

**NC STATE UNIVERSITY
PARTNERSHIP CORPORATION
AND AFFILIATES**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2012 and 2011

NC State University Partnership Corporation and Affiliates
June 30, 2012 and 2011

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of net assets of NC State University Partnership Corporation and Affiliates (the "Corporation"), a nonprofit organization and a component unit of North Carolina State University, as of June 30, 2012 and 2011 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NC State University Partnership Corporation and Affiliates as of June 30, 2012 and 2011, and the respective changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 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.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of NC State University Partnership Corporation and Affiliates taken as a whole. The supplementary information on pages 17 through 24 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 consolidated financial statements or to the 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 information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
August 15, 2012

**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 six single member limited liability companies 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 assets decreased by 10.8% to \$9.83 million in fiscal year 2012. Net assets represent the Corporation's equity, the assets less the liabilities. The primary cause of this decrease was NC State Residence, LLC's completion of the construction of the Chancellor's residence located on the Centennial Campus, and the subsequent transfer of the residence from the LLC to NC State University.

Revenues represent amounts received or accrued that are either operating or nonoperating in the accompanying consolidated financial statements. Operating revenues increased by 10.9% to \$1.98 million in fiscal year 2012. This change was primarily due to activities within NC State University Centennial Development, LLC for the Lonnie Poole Golf Course because the course experienced increased rounds played as well as increased sales of food and beverage.

Operating expenses increased by 0.01% to \$2.21 million in fiscal year 2012. Operating expenses represent amounts paid or accrued for operating purposes.

USING THE FINANCIAL STATEMENTS

The Corporation's consolidated financial statements are used to evaluate the financial position as of June 30, 2012 and June 30, 2011 and the results of operations for the fiscal years then ended. The consolidated financial statements also include Consolidated Statements of Cash Flows, which are used to identify the Corporation's sources and uses of cash. In using the consolidated financial statements, the Notes to the 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, a Consolidating Statement of Net Assets and Consolidating Statement of Revenue, Expenses, and Changes in Net Assets 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 Assets

The Consolidated Statements of Net Assets provide information regarding the Corporation's assets, liabilities, and net assets as of June 30, 2012 and 2011. 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 asset balances are classified as either invested in capital assets (net of related debt), restricted, or unrestricted.

Following is a comparative analysis of the condensed balances reported in the Consolidated Statements of Net Assets as of June 30, 2012 and 2011:

	2012	2011	Increase/ (Decrease)
Assets			
Current assets	\$ 857,006	\$ 640,836	\$ 216,170
Real estate	2,550,000	2,737,554	(187,554)
Property and equipment, net	11,153,815	14,282,598	(3,128,783)
Total assets	\$ 14,560,821	\$ 17,660,988	\$ (3,100,167)
Liabilities			
Current liabilities	\$ 524,211	\$ 3,636,236	\$ (3,112,025)
Noncurrent liabilities	4,210,533	3,015,075	1,195,458
Total liabilities	4,734,744	6,651,311	(1,916,567)
Net Assets			
Invested in capital assets, net of related debt	10,023,815	11,137,598	(1,113,783)
Unrestricted net assets	(197,738)	(127,921)	(69,817)
Total net assets	9,826,077	11,009,677	(1,183,600)
Total liabilities and net assets	\$ 14,560,821	\$ 17,660,988	\$ (3,100,167)

Assets decreased by \$3.10 million over the prior year, which is made up of a \$3.13 million decrease in property and equipment, a \$0.21 million increase in current assets and a \$0.19 million decrease in the value of real estate held. The increase in current assets is primarily due to an increase of \$0.39 million in cash combined with \$0.14 million that was due from the University at the end of fiscal year 2011 that was no longer outstanding. The decrease in property and equipment is due to completed construction of the Chancellor's residence and subsequent transfer of the residence to NC State University.

Liabilities decreased \$1.92 million from the prior year, due to a decrease of \$3.11 million in current liabilities and an increase of \$1.19 million in noncurrent liabilities. The decrease in current liabilities is due to a note payable the NC State Residence, LLC entered into during fiscal year 2010 that had a \$0.67 million balance at June 30, 2011 and was paid off during fiscal year 2012, subsequent to the completion of the residence. The remaining decrease in current liabilities is primarily due to NC State University Centennial Development, LLC's note payable. This note payable had \$2.48 million outstanding at June 30, 2011 and was classified as a current liability; however, at June 30, 2012, the note had \$1.13 million outstanding and was classified as a noncurrent liability as a result of a loan renewal agreement.

Net assets decreased \$1.18 million from the prior year. Invested in capital assets, net of related debt, decreased \$1.11 million as the Corporation completed construction of the Chancellor's residence and transferred the residence to the University.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses, and Changes in Net Assets provide information regarding the Corporation's activities for the years ending June 30, 2012 and 2011. The activity balances are classified as operating, nonoperating, and other. Activities classified as operating include all revenues of the Corporation except those considered nonoperating or those associated with funds received to enhance capital assets, and all expenses except those related to donated services and interest expense on financing activities. Activities classified as nonoperating include contributed services and interest and fees on debt. Activities classified as other include capital contributions. Overall, the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets 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 Assets for the fiscal years ended June 30, 2012 and 2011 (restated):

	2012	2011	Increase/ (Decrease)
Operating Revenues and Expenses			
Operating revenues - golf course	\$ 1,981,928	\$ 1,787,916	194,012
Operating expenses:			
Cost of sales - golf course	205,543	126,967	78,576
General operating expenses - golf course	1,618,923	1,715,949	(97,026)
General operating expenses - other	47,505	16,365	31,140
Net operating income (loss) prior to depreciation and amortization	109,957	(71,365)	181,322
Depreciation and amortization expense	334,054	345,662	(11,608)
Net operating loss	(224,097)	(417,027)	192,930
Nonoperating Revenues (Expenses)			
Contributed services revenue - golf course	8,200	24,500	(16,300)
Gain on lease disposal	19,905	-	19,905
Interest and fees on debt	(22,762)	(44,940)	22,178
Contributed services expense - golf course	(8,200)	(24,500)	16,300
Net nonoperating revenues (expenses)	(2,857)	(44,940)	42,083
Net loss before other revenues, expenses, gains, or losses	(226,954)	(461,967)	235,013
Capital contributions	1,487,989	2,086,404	(598,415)
Capital transfers	(2,444,635)	876,051	(3,320,686)
Change in net assets	(1,183,600)	2,500,488	(3,684,088)
Net assets			
Beginning	11,009,677	8,509,189	2,500,488
Ending	\$ 9,826,077	\$ 11,009,677	\$ (1,183,600)

Golf course operating revenues increased \$194,000 compared to the prior year, primarily due to an increase in green fees income as well as an increase in food and beverage sales during fiscal year 2012. Golf course general operating expenses decreased \$97,000 over the prior year. This change was reflective of a general decrease in all of the operating expenses, particularly in course labor and maintenance.

CAPITAL ASSETS AND CURRENT AND LONG-TERM DEBT ACTIVITIES

Capital Assets

The Corporation decreased its net capital assets by \$3.13 million during fiscal year 2012. This decrease is primarily due to the activities of NC State Residence, LLC in completing construction on the Chancellor's residence. Other capital assets relate to the activities of the NC State University Centennial Development, LLC and consist of improvements and leased equipment for the Lonnie Poole Golf Course. See Note 3 in the accompanying financial statements for further details.

Current and Long-Term Debt Activities

As shown in the following table, the Corporation increased its long-term debt by \$1.29 million and decreased its current capital debt by \$3.15 million in fiscal year 2012.

	2012	2011	Increase/ (Decrease)
Current installments of capital lease obligations	\$ 116,920	\$ 122,634	\$ (5,714)
Note payable - golf course	-	2,475,000	(2,475,000)
Note payable - Chancellor's residence	-	670,000	(670,000)
Total current capital debt liabilities	<u>\$ 116,920</u>	<u>\$ 3,267,634</u>	<u>\$ (3,150,714)</u>
Capital lease obligations, less current installments	\$ 286,337	\$ 124,130	\$ 162,207
Notes payable - golf course	1,130,000	-	1,130,000
Total long-term debt liabilities	<u>\$ 1,416,337</u>	<u>\$ 124,130</u>	<u>\$ 1,292,207</u>

The golf course note payable is still outstanding at June 30, 2012, but is no longer considered current capital debt as it is not due until fiscal year 2015. Therefore, the outstanding balance of \$1.13 million on the note, which decreased approximately \$1.35 million during fiscal year 2012, was moved to long-term liabilities. This accounted for part of the decrease in current capital debt liabilities. The other significant contributor to the decrease in current capital debt liabilities was the pay down of \$0.67 million drawn on the note used for construction of the Chancellor's residence.

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 golf course revenues are dependent on the state of the economy and may fluctuate as economic factors fluctuate.

Subsequent Events

A new single member LLC, Leaders in Innovation and Nonwovens Commercialization, LLC, will be formed as of July 3, 2012 and will begin operations during fiscal year 2013.

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://www.fis.ncsu.edu/foundations_accounting/partnerllc/ or by calling (919) 513-7149.

FINANCIAL STATEMENTS

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Net Assets

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash (Note 1)	\$ 755,081	\$ 367,586
Trade receivables (Note 1)	7,380	31,557
Sales tax receivable - golf course	11,802	13,768
Sales tax receivable - residence	-	23,648
Due from the University (Note 2)	-	135,742
Inventories - golf course (Note 1)	82,743	68,535
Total current assets	857,006	640,836
Noncurrent assets		
Real estate (Note 4)	2,550,000	2,737,554
Property and equipment:		
Golf course property and equipment, net of depreciation and amortization (Notes 1 and 3)	10,901,440	10,918,255
Construction in progress - golf course clubhouse (Note 3)	252,375	117,461
Construction in progress - Chancellor's residence (Note 3)	-	3,246,882
Total property and equipment	11,153,815	14,282,598
Total noncurrent assets	13,703,815	17,020,152
Total assets	\$ 14,560,821	\$ 17,660,988
LIABILITIES		
Current liabilities		
Accounts payable (Note 1)	\$ 120,627	\$ 179,797
Deferred revenue (Note 1)	286,664	188,805
Current installments of capital lease obligations (Note 7)	116,920	122,634
Notes payable (Note 9)	-	3,145,000
Total current liabilities	524,211	3,636,236
Noncurrent liabilities		
Capital lease obligations, less current installments (Note 6)	286,337	124,130
Funds held for others (Note 8)	2,794,196	2,890,945
Notes payable (Note 9)	1,130,000	-
Total long-term liabilities	4,210,533	3,015,075
Total liabilities	4,734,744	6,651,311
NET ASSETS		
Invested in capital assets, net of related debt	10,023,815	11,137,598
Restricted net assets, expendable	-	-
Unrestricted net assets	(197,738)	(127,921)
Total net assets	9,826,077	11,009,677
Total liabilities and net assets	\$ 14,560,821	\$ 17,660,988

NC State University Partnership Corporation and Affiliates

**Consolidated Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011**

	2012	2011
OPERATING REVENUES AND EXPENSES		
Operating revenues - golf course	\$ 1,981,928	\$ 1,787,916
Operating expenses:		
Cost of sales - golf course	205,543	126,967
General operating expenses - golf course	1,618,923	1,715,949
General operating expenses - other	47,505	16,365
Net operating income (loss) prior to depreciation and amortization	<u>109,957</u>	<u>(71,365)</u>
Depreciation expense (Note 3)	214,644	206,039
Amortization expense (Note 3)	119,410	139,623
Net operating loss	<u>(224,097)</u>	<u>(417,027)</u>
NONOPERATING REVENUES (EXPENSES)		
Contributed services revenue - golf course	8,200	24,500
Gain on lease disposal	19,905	-
Interest and fees on debt	(22,762)	(44,940)
Contributed services expense - golf course	(8,200)	(24,500)
Net nonoperating revenues (expenses)	<u>(2,857)</u>	<u>(44,940)</u>
Net loss before other revenues, expenses, gains, or losses	<u>(226,954)</u>	<u>(461,967)</u>
Contributions - Chancellor's residence	625,000	1,153,000
Contributions - golf course and clubhouse	645,334	829,139
Contributed materials - Chancellor's residence	194,455	63,490
Contributed materials - golf course	23,200	40,775
Total capital contributions	<u>1,487,989</u>	<u>2,086,404</u>
Capital transfers	(2,444,635)	876,051
Change in net assets	<u>(1,183,600)</u>	<u>2,500,488</u>
Net assets		
Beginning	11,009,677	8,509,189
Ending	<u>\$ 9,826,077</u>	<u>\$ 11,009,677</u>

NC State University Partnership Corporation and Affiliates

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

	2012	2011
Cash flows from operating activities:		
Received from customers	\$ 2,265,320	\$ 1,775,982
Payments to employees and fringe benefits	(905,157)	(937,711)
Payments to vendors and suppliers	(1,040,193)	(900,280)
Net cash provided (used) by operating activities	319,970	(62,009)
Cash flows from capital financing and related financing activities:		
Capital contributions, net	1,270,334	2,410,572
Purchases of fixed assets - golf course	-	(98,283)
Increase in net construction in progress	(1,489,647)	(2,280,273)
Payments on lease liabilities - golf course	(124,840)	(155,175)
Proceeds from notes payable - Chancellor's residence	930,000	670,000
Payments on notes payable - golf course	(1,345,000)	(1,475,000)
Payments on notes payable - residence	(1,600,000)	-
Interest paid on capital debt	(15,562)	(24,883)
Capital transfers	2,351,436	876,051
Net cash used by capital financing and related financing activities	(23,279)	(76,991)
Cash flows from investing activities:		
Investment income	90,804	80,389
Net cash provided by investing activities	90,804	80,389
Net increase (decrease) in cash and cash equivalents	387,495	(58,611)
Cash and cash equivalents		
Beginning	367,586	426,197
Ending	\$ 755,081	\$ 367,586

(Continued)

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of net operating revenues (expenses) to net cash provided by operating activities:		
Operating loss:	\$ (224,097)	\$ (417,027)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization - golf course	334,054	345,662
Donated materials expense - golf course	-	40,775
(Increase) decrease in:		
Accounts receivable	49,791	110,944
Inventories - golf course	(14,209)	(20,814)
Due from the University	135,742	(135,742)
Increase (decrease) in:		
Accounts payable	(59,170)	20,290
Deferred revenue - golf course	97,859	12,864
Due to others	-	(799)
Due to the University	-	(18,162)
Net cash provided (used) by operating activities	\$ 319,970	\$ (62,009)
Supplemental disclosures of noncash activities		
Transfer of Assets to University - residence	(4,796,070)	-
Due from the University	(135,742)	135,742
Capital lease issuance	274,133	-
Donated materials and services - Chancellor's residence	194,455	63,490
Donated materials and services - golf course	31,400	65,275
Net noncash capital and financing activities	\$ (4,431,824)	\$ 264,507

NC State University Partnership Corporation and Affiliates

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

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 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. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, 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 Residence, LLC; NC State University Centennial Development, LLC; NC State Upfit, LLC; Bell Tower Holdings, LLC; NC State CBC Land I, LLC; and NC State CC Holdings I, LLC. NC State Residence, LLC was created to construct a Chancellor's residence located on the North Carolina State University Centennial Campus. 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. All significant intercompany balances and transactions have been eliminated in the consolidation.

The Supplementary Financial 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.

Cash: At times, the Corporation places deposits with a high-quality financial institution that may be in excess of federal insurance limits.

Trade receivables: Trade receivables consist mainly of amounts due the Corporation from online sales as well as motor fuel tax expense paid, not yet reimbursed. Management believes substantially all trade receivable balances are collectible as of June 30, 2012 and 2011; therefore an allowance for doubtful accounts has not been recorded because it was not considered material.

Capital contributions: All contributions are received from other University-affiliated entities.

NC State University Partnership Corporation and Affiliates

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

Note 1. Nature of Activities (continued)

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. Contributed services are provided by NC State University's Foundations Accounting and Investments staff for the Partnership Corporation as a whole, as well as by Campus Enterprises staff for the financial oversight of the Lonnie Poole Golf Course for the University.

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

Property and equipment: Property and equipment are stated at cost. 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. Machinery and equipment 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 35 years beginning in the year that construction is completed. When a construction project is completed, the capital project costs are moved from the construction in progress account to the appropriate capital asset account. The modern greens are depreciated over 15 years and the cost of constructing the new clubhouse on the golf course is a nondepreciable capital asset until construction is complete.

Accounts payable: Accounts payable represents trade payables due to vendors at June 30, 2012 and 2011.

Net assets: The Corporation's net assets are classified as follows:

Invested in capital assets, net of related debt: 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 assets – expendable: Expendable restricted net assets include resources for which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net assets: Unrestricted net assets include net resources derived from sales and services.

Revenue Recognition: The Corporation records revenues relating to the sale of merchandise, food and beverage sales at the time of sale. In addition, the Corporation recognizes income relating to green fees and golf cart rentals at time of usage.

Deferred Revenues: NC State University Centennial Development, LLC records deferred revenue related to fees received from Lonnie Poole Golf Course Charter Partners in the current year for privileges the following year. NC State University Centennial Development, LLC also records deferred revenue for annual package plans, prepaid rounds, tournaments, and gift certificates.

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.

NC State University Partnership Corporation and Affiliates

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

Note 1. Nature of Activities (continued)

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 2012 and 2011. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize 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, 2012 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 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 2008.

Note 2. Due from the University

At June 30, 2011, amounts due from the University totaled \$135,472, which consisted of monies owed to the golf course by the University for academic use of the golf course and by University Dining for net income from the dining operations. At June 30, 2012, no amount was due from the University.

Note 3. Property and Equipment

For the fiscal years ended June 30, 2012 and 2011, the Corporation owned the following property and equipment:

	2012	2011
Golf course	\$ 8,721,545	\$ 8,721,545
Modern Greens	512,319	512,319
Buildings	1,117,876	1,117,876
Equipment	691,987	668,786
Leased equipment	484,170	543,933
Accumulated depreciation and amortization	(626,457)	(646,204)
Golf course property and equipment, net of depreciation and amortization	10,901,440	10,918,255
Construction in progress - golf course clubhouse	252,375	117,461
Construction in progress - Chancellor's residence	-	3,246,882
Total property and equipment	<u>\$ 11,153,815</u>	<u>\$ 14,282,598</u>

Included in the cost of the property and equipment is cumulative donated materials of \$1,236,512 and \$1,276,802 at June 30, 2012 and 2011, respectively. Total depreciation and amortization expense for the years ended June 30, 2012 and June 30, 2011 was \$334,054 and \$345,662, respectively.

NC State University Partnership Corporation and Affiliates

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

Note 4. Real Estate

Two tracts of land on Hillsborough Street are held by Bell Tower Holdings, LLC on behalf of the Endowment Fund of NC State University. These tracts of land were purchased by the Endowment Fund of NC State University for a total of \$2,737,554, which was the value reported by Bell Tower Holdings, LLC as of June 30, 2011. The tracts of land were marked to market at June 30, 2012 based on an appraised value of \$2,550,000.

Note 5. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were used to measure the value of their investments.

Fair Value Measurements Using			
Fair Value	Quoted Priced in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2012</u>			
Real estate	\$ 2,550,000	\$ 2,550,000	\$ -
Total	\$ 2,550,000	\$ 2,550,000	\$ -

Fair Value Measurements Using			
Fair Value	Quoted Priced in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2011</u>			
Real estate	\$ 2,737,554	\$ 2,737,554	\$ -
Total	\$ 2,737,554	\$ 2,737,554	\$ -

Note 6. Operating Leases

During fiscal years 2012 and 2011, NC State University Centennial Development, LLC had operating leases for golf carts, ice machines, and maintenance equipment with total payments for the years ended June 30, 2012 and 2011 of \$63,402 and \$98,001, respectively. Future minimum lease payments at June 30, 2012 under the noncancelable operating leases are as follows:

Years ending June 30:		
	2013	\$ 61,199
	2014	34,454
	Thereafter	-
Total future minimum payments required		<u>\$ 95,653</u>

NC State University Partnership Corporation and Affiliates

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

Note 7. 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 \$471,347 and \$543,933 as of June 30, 2012 and 2011, respectively, and is included in property and equipment. The assets are amortized over the lesser of their related lease terms or their estimated useful lives.

The accumulated amortization on these leased assets was \$58,918 and \$306,134 as of June 30, 2012 and 2011, respectively. Future minimum lease payments, gross of taxes, under capital leases at June 30, 2012 are as follows:

Years ending June 30:		
2013	\$	119,640
2014		119,640
2015		119,640
2016		49,850
Thereafter		-
		<u>408,770</u>
Imputed interest		<u>(5,513)</u>
Present value of net minimum lease payments	\$	<u>403,257</u>

Note 8. Funds Held for Others

As of June 30, 2012 and 2011, Bell Tower Holdings, LLC had \$2,794,196 and \$2,890,945, respectively, in funds held for others, made up of cumulative earnings from investment real estate and the real estate itself. These monies are held on behalf of the Endowment Fund of NC State University. See Note 4 above.

Note 9. Notes Payable

NC State University Centennial Development, LLC opened an unsecured \$5,000,000 line of credit with SunTrust Bank on January 24, 2008 that matured on January 30, 2012 and was renewed by a \$1,350,000 note on January 30, 2012 which matures on January 30, 2015. NC State University Centennial Development, LLC had \$1,130,000 due on the note at June 30, 2012 and \$2,475,000 drawn on the line at June 30, 2011. The interest rate on the note at June 30, 2012 was the 1-month LIBOR plus 0.95% per annum, which was 1.189%. The interest rate on the line at June 30, 2011 was the 1-month LIBOR plus 0.50% per annum, which was 0.690%.

During the fiscal year ended June 30, 2008, The Endowment Fund Board of Trustees agreed to invest up to \$5,000,000 in the NC State University Centennial Development, LLC for the Lonnie Poole Golf Course in the event the LLC could not meet its loan payback or should the LLC desire to pay off the loan prior to receipt of expected cash flow. The Endowment Fund reaffirmed its obligation to invest up to the \$1,350,000 loan amount under the note renewed on January 30, 2012. As of June 30, 2012, there have been no investments by the Endowment Fund for this obligation.

During fiscal year 2011, NC State Residence, LLC opened a construction loan not to exceed \$3,000,000 with Fifth Third Bank that was paid off in October 2011 upon transfer of the property to NC State University. NC State Residence, LLC had \$670,000 drawn on the loan at June 30, 2011.

NC State University Partnership Corporation and Affiliates

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

Note 10. 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 11. Prior Year Reclassification and Restatement

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

During fiscal year 2012, the Corporation was informed that the University should start providing support for their academic use of the golf course beginning with a payment of \$133,252 for support due for fiscal year 2011. As a result of this support, the Corporation determined that during fiscal year 2011, the golf course had additional other operating revenue of \$133,252 and a corresponding amount due of \$133,252 from the University. The Corporation has concluded that these adjustments to the results of operations for fiscal year 2011 are such that an adjustment to net assets was required. Net assets at June 30, 2011 have been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	\$ 11,137,598	\$ -	\$ 11,137,598
Unrestricted net assets	(261,173)	133,252	(127,921)
Total net assets	<u>\$ 10,876,425</u>	<u>\$ 133,252</u>	<u>\$ 11,009,677</u>

Note 12. Subsequent Events

On July 3, 2012, Leaders in Innovation and Nonwovens Commercialization, LLC, was established and will begin operations in fiscal year 2013. Set-up expenses incurred but not billed through June 30, 2012 are approximately \$6,100. No accrual was included in the financial statements.

The Corporation has evaluated subsequent events through August 15, 2012, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

SUPPLEMENTARY FINANCIAL INFORMATION

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Assets

June 30, 2012

	NC State Residence, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
ASSETS			
Current assets			
Cash	\$ -	\$ 501,269	\$ 1,085
Trade receivables	-	5,844	-
Sales tax receivable - golf course	-	11,802	-
Sales tax receivable - residence	-	-	-
Due from the University	-	-	-
Inventories - golf course	-	82,743	-
Total current assets	-	601,658	1,085
Noncurrent assets			
Real Estate	-	-	-
Property and equipment			
Golf course property and equipment, net of depreciation and amortization	-	10,901,440	-
Construction in progress - golf course clubhouse	-	252,375	-
Construction in progress - Chancellor's residence	-	-	-
Total property and equipment	-	11,153,815	-
Total noncurrent assets	-	11,153,815	-
Total assets	\$ -	\$ 11,755,473	\$ 1,085
LIABILITIES			
Current liabilities			
Accounts payable	\$ -	\$ 113,583	\$ -
Deferred revenue	-	286,664	-
Current installments of capital lease obligations	-	116,920	-
Notes payable	-	-	-
Total current liabilities	-	517,167	-
Noncurrent liabilities			
Capital lease obligations, less current installments	-	286,337	-
Funds held for others	-	-	-
Notes payable	-	1,130,000	-
Total long-term liabilities	-	1,416,337	-
Total liabilities	-	1,933,504	-
NET ASSETS			
Invested in capital assets, net of related debt	-	10,023,815	-
Restricted net assets, expendable	-	-	-
Unrestricted net assets	-	(201,846)	1,085
Total net assets	-	9,821,969	1,085
Total liabilities and net assets	\$ -	\$ 11,755,473	\$ 1,085

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ 242,660	\$ 1,085	\$ 1,085	\$ 7,897	\$ 755,081
1,536	-	-	-	7,380
-	-	-	-	11,802
-	-	-	-	-
-	-	-	-	-
-	-	-	-	82,743
244,196	1,085	1,085	7,897	857,006
2,550,000	-	-	-	2,550,000
-	-	-	-	10,901,440
-	-	-	-	252,375
-	-	-	-	-
-	-	-	-	11,153,815
2,550,000	-	-	-	13,703,815
\$ 2,794,196	\$ 1,085	\$ 1,085	\$ 7,897	\$ 14,560,821
\$ -	\$ -	\$ -	\$ 7,044	\$ 120,627
-	-	-	-	286,664
-	-	-	-	116,920
-	-	-	-	-
-	-	-	7,044	524,211
-	-	-	-	286,337
2,794,196	-	-	-	2,794,196
-	-	-	-	1,130,000
2,794,196	-	-	-	4,210,533
2,794,196	-	-	7,044	4,734,744
-	-	-	-	10,023,815
-	-	-	-	-
-	1,085	1,085	853	(197,738)
-	1,085	1,085	853	9,826,077
\$ 2,794,196	\$ 1,085	\$ 1,085	\$ 7,897	\$ 14,560,821

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Assets

June 30, 2011

	NC State Residence, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
ASSETS			
Current assets			
Cash	\$ 17,798	\$ 193,825	\$ 1,085
Trade receivables	-	30,021	-
Sales tax receivable - golf course	-	13,768	-
Sales tax receivable - residence	23,648	-	-
Due from the University	-	135,742	-
Inventories - golf course	-	68,535	-
Total current assets	41,446	441,891	1,085
Noncurrent assets			
Real Estate	-	-	-
Property and equipment			
Golf course property and equipment, net of depreciation and amortization	-	10,918,255	-
Construction in progress - golf course clubhouse	-	117,461	-
Construction in progress - Chancellor's residence	3,246,882	-	-
Total property and equipment	3,246,882	11,035,716	-
Total noncurrent assets	3,246,882	11,035,716	-
Total assets	\$ 3,288,328	\$ 11,477,607	\$ 1,085
LIABILITIES			
Current liabilities			
Accounts payable	\$ 71,020	\$ 108,777	\$ -
Deferred revenue	-	188,805	-
Current installments of capital lease obligations	-	122,634	-
Notes payable	670,000	2,475,000	-
Total current liabilities	741,020	2,895,216	-
Noncurrent liabilities			
Capital lease obligations, less current installments	-	124,130	-
Funds held for others	-	-	-
Total long-term liabilities	-	124,130	-
Total liabilities	741,020	3,019,346	-
NET ASSETS			
Invested in capital assets, net of related debt	2,576,882	8,560,716	-
Restricted net assets, expendable	-	-	-
Unrestricted net assets	(29,574)	(102,455)	1,085
Total net assets	2,547,308	8,458,261	1,085
Total liabilities and net assets	\$ 3,288,328	\$ 11,477,607	\$ 1,085

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ 151,855	\$ 1,085	\$ 1,085	\$ 853	\$ 367,586
1,536	-	-	-	31,557
-	-	-	-	13,768
-	-	-	-	23,648
-	-	-	-	135,742
-	-	-	-	68,535
153,391	1,085	1,085	853	640,836
2,737,554	-	-	-	2,737,554
-	-	-	-	10,918,255
-	-	-	-	117,461
-	-	-	-	3,246,882
-	-	-	-	14,282,598
2,737,554	-	-	-	17,020,152
\$ 2,890,945	\$ 1,085	\$ 1,085	\$ 853	\$ 17,660,988
\$ -	\$ -	\$ -	\$ -	\$ 179,797
-	-	-	-	188,805
-	-	-	-	122,634
-	-	-	-	3,145,000
-	-	-	-	3,636,236
-	-	-	-	124,130
2,890,945	-	-	-	2,890,945
2,890,945	-	-	-	3,015,075
2,890,945	-	-	-	6,651,311
-	-	-	-	11,137,598
-	-	-	-	-
-	1,085	1,085	853	(127,921)
-	1,085	1,085	853	11,009,677
\$ 2,890,945	\$ 1,085	\$ 1,085	\$ 853	\$ 17,660,988

NC State University Partnership Corporation and Affiliates

**Consolidating Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012**

	NC State Residence, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
OPERATING REVENUES AND EXPENSES			
Operating revenues:			
Merchandise sales	\$ -	\$ 344,446	\$ -
Greens fees income	-	1,122,023	-
Golf cart income	-	271,831	-
Food and beverage sales	-	110,376	-
Other operating revenue	-	133,252	-
Total operating revenues	-	1,981,928	-
Operating expenses:			
Cost of sales	-	205,543	-
General operating expenses:			
Marketing expense	-	108,312	-
Contracted services expense	17,056	888,101	-
General and administrative expense	15,850	167,983	-
Clubhouse expense	-	146,132	-
Repairs and maintenance expense	-	155,031	-
Rental expense	-	72,720	-
Office expense	-	12,727	-
Insurance expense	-	20,846	-
Other current services	13,999	47,071	200
Total general operating expenses	46,905	1,618,923	200
Net operating income (loss) prior to depreciation and amortization	(46,905)	157,462	(200)
Depreciation expense	-	214,644	-
Amortization expense	-	119,410	-
Total operating expenses	46,905	2,158,520	200
Net operating income (loss)	(46,905)	(176,592)	(200)
NONOPERATING REVENUES (EXPENSES)			
Contributed services revenue - golf course	-	8,200	-
Gain on lease disposal	-	19,905	-
Interest and fees on debt	-	(22,762)	-
Contributed services expense - golf course	-	(8,200)	-
Net nonoperating revenues (expenses)	-	(2,857)	-
Net loss before other revenues, expenses, gains, and losses	(46,905)	(179,449)	(200)
Contributions - residence	625,000	-	-
Contributions - golf course	-	645,334	-
Contributed materials - residence	194,455	-	-
Contributed materials - golf course	-	23,200	-
Total capital contributions	819,455	668,534	-
Capital transfers	(3,319,858)	874,623	200
Change in net assets	(2,547,308)	1,363,708	-
Net assets			
Beginning	2,547,308	8,458,261	1,085
Ending	\$ -	\$ 9,821,969	\$ 1,085

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ -	\$ -	\$ -	\$ -	\$ 344,446
-	-	-	-	1,122,023
-	-	-	-	271,831
-	-	-	-	110,376
-	-	-	-	133,252
-	-	-	-	1,981,928
-	-	-	-	205,543
-	-	-	-	108,312
-	-	-	-	905,157
-	-	-	-	183,833
-	-	-	-	146,132
-	-	-	-	155,031
-	-	-	-	72,720
-	-	-	-	12,727
-	-	-	-	20,846
-	200	200	-	61,670
-	200	200	-	1,666,428
-	(200)	(200)	-	109,957
-	-	-	-	214,644
-	-	-	-	119,410
-	200	200	-	2,206,025
-	(200)	(200)	-	(224,097)
-	-	-	-	8,200
-	-	-	-	19,905
-	-	-	-	(22,762)
-	-	-	-	(8,200)
-	-	-	-	(2,857)
-	(200)	(200)	-	(226,954)
-	-	-	-	625,000
-	-	-	-	645,334
-	-	-	-	194,455
-	-	-	-	23,200
-	-	-	-	1,487,989
-	200	200	-	(2,444,635)
-	-	-	-	(1,183,600)
-	1,085	1,085	853	11,009,677
\$ -	\$ 1,085	\$ 1,085	\$ 853	\$ 9,826,077

NC State University Partnership Corporation and Affiliates

**Consolidating Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011**

	NC State Residence, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
OPERATING REVENUES AND EXPENSES			
Operating revenues:			
Merchandise sales	\$ -	\$ 297,118	\$ -
Greens fees income	-	1,065,184	-
Golf cart income	-	268,378	-
Food and beverage sales, net	-	23,984	-
Other operating revenue	-	133,252	-
Total operating revenues	-	1,787,916	-
Operating expenses:			
Cost of sales	-	126,967	-
General operating expenses:			
Marketing expense	-	54,271	-
Contracted services expense	-	937,711	-
General and administrative expense	12,500	163,547	24
Clubhouse expense	-	142,524	-
Repairs and maintenance expense	-	202,504	-
Rental expense	-	106,768	-
Office expense	-	4,860	-
Insurance expense	-	14,616	-
Other current services	212	89,148	200
Total general operating expenses	12,712	1,715,949	224
Net operating income (loss) prior to depreciation and amortization	(12,712)	(55,000)	(224)
Depreciation expense	-	206,039	-
Amortization expense	-	139,623	-
Total operating expenses	12,712	2,188,578	224
Net operating income (loss)	(12,712)	(400,662)	(224)
NONOPERATING REVENUES (EXPENSES)			
Contributed services revenue - golf course	-	24,500	-
Interest and fees on debt	-	(44,940)	-
Contributed services expense - golf course	-	(24,500)	-
Net nonoperating revenues (expenses)	-	(44,940)	-
Net loss before other revenues, expenses, gains, and losses	(12,712)	(445,602)	(224)
Contributions - residence	1,153,000	-	-
Contributions - golf course	-	829,139	-
Contributed materials - residence	63,490	-	-
Contributed materials - golf course	-	40,775	-
Total capital contributions	1,216,490	869,914	-
Capital transfers	-	855,457	2,014
Change in net assets	1,203,778	1,279,769	1,790
Net assets			
Beginning	1,343,530	7,178,492	(705)
Ending	\$ 2,547,308	\$ 8,458,261	\$ 1,085

	Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$	-	\$ -	\$ -	\$ -	297,118
	-	-	-	-	1,065,184
	-	-	-	-	268,378
	-	-	-	-	23,984
	-	-	-	-	133,252
	-	-	-	-	1,787,916
	-	-	-	-	126,967
	-	-	-	-	54,271
	-	-	-	-	937,711
	-	24	15	4,500	180,610
	-	-	-	-	142,524
	-	-	-	-	202,504
	-	-	-	-	106,768
	-	-	-	-	4,860
	-	-	-	-	14,616
	-	(1,219)	209	(100)	88,450
	-	(1,195)	224	4,400	1,732,314
	-	1,195	(224)	(4,400)	(71,365)
	-	-	-	-	206,039
	-	-	-	-	139,623
	-	(1,195)	224	4,400	2,204,943
	-	1,195	(224)	(4,400)	(417,027)
	-	-	-	-	24,500
	-	-	-	-	(44,940)
	-	-	-	-	(24,500)
	-	-	-	-	(44,940)
	-	1,195	(224)	(4,400)	(461,967)
	-	-	-	-	1,153,000
	-	-	-	-	829,139
	-	-	-	-	63,490
	-	-	-	-	40,775
	-	-	-	-	2,086,404
	-	1,926	1,814	14,840	876,051
	-	3,121	1,590	10,440	2,500,488
	-	(2,036)	(505)	(9,587)	8,509,189
\$	-	\$ 1,085	\$ 1,085	\$ 853	\$ 11,009,677

INTERNAL CONTROL AND COMPLIANCE MATTERS



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' 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 the consolidated financial statements of NC State University Partnership Corporation and Affiliates (the "Corporation"), a nonprofit organization and a component unit of North Carolina State University, as of and for the year ended June 30, 2012, and have issued our report thereon dated August 15, 2012. 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.

Internal Control over Financial Reporting

Management of NC State University Partnership Corporation and Affiliates is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered NC State University Partnership Corporation and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NC State University Partnership Corporation and Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NC State University Partnership Corporation and Affiliates consolidated financial statements are free of 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*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
August 15, 2012

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

August 15, 2012

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

We have audited the consolidated financial statements of NC State University Partnership Corporation and Affiliates (the "Corporation"), a nonprofit organization and a component unit of North Carolina State University, for the year ended June 30, 2012, and have issued our report thereon dated August 15, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit.

We have communicated such information in our engagement letter to you dated June 5, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NC State University Partnership Corporation and Affiliates are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.



Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 15, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation'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 Corporation'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

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

Closing

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve the NC State University Partnership Corporation and Affiliates.

This information is intended solely for the use of the Board of Directors and management of NC State University Partnership Corporation and Affiliates and is not intended to be and should not be used by anyone other than these specified parties.

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