

**NORTH CAROLINA STATE UNIVERSITY  
FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL REPORT**

**JUNE 30, 2012 and 2011**

**North Carolina State University Foundation, Inc.**  
**Consolidated Financial Statements**  
**For the years ended June 30, 2012 and 2011**

**Contents**

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Independent Auditors' Report	1
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Financial Statements	
Consolidated statements of financial position	2
Consolidated statements of activities	3 – 4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6 – 19

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Supplementary Information	
Fund for Excellence budget vs. actual – unaudited	20
Ten year summary of asset growth – unaudited	21
Ten year summary of revenues and support – unaudited	22

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Other Information	
Independent Auditors' Communication with Board of Directors	23 - 24

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Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
North Carolina State University Foundation, Inc.  
Raleigh, North Carolina

We have audited the accompanying consolidated statements of financial position of the North Carolina State University Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the supplementary information. However, we did not audit the information and express no opinion on it.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
September 26, 2012

**North Carolina State University Foundation, Inc.**

**Consolidated Statements of Financial Position  
June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents (Note 1)	\$ 17,953,511	\$ 7,985,783
Cash and cash equivalents - Executive Education, LLC (Note 1)	111,463	16,362
Intermediate investments (Note 1)	1,679,317	1,657,959
Marketable securities (Notes 1 and 3)	94,392,813	82,447,038
Pledges receivable (Notes 1 and 6)	15,631,787	20,027,613
Receivable - charitable lead trust (Note 1)	763,745	789,580
Externally managed irrevocable trust (Note 5)	19,696,195	20,155,285
Executive Education, LLC accounts receivable, net (Note 15)	164,935	106,800
Receivable from University-associated entities (Note 1)	627,181	266,305
Donated property and land (Note 1)	1,150,627	1,150,627
Land and property held for others (Note 1)	1,159,023	1,159,023
University Club - at cost, net of accumulated depreciation of \$1,399,094 and \$1,261,729 for 2012 and 2011, respectively (Notes 1 and 14)	4,645,873	4,696,678
Other assets (Note 1)	262,421	252,596
<b>Total assets</b>	<b>\$ 158,238,891</b>	<b>\$ 140,711,649</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable - North Carolina State University (Note 1)	\$ 226,479	\$ 95,984
Accounts payable (Note 1)	13,022	8,500
Due to others (Note 1)	1,399,424	1,373,989
Life income funds payable (Note 5)	4,187,353	3,922,971
Life income funds payable - externally managed irrevocable trust (Note 5)	12,503,620	13,254,063
Agency funds held in custody for others (Note 8)	717,307	614,485
Executive Education, LLC payables (Note 15)	489,113	201,605
Executive Education, LLC deferred revenue (Note 15)	3,400	90,708
<b>Total liabilities</b>	<b>19,539,718</b>	<b>19,562,305</b>
Net Assets:		
Unrestricted:		
Undesignated	611,568	901,738
Undesignated nonexpendable - University Club	4,645,873	4,696,678
Undesignated - underwater endowments (Note 2)	(164,643)	(180,239)
Board-designated - endowments	2,749,102	2,546,587
Designated - Executive Education, LLC (Note 15)	(216,115)	(169,151)
Temporarily restricted (Note 9)	50,614,377	47,737,838
Permanently restricted (Note 10)	80,459,011	65,615,893
<b>Total net assets</b>	<b>138,699,173</b>	<b>121,149,344</b>
<b>Total liabilities and net assets</b>	<b>\$ 158,238,891</b>	<b>\$ 140,711,649</b>

North Carolina State University Foundation, Inc.

Consolidated Statement of Activities  
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions	\$ 6,590	\$ 15,692,593	\$ 14,039,580	\$ 29,738,763
Change in pledges receivable	49	(5,025,188)	629,313	(4,395,826)
Donated services and salaries (Note 7)	627,000	-	-	627,000
Leasehold improvements (Note 1)	86,560	-	-	86,560
Net asset reclassification - underwater endowments (Note 2)	15,596	(15,596)	-	-
Net investment income	54,436	956,958	693,632	1,705,026
Change in value of split interest agreements	-	-	(728,692)	(728,692)
Change in value of charitable lead trust	-	-	(25,835)	(25,835)
Interest and dividends	51,376	91,556	114,598	257,530
Executive Education, LLC income (Note 15)	792,286	-	-	792,286
Other income	308,880	2,152,049	6,226	2,467,155
Net assets released from restrictions (Note 11)	10,823,033	(10,823,033)	-	-
<b>Total revenues, gains, and other income</b>	<b>12,765,806</b>	<b>3,029,339</b>	<b>14,728,822</b>	<b>30,523,967</b>
Grants to support the University:				
Program:				
Scholarships and fellowships	2,169,571	-	-	2,169,571
Faculty support	1,440,031	-	-	1,440,031
Departmental support	1,444,415	-	-	1,444,415
Facility support	3,267,913	-	-	3,267,913
Other contracted services	1,121,077	-	-	1,121,077
Other current services	439,836	-	-	439,836
Executive Education, LLC expenses (Note 15)	839,250	-	-	839,250
<b>Total program support</b>	<b>10,722,093</b>	<b>-</b>	<b>-</b>	<b>10,722,093</b>
Administrative	327,523	-	-	327,523
Fundraising	1,900,992	-	-	1,900,992
<b>Total other support</b>	<b>2,228,515</b>	<b>-</b>	<b>-</b>	<b>2,228,515</b>
<b>Total support</b>	<b>12,950,608</b>	<b>-</b>	<b>-</b>	<b>12,950,608</b>
<b>Excess (deficit) of revenues, gains, and other income over total support</b>	<b>(184,802)</b>	<b>3,029,339</b>	<b>14,728,822</b>	<b>17,573,359</b>
Net transfers:				
(To) from other University-associated entities	(5,250)	(20,280)	2,000	(23,530)
Among funds (Note 13)	20,224	(132,520)	112,296	-
<b>Total net transfers</b>	<b>14,974</b>	<b>(152,800)</b>	<b>114,296</b>	<b>(23,530)</b>
<b>Change in net assets</b>	<b>(169,828)</b>	<b>2,876,539</b>	<b>14,843,118</b>	<b>17,549,829</b>
Net assets:				
Beginning	7,795,613	47,737,838	65,615,893	121,149,344
Ending	\$ 7,625,785	\$ 50,614,377	\$ 80,459,011	\$ 138,699,173

**North Carolina State University Foundation, Inc.**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains, and other income:</b>				
Contributions	\$ 12,268	\$ 8,003,695	\$ 15,138,585	\$ 23,154,548
Change in pledges receivable	(251,261)	833,952	6,962,166	7,544,857
Donated services and salaries (Note 7)	577,000	-	-	577,000
Leasehold improvements (Note 1)	1,067,376	-	-	1,067,376
Net asset reclassification - underwater endowments (Note 2)	3,178,876	(3,178,876)	-	-
Net investment income	1,532,643	11,365,801	260,684	13,159,128
Change in value of split interest agreements	-	-	(386,736)	(386,736)
Change in value of charitable lead trust	-	-	(47,866)	(47,866)
Interest and dividends	86,848	36,315	112,127	235,290
Executive Education, LLC income (Note 15)	462,695	-	-	462,695
Other income	1,955,056	-	12,406	1,967,462
Net assets released from restrictions (Note 11)	7,024,027	(7,024,027)	-	-
<b>Total revenues, gains, and other income</b>	<b>15,645,528</b>	<b>10,036,860</b>	<b>22,051,366</b>	<b>47,733,754</b>
<b>Grants to support the University:</b>				
<b>Program:</b>				
Scholarships and fellowships	1,571,496	-	-	1,571,496
Faculty support	1,388,094	-	-	1,388,094
Departmental support	1,474,847	-	-	1,474,847
Facility support	2,509,062	-	-	2,509,062
Other contracted services	908,546	-	-	908,546
Other current services	424,561	-	-	424,561
Executive Education, LLC expenses (Note 15)	774,142	-	-	774,142
<b>Total program support</b>	<b>9,050,748</b>	<b>-</b>	<b>-</b>	<b>9,050,748</b>
Administrative	293,474	-	-	293,474
Fundraising	1,246,679	-	-	1,246,679
<b>Total other support</b>	<b>1,540,153</b>	<b>-</b>	<b>-</b>	<b>1,540,153</b>
<b>Total support</b>	<b>10,590,901</b>	<b>-</b>	<b>-</b>	<b>10,590,901</b>
Excess of revenues, gains, and other income over total support	5,054,627	10,036,860	22,051,366	37,142,853
<b>Net transfers:</b>				
(To) from other University-associated entities	27,650	(529,588)	270,245	(231,693)
Among funds (Note 13)	(881,954)	463,515	418,439	-
<b>Total net transfers</b>	<b>(854,304)</b>	<b>(66,073)</b>	<b>688,684</b>	<b>(231,693)</b>
Change in net assets	4,200,323	9,970,787	22,740,050	36,911,160
<b>Net assets:</b>				
Beginning	3,595,290	37,767,051	42,875,843	84,238,184
Ending	\$ 7,795,613	\$ 47,737,838	\$ 65,615,893	\$ 121,149,344

**North Carolina State University Foundation, Inc.**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows From Operating Activities:</b>		
Change in net assets:	\$ 17,549,829	\$ 36,911,160
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	139,738	64,452
Net investment gains	(1,705,026)	(13,159,128)
Investment income restricted for split interest agreements	(114,598)	(112,127)
Actuarial change in value of split interest agreements	728,692	386,736
Actuarial change in value externally managed irrevocable trust	(750,443)	-
Externally managed irrevocable trusts, net of liability	-	(6,901,222)
Contributions restricted for permanent endowment	(14,039,580)	(15,138,585)
(Increase) decrease in:		
Receivable from other University-associated organizations	(360,876)	(266,305)
Executive Education, LLC receivables, net	(58,135)	24,809
Pledges receivable	4,395,826	(7,544,857)
Receivable - charitable lead trust	25,835	47,866
Donated property	-	79,000
Land and property held for others	-	(159,023)
University Club and other assets, net	(98,758)	(1,084,981)
Increase (decrease) in:		
Accounts payable - North Carolina State University	130,495	58,760
Accounts payable	4,522	8,500
Due to others	(34,162)	23,911
Agency funds held in custody for others	102,822	540,713
Executive Education, LLC payables	287,508	(51,686)
Executive Education, LLC deferred revenue	(87,308)	78,279
<b>Net cash provided by (used in) operating activities</b>	<b>6,116,381</b>	<b>(6,193,728)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of investments	7,625,596	54,191,949
Purchases of investments	(17,428,613)	(60,882,980)
<b>Net cash used in investing activities</b>	<b>(9,803,017)</b>	<b>(6,691,031)</b>
<b>Cash Flows From Financing Activities:</b>		
Contributions restricted for permanent endowment	14,039,580	15,138,585
Investment income restricted for split interest agreements	114,598	112,127
Payments on life income fund obligations	(487,095)	(501,773)
Proceeds from life income fund obligations	82,382	213,266
<b>Net cash provided by financing activities</b>	<b>13,749,465</b>	<b>14,962,205</b>
<b>Net increase in cash and cash equivalents</b>	<b>10,062,829</b>	<b>2,077,446</b>
<b>Cash and cash equivalents:</b>		
Beginning	8,002,145	5,924,699
Ending	<u>\$ 18,064,974</u>	<u>\$ 8,002,145</u>
<b>Supplemental Disclosure of Noncash Activities:</b>		
Leasehold improvements	\$ 86,560	\$ 1,067,376
Donated services	<u>\$ 627,000</u>	<u>\$ 577,000</u>
Transfers among funds	<u>\$ 132,520</u>	<u>\$ 881,954</u>

## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

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#### Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The North Carolina State University Foundation, Inc., (the "Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation, founded in 1942, supports, by financial assistance and otherwise, the various colleges within the University, the libraries, and other University-connected functions. Effective July 1, 2003, North Carolina State University considers the Foundation to be a component unit.

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.

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and NC State Executive Education, LLC, which was organized to further the purposes of its sole member, the Foundation. All significant intercompany balances and transactions have been eliminated in the consolidation. Additional details regarding the financial position and activities of NC State Executive Education, LLC are contained in Note 15.

Cash and cash equivalents: For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments to be cash equivalents. Cash designated or restricted for long-term purposes is included with marketable securities. At times the Foundation places deposits with a high-quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consist of accounts with BNY Mellon's Liquidity DIRECT, the State Treasurer's Short Term Investment Fund ("STIF"), and an operating checking account with Wells Fargo Bank, N.A. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term needs. These investments are reported at readily determinable fair values of \$1,679,317 and \$1,657,959 at June 30, 2012 and 2011, respectively. The cost of these investments was \$1,884,335 as of June 30, 2012 and 2011.



## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

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

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

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.

Receivable – charitable lead trust: The receivable for the split-interest agreement is carried at fair value, which the Foundation has estimated based on the present value of its expected future cash inflows.

Receivables from University-associated entities: Receivables from University-associated entities consisted of amounts due to the Foundation from other University-associated foundations.

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

Property held for others: Property held for others is for a land gift held for sale for which the sale proceeds will be due to others.

University Club: The value of the North Carolina State University Club (the "Club") is stated at cost and leasehold improvements are recorded at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets. The Club was renovated over the past four years, and the increase in value is attributable to these renovations. The Foundation and the Club entered into an operating agreement in 1979 based on a lease originally established between the State of North Carolina and the Foundation in 1960. For the leasehold improvements completed during fiscal year 2012, the Club is responsible for financing and payment. Leasehold improvements capitalized were \$86,560 and \$1,067,376 during the years ended June 30, 2012 and 2011, respectively. Refer to Note 14 for additional information regarding the Foundation's role in the Club's financing of the renovations.

Other assets: Other assets include beneficiary interests 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 less any loans outstanding on the policies. Cash surrender values of these policies were \$235,594 and \$225,079 at June 30, 2012 and 2011, respectively.

Contributions: Restricted contributions are segregated for income and expense reporting purposes; however, the assets are commingled. When a donor or grantor restriction expires because the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

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

**North Carolina State University Foundation, Inc.**

**Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011**

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

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$327,854 and \$261,047 for the years ended June 30, 2012 and 2011, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University's gift assessment program, beginning October 1, 2010, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for Central Development and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.55% is charged by the Foundation on the average twenty-quarter market value of the assets held in the investment portfolio, for the support of Foundation fundraising activities.

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

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

Due to others: Due to others at June 30, 2012 and 2011 consists of \$399,124 and \$373,989, respectively, due to remainder beneficiaries of life income funds. Also included in due to others at June 30, 2012 and 2011 is \$1,000,300 and \$1,000,000, respectively, received by the Foundation on behalf of other organizations.

Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2012 and 2011. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

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#### Note 2. Endowment

The Foundation's endowment consists of approximately 510 individual funds established for a variety of purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Foundation Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the Foundation's signed endowment gift agreements with donors have donor-imposed restrictions which stipulate that principal shall not be used to fund spending.

#### 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 \$(164,643) and \$(180,239) as of June 30, 2012 and 2011, respectively.

#### Investment return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the NCSIF in a manner that is intended to produce results that exceed a 70% S&P 500 Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

#### Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions many endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However, if the gift instrument does not allow spending of corpus, the Foundation does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Foundation considered the long-term expected return on its endowment. Spending budgets were calculated at \$878,955 and \$2,385,060 for fiscal years 2012 and 2013, respectively.

North Carolina State University Foundation, Inc.

Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011

**Note 2. Endowment (continued)**

Strategies employed for achieving investment objectives:

For the long term, the primary investment objective for the NCSIF is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the NCSIF and to meet the spending needs of the University. To meet this investment objective, the NCSIF invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

NCSIF's investments are diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g., within common stocks by economic sector, geographic area, industry, quality, and size). In addition, the NCSIF seeks to diversify exposure to all asset classes through the use of multiple managers that use a variety of investment approaches.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,406,928	\$ 29,340,434	\$ 65,615,893	\$ 97,363,255
Net asset reclassification - underwater endowments	15,596	(15,596)	-	-
Endowment net assets after reclassification	2,422,524	29,324,838	65,615,893	97,363,255
Total investment return	345,778	476,072	808,230	1,630,080
Contributions, including change in accrued pledges & other income	336	-	14,675,119	14,675,455
Appropriations of endowment assets for expenditure	(95,050)	(2,729,488)	-	(2,824,538)
Change in value of split interest agreements & charitable lead trust	-	-	(754,527)	(754,527)
Other changes:				
Transfers	-	-	114,296	114,296
Endowment net assets, end of year	<u>\$ 2,673,588</u>	<u>\$ 27,071,422</u>	<u>\$ 80,459,011</u>	<u>\$ 110,204,021</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (164,643)	\$ -	\$ -	\$ (164,643)
Board-designated endowment funds	2,749,102	-	-	2,749,102
Donor restricted endowment funds	89,129	27,071,422	80,459,011	107,619,562
<b>Total Funds</b>	<u>\$ 2,673,588</u>	<u>\$ 27,071,422</u>	<u>\$ 80,459,011</u>	<u>\$ 110,204,021</u>

**North Carolina State University Foundation, Inc.**

**Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011**

**Note 2. Endowment (continued)**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,242,817)	\$ 22,155,777	\$ 42,875,843	\$ 63,788,803
Net asset reclassification - underwater endowments	3,178,876	(3,178,876)	-	-
Endowment net assets after reclassification	1,936,059	18,976,901	42,875,843	63,788,803
Total investment return	576,049	11,264,013	372,811	12,212,873
Contributions, including change in accrued pledges	-	-	22,113,157	22,113,157
Appropriations of endowment assets for expenditure	(105,180)	(900,480)	-	(1,005,660)
Change in value of split interest agreements & charitable lead trust	-	-	(434,602)	(434,602)
Other changes:				
Transfers	-	-	688,684	688,684
Endowment net assets, end of year	\$ 2,406,928	\$ 29,340,434	\$ 65,615,893	\$ 97,363,255

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (180,239)	\$ -	\$ -	\$ (180,239)
Board-designated endowment funds	2,546,587	-	-	2,546,587
Donor restricted endowment funds	40,580	29,340,434	65,615,893	94,996,907
Total Funds	\$ 2,406,928	\$ 29,340,434	\$ 65,615,893	\$ 97,363,255

**Note 3. Long-Term Investments**

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

Investments at June 30, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 52,630	\$ 52,630	\$ 434,920	\$ 434,920
NC State Investment Fund, Inc.	82,901,141	86,955,168	72,043,812	74,231,298
Wells Fargo - Life Income Funds	6,882,241	6,952,858	6,125,009	7,308,430
Citicorp Trust Bank	367,800	432,157	394,605	472,390
	\$ 90,203,812	\$ 94,392,813	\$ 78,998,346	\$ 82,447,038

## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

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#### **Note 3. Long-Term Investments (continued)**

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the State Treasurer's Short Term Investment Fund ("STIF"). As of June 30, 2012, approximately 87% of these limited partnerships were with the UNC Management Company ("UNCMC"), 7% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, and 6% invested in the STIF. NCSIF's net assets were valued at approximately \$397,192,000 and \$378,260,000 at June 30, 2012 and 2011, respectively. The Foundation's investment in the NCSIF represents approximately 21.9% and 19.6% of the member equity of NCSIF at June 30, 2012 and 2011, respectively.

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

The Foundation's investments held by Citigroup Trust Bank primarily consist of common equity securities.

#### **Note 4. Fair Value Measurement**

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

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

Level 1 - quoted prices in active markets for identical investments

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

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

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

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

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

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

North Carolina State University Foundation, Inc.

Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011

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

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

2012				
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 52,630	\$ -	\$ -	\$ 52,630
commonfund Intermediate Term Fund	-	1,679,317	-	1,679,317
NC State Investment Fund, Inc.	-	-	86,955,168	86,955,168
Wells Fargo - Life Income Funds	-	6,952,858	-	6,952,858
Citicorp Trust Bank	-	432,157	-	432,157
Externally Managed Irrevocable Trust	-	19,696,195	-	19,696,195
Beneficial Interest in Life Insurance Policies	-	-	235,594	235,594
	<b>\$ 52,630</b>	<b>\$ 28,760,527</b>	<b>\$ 87,190,762</b>	<b>\$ 116,003,919</b>

2011				
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 434,920	\$ -	\$ -	\$ 434,920
commonfund Intermediate Term Fund	-	1,657,959	-	1,657,959
NC State Investment Fund, Inc.	-	-	74,231,298	74,231,298
Wells Fargo - Life Income Funds	-	7,308,430	-	7,308,430
Citicorp Trust Bank	-	472,390	-	472,390
Externally Managed Irrevocable Trust	-	20,155,285	-	20,155,285
Beneficial Interest in Life Insurance Policies	-	-	225,079	225,079
	<b>\$ 434,920</b>	<b>\$ 29,594,064</b>	<b>\$ 74,456,377</b>	<b>\$ 104,485,361</b>

The following is a reconciliation of the assets measured at fair value on a recurring basis in which significant unobservable inputs (Level 3) were used in determining value:

	2012		2011	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 74,231,298	\$ 225,079	\$ 55,652,218	\$ 202,473
Unrealized gain	1,866,554	10,515	8,359,862	22,606
Realized gain	609,637	-	68,073	-
Net investment	10,247,679	-	10,151,145	-
Ending balance	<b>\$ 86,955,168</b>	<b>\$ 235,594</b>	<b>\$ 74,231,298</b>	<b>\$ 225,079</b>

## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

#### Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2012 and 2011 have asset balances of \$7,385,005 and \$7,780,820, respectively.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled \$4,187,353 and \$3,922,971 at June 30, 2012 and 2011, respectively. Payments from these funds were \$487,095 and \$501,773 during the years ended June 30, 2012 and 2011, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2012 and 2011, the CGA reserve balance was \$22,168 and \$12,694, respectively.

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2011 which represents irrevocable life income funds with a market value totaling \$19,696,195 and \$20,155,285 and life income funds payable of \$12,503,620 and \$13,254,063 as of June 30, 2012 and 2011, respectively. The Foundation is not serving as trustee for these funds. These life income funds have been reflected in the financial statements at their fair value and estimated future distributions to the beneficiaries have been reflected in the financial statements computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

#### Note 6. Pledges Receivable

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

	2012	2011
Receivable in less than one year	\$ 5,215,013	\$ 7,631,958
Receivable in one to five years	8,262,202	10,228,705
Receivable in greater than five years	3,021,366	4,010,127
Total gross pledges receivable	16,498,581	21,870,790
Less allowance for uncollectible pledges	(460,427)	(730,000)
Less unamortized discount	(406,367)	(1,113,177)
Net pledges receivable	\$ 15,631,787	\$ 20,027,613

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excepting the Lonnie C. Poole, Jr. College of Management Endowment pledge which the Foundation is reasonably assured of collecting. 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.



**North Carolina State University Foundation, Inc.**

**Notes To Consolidated Financial Statements**  
**For the years ended June 30, 2012 and 2011**

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**Note 7. Donated Services and Salaries**

Donated services in the amount of \$245,000 and \$220,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries paid by the University for college development personnel in the amount of \$382,000 and \$357,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

**Note 8. Agency Funds**

The Foundation acts as funds custodian for the North Carolina State University Greek Court funds. The funds are for the sole benefit for the redevelopment of the Greek Court and totaled \$134,856 and \$121,623 at June 30, 2012 and 2011, respectively, and are for Kappa Sigma, Sigma Alpha Epsilon, Chi Psi, Delta Gamma, and Lambda Chi Alpha. The Foundation also holds debt service and operating surplus funds for the University Club (see Note 14), which totaled \$582,451 and \$492,862 at June 30, 2012 and 2011, respectively.

**Note 9. Temporarily Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 2,541,202	\$ 2,347,339
Fellowships	1,093,505	1,207,866
Professorships	386,048	391,778
Library support	1,550,088	1,105,613
Pledges receivable	7,858,694	12,883,882
Endowment cumulative balance	27,071,422	29,340,434
Other	10,113,418	460,926
	<u>\$ 50,614,377</u>	<u>\$ 47,737,838</u>

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

**North Carolina State University Foundation, Inc.**

**Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011**

**Note 10. Permanently Restricted Net Assets**

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

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 42,003,057	\$ 29,411,317
Fellowships	4,217,687	4,198,548
Professorships	746,363	763,174
Library support	6,931,546	6,918,307
Pledges	7,773,044	7,143,731
Life income funds	14,577,591	13,917,705
NCSU Foundation enhancement endowment	9,276,476	9,242,486
Amounts reported as unrestricted or temporarily restricted net assets	(29,745,010)	(31,747,362)
Other	24,678,257	25,767,987
	<u>\$ 80,459,011</u>	<u>\$ 65,615,893</u>

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

**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:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 1,817,611	\$ 1,388,051
Fellowships	133,829	52,806
Professorships	99,335	62,797
Library support	226,150	315,104
Facility support	3,267,913	2,509,062
Other	5,278,195	2,696,207
	<u>\$ 10,823,033</u>	<u>\$ 7,024,027</u>

The grouping "Other" includes amounts spent for general college support, research, and general University support.

**North Carolina State University Foundation, Inc.**

**Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011**

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**Note 12. Description of Leasing Arrangements**

The Foundation had operating leases with total payments for the years ended June 30, 2012 and 2011 of \$23,525 and \$21,000, respectively. Future minimum rental payments are shown in the following schedule:

	2013	2014	2015	Thereafter	Total future minimum payments required
Vehicles	\$ 25,201	\$ 15,952	\$ -	\$ -	\$ 41,153

**Note 13. Transfers Among Funds To Permanently Restricted**

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2012 and 2011, net endowment transfers were \$112,296 and \$418,439, respectively.

**Note 14. University Club**

In June 2008, to assist with financing the construction, renovation, and expansion of the University Club, the Board of the Foundation approved a resolution to authorize the Foundation to serve as the guarantor for \$3 million of a \$4 million loan from First Citizens Bank & Trust Company to the University Club to be obtained in conjunction with the renovation of the University Club's facilities. The term of the loan and guarantee is ten years. The amount outstanding on the loan, as of June 30, 2012 and 2011, was \$3,712,740 and \$4,000,000, respectively. A Memorandum of Understanding between the Foundation and the University Club was established, which imposes certain requirements on the University Club as a condition to the Foundation serving as guarantor for the loan. See note 8 for the amounts the Foundation holds on behalf of the University Club.

**Note 15. NC State Executive Education, LLC**

NC State Executive Education, LLC (the "LLC") was organized on June 6, 2008 to further the purposes of its sole member, the Foundation, and is consolidated for the purposes of these financial statements. The purposes of the LLC are exclusively charitable within the meaning of paragraph 501(c)(3) of the Internal Revenue Code of 1986, and more specifically are to support the educational mission of the University by operating an executive education program in conjunction with the University's Poole College of Management.

North Carolina State University Foundation, Inc.

Notes To Consolidated Financial Statements  
For the years ended June 30, 2012 and 2011

**Note 15. NC State Executive Education, LLC (continued)**

The Statements of Financial Position for NC State Executive Education, LLC at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash	\$ 111,463	\$ 16,362
Accounts receivable, net	164,935	106,800
<b>Total assets</b>	<b>\$ 276,398</b>	<b>\$ 123,162</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable - North Carolina State University	\$ -	\$ 15,000
Other payables	489,113	186,605
Deferred revenue	3,400	90,708
<b>Total liabilities</b>	<b>492,513</b>	<b>292,313</b>
Net Assets:		
Unrestricted	(216,115)	(169,151)
<b>Total net assets</b>	<b>(216,115)</b>	<b>(169,151)</b>
<b>Total liabilities and net assets</b>	<b>\$ 276,398</b>	<b>\$ 123,162</b>

The Statements of Activities for NC State Executive Education, LLC for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Revenues, gains, and other income:		
Custom Program Revenue	\$ 792,286	\$ 462,695
<b>Total revenues, gains, and other income</b>	<b>792,286</b>	<b>462,695</b>
Expenses:		
Program:		
Labor costs	24,348	85,782
Rental costs	12,380	6,759
Contract fees	590,708	663,467
Other	211,814	18,134
<b>Total expenses</b>	<b>839,250</b>	<b>774,142</b>
<b>Change in net assets</b>	<b>(46,964)</b>	<b>(311,447)</b>
Net assets:		
Beginning	(169,151)	142,296
Ending	<b>\$ (216,115)</b>	<b>\$ (169,151)</b>

## North Carolina State University Foundation, Inc.

### Notes To Consolidated Financial Statements For the years ended June 30, 2012 and 2011

#### Note 16. Prior Year Reclassifications and Restatement

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

During fiscal year 2012, the Foundation determined that the Foundation's receivables and permanently restricted net assets were understated in the fiscal year 2011 financial statements by \$789,580 as a result of a charitable lead trust that was unrecorded by the Foundation. The Foundation has assessed and determined the impact of these items during 2011 and prior fiscal years. The cumulative amount of the increase to permanently restricted net assets for fiscal year 2010 was \$837,446, and the change in value of the charitable lead trust during fiscal year 2011 was \$47,866. The Foundation has concluded that these adjustments are such that an adjustment to net assets was required.

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

	2011 as previously reported	Restatement	2011 as restated
<b>Assets:</b>			
Receivable - charitable lead trust	\$ -	\$ 789,580	\$ 789,580
Total assets	\$ 139,922,069	\$ 789,580	\$ 140,711,649
<b>Net Assets:</b>			
<b>Unrestricted:</b>			
Undesignated	\$ 1,608,584	\$ (706,846)	\$ 901,738
Undesignated nonexpendable - University Club	4,696,678	-	4,696,678
Undesignated - underwater endowments	(180,239)	-	(180,239)
Board-designated - endowments	2,582,168	(35,581)	2,546,587
Designated - Executive Education, LLC	(169,151)	-	(169,151)
Temporarily restricted	46,995,411	742,427	47,737,838
Permanently restricted	64,826,313	789,580	65,615,893
Total net assets	\$ 120,359,764	\$ 789,580	\$ 121,149,344

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

	2011 as previously reported	Restatement	2011 as restated
Change in value of charitable lead trust	\$ -	\$ (47,866)	\$ (47,866)
Change in net assets	\$ 36,959,026	\$ (47,866)	\$ 36,911,160

#### Note 17. Subsequent Events

The Foundation has evaluated subsequent events through September 26, 2012, the date which the financial statements were available to be issued, and there were none to report.

## **SUPPLEMENTARY INFORMATION**

North Carolina State University Foundation, Inc.

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

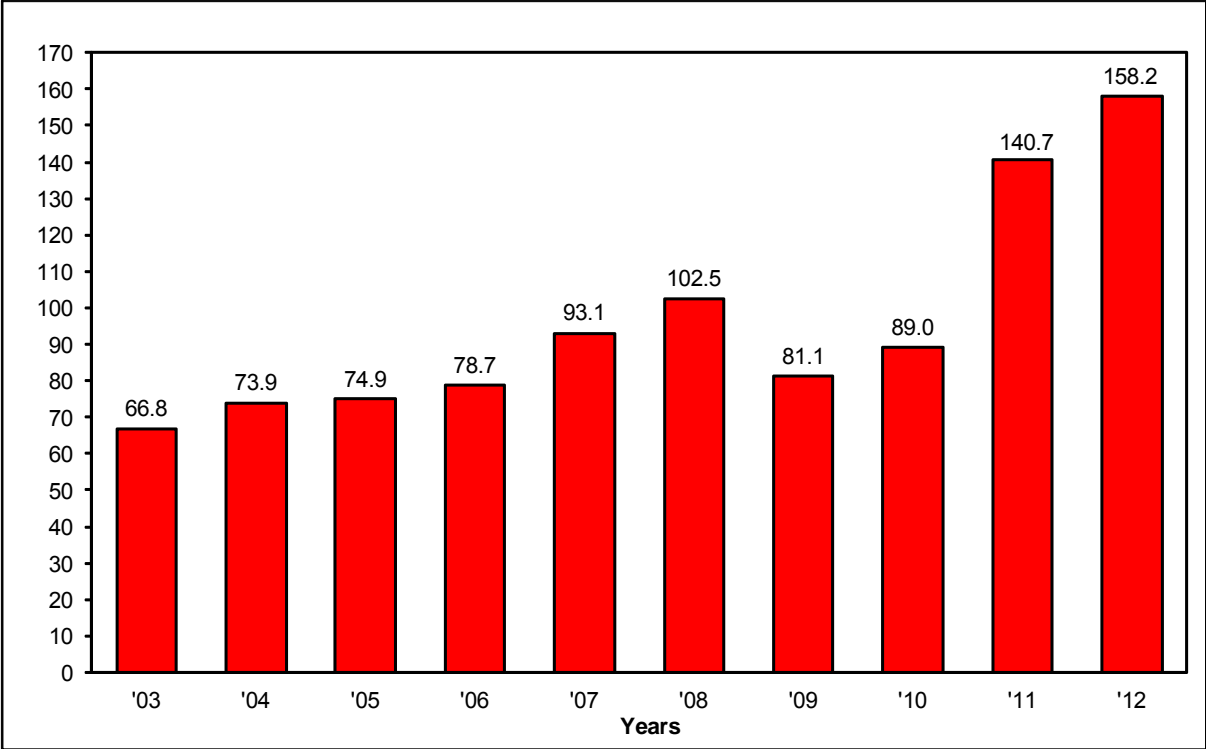
	Budget	Actual	Over (Under) Variance
Income:			
Endowment spending budget	\$ 95,050	\$ 80,345	\$ (14,705)
General Fund contributions	10,000	6,291	(3,709)
Interest and dividends	42,000	52,527	10,527
Endowment assessment	112,060	112,060	-
Alumni endowment assessment	58,880	58,880	-
Alumni marketing	250,000	250,000	-
<b>Total income</b>	<b>567,990</b>	<b>560,103</b>	<b>(7,887)</b>
Support:			
Program support	455,990	450,830	(5,160)
Foundation administration	162,000	159,273	(2,727)
<b>Total support</b>	<b>617,990</b>	<b>610,103</b>	<b>(7,887)</b>
<b>Income less support</b>	<b>(50,000)</b>	<b>(50,000)</b>	<b>-</b>
Fund balance:			
Beginning	556,199	556,199	-
Ending	\$ 506,199	\$ 506,199	\$ -

North Carolina State University Foundation, Inc.

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

Total Assets

(Dollars in Millions)

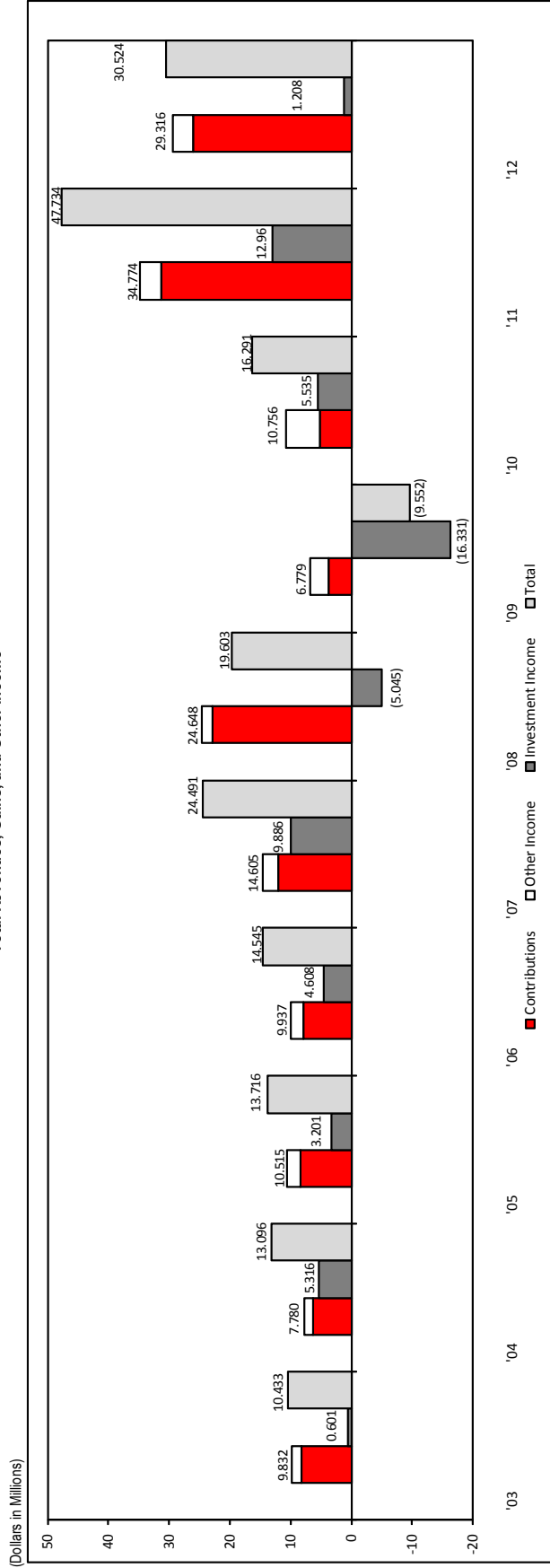




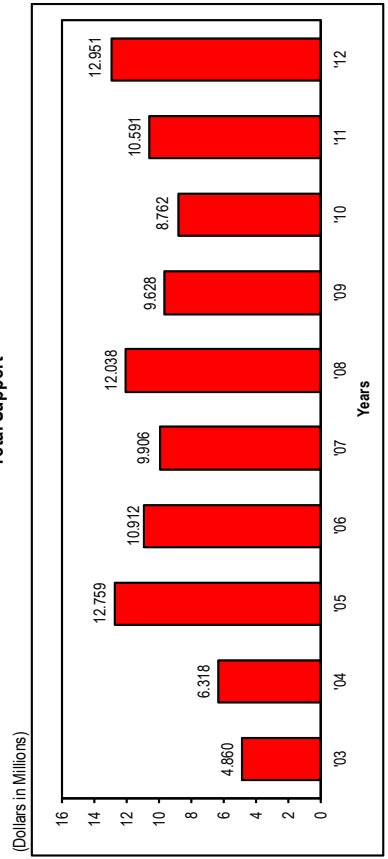
**North Carolina State University Foundation, Inc.**

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

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



**Total Support**



## **OTHER INFORMATION**



**Williams Overman Pierce, LLP**  
Certified Public Accountants and Consultants

September 26, 2012

To the Board of Directors  
North Carolina State University Foundation, Inc.  
Raleigh, North Carolina

We have audited the consolidated financial statements of the North Carolina State University Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 13, 2012. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Carolina State University Foundation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

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

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

**Difficulties Encountered in Performing the Audit**

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

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Management recorded a material adjustment in the amount of \$479,975 relating to the overstatement of life income funds payable – externally managed irrevocable trust. Management also recorded a material adjustment in the amount of \$472,693 relating to the overstatement of pledges receivable, net.



### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 26, 2012.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

### **Other Information in Documents Containing Audited Financial Statements**

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles selected by the Foundation, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

### **Closing**

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve the North Carolina State University Foundation, Inc.

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

*Williams Dverman Pierce, LLP*