Activities	(396,526)	(9,945)
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	617,306	1,495,320
Investment income restricted for split interest agreements	29,823	32,414
Payments on life income fund obligations	(81,058)	(87,886)
Proceeds from life income fund obligations	59,397	-
Net Cash Provided by Financing Activities	625,468	1,439,848
Net Decrease in Cash and Cash Equivalents	(187,243)	(30,185)
Cash and Cash Equivalents		
Beginning of year	3,587,808	3,617,993
End of year	\$ 3,400,565	\$ 3,587,808

(Continued)

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Supplemental Disclosures of Noncash Activities		
Donated salaries and facilities	\$ 145,000	\$ 25,000
Transfers among funds	\$ 146,711	\$ 238,151

See notes to financial statements.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

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 debt 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 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 common/und 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 \$1,232,803 and \$1,229,684 at June 30, 2016 and 2015, respectively. The cost of these investments was \$1,306,096 as of June 30, 2016 and 2015.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

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 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.

Accounts receivable: Accounts receivable represents sales tax receivable, amounts due from other University associated entities, and interest earned but not yet received on the STIF account. More specifically, at June 30, 2016, the balance included \$1,017,663, due from The Endowment Fund of North Carolina State University ("The Endowment Fund"), for reimbursable expenses incurred by the Foundation while managing the Hofmann Forest (the "Forest").

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. 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 \$141,322 and \$135,459 at June 30, 2016 and 2015, 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 Development and college-level fundraising efforts. A one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted or temporarily restricted, as appropriate. Earnings from investments are net of investment fees of \$106,618 and \$94,696 for the years ended June 30, 2016 and 2015, 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.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

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

As part of the University's gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.50% is 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 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.

Due to others: Due to others at June 30, 2016 and 2015 consists of \$297,478 and \$116,480, respectively, and represents monies due to the NCSU Foundation, accrued payroll, and an amount due to the Environmental Protection Agency for the Hofmann Forest – see Note 7.

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 2016 and 2015. 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, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

Note 2. Endowment

The Foundation's endowment consists of approximately 230 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, 2016 and 2015

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 (\$39,607) and (\$487) for the years ended June 30, 2016 and 2015, respectively.

Investment return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the LTIP in a manner that is intended to produce results that exceed a 70% 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 \$757,765 and \$705,375 for fiscal years 2017 and 2016, 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.

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.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,861,033	\$ 6,648,673	\$ 15,883,516	\$ 27,393,222
Net asset reclassification - underwater endowments	(39,120)	39,120	-	-
Endowment net assets after reclassification	4,821,913	6,687,793	15,883,516	27,393,222
Total investment return	(95,056)	(404,579)	14,630	(485,005)
Contributions, including change in accrued pledges and other income	-	241,981	389,266	631,247
Appropriations of endowment assets for expenditure	(166,237)	(744,438)	-	(910,675)
Change in value of split interest agreements	-	-	211,499	211,499
Other changes:				
Transfers	-	380,909	85,078	465,987
Endowment net assets, end of year	\$ 4,560,620	\$ 6,161,666	\$ 16,583,989	\$ 27,306,275

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (39,607)	\$ -	\$ -	\$ (39,607)
Board-designated endowment funds	4,600,227	-	-	4,600,227
Donor-designated endowment funds	-	6,161,666	16,583,989	22,745,655
Total funds	\$ 4,560,620	\$ 6,161,666	\$ 16,583,989	\$ 27,306,275

The following represents changes in endowment net assets for the fiscal year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,234,695	\$ 5,742,351	\$ 14,502,935	\$ 25,479,981
Net asset reclassification - underwater endowments	(487)	487	-	-
Endowment net assets after reclassification	5,234,208	5,742,838	14,502,935	25,479,981
Total investment return	523,965	1,638,613	48,224	2,210,802
Contributions, including change in accrued pledges and other income	-	2,050	1,323,720	1,325,770
Appropriations of endowment assets for expenditure	(897,140)	(734,828)	-	(1,631,968)
Change in value of split interest agreements	-	-	(44,061)	(44,061)
Other changes:				
Transfers	-	-	52,698	52,698
Endowment net assets, end of year	\$ 4,861,033	\$ 6,648,673	\$ 15,883,516	\$ 27,393,222

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (487)	\$ -	\$ -	\$ (487)
Board-designated endowment funds	4,836,928	-	-	4,836,928
Donor-designated endowment funds	24,592	6,648,673	15,883,516	22,556,781
Total funds	<u>\$ 4,861,033</u>	<u>\$ 6,648,673</u>	<u>\$ 15,883,516</u>	<u>\$ 27,393,222</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 at June 30, 2016 and 2015 consisted of:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 113,402	\$ 113,402	\$ 231,728	\$ 231,728
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	17,764,048	25,438,623	16,978,117	25,173,420
Life Income Funds	1,286,458	1,327,961	1,490,128	1,566,907
	<u>\$ 19,163,908</u>	<u>\$ 26,879,986</u>	<u>\$ 18,699,973</u>	<u>\$ 26,972,055</u>

Investments held by the LTIP at June 30, 2016 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the STIF. As of June 30, 2016, approximately 91.2% of these limited partnerships were with the UNC Management Company ("UNCMC"), 3.5% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 5.1% was invested in the LPP, and 0.2% was invested in the STIF. The LTIP's net assets were valued at approximately \$683,380,000 and \$676,716,000 at June 30, 2016 and 2015, respectively. The Foundation's investment in the LTIP represents approximately 3.7% of the member equity of LTIP at June 30, 2016 and 2015.

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

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement

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:

	2016			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 113,402	\$ -	\$ -	\$ 113,402
common/fund Intermediate Term Fund	-	1,232,803	-	1,232,803
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	25,438,623	25,438,623
Life Income Funds	-	1,327,961	-	1,327,961
Beneficial Interest in Life Insurance Policies	-	-	141,322	141,322
	<u>\$ 113,402</u>	<u>\$ 2,560,764</u>	<u>\$ 25,579,945</u>	<u>\$ 28,254,111</u>

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 231,728	\$ -	\$ -	\$ 231,728
common/fund Intermediate Term Fund	-	1,229,684	-	1,229,684
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	25,173,420	25,173,420
Life Income Funds	-	1,566,907	-	1,566,907
Beneficial Interest in Life Insurance Policies	-	-	135,459	135,459
	<u>\$ 231,728</u>	<u>\$ 2,796,591</u>	<u>\$ 25,308,879</u>	<u>\$ 28,337,198</u>

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

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:

	2016		2015	
	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	\$ 25,173,420	\$ 135,459	\$ 23,158,902	\$ 129,656
Participant additions	1,565,000	-	1,700,000	-
Investment Income	3,401	-	7,900	-
Realized gains	238,197	-	304,027	-
Unrealized (depreciation) appreciation	(520,727)	5,863	1,889,255	5,803
Participant withdrawals	(914,050)	-	(1,791,968)	-
Expenses	(106,618)	-	(94,696)	-
Ending balance	\$ 25,438,623	\$ 141,322	\$ 25,173,420	\$ 135,459

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, 2016 and 2015

Note 5. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2016	2015
Receivable in less than one year	\$ 49,802	\$ 156,129
Receivable in one to five years	294,814	476,009
Receivable in greater than five years	-	1,000
Total pledges receivable, gross	344,616	633,138
Less allowance for uncollectible pledges	(18,000)	(32,000)
Less unamortized discount (discount rate of 0.55% to 1.17%)	(5,567)	(12,497)
Pledges receivable, net	\$ 321,049	\$ 588,641

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Two donors represent \$230,000 and \$444,000 of the total undiscounted pledges receivable at June 30, 2016 and 2015, respectively.

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. Life income funds at June 30, 2016 and 2015 have asset balances of \$1,327,961 and \$1,566,907, 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 \$708,118 and \$941,278 at June 30, 2016 and 2015, respectively. Payments from these funds were \$81,058 and \$87,886 during the years ended June 30, 2016 and 2015, respectively.

Note 7. Forestry Operations

Through June 30, 2016, the Foundation managed the Forest on behalf of The Endowment Fund under a 1987 agreement with no term. The operations of the Forest consisted primarily of harvesting timber and other forest management activities that are reflected in unrestricted net assets. According to the agreement, the income from the Forest operations was 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. However, 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.

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 8. Donated Salaries and Facilities

Donated salaries and facilities provided by the University for college development personnel in the amount of \$145,000 and \$25,000, respectively, for the years ended June 30, 2016 and 2015, have been reflected in the accompanying financial statements.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and June 30, 2015 are available for the following purposes:

	2016	2015
Scholarships	\$ 684,360	\$ 695,889
Fellowships	254,276	165,749
Professorships	172,365	355,961
Research support	205,231	541,569
Endowment cumulative balance	6,161,666	6,648,673
Other	2,265,029	2,025,196
	<u>\$ 9,742,927</u>	<u>\$ 10,433,037</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, 2016 and June 30, 2015 are restricted to:

	2016	2015
Scholarships	\$ 13,675,760	\$ 13,525,125
Fellowships	2,081,724	2,110,822
Professorships	3,304,843	3,243,934
Research	242,120	243,474
Amounts reported as unrestricted or temporarily restricted net assets	(10,722,286)	(11,509,706)
Other	8,001,828	8,269,867
	<u>\$ 16,583,989</u>	<u>\$ 15,883,516</u>

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

NC State Natural Resources Foundation, Inc.

Notes To Financial Statements
For the Years Ended June 30, 2016 and 2015

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:

	2016	2015
Scholarships	\$ 734,689	\$ 451,911
Fellowships	1,500	105,308
Professorships	55,259	54,520
Research and related support	117,911	322,526
Other	1,060,260	1,690,793
	<u>\$ 1,969,619</u>	<u>\$ 2,625,058</u>

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, 2016 and 2015 net endowment transfers among funds were \$85,078 and \$52,698, respectively.

Note 13. Prior Year Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported net assets.

Note 14. Subsequent Events

The Foundation has evaluated events through December 9, 2016, 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, 2016

	Approved Budget	Actual	Variance Over/(Under)
Hofmann Forest Receipts			
Farm	\$ 150,000	\$ 120,133	\$ (29,867)
Game hunting	270,000	397,232	127,232
Miscellaneous	15,450	1,035,115	1,019,665
Mitigation credit - Hofmann	75,000	-	(75,000)
Mitigation credit - Bachelor's Delight	75,000	261,829	186,829
Stumpage:			
Natural harvest	100,000	93,631	(6,369)
Plantation harvest	3,600,000	3,017,787	(582,213)
Thinnings	700,000	391,565	(308,435)
Total Hofmann Forest Receipts	4,985,450	5,317,292	331,842
Hofmann Forest Expenditures	2,348,500	1,888,383	(460,117)
Hofmann receipts less expenditures	2,636,950	3,428,909	791,959
Other Foundation Receipts			
Investment income	18,000	38,440	20,440
Annual Fund	55,000	56,870	1,870
Endowment Spending Budget from Quasi	163,960	163,960	-
Endowment assessments	33,280	33,280	-
Endowment assessments - Advancement	33,280	33,280	-
Total Other Foundation Receipts	303,520	325,830	22,310
Other Foundation Expenditures			
College of Natural Resources support	1,936,185	1,457,598	(478,587)
Foundation administration and development support	873,809	769,287	(104,522)
Special projects	917,000	691,582	(225,418)
Total Other Foundation Expenditures	3,726,994	2,918,467	(808,527)
Receipts Less Expenditures	\$ (786,524)	\$ 836,272	\$ 1,622,796

(Continued)

NC State Natural Resources Foundation, Inc.

General Fund Budget vs. Actual - Unaudited (continued)

Year Ended June 30, 2016

	Approved Budget	Actual	Variance Over/(Under)
General Fund Balance - Beginning			
Cash	\$ (405,907)	\$ 1,045,642	\$ 1,451,549
CNR Endowment	2,726,665	2,884,064	157,399
Hofmann Forest Endowment	2,414,315	1,836,011	(578,304)
Total Beginning General Fund Balance	<u>4,735,073</u>	<u>5,765,717</u>	<u>1,030,644</u>
 Net change in market value on quasi endowments	 -	 (216,333)	 (216,333)
 General Fund Balance - Ending			
Cash	(1,192,431)	1,881,914	3,074,345
CNR Endowment	2,726,665	2,755,132	28,467
Hofmann Forest Endowment	2,414,315	1,748,610	(665,705)
Total Ending General Fund Balance	<u>\$ 3,948,549</u>	<u>\$ 6,385,656</u>	<u>\$ 2,437,107</u>

NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited
Year Ended June 30, 2016

	Approved Budget	Actual	Variance Over/(Under)
Hofmann Forest :			
Administrative:			
Supplies	\$ 10,000	\$ 12,513	\$ 2,513
Building maintenance	25,000	36,151	11,151
Hofmann Forest administration	490,000	520,179	30,179
Legal	5,000	250	(4,750)
Property/general liability insurance	15,000	18,759	3,759
Hofmann technical liaison	15,000	53,982	38,982
Development office salary allocation	117,000	92,912	(24,088)
Hofmann general and administration	50,000	25,439	(24,561)
Treasurer's Division support	25,000	25,000	-
Total Administrative	752,000	785,185	33,185
Operations:			
Boundary maintenance	15,000	19,893	4,893
Regeneration	900,000	574,174	(325,826)
Water management	150,000	81,594	(68,406)
Prescribed burning	5,000	20	(4,980)
Timber stand improvement	150,000	149,878	(122)
Farm maintenance	5,000	-	(5,000)
Fire protection	35,000	14,711	(20,289)
Equipment maintenance	50,000	43,321	(6,679)
Road maintenance	150,000	128,453	(21,547)
Wildlife management program	1,500	33	(1,467)
Contracted Forestry services	10,000	5,424	(4,576)
Hofmann environmental expense	15,000	20,599	5,599
Fuel	50,000	29,263	(20,737)
Equipment purchases	60,000	35,835	(24,165)
Total Operations	1,596,500	1,103,198	(493,302)
Total Hofmann Forest	2,348,500	1,888,383	(460,117)
Special Projects:			
Hofmann Special Projects	847,000	585,082	(261,918)
Natural Resources Scholarships	30,000	31,500	1,500
College Enhancement	25,000	25,000	-
Centennial Golf Course	50,000	50,000	-
Bachelor's Delight Mitigation Bank	15,000	-	(15,000)
Total Special Projects	\$ 967,000	\$ 691,582	\$ (275,418)

(Continued)

NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited (continued)
Year Ended June 30, 2016

	Approved Budget	Actual	Variance Over/(Under)
College of Natural Resources Support:			
Program Support:			
Ongoing Initiatives	\$ 249,660	\$ 121,500	\$ (128,160)
New Initiatives	500,000	158,389	(341,611)
Program Enhancement- Research	40,000	10,913	(29,087)
CNR academic affairs	92,000	58,695	(33,305)
Program enhancement	227,525	271,163	43,638
CNR discretionary fund	2,000	2,000	-
Total Program Support	1,111,185	622,660	(488,525)
Forestry Department Support:			
Continuing education	50,000	50,000	-
Environmental support	-	36	36
Graduate student support	-	109	109
FER Hofmann graduate fellowships	229,423	194,314	(35,109)
Program enhancement	155,577	189,480	33,903
Fish and wildlife enhancement	15,000	16,189	1,189
Total Forestry Department Support	450,000	450,128	128
Parks, Recreation and Tourism Management Support:			
PRTM Hofmann graduate fellowships	40,556	40,556	-
Program enhancement	118,192	118,192	-
Natural resources mapping	34,114	34,113	(1)
Program support, IPARC	7,138	16,980	9,842
Total Parks, Recreation and Tourism Management Support	200,000	209,841	9,841
Wood and Paper Science Support:			
Alumni scholarships	10,500	10,500	-
Program enhancement	63,575	63,575	-
WPS discretionary fund	2,000	2,000	-
WPS Hofmann graduate fellowships	98,925	98,894	(31)
Total Wood and Paper Science Support	175,000	174,969	(31)
Total College of Natural Resources Support	\$ 1,936,185	\$ 1,457,598	\$ (478,587)

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NC State Natural Resources Foundation, Inc.

Details of General Fund Expenses Budget vs. Actual - Unaudited (continued)
 Year Ended June 30, 2015

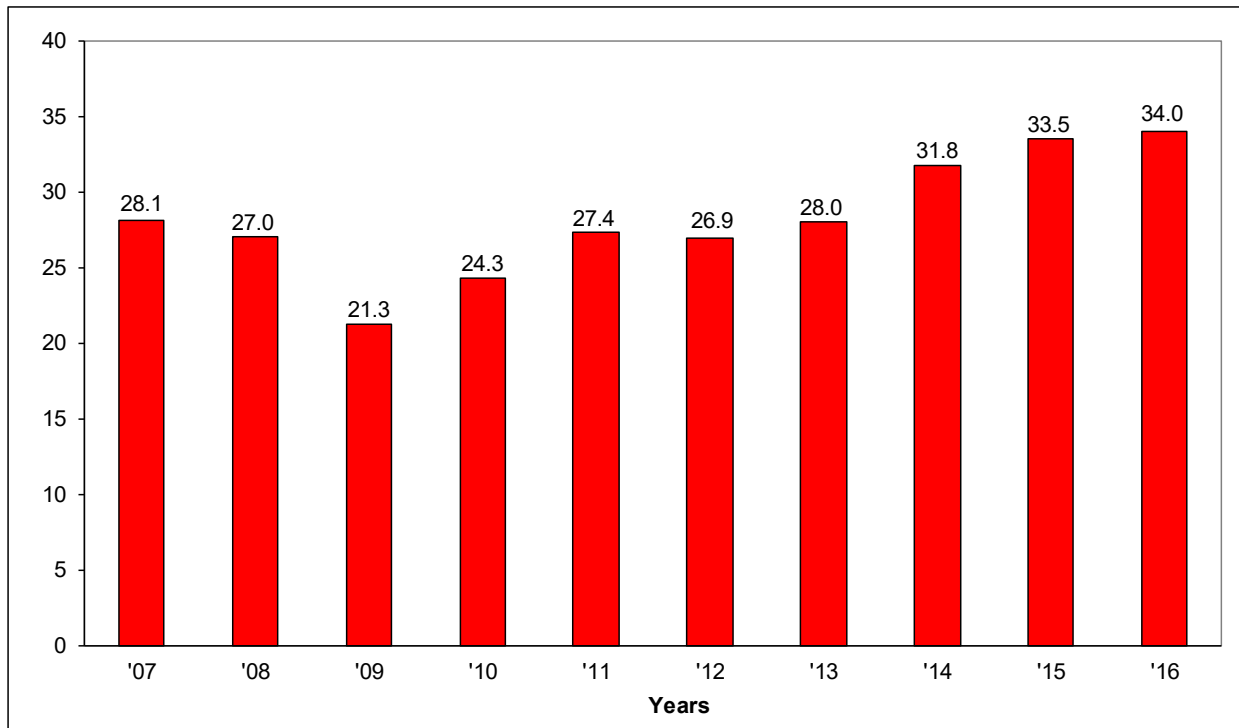
	Approved Budget	Actual	Variance Over/(Under)
Foundation Administration and Development:			
Registration for solicitation	\$ 7,500	\$ 6,353	\$ (1,147)
Marketing and Communications	25,000	40,350	15,350
Audit and tax preparation expenses	19,500	19,500	-
Legal	10,000	2,713	(7,287)
Meeting expenses	16,000	23,971	7,971
Telephone and postage	30,000	34,470	4,470
Salaries and benefits	536,734	417,322	(119,412)
University Advancement	33,280	33,280	-
Insurance	7,295	7,292	(3)
Car insurance	30,000	56,910	26,910
Travel	30,000	11,206	(18,794)
Treasurer's Division support	43,500	43,500	-
Donor/prospect relations	75,000	72,050	(2,950)
Professional Development	10,000	370	(9,630)
Total Foundation Administration and Development	873,809	769,287	(104,522)
Total General Fund Expenses	\$ 6,125,494	\$ 4,806,850	\$ (1,318,644)

NC State Natural Resources Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited
As of 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.

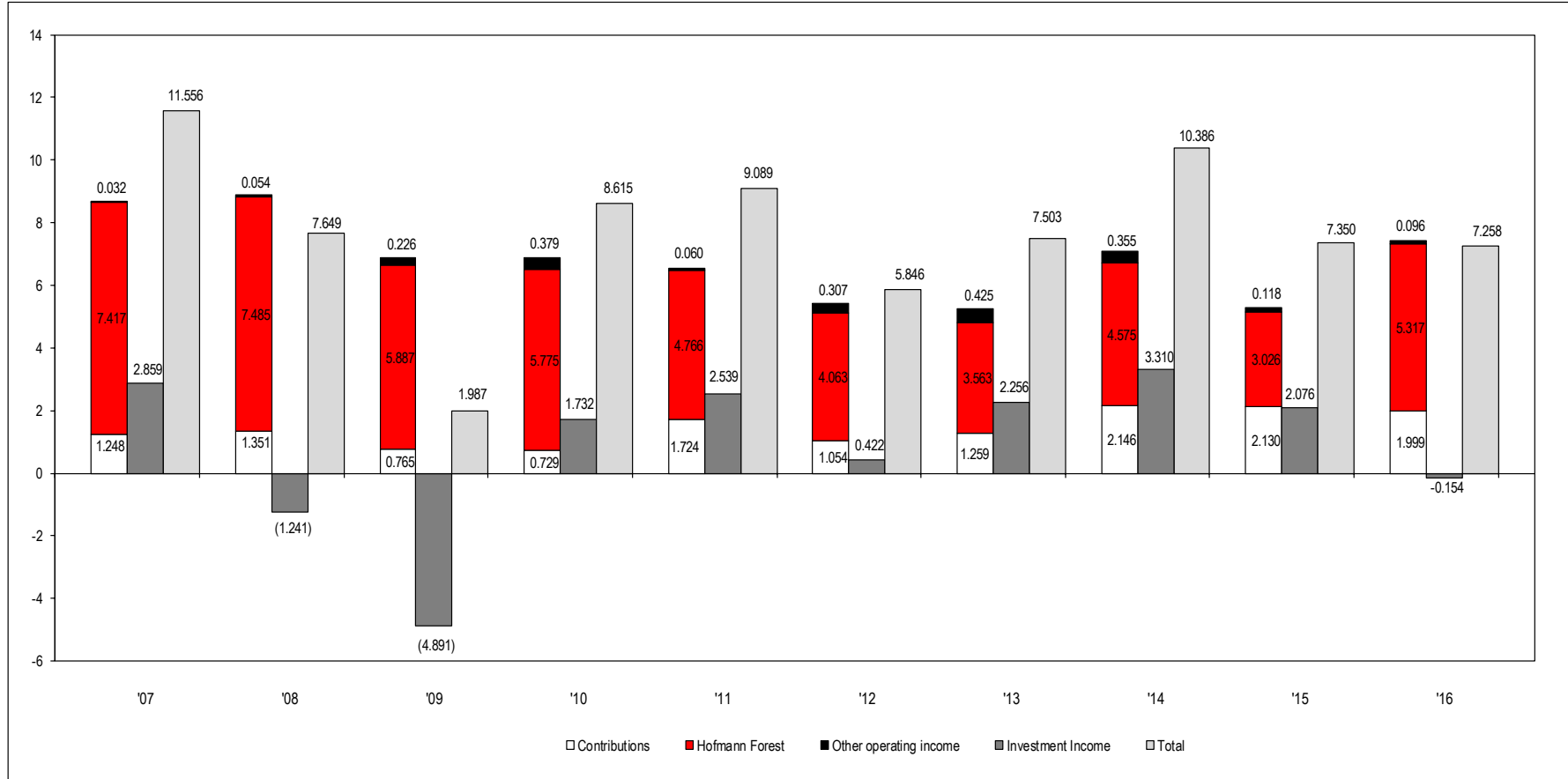
*Fiscal years 2011 - 2016 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

NC State Natural Resources Foundation, Inc.

Ten Year Summary of Revenues - Unaudited
As of June 30

Total Revenues, Gains, and Other Income

(Dollars in Millions)



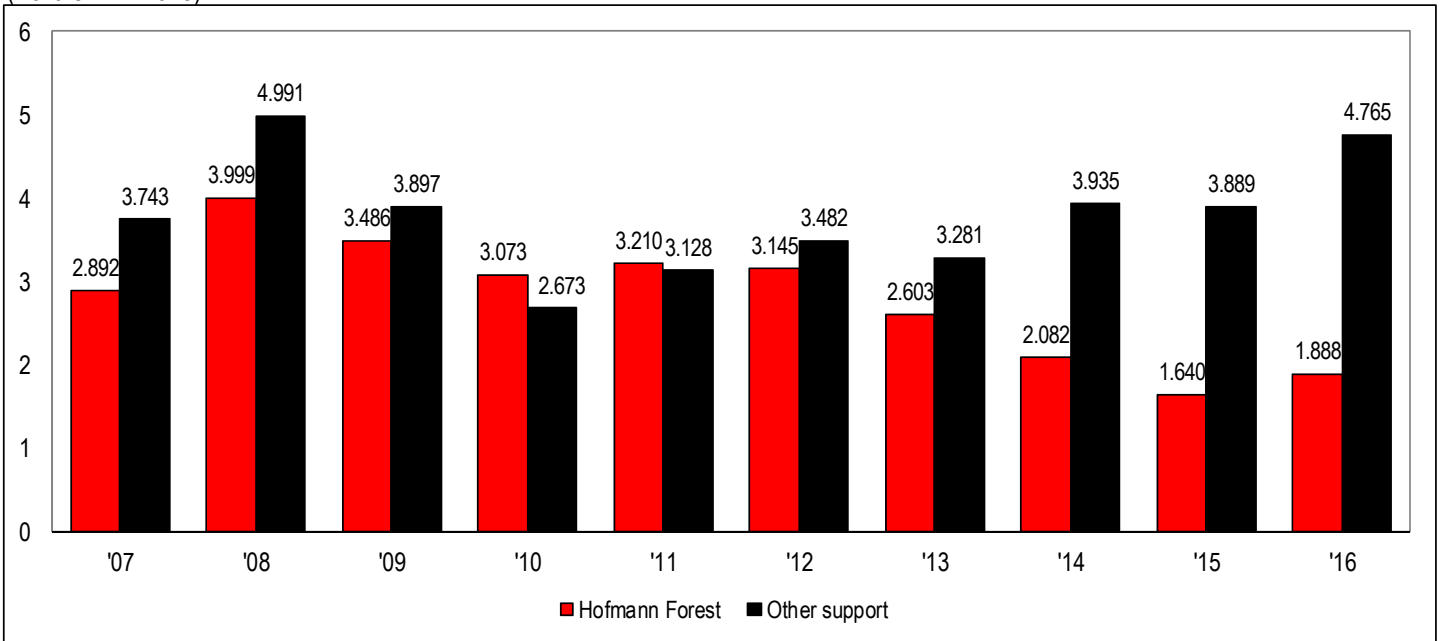
*Fiscal years 2011 - 2016 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

NC State Natural Resources Foundation, Inc.

Ten Year Summary of Support - Unaudited As of June 30

Total Support

(Dollars in Millions)



*Fiscal years 2011 - 2016 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.