

**NORTH CAROLINA STATE UNIVERSITY
PHYSICAL AND MATHEMATICAL
SCIENCES FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2012 and 2011

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.
Financial Statements
For the years ended June 30, 2012 and 2011

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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 Physical and Mathematical Sciences Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of assets, liabilities, and net assets – modified cash basis of North Carolina State University Physical and Mathematical Sciences Foundation, Inc. (the “Foundation”), a nonprofit organization, as of June 30, 2012 and 2011, and the related statements of revenues, gains, and other income and support and changes in net assets – modified cash basis, and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1 to the financial statements, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina State University Physical and Mathematical Sciences Foundation, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 17 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams Overman Pierce, LLP

Raleigh, North Carolina
November 16, 2012

Raleigh • Greensboro

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

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

Statements of Assets, Liabilities, and Net Assets -
 Modified Cash Basis
 June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents (Note 1)	\$ 1,448,905	\$ 1,385,937
Intermediate investments (Note 1)	3,045,865	3,007,127
Marketable securities (Notes 1 and 3)	8,964,026	8,729,934
Donated property (Note 1)	1,473,000	1,473,000
Software license, net of accumulated amortization (Note 1)	8,939	116,210
Other assets (Note 1)	16,059	14,672
Total assets	\$ 14,956,794	\$ 14,726,880
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to others (Note 1)	\$ 2,674	\$ 9,138
Life income funds payable (Note 5)	143,995	148,087
Total liabilities	146,669	157,225
Net Assets:		
Unrestricted:		
Undesignated (Note 1)	953,116	521,429
Undesignated - underwater endowments (Notes 1 and 2)	(8,794)	(27,277)
Temporarily restricted (Note 7)	6,469,231	6,891,390
Permanently restricted (Note 8)	7,396,572	7,184,113
Total net assets	14,810,125	14,569,655
Total liabilities and net assets	\$ 14,956,794	\$ 14,726,880

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

**Statements of Revenues, Gains, and Other Income and Support
and Changes in Net Assets - Modified Cash Basis
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 203,848	\$ 676,818	\$ 248,233	\$ 1,128,899
Donated services and salaries (Note 6)	219,950	-	-	219,950
Net asset reclassification - underwater endowments (Note 2)	18,483	(18,483)	-	-
Net investment income	216,253	(14,502)	32,671	234,422
Interest and dividends	14,476	42,336	4,107	60,919
Change in value of split interest agreements	-	-	(20,521)	(20,521)
Other income	11,180	181,133	1,386	193,699
Net assets released from restrictions (Note 9)	750,264	(750,264)	-	-
Total revenues, gains, and other income	1,434,454	117,038	265,876	1,817,368
Grants to support the University:				
Program:				
Scholarships and fellowships	463,169	-	-	463,169
Faculty support	159,561	-	-	159,561
Departmental support	223,985	-	-	223,985
Other current services	66,623	-	-	66,623
Total program support	913,338	-	-	913,338
Administrative	39,000	-	-	39,000
Fundraising	291,560	-	-	291,560
Total other support	330,560	-	-	330,560
Total support	1,243,898	-	-	1,243,898
Excess of revenues, gains, and other income over total support	190,556	117,038	265,876	573,470
Net transfers:				
Among funds (Note 10)	259,614	(366,277)	106,663	-
To the Endowment Fund of North Carolina State University	-	(172,920)	(160,080)	(333,000)
Total net transfers	259,614	(539,197)	(53,417)	(333,000)
Change in net assets	450,170	(422,159)	212,459	240,470
Net assets:				
Beginning	494,152	6,891,390	7,184,113	14,569,655
Ending	\$ 944,322	\$ 6,469,231	\$ 7,396,572	\$ 14,810,125

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

**Statements of Revenues, Gains, and Other Income and Support
and Changes in Net Assets - Modified Cash Basis
Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 166,526	\$ 1,033,838	\$ 221,915	\$ 1,422,279
Donated services and salaries (Note 6)	261,000	-	-	261,000
Net asset reclassification - underwater endowments (Note 2)	297,574	(297,574)	-	-
Net investment income	45,432	1,126,803	1,429	1,173,664
Interest and dividends	21,651	75,317	4,462	101,430
Change in value of split interest agreements	-	-	7,811	7,811
Other income	232,525	-	1,399	233,924
Net assets released from restrictions (Note 9)	1,809,486	(1,809,486)	-	-
Total revenues, gains, and other income	2,834,194	128,898	237,016	3,200,108
Grants to support the University:				
Program:				
Scholarships and fellowships	387,031	-	-	387,031
Faculty support	96,177	-	-	96,177
Departmental support	203,567	-	-	203,567
Facility support	1,088,350	-	-	1,088,350
Other current services	172,615	-	-	172,615
Total program support	1,947,740	-	-	1,947,740
Administrative	45,740	-	-	45,740
Fundraising	346,641	-	-	346,641
Total other support	392,381	-	-	392,381
Total support	2,340,121	-	-	2,340,121
Excess of revenues, gains, and other income over total support	494,073	128,898	237,016	859,987
Net transfers:				
Among funds (Note 10)	(982,030)	928,132	53,898	-
To the Endowment Fund of North Carolina State University	-	(572,130)	(177,870)	(750,000)
Total net transfers	(982,030)	356,002	(123,972)	(750,000)
Change in net assets	(487,957)	484,900	113,044	109,987
Net assets:				
Beginning	982,109	6,406,490	7,071,069	14,459,668
Ending	\$ 494,152	\$ 6,891,390	\$ 7,184,113	\$ 14,569,655

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

**Statements of Cash Flows - Modified Cash Basis
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets:	\$ 240,470	\$ 109,987
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Amortization expense	107,271	107,270
Net investment gains	(234,422)	(1,173,664)
Contributions restricted for permanent endowment	(248,233)	(221,915)
Investment income restricted for split interest agreements	(4,107)	(4,462)
Actuarial change in value of split interest agreements	20,521	(7,811)
Increase in other assets	(1,387)	(1,399)
Decrease in due to others	(6,464)	(72,010)
Net cash used in operating activities	(126,351)	(1,264,004)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	728,146	191,981
Purchases of investments	(766,554)	(167,669)
Net cash provided by (used in) investing activities	(38,408)	24,312
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	248,233	221,915
Investment income restricted for permanent endowment	4,107	4,462
Payments on life income fund obligations	(24,613)	(24,703)
Net cash provided by financing activities	227,727	201,674
Net increase (decrease) in cash and cash equivalents	62,968	(1,038,018)
Cash and cash equivalents:		
Beginning	1,385,937	2,423,955
Ending	\$ 1,448,905	\$ 1,385,937
Supplemental Disclosures of Cash Flow Information:		
Donated services and salaries	\$ 219,950	\$ 261,000
Transfers among funds	\$ 366,277	\$ 982,030

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

Notes to Financial Statements

For the years ended June 30, 2012 and 2011

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina State University Physical and Mathematical Sciences Foundation, Inc., ("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, established July 1, 1983, provides financial support for all types of education and research in the field of physical and mathematical sciences in the College of Physical and Mathematical Sciences at the University.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The Foundation's policy is to prepare its financial statements on a modified cash basis of accounting which includes the recording of unrealized appreciation and depreciation in the value of its investments. The Foundation also recognizes a liability for future amounts due to grantors and/or beneficiaries of life income funds and a liability for amounts received by the Foundation on behalf of the University. Additionally, the Foundation recognizes donated facilities and services provided by the University Treasurer's Division as well as donated fund-raising salaries and facilities provided by the College of Physical and Mathematical Sciences as revenue and expenses. Under the modified cash basis of accounting, contributions and other revenues are recognized when collected, rather than when rights to receive transfer to the Foundation. Expenses are recognized when paid rather than when incurred. Pledges receivable are not included in the financial statements. Therefore, the accompanying financial statements are not intended to present financial position, changes in net assets or cash flows in conformity with accounting principles generally accepted in the United States of America.

Basis of presentation: In preparing its financial statements, the Foundation's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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

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

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

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

Intermediate investments: Intermediate investments consist of an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$3,045,865 and \$3,007,127 as of June 30, 2012 and 2011, respectively. The cost of these investments was \$3,410,108 as of June 30, 2012 and 2011.

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

Donated property: Donated property is recorded at fair value at the date of the donation and is held in accordance with donor restrictions.

Software license: A donated software license is recorded net of accumulated amortization of \$527,413 and \$420,142 at June 30, 2012 and 2011, respectively.

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 value less any loans outstanding on the policies. Cash surrender values of these policies were \$16,059 and \$14,672 at June 30, 2012 and June 30, 2011, respectively.

Due to others: Due to others at June 30, 2012 and 2011 consisted of \$2,674 and \$9,138, respectively, primarily due to the University.

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 revenues, gains, and other income and support and changes in net assets – modified cash basis.

In fiscal year 2011, the University instituted a gift assessment program in support of Central Development and college-level fund-raising 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 fund-raising 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 endowment funds, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$35,192 and \$34,260 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.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

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

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

Estimates: The preparation of financial statements in conformity with the modified cash basis of accounting 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.

Note 2. Endowment

The Foundation's endowment consists of approximately 100 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 and the signed endowment agreements with donors, 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.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 2. Endowment (continued)

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets, and were (\$8,794) and (\$27,277) as of June 30, 2012 and 2011, respectively.

Investment return objectives and risk parameters:

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

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However if the gift instrument does not allow spending of corpus, the Foundation does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Foundation considered the long-term expected return on its endowment. Spending budgets were calculated at \$169,405 and \$260,145 for fiscal years 2012 and 2013, respectively.

Strategies employed for achieving investment objectives:

For the long term, the primary investment objective for the NCSIF is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the NCSIF and to meet the spending needs of the University. To help 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.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 290,731	\$ 1,269,762	\$ 7,184,113	\$ 8,744,606
Net asset reclassification - underwater endowments	18,483	(18,483)	-	-
Endowment net assets after reclassification	309,214	1,251,279	7,184,113	8,744,606
Total investment return	(76,111)	443,978	36,778	404,645
Contributions and other income	-	-	249,619	249,619
Appropriations of endowment assets for expenditure	-	(344,848)	-	(344,848)
Change in value of split interest agreements	-	-	(20,521)	(20,521)
Other changes:				
Transfers	-	-	(53,417)	(53,417)
Endowment net assets, end of year	\$ 233,103	\$ 1,350,409	\$ 7,396,572	\$ 8,980,084

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	\$ (8,794)	\$ -	\$ -	\$ (8,794)
Donor restricted endowment funds	241,897	1,350,409	7,396,572	8,988,878
Total funds	\$ 233,103	\$ 1,350,409	\$ 7,396,572	\$ 8,980,084

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	\$ (324,851)	\$ 892,683	\$ 7,071,069	\$ 7,638,901
Net asset reclassification - underwater endowments	297,574	(297,574)	-	-
Endowment net assets after reclassification	(27,277)	595,109	7,071,069	7,638,901
Total investment return	318,008	789,586	5,891	1,113,485
Contributions and other income	-	-	223,314	223,314
Appropriations of endowment assets for expenditure	-	(114,933)	-	(114,933)
Change in value of split interest agreements	-	-	7,811	7,811
Other changes:				
Transfers	-	-	(123,972)	(123,972)
Endowment net assets, end of year	\$ 290,731	\$ 1,269,762	\$ 7,184,113	\$ 8,744,606

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (27,277)	\$ -	\$ -	\$ (27,277)
Donor restricted endowment funds	318,008	1,269,762	7,184,113	8,771,883
Total Funds	\$ 290,731	\$ 1,269,762	\$ 7,184,113	\$ 8,744,606

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 assets, liabilities, and net assets – modified cash basis.

Investments at June 30, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 50,859	\$ 50,859	\$ 112,154	\$ 112,154
NC State Investment Fund, Inc.	8,202,873	8,665,188	8,053,577	8,341,094
Wells Fargo - Life Income Funds	254,881	247,979	242,716	276,686
	\$ 8,508,613	\$ 8,964,026	\$ 8,408,447	\$ 8,729,934

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the STIF. As of June 30, 2012, approximately 87% of these investments 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% were 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 2.2% and 2.1% of the member equity of the 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.

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

Note 4. Fair Value Measurement

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

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

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, 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 Physical and Mathematical Sciences Foundation, Inc.

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

Note 4. Fair Value Measurement (continued)

Assets itemized below are measured at fair value on a recurring basis using 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	\$ 50,859	\$ -	\$ -	\$ 50,859
commonfund Intermediate Term Fund	-	3,045,865	-	3,045,865
NC State Investment Fund, Inc.	-	-	8,665,188	8,665,188
Wells Fargo - Life Income Funds	-	247,979	-	247,979
Beneficial Interest in Life Insurance Policies	-	-	16,059	16,059
	\$ 50,859	\$ 3,293,844	\$ 8,681,247	\$ 12,025,950

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 112,154	\$ -	\$ -	\$ 112,154
commonfund Intermediate Term Fund	-	3,007,127	-	3,007,127
NC State Investment Fund, Inc.	-	-	8,341,094	8,341,094
Wells Fargo - Life Income Funds	-	276,686	-	276,686
Beneficial Interest in Life Insurance Policies	-	-	14,672	14,672
	\$ 112,154	\$ 3,283,813	\$ 8,355,766	\$ 11,751,733

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	\$ 8,341,094	\$ 14,672	\$ 7,354,041	\$ 13,273
Unrealized gain on investments	174,798	1,387	1,110,696	1,399
Realized gain on investments	63,516	-	9,017	-
Net investment	85,780	-	(132,660)	-
Ending balance	\$ 8,665,188	\$ 16,059	\$ 8,341,094	\$ 14,672

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and a unitrust agreement 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 \$247,979 and \$276,686, respectively.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 5. Life Income Funds (continued)

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 expectancies of the beneficiaries, and totaled \$143,995 and \$148,087 at June 30, 2012 and 2011, respectively. Payments from these funds to beneficiaries were \$24,613 and \$24,703 during the years ended June 30, 2012 and 2011, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2012 and 2011, there was a zero balance in this reserve.

Note 6. Donated Services and Salaries

Donated services in the amounts of \$19,000 and \$30,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for facilities and accounting services provided by the University Treasurer's Division. In addition, donated salaries paid by the University for Foundation development personnel in the amount of \$200,950 and \$231,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

Note 7. Temporarily Restricted Net Assets

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

	2012	2011
Scholarships	\$ 193,072	\$ 237,842
Fellowships	843,290	941,203
Professorships	352,944	385,375
Building fund/Facility support	741,173	733,629
Endowment cumulative balance	1,350,409	1,269,762
Other	2,988,343	3,323,579
	\$ 6,469,231	\$ 6,891,390

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

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 8. Permanently Restricted Net Assets

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

	2012	2011
Investment in perpetuity, the income from which is expendable to support		
Scholarships	\$ 4,276,388	\$ 4,135,602
Fellowships	1,702,817	1,746,714
Professorships	379,705	400,834
Amounts reported as unrestricted or temporarily restricted net assets	(1,583,512)	(1,560,493)
Other	2,621,174	2,461,456
	<u>\$ 7,396,572</u>	<u>\$ 7,184,113</u>

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

Note 9. 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 for the years ended June 30:

	2012	2011
Scholarships	\$ 61,004	\$ 60,434
Fellowships	379,659	228,602
Professorships	14,565	8,457
Facility support	-	1,088,350
Other	295,036	423,643
	<u>\$ 750,264</u>	<u>\$ 1,809,486</u>

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

Note 10. 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 \$106,663 and \$53,898, respectively.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

Note 11. Prior Year Reclassifications and Restatement

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

For the year ended June 30, 2011, the ending net assets have been modified due to a prior year reporting error identified by management with no effect on previously reported total net assets. As a result unrestricted undesignated net assets and temporarily restricted net assets are \$489,518 lower and \$489,518 higher, respectively, than the amounts previously reported.

Statement of assets, liabilities, and net assets – modified cash basis at June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Net Assets:			
Unrestricted			
Undesignated	\$ 1,010,947	\$ (489,518)	\$ 521,429
Undesignated - underwater endowments	(27,277)	-	(27,277)
Temporarily restricted	6,401,872	489,518	6,891,390
Permanently restricted	7,184,113	-	7,184,113
Total net assets	<u>\$ 14,569,655</u>	<u>\$ -</u>	<u>\$ 14,569,655</u>

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through November 16, 2012, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

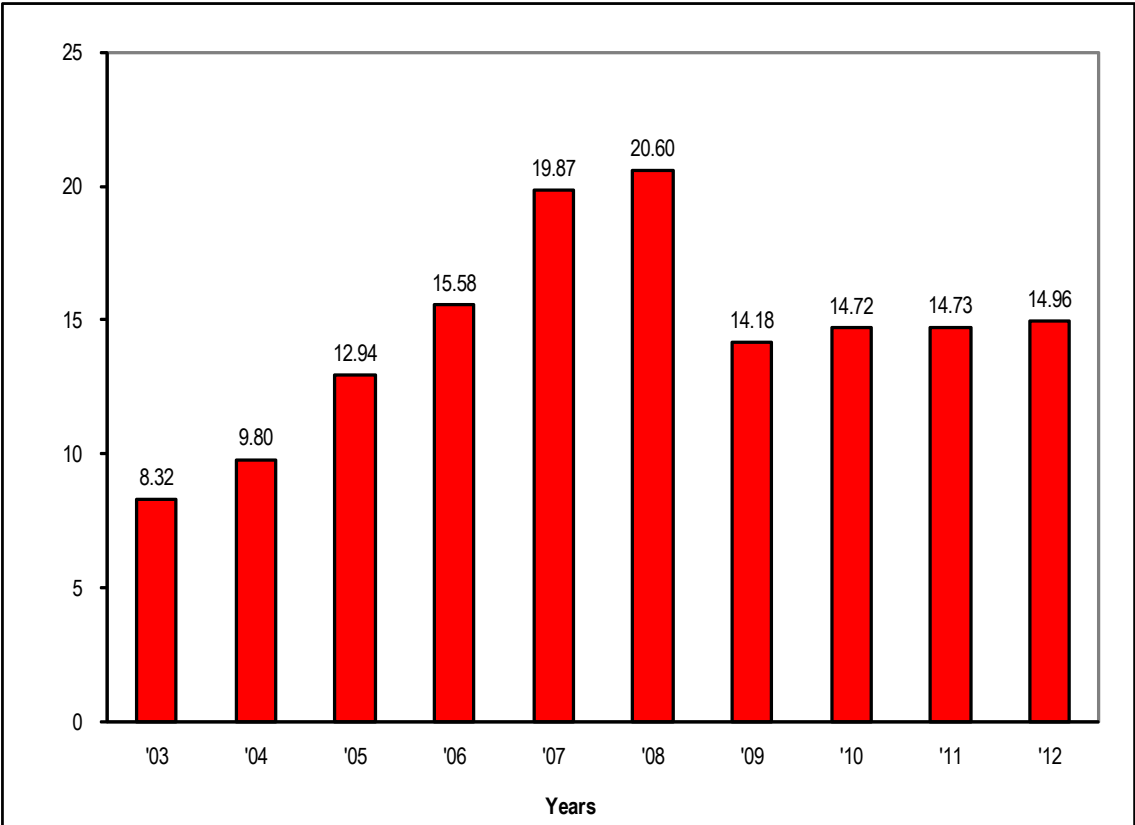
	Approved Budget	Actual	Variance Over/(Under)
Income:			
Annual Fund	\$ 40,000	\$ 72,473	\$ 32,473
Contributions	139,000	135,950	(3,050)
Endowment assessments	21,475	21,475	-
Interest income	48,000	38,857	(9,143)
Event income	1,000	1,180	180
Total income	249,475	269,935	20,460
Support:			
Program support	68,000	54,349	(13,651)
Foundation administration and development support	246,950	112,053	(134,897)
Total support	314,950	166,402	(148,548)
Income greater (less) than support	(65,475)	103,533	169,008
General fund balance:			
Beginning	889,405	889,405	-
Ending	\$ 823,930	\$ 992,938	\$ 169,008

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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

TOTAL ASSETS

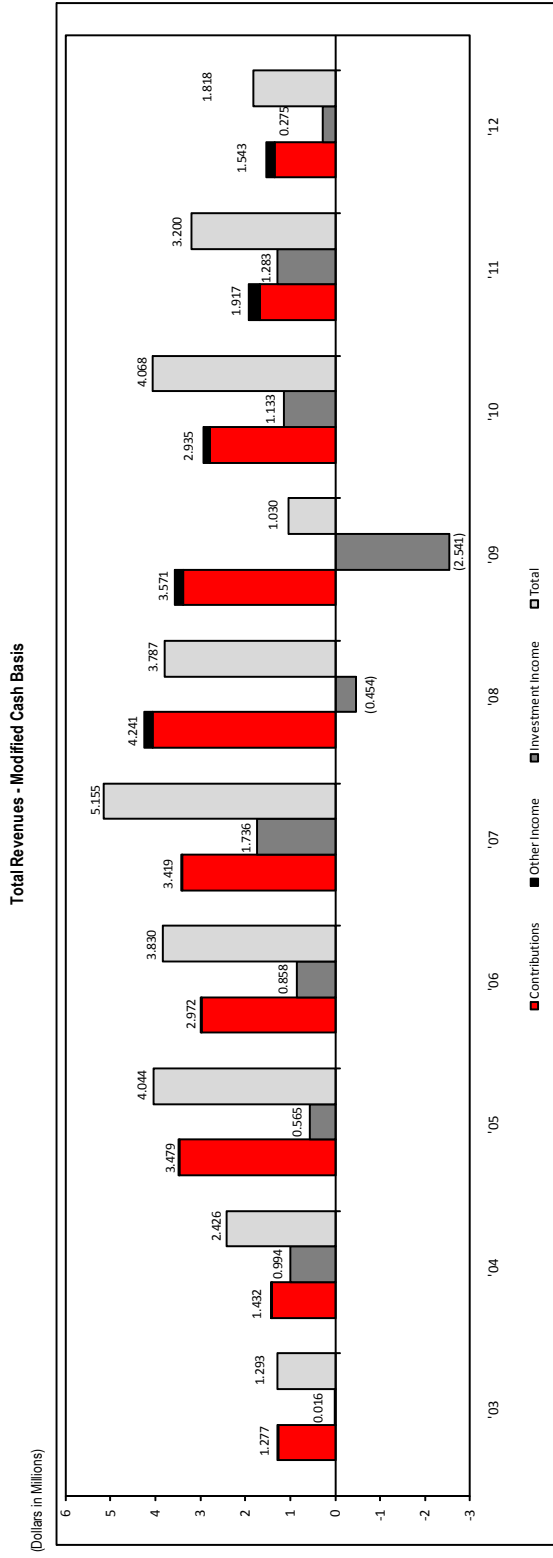
(Dollars in Millions)



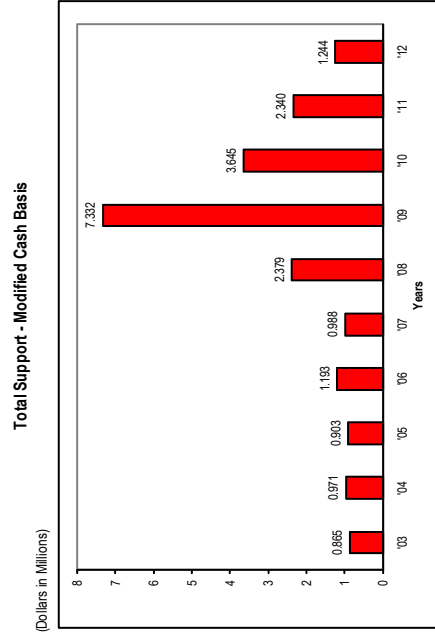
Not reflected above for FY '12 are gifts-in-kind of \$511,790 which benefit the College of Physical and Mathematical Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.

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



The labels on this graph represent income. The bars in this graph represent each income category separately and may not be to scale.



OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

November 16, 2012

To the Board of Directors
North Carolina State University Physical and Mathematical Sciences Foundation, Inc.
Raleigh, North Carolina

We have audited the financial statements of North Carolina State University Physical and Mathematical Sciences Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated November 16, 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 Foundation 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 financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No material misstatements were identified as a result of audit procedures and as such, no adjustments were necessary.



Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 16, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Closing

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

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

Williams Dverman Pierce, LLP