

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

FINANCIAL REPORT

JUNE 30, 2013 and 2012

North Carolina State University Physical and Mathematical Sciences Foundation, Inc.
Financial Statements
For the years ended June 30, 2013 and 2012

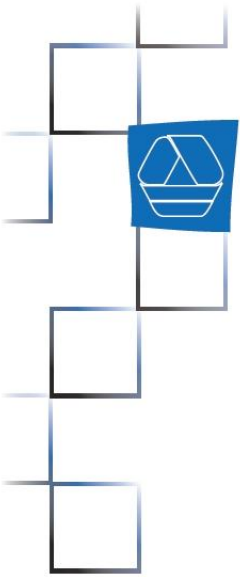
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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

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. (“Foundation”), a nonprofit organization, as of June 30, 2013 and 2012, 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, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of North Carolina State University Physical and Mathematical Sciences Foundation, Inc. as of June 30, 2013 and 2012, and its revenues, gains, and other income and support and cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18 through 20, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
November 4, 2013

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

Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis
June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents (Note 1)	\$ 1,393,918	\$ 1,448,905
Intermediate investments (Note 1)	3,083,879	3,045,865
Long-term investments (Notes 1 and 3)	9,786,457	8,964,026
Donated property (Note 1)	1,473,000	1,473,000
Software license, net of accumulated amortization (Note 1)	-	8,939
Other assets (Note 1)	17,425	16,059
Total assets	\$ 15,754,679	\$ 14,956,794
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to others (Note 1)	\$ 1,889	\$ 2,674
Life income funds payable (Note 5)	139,995	143,995
Total liabilities	141,884	146,669
Net Assets:		
Unrestricted:		
Undesignated (Note 1)	1,186,238	953,116
Undesignated - underwater endowments (Notes 1 and 2)	-	(8,794)
Temporarily restricted (Note 7)	7,517,392	6,469,231
Permanently restricted (Note 8)	6,909,165	7,396,572
Total net assets	15,612,795	14,810,125
Total liabilities and net assets	\$ 15,754,679	\$ 14,956,794

See Notes to Financial Statements.

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, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 230,704	\$ 939,339	\$ 81,269	\$ 1,251,312
Donated services and salaries (Note 6)	228,000	-	-	228,000
Donated property (Note 1)	-	128,400	-	128,400
Net asset reclassification - underwater endowments (Note 2)	8,794	(8,794)	-	-
Net investment income	204,984	862,612	567	1,068,163
Interest and dividends	37,167	18,690	5,132	60,989
Change in value of split interest agreements	-	-	(20,418)	(20,418)
Loss on disposal of donated property	-	(3,858)	-	(3,858)
Other income	150	141,184	1,367	142,701
Net assets released from restrictions (Note 9)	739,959	(739,959)	-	-
Total revenues, gains, and other income	1,449,758	1,337,614	67,917	2,855,289
Grants to support the University:				
Program:				
Scholarships and fellowships	451,370	-	-	451,370
Faculty support	111,319	-	-	111,319
Departmental support	122,414	-	-	122,414
Other current services	86,006	-	-	86,006
Total program support	771,109	-	-	771,109
Administrative	43,300	-	-	43,300
Fundraising	335,077	-	-	335,077
Total other support	378,377	-	-	378,377
Total support	1,149,486	-	-	1,149,486
Excess of revenues, gains, and other income over total support	300,272	1,337,614	67,917	1,705,803
Net transfers:				
Among funds (Note 10)	(58,356)	12,809	45,547	-
To the Endowment Fund of North Carolina State University	-	(302,262)	(600,871)	(903,133)
Total net transfers	(58,356)	(289,453)	(555,324)	(903,133)
Change in net assets	241,916	1,048,161	(487,407)	802,670
Net assets:				
Beginning	944,322	6,469,231	7,396,572	14,810,125
Ending	\$ 1,186,238	\$ 7,517,392	\$ 6,909,165	\$ 15,612,795

See Notes to Financial Statements.

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

See Notes to Financial Statements.

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

**Statements of Cash Flows - Modified Cash Basis
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets:	\$ 802,670	\$ 240,470
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization expense	8,939	107,271
Net investment gains	(1,068,163)	(234,422)
Contributions restricted for permanent endowment	(81,269)	(248,233)
Investment income restricted for split interest agreements	(5,132)	(4,107)
Actuarial change in value of split interest agreements	20,418	20,521
Increase in other assets	(1,366)	(1,387)
Decrease in due to others	(785)	(6,464)
Net cash used in operating activities	(324,688)	(126,351)
Cash Flows From Investing Activities:		
Proceeds from sales of investments	973,409	728,146
Purchases of investments	(765,691)	(766,554)
Net cash provided by (used in) investing activities	207,718	(38,408)
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	81,269	248,233
Investment income restricted for permanent endowment	5,132	4,107
Payments on life income fund obligations	(24,418)	(24,613)
Net cash provided by financing activities	61,983	227,727
Net increase in cash and cash equivalents	(54,987)	62,968
Cash and cash equivalents:		
Beginning	1,448,905	1,385,937
Ending	\$ 1,393,918	\$ 1,448,905
Supplemental Disclosures of Noncash Activities		
Donated services and salaries	\$ 228,000	\$ 219,950
Transfers among funds	\$ 58,356	\$ 366,277

See Notes to Financial Statements.

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

Notes to Financial Statements

For the years ended June 30, 2013 and 2012

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 long-term investments. At times the Foundation places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consist of accounts with 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, 2013 and 2012

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 \$3,083,879 and \$3,045,865 as of June 30, 2013 and 2012, respectively. The cost of these investments was \$3,410,108 as of June 30, 2013 and 2012.

Long-term investments: Long-term investments are stated at fair value based on readily determinable fair values, when available. Investments for which readily determinable fair values are not available are carried at estimated fair values as provided by the respective fund managers of the investments. The Foundation, in accordance with investment policies promulgated by its Board of Directors ("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. Property in the amount of \$128,400 was donated and subsequently sold by the Foundation during the year ended June 30, 2013 and has been reflected in the financial statements.

Software license: A donated software license is recorded net of accumulated amortization totaling \$536,352 and \$527,413 at June 30, 2013 and 2012, respectively. As of June 30, 2013 the software license was fully amortized.

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 \$17,425 and \$16,059 at June 30, 2013 and June 30, 2012, respectively.

Due to others: Due to others at June 30, 2013 and 2012 consisted of \$1,889 and \$2,674, 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.

The University has a gift assessment program that supports Central Development and college-level fund-raising efforts. A one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the 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 approximately \$35,970 and \$35,192 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012

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

As part of the University's gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for 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.

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 2013 and 2012. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Management evaluates tax positions taken by the organization and will 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 Internal Revenue Service ("IRS"). Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2013, 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 2009.

Note 2. Endowment

The Foundation's endowment consists of approximately 110 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, 2013 and 2012

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 \$0 and \$(8,794) as of June 30, 2013 and June 30, 2012, 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% MSCI ACWI/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 \$260,145 and \$263,365 for fiscal years 2013 and 2014, 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, 2013 and 2012

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 233,103	\$ 1,350,409	\$ 7,396,572	\$ 8,980,084
Net asset reclassification - underwater endowments	8,794	(8,794)	-	-
Endowment net assets after reclassification	241,897	1,341,615	7,396,572	8,980,084
Total investment return	91,721	1,274,689	5,699	1,372,109
Contributions and other income	-	261,399	82,636	344,035
Appropriations of endowment assets for expenditure	(29,945)	(286,660)	-	(316,605)
Change in value of split interest agreements	-	-	(20,418)	(20,418)
Other changes:				
Transfers	-	-	(555,324)	(555,324)
Endowment net assets, end of year	\$ 303,673	\$ 2,591,043	\$ 6,909,165	\$ 9,803,881

The following represents endowment net asset composition by type of fund, as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 303,673	\$ 2,591,043	\$ 6,909,165	\$ 9,803,881
Total funds	\$ 303,673	\$ 2,591,043	\$ 6,909,165	\$ 9,803,881

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

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

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

Note 2. Endowment (continued)

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

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.

Long-term investments at June 30, 2013 and 2012 consisted of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 20,241	\$ 20,241	\$ 50,859	\$ 50,859
NC State Investment Fund, Inc.	8,120,271	9,524,694	8,202,873	8,665,188
Wells Fargo - Life Income Funds	236,161	241,522	254,881	247,979
	\$ 8,376,673	\$ 9,786,457	\$ 8,508,613	\$ 8,964,026

Investments held by the NCSIF at June 30, 2013 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio (“LPP”), a bundle of exchange-traded funds, and the State Treasurer’s STIF. As of June 30, 2013, approximately 88.5% of these investments were with the UNC Management Company, 6.3% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 4.7% was invested in the LPP, and 0.5% was invested in the STIF. NCSIF’s net assets were valued at approximately \$484,974,000 and \$397,192,000 at June 30, 2013 and 2012, respectively. The Foundation’s investment in the NCSIF represents approximately 2.0% and 2.2% of the member equity of the NCSIF at June 30, 2013 and 2012, respectively.

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

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

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

Note 4. Fair Value Measurement

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

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

- Level 1 – Valuations based on quoted prices in active markets for identical investments
- Level 2 – Valuations based on quoted prices in inactive markets or for which all significant inputs are observable (including quoted prices for similar investments, interest rates, credit risks, etc.)
- Level 3 – Valuations based on significant unobservable inputs (including the fund’s own assumptions in determining the fair value of investments)

The Foundation’s assets itemized below are measured at fair value on a recurring basis.

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 20,241	\$ -	\$ -	\$ 20,241
Commonfund Intermediate Term Fund	-	3,083,879	-	3,083,879
NC State Investment Fund, Inc.	-	-	9,524,694	9,524,694
Wells Fargo - Life Income Funds	-	241,522	-	241,522
Beneficial Interest in Life Insurance Policies	-	-	17,425	17,425
	\$ 20,241	\$ 3,325,401	\$ 9,542,119	\$ 12,887,761

	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

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

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

Note 4. Fair Value Measurement (continued)

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

	2013		2012	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 8,665,188	\$ 16,059	\$ 8,341,094	\$ 14,672
Unrealized gain on investments	942,108	1,366	174,798	1,387
Realized gain on investments	111,433	-	33,208	-
Purchases	755,000	-	720,000	-
Sales	(949,035)	-	(603,912)	-
Ending balance	\$ 9,524,694	\$ 17,425	\$ 8,665,188	\$ 16,059

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

STIF – Categorized in Level 1 of the fair value hierarchy because it has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Commonfund Intermediate Term Fund – Valued using the net asset value (“NAV”) per share of the fund provided by the fund manager. The Foundation considers this the best estimate of fair value for investments that do not have a quoted market price but calculate NAV.

NC State Investment Fund, Inc. – The NCSIF’s investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. While categorized as a Level 3 investment, the NCSIF has full redemption privileges from UNCMC with a 60-day notice requirement. The NCSIF’s private equity investments are initially valued based on transaction price with subsequent valuation adjustments based on trading multiples of comparable public companies adjusted for differences in factors such as liquidity. The NCSIF’s investment in LPP is valued at the closing price of the exchange-traded fund’s shares. The NCSIF also has an investment in the STIF, valued as described above.

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

Beneficial Interest in Life Insurance Policies – Valued based on the cash surrender value of the policies. Because these values are based on significant unobservable inputs, they are categorized in Level 3 of the fair value hierarchy.

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

**Notes to Financial Statements
For the years ended June 30, 2013 and 2012**

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, 2013 and 2012 have asset balances of \$241,522 and \$247,979, 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 expectancies of the beneficiaries, and totaled \$139,995 and \$143,995 at June 30, 2013 and 2012, respectively. Payments from these funds to beneficiaries were \$24,418 and \$24,613 during the years ended June 30, 2013 and 2012, 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, 2013 and 2012, there was a zero balance in this reserve.

Note 6. Donated Services and Salaries

Donated services in the amounts of \$23,000 and \$19,000 for the years ended June 30, 2013 and 2012, 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 \$205,000 and \$200,950 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	2013	2012
Scholarships	\$ 367,142	\$ 193,072
Fellowships	895,266	843,290
Professorships	55,245	352,944
Building fund/Facility support	748,885	741,173
Endowment cumulative balance	2,591,043	1,350,409
Other	2,859,811	2,988,343
	\$ 7,517,392	\$ 6,469,231

Temporarily restricted net asset grouping "Other" includes amounts designated for general college support 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, 2013 and 2012**

Note 8. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to:

	2013	2012
Investment in perpetuity, the income from which is expendable to support		
Scholarships	\$ 4,963,229	\$ 4,276,388
Fellowships	1,834,514	1,702,817
Professorships	406,590	379,705
Amounts reported as unrestricted or temporarily restricted net assets	(2,894,716)	(1,583,512)
Other	2,599,548	2,621,174
	<u>\$ 6,909,165</u>	<u>\$ 7,396,572</u>

Permanently restricted net asset grouping "Other" includes amounts designated for general college support 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:

	2013	2012
Scholarships	\$ 113,477	\$ 61,004
Fellowships	328,175	379,659
Professorships	34,119	14,565
Other	264,188	295,036
	<u>\$ 739,959</u>	<u>\$ 750,264</u>

Net assets released from restriction grouping "Other" includes amounts spent for general college support 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, 2013 and 2012, net endowment transfers were \$45,547 and \$106,663, respectively.

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

Notes to Financial Statements
For the years ended June 30, 2013 and 2012

Note 11. Prior Year Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation with no effect on previously reported net assets.

Note 12. Subsequent Events

On July 1, 2013 the Foundation changed its legal name with the North Carolina Secretary of State to the North Carolina State University College of Sciences Foundation, Inc. The Foundation also filed a request with the IRS to change its name and the IRS confirmed the change on September 25, 2013.

The Foundation has evaluated subsequent events through November 4, 2013, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

SUPPLEMENTARY INFORMATION

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

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2013

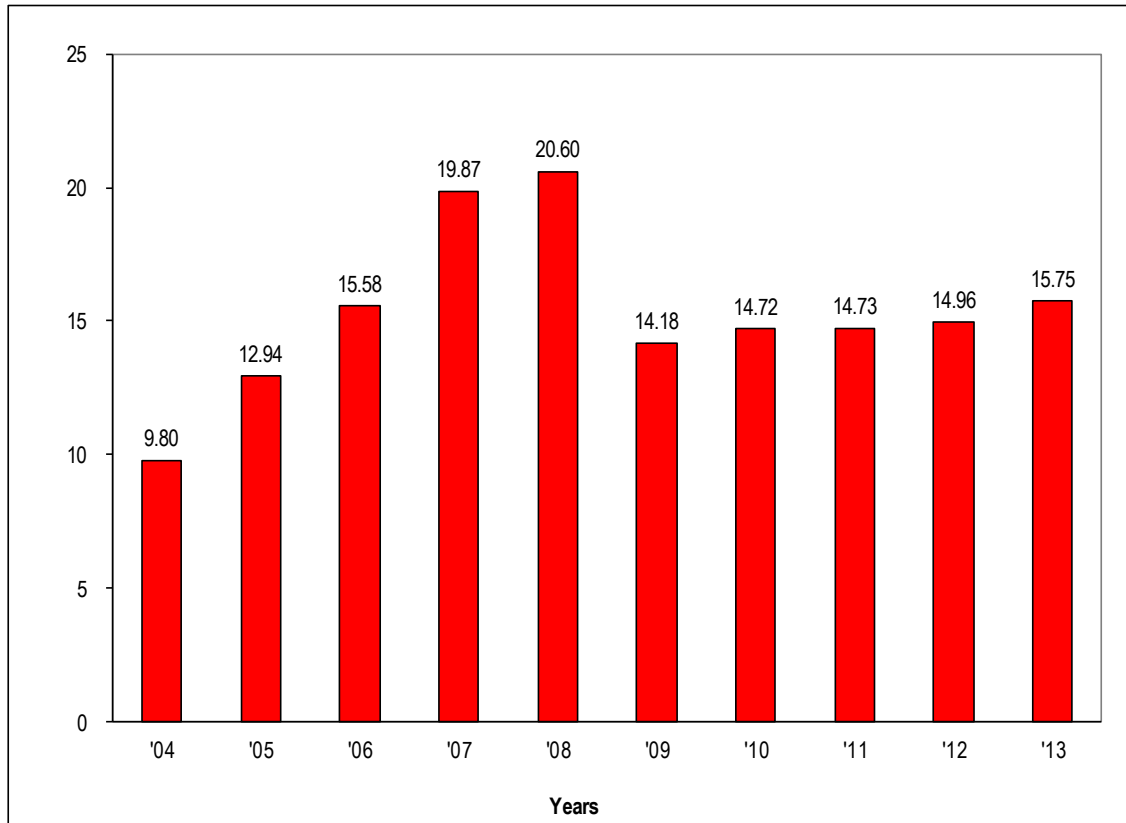
	Approved Budget	Actual	Variance Over/(Under)
Income:			
Annual Fund	\$ 70,000	\$ 83,578	\$ 13,578
Contributions	139,000	141,252	2,252
Endowment assessments	29,670	29,945	275
Interest income	42,000	39,532	(2,468)
Event income	1,000	150	(850)
Total income	281,670	294,457	12,787
Support:			
Program support	68,000	46,762	(21,238)
Foundation administration and development support	253,905	124,527	(129,378)
Total support	321,905	171,289	(150,616)
Income greater (less) than support	(40,235)	123,168	163,403
General fund balance:			
Beginning	992,938	992,938	-
Ending	\$ 952,703	\$ 1,116,106	\$ 163,403

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

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

Total Assets - Modified Cash Basis

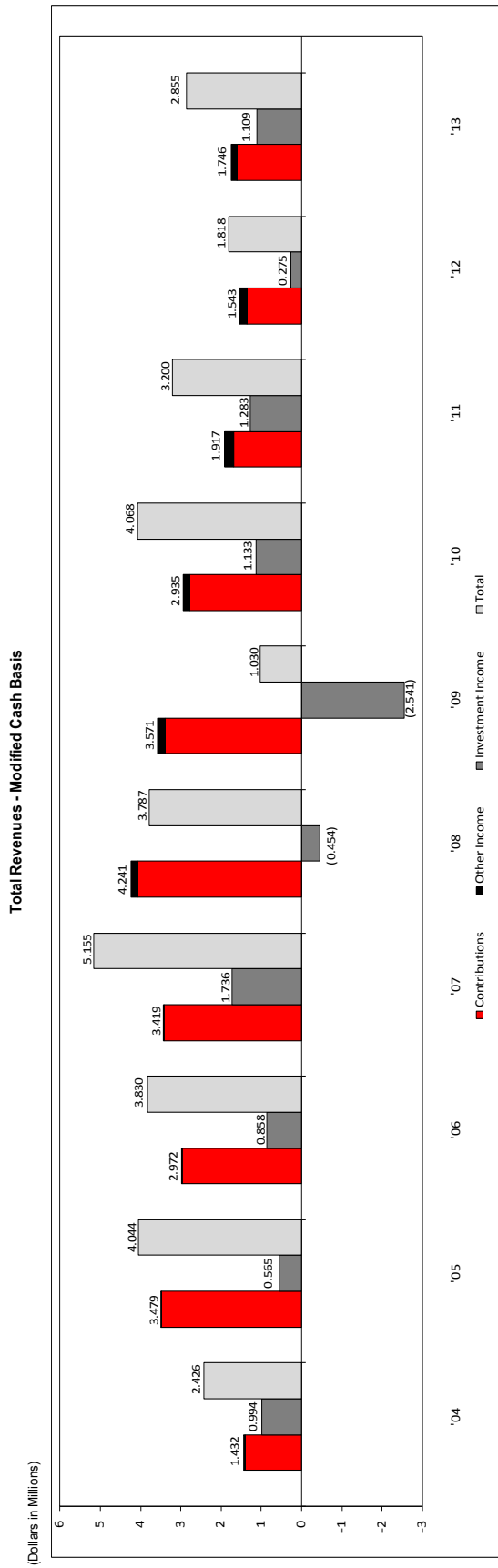
(Dollars in Millions)



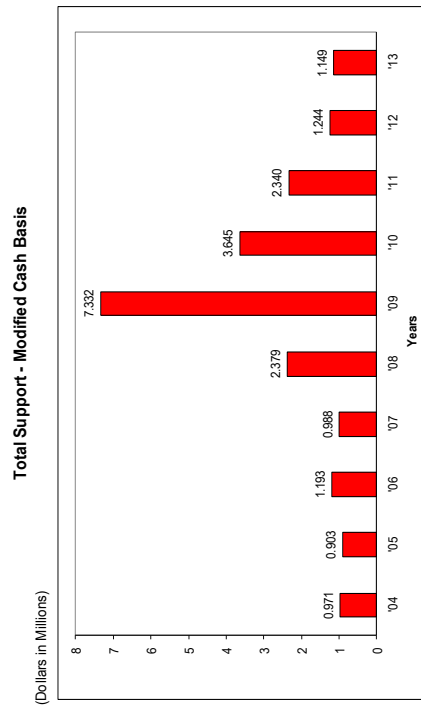
Not reflected above for FY '13 are contributions deposited with the University in the amount of \$26,050 and gifts-in-kind of \$213,982 which benefits the College of Physical and Mathematical Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

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

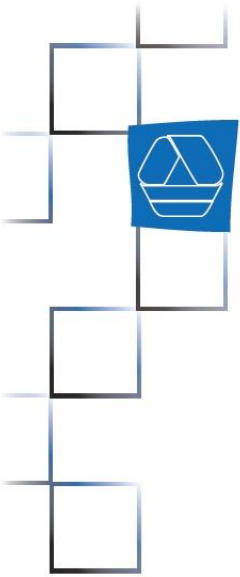
Ten Year Summary of Revenues and Support - Unaudited
Years Ended June 30



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 4, 2013

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. ("Foundation"), a nonprofit organization, for the year ended June 30, 2013, and have issued our report thereon dated November 4, 2013. 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 May 13, 2013. 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 North Carolina State University Physical and Mathematical Sciences 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 2013. 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, a disagreement with management is 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 4, 2013.

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 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 Matters

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.

Closing

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

Williams Dverman Pierce, LLP