

NC STATE UNIVERSITY  
PARTNERSHIP CORPORATION  
AND AFFILIATES

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2016 and 2015

NC State University Partnership Corporation and Affiliates  
Consolidated Financial Statements  
June 30, 2016 and 2015

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## Independent Auditor's Report

To the Board of Directors  
NC State University Partnership Corporation and Affiliates  
Raleigh, North Carolina

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NC State University Partnership Corporation and Affiliates (the "Corporation"), as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise the Corporation's basic consolidated financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

#### *Opinions*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016, and the respective changes

in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Corporation's basic consolidated financial statements. The consolidating statements of net position and consolidating statements of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The consolidating statements of net position and consolidating statements of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statements of net position and consolidating statements of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

#### *Other Information*

The 2015 consolidated financial statements of the Corporation were audited by other auditors, whose report dated August 21, 2015 expressed an unmodified opinion on those statements.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 23, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporations internal control over financial reporting and compliance.

BDO USA, LLP

Raleigh, North Carolina  
August 23, 2016

**NC STATE UNIVERSITY PARTNERSHIP CORPORATION AND AFFILIATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

## **INTRODUCTION**

Management's discussion and analysis provides an overview of the accompanying basic consolidated financial statements of the NC State University Partnership Corporation (the "Corporation") and its affiliates, the six single member limited liability corporations created by the Corporation. It includes comparative financial analysis with discussion of significant changes from the prior year as well as information on currently known facts, decisions, or conditions affecting the Corporation's financial affairs.

## **FINANCIAL HIGHLIGHTS**

The Corporation's net position increased by 21% to \$22.61 million in fiscal year 2016. Net position represents the Corporation's equity, the assets less the liabilities. The major drivers behind this increase were the increased operations of the Leaders in Innovation and Nonwovens Commercialization, LLC, which generated approximately \$2.64 million in net income during fiscal year 2016, and capital transfers to NC State University Centennial Development, LLC of \$1.60 million, primarily for payment on the outstanding note payable.

Revenues represent amounts received or accrued that are either operating or nonoperating in the accompanying consolidated financial statements. Operating revenues increased by approximately \$504,000 in fiscal year 2016 primarily due to the increased operations of Leaders in Innovation and Nonwovens Commercialization, LLC.

Operating expenses represent amounts paid or accrued for operating purposes. Operating expenses decreased by approximately \$1.17 million in fiscal year 2016. This decrease is primarily due to more efficient production by Leaders in Innovation and Nonwovens Commercialization, LLC, which had a decrease in operating expenses of approximately \$1.36 million.

## **USING THE FINANCIAL STATEMENTS**

The Corporation's consolidated financial statements are used to evaluate the financial position as of June 30, 2016 and June 30, 2015 and the results of operations for the fiscal years then ended. The consolidated financial statements also include the Consolidated Statements of Cash Flows, which are used to identify the Corporation's sources and uses of cash. The Notes to Consolidated Financial Statements should be read in conjunction with the consolidated financial statements. The disclosures in the notes provide information to better understand details associated with amounts reported in the consolidated financial statements. For supplementary information, Consolidating Statements of Net Position and Consolidating Statements of Revenues, Expenses, and Changes in Net Position are also presented to show the detail of the balances and activity associated with the Corporation and its six individual limited liability corporations.

## **COMPARATIVE CONDENSED FINANCIAL STATEMENT INFORMATION**

### **Consolidated Statements of Net Position**

The Consolidated Statements of Net Position provide information regarding the Corporation's consolidated assets, liabilities, and net position as of June 30, 2016 and 2015. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current-year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted, or unrestricted.

NC STATE UNIVERSITY PARTNERSHIP CORPORATION AND AFFILIATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

Following is a comparative analysis of the condensed balances reported in the Consolidated Statements of Net Position as of June 30, 2016 and 2015:

NC State University Partnership Corporation and Affiliates

Condensed Statements of Net Position

June 30, 2016 and 2015

	2016	2015	Increase/ (Decrease)
<b>Assets</b>			
Current assets	\$ 5,551,317	\$ 3,140,423	\$ 2,410,894
Noncurrent assets	20,884,295	20,794,165	90,130
<b>Total assets</b>	<b>\$ 26,435,612</b>	<b>\$ 23,934,588</b>	<b>\$ 2,501,024</b>
<b>Liabilities</b>			
Current liabilities	\$ 593,847	\$ 703,098	\$ (109,251)
Long-term liabilities	3,227,880	4,604,676	(1,376,796)
<b>Total liabilities</b>	<b>3,821,727</b>	<b>5,307,774</b>	<b>(1,486,047)</b>
<b>Net Position</b>			
Net investment in capital assets	17,550,564	16,133,306	1,417,258
Restricted net assets, expendable	279,671	-	279,671
Unrestricted net assets	4,783,650	2,493,508	2,290,142
<b>Total net position</b>	<b>22,613,885</b>	<b>18,626,814</b>	<b>3,987,071</b>
<b>Total liabilities and net position</b>	<b>\$ 26,435,612</b>	<b>\$ 23,934,588</b>	<b>\$ 2,501,024</b>

Assets increased by approximately \$2.50 million from the prior year, which is primarily a result of an approximately \$2.47 million increase in cash held by Leaders in Innovation and Nonwovens Commercialization, LLC.

Liabilities decreased by approximately \$1.49 million from the prior year primarily due payoff of the Carol Johnson Poole Clubhouse loan totaling approximately \$1.68 million in fiscal year 2016.

Net position increased by approximately \$3.99 million from the prior year. Net investment in capital assets increased by approximately \$1.42 million primarily due to above mentioned payoff of the Carol Johnson Poole Clubhouse loan. Restricted net position of approximately \$280,000 represents funds received restricted for use toward fixed asset improvements.

**NC STATE UNIVERSITY PARTNERSHIP CORPORATION AND AFFILIATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**Consolidated Statements of Revenues, Expenses, and Changes in Net Position**

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position provide information regarding the Corporation's activities for the years ended June 30, 2016 and 2015. The activity balances are classified as operating, nonoperating, and other. Activities classified as operating include all revenues and expenses incurred as part of normal operations as defined in Note 1. Activities classified as nonoperating include expenses incurred outside of normal operations such as those related to financing activities. Activities classified as other include contributions received to enhance capital assets and capital transfers. Overall, the Consolidated Statements of Revenues, Expenses, and Changes in Net Position provide information to evaluate the Corporation's operations and financial strength.

Following is a comparative analysis on the condensed balances reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2016 and 2015:

**NC State University Partnership Corporation and Affiliates**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2016 and 2015**

	2016	2015	Increase/ (Decrease)
<b>Operating Revenues and Expenses</b>			
Operating revenues	\$ 8,939,738	\$ 8,435,456	\$ 504,282
Operating expenses:			
Cost of sales	3,774,441	5,153,712	(1,379,271)
General operating expenses	2,285,567	2,074,763	210,804
Net operating income prior to depreciation and amortization	2,879,730	1,206,981	1,672,749
Depreciation and amortization expense	438,236	495,516	(57,280)
Net operating income	2,441,494	711,465	1,730,029
<b>Nonoperating Expenses</b>			
Interest and fees on debt	(33,330)	(43,832)	10,502
Net nonoperating expenses	(33,330)	(43,832)	10,502
Net income before other revenues, expenses, gains, and losses	2,408,164	667,633	1,740,531
Capital contributions and contributed materials and services	550,186	746,916	(196,730)
Capital transfers	1,028,721	2,112,869	(1,084,148)
Change in net position	3,987,071	3,527,418	459,653
Net position			
Beginning	18,626,814	15,099,396	3,527,418
Ending	\$ 22,613,885	\$ 18,626,814	\$ 3,987,071

Operating revenues increased by approximately \$504,000 in fiscal year 2016 primarily due to the increased operations of Leaders in Innovation and Nonwovens Commercialization, LLC. Operating expenses represent amounts paid or accrued for operating purposes. Operating expenses decreased by approximately \$1.17 million in fiscal year 2016. This decrease is primarily due to more efficient production by Leaders in Innovation and Nonwovens Commercialization, LLC, which had a decrease in operating expenses of approximately \$1.36 million.

NC STATE UNIVERSITY PARTNERSHIP CORPORATION AND AFFILIATES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)

NONCURRENT ASSETS AND CURRENT AND LONG-TERM DEBT ACTIVITIES

Noncurrent Assets

The Corporation increased its net noncurrent assets by approximately \$90,000 during fiscal year 2016. This increase is primarily due to the capital lease activities of the NC State University Centennial Development, LLC.

Current and Long-Term Debt Activities

As shown in the following table, the Corporation decreased its debt by approximately \$1.23 million in fiscal year 2016 primarily due to the payoff of the Carol Johnson Poole Clubhouse loan totaling approximately \$1.68 million:

	2016	2015	Increase / (Decrease)
Current installments of capital lease obligations	\$ 154,589	\$ 97,257	\$ 57,332
Line of credit	100,000	-	100,000
Total current capital debt liabilities	<u>\$ 254,589</u>	<u>\$ 97,257</u>	<u>\$ 157,332</u>
Capital lease obligations, less current installments	\$ 386,588	\$ 93,001	\$ 293,587
Notes payable	2,785,750	4,463,797	(1,678,047)
Total long-term debt liabilities	<u>\$ 3,172,338</u>	<u>\$ 4,556,798</u>	<u>\$ (1,384,460)</u>

There are some factors that may have a significant effect on financial position or results of operations of the Corporation in the future. NC State University Centennial Development, LLC's Lonnie Poole Golf Course revenues are dependent on the state of the economy and may fluctuate as economic factors fluctuate. Also, the revenues and expenses of the Leaders in Innovation and Nonwovens Commercialization, LLC will be highly dependent on the ability to generate new contracts.

Contacting the NC State University Partnership Corporation

An electronic version of this report is available by accessing the Foundations Accounting and Investments home page at <http://foundationsaccounting.ofa.ncsu.edu/partnership-corporations/nc-state-partnership-corporation/> or by calling (919) 513-7149.

## CONSOLIDATED FINANCIAL STATEMENTS

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Net Position

June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Current assets		
Cash (Note 1)	\$ 5,368,437	\$ 2,956,067
Accounts receivable (Note 1)	71,900	74,249
Taxes receivable - golf course	15,648	32,669
Inventory - golf course (Note 1)	72,212	54,518
Prepaid expenses (Note 1)	23,120	22,920
Total current assets	5,551,317	3,140,423
Noncurrent assets		
Property and equipment		
Real estate (Note 3)	2,792,554	2,792,554
Golf course property and equipment, net of depreciation and amortization (Notes 1 and 2)	18,071,412	18,001,611
Construction in progress - golf course clubhouse (Notes 1 and 2)	20,329	-
Total property and equipment	20,884,295	20,794,165
Total noncurrent assets	20,884,295	20,794,165
Total assets	\$ 26,435,612	\$ 23,934,588
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable (Note 1)	\$ 159,142	\$ 323,347
Current installments of capital lease obligations (Note 5)	154,589	97,257
Line of credit (Note 7)	100,000	-
Unearned revenue (Note 1)	180,116	282,494
Total current liabilities	593,847	703,098
Long-term liabilities		
Capital lease obligations, less current installments (Note 5)	386,588	93,001
Funds held for others (Note 6)	55,542	47,878
Notes payable (Note 8)	2,785,750	4,463,797
Total long-term liabilities	3,227,880	4,604,676
Total liabilities	3,821,727	5,307,774
<b>NET POSITION</b>		
Net investment in capital assets	17,550,564	16,133,306
Restricted net position, expendable	279,671	-
Unrestricted net position	4,783,650	2,493,508
Total net position	22,613,885	18,626,814
Total liabilities and net position	\$ 26,435,612	\$ 23,934,588

See Notes to Consolidated Financial Statements.

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES AND EXPENSES</b>		
Operating revenues	\$ 8,939,738	\$ 8,435,456
Operating expenses:		
Cost of sales	3,774,441	5,153,712
General operating expenses	2,285,567	2,074,763
Net operating income prior to depreciation and amortization	<u>2,879,730</u>	<u>1,206,981</u>
Depreciation expense	346,191	340,976
Amortization expense	92,045	154,540
Net operating income	<u>2,441,494</u>	<u>711,465</u>
<b>NONOPERATING EXPENSES</b>		
Interest and fees on debt	<u>(33,330)</u>	<u>(43,832)</u>
Net nonoperating expenses	<u>(33,330)</u>	<u>(43,832)</u>
Net income before other revenues, expenses, gains, and losses	<u>2,408,164</u>	<u>667,633</u>
Capital contributions	550,186	578,783
Contributed materials and services - comfort stations	-	168,133
Total contributions (Note 1)	<u>550,186</u>	<u>746,916</u>
Capital transfers (Note 1)	<u>1,028,721</u>	<u>2,112,869</u>
Change in net position	3,987,071	3,527,418
Net position		
Beginning	18,626,814	15,099,396
Ending	<u>\$ 22,613,885</u>	<u>\$ 18,626,814</u>

See Notes to Consolidated Financial Statements.

NC State University Partnership Corporation and Affiliates

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

	2016	2015
Cash flows from operating activities:		
Received from customers	\$ 8,856,730	\$ 8,554,891
Payments to University employees and fringe benefits	(1,071,836)	(939,960)
Payments to vendors and suppliers	(5,170,271)	(6,432,643)
Net cash provided by operating activities	<u>2,614,623</u>	<u>1,182,288</u>
Cash flows from capital financing and related financing activities:		
Purchases of fixed assets - golf course	(45,160)	(592,317)
Payments on lease liabilities - golf course	(132,287)	(165,708)
Payments on notes payable - golf course	-	(885,000)
Payments on note payable - clubhouse	(1,678,047)	(1,371,400)
Proceeds from line of credit - golf course	100,000	-
Payments on funds held for others - Bell Tower Holdings, LLC	(47,878)	(265,887)
Interest paid on debt	(33,330)	(43,832)
Capital contributions	550,186	578,783
Capital transfers	1,084,263	2,115,400
Net cash used in capital financing and related financing activities	<u>(202,253)</u>	<u>(629,961)</u>
Net increase in cash	2,412,370	552,327
Cash		
Beginning	2,956,067	2,403,740
Ending	<u>\$ 5,368,437</u>	<u>\$ 2,956,067</u>

(Continued)

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	\$ 2,441,494	\$ 711,465
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization - golf course	438,236	495,516
Contributed materials and services - golf course	-	23,106
(Increase) decrease in:		
Accounts receivable and taxes receivable	19,370	116,199
Inventory - golf course	(17,694)	7,348
Prepaid expenses	(200)	2,613
Increase (decrease) in:		
Accounts payable	(164,205)	(177,195)
Unearned revenue	(102,378)	3,236
Net cash provided by operating activities	<u>\$ 2,614,623</u>	<u>\$ 1,182,288</u>
Supplemental disclosures of noncash activities:		
Capital lease issuance	\$ 483,206	\$ -
Contributions - materials and services	-	168,133
Capital transfers - materials and services	44,843	38,123
Net noncash capital and financing activities	<u>\$ 528,049</u>	<u>\$ 206,256</u>

See Notes to Consolidated Financial Statements.

**Note 1. Nature of Activities**

Nature of activities: The NC State University Partnership Corporation (the "Corporation") was organized on December 17, 1984 to support and for the benefit of North Carolina State University (the "University") with the aim of creating new knowledge and improving the lives of the people of North Carolina. It is organized and operated exclusively for charitable, educational, and scientific objectives. The Corporation shall carry on only those activities permitted to be carried on by an organization or entity which is exempt from taxation under the provision of paragraph 501(c)(3) of the Internal Revenue Code.

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

Basis of accounting: The consolidated financial statements of the Corporation have been prepared on the accrual basis of accounting using the economic resource measurement focus in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

As permitted under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Corporation has elected not to apply Financial Accounting Standards Board ("FASB") Statements of Financial Accounting Standards issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Principles of consolidation: The consolidated financial statements include the accounts of the Corporation and six single member limited liability companies (affiliates) created by the Corporation: NC State University Centennial Development, LLC; NC State Upfit, LLC; Bell Tower Holdings, LLC; NC State CBC Land I, LLC; NC State CC Holdings I, LLC, and Leaders in Innovation and Nonwovens Commercialization, LLC ("LINC, LLC"). NC State University Centennial Development, LLC was created to construct, own and operate a golf course located on the North Carolina State University Centennial Campus. NC State Upfit, LLC was formed to develop, construct, own and otherwise upfit facilities located on the Centennial Campus at North Carolina State University. Bell Tower Holdings, LLC was established to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all rights of ownership of real property. NC State CBC Land I, LLC was formed to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all rights of ownership of land and flex lab facilities located on North Carolina State University's Centennial Biomedical Campus. NC State CC Holdings I, LLC was formed to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all rights of ownership of land and facilities located on North Carolina State University's Centennial Campus. LINC, LLC was formed to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. All significant intercompany balances and transactions have been eliminated in the consolidation.

The Supplementary Information section of this report contains additional details regarding the activities of the Corporation and the six single member LLCs. The majority of the financial activity is attributable to NC State University Centennial Development, LLC's Lonnie Poole Golf Course and LINC, LLC.

Cash: At times, the Corporation places deposits with a high-quality financial institution that may be in excess of federal insurance limits, making these excess deposits subject to custodial credit risk. The bank balance for the Corporation and its subsidiary LLCs' checking and money market accounts was \$5,387,030 at June 30, 2016. As of June 30, 2016 the Corporation's uninsured and uncollateralized bank balances that were exposed to custodial credit risk was \$4,808,361.

**Note 1. Nature of Activities (continued)**

Accounts receivable: Accounts receivable primarily consists of amounts due in relation to a ground lease held by NC State CC Holdings I, LLC and deposits due to NC State University Centennial Development, LLC. Management believes substantially all accounts receivable balances are collectible as of June 30, 2016 and 2015; therefore an allowance for doubtful accounts has not been recorded.

Inventory – golf course: Inventory is accounted for using the average cost method and consists of merchandise for the golf shop.

Prepaid expenses: Prepaid expenses consist of prepaid payments on leases.

Golf course property and equipment: Property and equipment are stated at cost at the date of acquisition or the fair market value at the date of donation in the case of gifts, net of depreciation and amortization. It is the Corporation's policy to capitalize all assets costing greater than \$5,000. Depreciation is computed using the straight-line method, half-year convention. Equipment and fixtures are depreciated over their estimated useful lives, generally 3 to 7 years beginning in the year of acquisition. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 10 to 39 years beginning in the year that construction is completed. The modern greens and other land improvements are depreciated over 15 years and the cost of constructing the golf course is a nondepreciable capital asset. Leased equipment is depreciated over the lesser of the lease term or useful lives of the equipment.

Accounts payable: Accounts payable primarily represents trade payables due to vendors and the University at June 30, 2016 and 2015. At June 30, 2016, \$126,358 was owed to vendors and \$32,784 was owed to the University. At June 30, 2015, \$121,337 owed to vendors and \$202,010 was owed to the University.

Unearned revenue: NC State University Centennial Development, LLC records unearned revenue related to dues and fees paid by Lonnie Poole Golf Course Charter Partners in the current year for membership the following year. NC State University Centennial Development, LLC also records unearned revenue for annual package plans, prepaid rounds, tournaments, and gift certificates.

Net position: The Corporation's net position is classified as follows:

Net investment in capital assets: This represents the Corporation's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.

Restricted net position, expendable: Expendable restricted net position includes resources for which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net position: Unrestricted net position includes net resources derived from sales and services.

Capital contributions: Cash and non-cash contributions received from donors and associated entities.

Contributed materials and services: Contributed materials and services are recorded at fair value at the date of donation and are held or used in accordance with donor restrictions.

**Note 1. Nature of Activities (continued)**

Capital transfers: Monetary support, as well as contributed materials and services, received from the Campus Enterprises and the Endowment Fund of NC State University (the "Endowment Fund"). In fiscal year 2016 and 2015, approximately \$45,000 and \$38,000 of support was provided by Campus Enterprises, respectively.

Revenue recognition: The Corporation records revenues relating to the sale of merchandise, food and beverages also at the time of sale. In addition, the Corporation recognizes income relating to greens fees and golf cart rentals at the time of usage.

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

Income taxes: The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax which, if incurred, would be recognized as a current expense. The Corporation had no such taxable unrelated trade or business income for fiscal 2016 and 2015. Therefore, no provision for income taxes has been reflected in the accompanying consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognized a tax liability (or asset) if the Corporation 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 Corporation, and has concluded that as of June 30, 2016 there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Corporation is no longer subject to income tax examinations for years prior to 2012.

**Note 2. Golf Course Property and Equipment**

At June 30, 2016 and 2015, the Corporation owned the following property and equipment:

	2016	2015
Golf course	\$ 9,762,486	\$ 9,762,486
Land improvements	75,205	75,205
Modern Greens	512,319	512,319
Buildings and fixtures	8,145,641	8,125,920
Equipment	1,150,729	674,272
Leased equipment	705,843	693,984
Construction in progress - parking lot	20,329	-
Accumulated depreciation and amortization	(2,280,811)	(1,842,575)
Golf course property and equipment, net of depreciation and amortization	<u>\$ 18,091,741</u>	<u>\$ 18,001,611</u>

**Note 2. Golf Course Property and Equipment (continued)**

Included in the cost of the property are cumulative donated materials of \$1,498,297 as of June 30, 2016 and 2015. Total depreciation and amortization expense for the years ended June 30, 2016 and June 30, 2015 was \$438,236 and \$495,516, respectively.

**Note 3. Real Estate**

Three tracts of land on Hillsborough Street are held by Bell Tower Holdings, LLC. Two tracts were deeded during the fiscal year 2010 by the Endowment Fund and are reported on the consolidated financial statements at cost of \$2,737,554. The third tract was deeded during the fiscal year 2014 by the Endowment Fund and is reported on the consolidated financial statements at its original gift value of \$55,000.

On July 12, 2013, Bell Tower Holdings, LLC entered into a 50-year ground lease agreement for its property with a third party, which allows the lessee to develop, construct, improve, finance, manage, operate, maintain, and repair a first-class limited or select service hotel and retail, office, and commercial uses supportive of the hotel. In consideration, the lessee will provide Bell Tower Holdings, LLC with rent according to an escalating rental schedule for the duration of the lease. The future rentals on the non-cancellable operating lease are \$68,640 per year for the years ending June 30, 2016 through 2020 and \$6,831,066 in total thereafter, for a total of \$7,174,266. The lease also contains an option to purchase the land, which is \$2.5 million until 2034 when the purchase price begins escalating annually for the remainder of the lease term.

On January 26, 2011, CC Holdings, LLC entered into a 65-year ground lease agreement, for which the rent commencement date was May 1, 2014, for land owned by the state of North Carolina with a third party, which allows the lessee to construct, maintain, operate and lease residential residences. In consideration, the lessee will provide CC Holdings, LLC with rent according to a variable rental schedule for the duration of the lease.

**Note 4. Operating Leases**

During fiscal years 2016 and 2015, NC State University Centennial Development, LLC had operating leases for golf carts and maintenance equipment with total payments of \$71,030 and \$70,771, respectively. During fiscal years 2016 and 2015, LINC, LLC had an operating lease for warehouse space with total payments of \$80,300 and \$6,675, respectively. Future minimum lease payments at June 30, 2016 under the noncancelable operating leases are \$154,515 for fiscal year 2017; \$149,702 for fiscal year 2018; and \$6,209 for fiscal year 2019.

**Note 5. Capital Leases**

NC State University Centennial Development, LLC has entered into capital leases of certain equipment. The gross amount of assets recorded under capitalized leases totaled \$693,019 and \$693,984 as of June 30, 2016 and 2015, respectively, and is included in golf course property and equipment. In the event of a bargain purchase price option, the asset is amortized over its useful life. The accumulated amortization on these leased assets was \$159,924 and \$480,307 as of June 30, 2016 and 2015, respectively.

**Note 5. Capital Leases (continued)**

Future minimum lease payments, gross of taxes, under capital leases at June 30, 2016 are as follows:

Years ending June 30:	
2017	\$ 177,071
2018	168,193
2019	132,732
2020	103,699
2021	14,843
	<u>596,538</u>
Imputed interest	(55,361)
Present value of net minimum lease payments	<u>\$ 541,177</u>

**Note 6. Funds Held for Others**

As of June 30, 2016 and 2015, Bell Tower Holdings, LLC had \$55,542 and \$47,878, respectively, in funds held for others, made up of cumulative earnings. These monies are held on behalf of the Endowment Fund.

**Note 7. Line of Credit**

NC State University Centennial Development, LLC opened a \$250,000 open end revolving line of credit with SunTrust Bank on February 3, 2016. The balance must be paid down to zero for at least one 30 consecutive day period during each consecutive twelve months. The interest rate on the line of credit is PRIME, which was 3.50% at June 30, 2016. The line is collateralized by all deposits and investments maintained by NC State Centennial Development, LLC with SunTrust Bank. The outstanding balance at June 30, 2016 was \$100,000.

**Note 8. Notes Payable**

NC State University Centennial Development, LLC opened a \$3,100,000 loan with SunTrust Bank on July 31, 2013 that was due to mature on July 30, 2016. NC State University Centennial Development, LLC paid off the loan in full on June 1, 2016.

During the fiscal year ended June 30, 2010, Bell Tower Holdings, LLC signed a promissory note agreeing to pay the Endowment Fund \$2,730,750 in exchange for two tracts of land. All principal and any other amounts are owed to the Endowment Fund on January 14, 2040. During the fiscal year ended June 30, 2014, a third tract of land was transferred to Bell Tower Holdings, LLC valued at \$55,000 and the note was increased accordingly. At June 30, 2016, Bell Tower Holdings, LLC owed the Endowment Fund \$2,785,750.

**Note 9. Risk Management**

The Corporation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The Corporation's affairs are conducted by employees of North Carolina State University and exposures to loss resulting from this arrangement are handled by the University through a combination of methods, including participation in various risk pools administered by the State of North Carolina, purchase of commercial insurance, and self-retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University.

**Note 10. Prior Year Reclassifications and Net Position Restatement**

Excluding the cumulative effect of change in accounting principle summarized below, certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported change in net position.

The Corporation implemented the provisions of Government Accounting Standards Board Statement 72, *Fair Value Measurement and Application* ("GASB 72") as of June 30, 2014, the earliest date financial information is presented within the accompanying consolidated financial statements. The implementation of GASB 72 required the Corporation to adjust the recorded value of certain real estate property previously reported in the consolidated financial statements from the fair value amount to the cost amount. The cumulative effect of GASB 72 implementation restated the following amounts for the year ended June 30, 2015:

	2015 as previously reported	Cumulative effect of change in accounting principles	2015 as restated
Total net position, beginning balance	\$ 14,911,842	\$ 187,554	\$ 15,099,396
Real estate	\$ 2,605,000	\$ 187,554	\$ 2,792,554
Unrestricted net position, ending balance	\$ 2,305,954	\$ 187,554	\$ 2,493,508

**Note 11. Subsequent Events**

The Corporation has evaluated subsequent events through August 23, 2016, the date which the consolidated financial statements were available to be issued, and there were no subsequent events to report.

**SUPPLEMENTARY INFORMATION**

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Position  
June 30, 2016

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
<b>ASSETS</b>			
Current assets			
Cash	\$ 4,792,816	\$ 510,578	\$ 1,511
Accounts receivable	1,896	23,396	-
Taxes receivable - golf course	545	15,103	-
Inventory - golf course	-	72,212	-
Prepaid expenses	13,956	9,164	-
Total current assets	4,809,213	630,453	1,511
Noncurrent assets			
Property and equipment			
Real estate	-	-	-
Golf course property and equipment, net of depreciation and amortization	-	18,071,412	-
Construction in progress - parking lot	-	20,329	-
Total property and equipment	-	18,091,741	-
Total noncurrent assets	-	18,091,741	-
Total assets	\$ 4,809,213	\$ 18,722,194	\$ 1,511
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable	\$ 66,130	\$ 93,012	\$ -
Current installments of capital lease obligations	-	154,589	-
Line of credit	-	100,000	-
Unearned revenue	-	180,116	-
Total current liabilities	66,130	527,717	-
Long-term liabilities			
Capital lease obligations, less current installments	-	386,588	-
Funds held for others	-	-	-
Notes payable	-	-	-
Total long-term liabilities	-	386,588	-
Total liabilities	66,130	914,305	-
<b>NET POSITION</b>			
Net investment in capital assets	-	17,550,564	-
Restricted net position, expendable	-	279,671	-
Unrestricted net position	4,743,083	(22,346)	1,511
Total net position	4,743,083	17,807,889	1,511
Total liabilities and net position	\$ 4,809,213	\$ 18,722,194	\$ 1,511

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ 48,738	\$ 1,511	\$ 11,001	\$ 2,282	\$ 5,368,437
-	-	46,608	-	71,900
-	-	-	-	15,648
-	-	-	-	72,212
-	-	-	-	23,120
48,738	1,511	57,609	2,282	5,551,317
2,792,554	-	-	-	2,792,554
-	-	-	-	18,071,412
-	-	-	-	20,329
2,792,554	-	-	-	20,884,295
2,792,554	-	-	-	20,884,295
\$ 2,841,292	\$ 1,511	\$ 57,609	\$ 2,282	\$ 26,435,612
\$ -	\$ -	\$ -	\$ -	159,142
-	-	-	-	154,589
-	-	-	-	100,000
-	-	-	-	180,116
-	-	-	-	593,847
-	-	-	-	386,588
55,542	-	-	-	55,542
2,785,750	-	-	-	2,785,750
2,841,292	-	-	-	3,227,880
2,841,292	-	-	-	3,821,727
-	-	-	-	17,550,564
-	-	-	-	279,671
-	1,511	57,609	2,282	4,783,650
-	1,511	57,609	2,282	22,613,885
\$ 2,841,292	\$ 1,511	\$ 57,609	\$ 2,282	\$ 26,435,612

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Position  
June 30, 2015

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
<b>ASSETS</b>			
Current assets			
Cash	\$ 2,321,489	\$ 317,507	\$ 1,511
Accounts receivable	-	27,641	-
Taxes receivable - golf course	2,917	29,752	-
Inventory - golf course	-	54,518	-
Prepaid expenses	13,756	9,164	-
Total current assets	<u>2,338,162</u>	<u>438,582</u>	<u>1,511</u>
Noncurrent assets			
Property and equipment			
Real estate	-	-	-
Golf course property and equipment, net of depreciation and amortization	-	18,001,611	-
Total property and equipment	<u>-</u>	<u>18,001,611</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>18,001,611</u>	<u>-</u>
Total assets	<u>\$ 2,338,162</u>	<u>\$ 18,440,193</u>	<u>\$ 1,511</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable	\$ 230,267	\$ 90,987	\$ -
Current installments of capital lease obligations	-	97,257	-
Unearned revenue	-	282,494	-
Total current liabilities	<u>230,267</u>	<u>470,738</u>	<u>-</u>
Long-term liabilities			
Capital lease obligations, less current installments	-	93,001	-
Funds held for others	-	-	-
Notes payable	-	1,678,047	-
Total long-term liabilities	<u>-</u>	<u>1,771,048</u>	<u>-</u>
Total liabilities	<u>230,267</u>	<u>2,241,786</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	16,133,306	-
Restricted net position, expendable	-	-	-
Unrestricted net position	2,107,895	65,101	1,511
Total net position	<u>2,107,895</u>	<u>16,198,407</u>	<u>1,511</u>
Total liabilities and net position	<u>\$ 2,338,162</u>	<u>\$ 18,440,193</u>	<u>\$ 1,511</u>

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ 41,074	\$ 1,511	\$ 272,203	\$ 772	\$ 2,956,067
-	-	46,608	-	74,249
-	-	-	-	32,669
-	-	-	-	54,518
-	-	-	-	22,920
41,074	1,511	318,811	772	3,140,423
2,792,554	-	-	-	2,792,554
-	-	-	-	18,001,611
2,792,554	-	-	-	20,794,165
2,792,554	-	-	-	20,794,165
\$ 2,833,628	\$ 1,511	\$ 318,811	\$ 772	\$ 23,934,588
\$ -	\$ -	\$ 2,093	\$ -	\$ 323,347
-	-	-	-	97,257
-	-	-	-	282,494
-	-	2,093	-	703,098
-	-	-	-	93,001
47,878	-	-	-	47,878
2,785,750	-	-	-	4,463,797
2,833,628	-	-	-	4,604,676
2,833,628	-	2,093	-	5,307,774
-	-	-	-	16,133,306
-	-	-	-	-
-	1,511	316,718	772	2,493,508
-	1,511	316,718	772	18,626,814
\$ 2,833,628	\$ 1,511	\$ 318,811	\$ 772	\$ 23,934,588

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2016

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
<b>OPERATING REVENUES AND EXPENSES</b>			
Operating revenues:			
Contracted services revenue	\$ 6,441,178	\$ -	\$ -
Merchandise sales	-	300,607	-
Greens fees income	-	1,218,192	-
Golf cart income	-	241,963	-
Food and beverage sales	-	50,748	-
Rental income	-	-	-
Other operating revenue	27,266	311,484	-
Total operating revenues	6,468,444	2,122,994	-
Operating expenses:			
Cost of sales	3,570,656	203,785	-
General operating expenses:			
Marketing expense	-	41,670	-
Contracted services expense	59,067	1,071,836	-
General and administrative expense	46,322	175,956	-
Clubhouse expense	-	226,397	-
Repairs and maintenance expense	1,221	260,659	-
Rental expense	84,223	104,072	-
Supplies expense	35,744	-	-
Utilities expense	3,149	-	-
Office expense	370	9,642	-
Insurance expense	12,268	50,231	-
Other current services	20,236	58,328	200
Total general operating expenses	262,600	1,998,791	200
Net operating income (loss) prior to depreciation and amortization	2,635,188	(79,582)	(200)
Depreciation expense	-	346,191	-
Amortization expense	-	92,045	-
Total operating expenses	3,833,256	2,640,812	200
Net operating income (loss)	2,635,188	(517,818)	(200)
<b>NONOPERATING EXPENSES</b>			
Interest and fees on debt	-	(33,330)	-
Net nonoperating expenses	-	(33,330)	-
Net income (loss) before other revenues, expenses, gains, and losses	2,635,188	(551,148)	(200)
Capital contributions	-	550,186	-
Contributed materials and services	-	-	-
Total contributions	-	550,186	-
Capital transfers	-	1,610,444	200
Change in net position	2,635,188	1,609,482	-
Net position			
Beginning	2,107,895	16,198,407	1,511
Ending	\$ 4,743,083	\$ 17,807,889	\$ 1,511

	Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$	-	\$ -	\$ -	\$ -	6,441,178
	-	-	-	-	300,607
	-	-	-	-	1,218,192
	-	-	-	-	241,963
	-	-	-	-	50,748
	68,640	-	279,650	-	348,290
	-	-	-	10	338,760
	68,640	-	279,650	10	8,939,738
	-	-	-	-	3,774,441
	-	-	-	-	41,670
	-	-	-	-	1,130,903
	11,120	-	10,265	-	243,663
	-	-	-	-	226,397
	-	-	-	-	261,880
	-	-	-	-	188,295
	-	-	-	-	35,744
	-	-	-	-	3,149
	-	-	-	-	10,012
	1,278	-	213	-	63,990
	700	200	200	-	79,864
	13,098	200	10,678	-	2,285,567
	55,542	(200)	268,972	10	2,879,730
	-	-	-	-	346,191
	-	-	-	-	92,045
	13,098	200	10,678	-	6,498,244
	55,542	(200)	268,972	10	2,441,494
	-	-	-	-	(33,330)
	-	-	-	-	(33,330)
	55,542	(200)	268,972	10	2,408,164
	-	-	-	-	550,186
	-	-	-	-	-
	(55,542)	200	(528,081)	1,500	550,186
	-	-	(259,109)	1,510	1,028,721
	-	-	(259,109)	1,510	3,987,071
	-	1,511	316,718	772	18,626,814
\$	-	\$ 1,511	\$ 57,609	\$ 2,282	\$ 22,613,885

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2015

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
<b>OPERATING REVENUES AND EXPENSES</b>			
Operating revenues:			
Contracted service revenues	\$ 6,085,886	\$ -	\$ -
Merchandise sales	-	287,990	-
Greens fees income	-	1,144,667	-
Golf cart income	-	256,992	-
Food and beverage sales, net	-	30,498	-
Rental income	-	-	-
Other operating revenue	13,083	267,342	-
Total operating revenues	6,098,969	1,987,489	-
Operating expenses:			
Cost of sales	4,969,661	184,051	-
General operating expenses:			
Marketing expense	-	20,673	-
Contracted services expense	46,050	939,960	-
General and administrative expense	36,002	152,465	24
Clubhouse expense	-	237,726	-
Repairs and maintenance expense	-	263,773	-
Rental expense	12,538	98,873	-
Supplies expense	82,499	-	-
Utilities expense	259	-	-
Office expense	1,880	3,954	-
Insurance expense	7,787	38,949	-
Other current services	40,380	50,785	-
Total general operating expenses	227,395	1,807,158	24
Net operating income (loss) prior to depreciation and amortization	901,913	(3,720)	(24)
Depreciation expense	-	340,976	-
Amortization expense	-	154,540	-
Total operating expenses	5,197,056	2,486,725	24
Net operating income (loss)	901,913	(499,236)	(24)
<b>NONOPERATING EXPENSES</b>			
Interest and fees on debt	-	(43,832)	-
Net nonoperating expenses	-	(43,832)	-
Net income (loss) before other revenues, expenses, gains, and losses	901,913	(543,068)	(24)
Capital contributions	-	578,783	-
Contributed materials and services - comfort stations	-	168,133	-
Total contributions	-	746,916	-
Capital transfers	-	2,153,123	-
Change in net position	901,913	2,356,971	(24)
Net position			
Beginning	1,205,982	13,841,436	1,535
Ending	\$ 2,107,895	\$ 16,198,407	\$ 1,511

	Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$	-	\$ -	\$ -	\$ -	6,085,886
	-	-	-	-	287,990
	-	-	-	-	1,144,667
	-	-	-	-	256,992
	-	-	-	-	30,498
	68,640	-	279,650	-	348,290
	701	-	-	7	281,133
	<u>69,341</u>	<u>-</u>	<u>279,650</u>	<u>7</u>	<u>8,435,456</u>
	-	-	-	-	5,153,712
	-	-	-	-	20,673
	-	-	-	-	986,010
	19,699	24	10,875	-	219,089
	-	-	-	-	237,726
	-	-	-	-	263,773
	-	-	-	-	111,411
	-	-	-	-	82,499
	-	-	-	-	259
	-	-	-	-	5,834
	8,788	-	-	-	55,524
	200	-	200	400	91,965
	<u>28,687</u>	<u>24</u>	<u>11,075</u>	<u>400</u>	<u>2,074,763</u>
	<u>40,654</u>	<u>(24)</u>	<u>268,575</u>	<u>(393)</u>	<u>1,206,981</u>
	-	-	-	-	340,976
	-	-	-	-	154,540
	<u>28,687</u>	<u>24</u>	<u>11,075</u>	<u>400</u>	<u>7,723,991</u>
	<u>40,654</u>	<u>(24)</u>	<u>268,575</u>	<u>(393)</u>	<u>711,465</u>
	-	-	-	-	(43,832)
	-	-	-	-	(43,832)
	<u>40,654</u>	<u>(24)</u>	<u>268,575</u>	<u>(393)</u>	<u>667,633</u>
	-	-	-	-	578,783
	-	-	-	-	168,133
	-	-	-	-	746,916
	<u>(40,654)</u>	<u>-</u>	<u>-</u>	<u>400</u>	<u>2,112,869</u>
	-	(24)	268,575	7	3,527,418
	-	1,535	48,143	765	15,099,396
	<u>-</u>	<u>\$ 1,511</u>	<u>\$ 316,718</u>	<u>\$ 772</u>	<u>\$ 18,626,814</u>



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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
NC State University Partnership Corporation and Affiliates  
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of NC State University Partnership Corporation and Affiliates (the "Corporation") as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise the Corporation's basic consolidated financial statements, and have issued our report thereon dated August 23, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of

noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

Raleigh, North Carolina  
August 23, 2016