

**NC STATE UNIVERSITY
PARTNERSHIP CORPORATION
AND AFFILIATES**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2013 and 2012

NC State University Partnership Corporation and Affiliates
Consolidated Financial Statements
June 30, 2013 and 2012

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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"), a nonprofit organization and a component unit of North Carolina State University, which comprise the consolidated statements of net position as of June 30, 2013 and 2012, and the related consolidated statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditors' Responsibility

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 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 auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of NC State University Partnership Corporation and Affiliates, as of June 30, 2013 and 2012, and the respective changes in net position, and cash flows thereof for the years 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 and budgetary comparison information 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 audits 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 Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise NC State University Partnership Corporation and Affiliates basic consolidated financial statements. The supplementary information on pages 18 through 25 are 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 basic consolidated financial statements. Such 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 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, this supplementary information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2013, 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 Corporation's internal control over financial reporting and compliance.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
August 19, 2013

**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 the seven 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 25% to \$12.32 million in fiscal year 2013. Net position represents the Corporation's equity, the assets less the liabilities. The major drivers behind this increase were the establishment of the Leaders in Innovation and Nonwovens Commercialization, LLC which generated over \$900,000 in net income during fiscal year 2013, and capital contributions to NC State University Centennial Development, LLC of over \$1,900,000, primarily for construction of the new Carol Johnson Poole Clubhouse.

Revenues represent amounts received or accrued that are either operating or nonoperating in the accompanying financial statements. Operating revenues increased by almost three times to \$5.77 million in fiscal year 2013. This change was primarily due to gross revenues of \$3.81 million generated by the newly established Leaders in Innovation and Nonwovens Commercialization, LLC.

General operating expenses doubled to approximately \$3.41 million in fiscal year 2013 again due to the establishment and operations of the Leaders in Innovation and Nonwovens Commercialization, LLC, which had operating expenses of \$2.90 million during the fiscal year. 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, 2013 and June 30, 2012 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 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, a Consolidating Statement of Net Position and Consolidating Statement 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 seven 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 assets, liabilities, and net position as of June 30, 2013 and 2012. 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.

Following is a comparative analysis of the condensed balances reported in the Consolidated Statements of Net Position as of June 30, 2013 and 2012:

	2013	2012	Increase/ Decrease
Assets			
Current assets	\$ 2,839,787	\$ 857,006	\$ 1,982,781
Real estate	2,550,000	2,550,000	-
Property and equipment, net	12,990,060	11,153,815	1,836,245
Total assets	\$ 18,379,847	\$ 14,560,821	\$ 3,819,026
Liabilities			
Current liabilities	\$ 1,763,151	\$ 237,547	\$ 1,525,604
Noncurrent liabilities	3,980,837	4,210,533	(229,696)
Total liabilities	5,743,988	4,448,080	1,295,908
Deferred Inflows of Resources			
Deferred revenue	311,605	286,664	24,941
Net Position			
Net investment in capital assets	12,010,060	10,023,815	1,986,245
Restricted net assets, expendable	224,429	-	224,429
Unrestricted net assets	89,765	(197,738)	287,503
Total net position	12,324,254	9,826,077	2,498,177
Total liabilities, deferred inflows of resources, and net position	\$ 18,379,847	\$ 14,560,821	\$ 3,819,026

Assets increased by \$3.82 million from the prior year, which is made up of a \$1.84 million increase in property and equipment and a \$1.98 million increase in current assets. The increase in property and equipment is due to ongoing construction of the Carol Johnson Poole Clubhouse for the Lonnie Poole Golf Course. The increase in current assets is due to an increase in cash, primarily attributable to balances held by the Leaders in Innovation and Nonwovens Commercialization, LLC.

Liabilities increased \$1.30 million from the prior year, due to an increase of \$1.53 million in current liabilities and a decrease of \$0.23 million in noncurrent liabilities. The increase in current liabilities is due to accounts payable, for the Carol Johnson Poole Clubhouse for the Lonnie Poole Golf Course and the Leaders in Innovation and Nonwovens Commercialization, LLC. The decrease in noncurrent liabilities is due to the Lonnie Poole Golf Course having smaller capital lease obligations and paying off some of their outstanding note payable.

Net position increased \$2.50 million from the prior year. Net investment in capital assets increased \$1.99 million due to construction on the Carol Johnson Poole Clubhouse for the Lonnie Poole Golf Course.

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 ending June 30, 2013 and 2012. 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 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, 2013 and 2012:

	2013	2012	Increase/ (Decrease)
Operating Revenues and Expenses			
Operating revenues	\$ 5,772,068	\$ 1,981,928	\$ 3,790,140
Operating expenses:			
Cost of sales	1,469,685	205,543	1,264,142
General operating expenses	3,413,297	1,666,428	1,746,869
Net operating income prior to depreciation and amortization	889,086	109,957	779,129
Depreciation and amortization expense	334,801	334,054	747
Net operating income (loss)	554,285	(224,097)	778,382
Nonoperating Revenues (Expenses)			
Contributed services revenue - golf course	-	8,200	(8,200)
Gain on lease disposal	-	19,905	(19,905)
Interest and fees on debt	(14,931)	(22,762)	7,831
Contributed services expense - golf course	-	(8,200)	8,200
Net nonoperating expenses	(14,931)	(2,857)	(12,074)
Net income (loss) before other revenues, expenses, gains, or losses	539,354	(226,954)	766,308
Capital contributions	1,926,500	1,487,989	438,511
Capital transfers	32,323	(2,444,635)	2,476,958
Change in net position	2,498,177	(1,183,600)	3,681,777
Net position			
Beginning	9,826,077	11,009,677	(1,183,600)
Ending	\$ 12,324,254	\$ 9,826,077	\$ 2,498,177

Operating revenues increased \$3.79 million compared to the prior year due to sales income from the Leaders in Innovation and Nonwovens Commercialization, LLC, which was established in fiscal year 2013. Cost of sales and general operating expenses increased \$3.01 million from the prior year, which is also attributable to expenses related to the Leaders in Innovation and Nonwovens Commercialization, LLC.

CAPITAL ASSETS AND CURRENT AND LONG-TERM DEBT ACTIVITIES

Capital Assets

The Corporation increased its net capital assets by \$1.84 million during fiscal year 2013. This increase is primarily due to the activities of the NC State University Centennial Development, LLC in constructing the Carol Johnson Poole Clubhouse at the Lonnie Poole Golf Course. See Note 2 in the accompanying notes to consolidated financial statements for further details.

Current and Long-Term Debt Activities

As shown in the following table, the Corporation decreased its long-term debt by approximately \$268,000 in fiscal year 2013.

	2013	2012	Increase/ (Decrease)
Current installments of capital lease obligations	\$ 117,832	\$ 116,920	\$ 912
Total current capital debt liabilities	<u>\$ 117,832</u>	<u>\$ 116,920</u>	<u>\$ 912</u>
Capital lease obligations, less current installments	\$ 168,505	\$ 286,337	\$ (117,832)
Notes payable	<u>3,710,750</u>	<u>3,860,750</u>	<u>(150,000)</u>
Total long-term debt liabilities	<u>\$ 3,879,255</u>	<u>\$ 4,147,087</u>	<u>\$ (267,832)</u>

The note payable for the NC State University Centennial Development, LLC's Lonnie Poole Golf Course had \$980,000 outstanding at June 30, 2013 and \$150,000 was paid on the note during fiscal year 2013. Additionally, the capital lease obligations of the NC State University Centennial Development, LLC decreased by approximately \$118,000 during fiscal year 2013.

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, which was established during fiscal year 2013, 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.ofb.ncsu.edu/partnership-corporations/nc-state-partnership-corporation/> or by calling (919) 513-7149.

FINANCIAL STATEMENTS

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash (Note 1)	\$ 2,748,708	\$ 755,081
Trade receivables (Note 1)	1,536	7,380
Taxes receivable - golf course	16,889	11,802
Inventories - golf course (Note 1)	72,654	82,743
Total current assets	<u>2,839,787</u>	<u>857,006</u>
Noncurrent assets		
Real estate (Note 3)	<u>2,550,000</u>	2,550,000
Property and equipment:		
Golf course property and equipment, net of depreciation and amortization (Notes 1 and 2)	10,595,712	10,901,440
Construction in progress - golf course clubhouse (Notes 1 and 2)	<u>2,394,348</u>	<u>252,375</u>
Total property and equipment	<u>12,990,060</u>	11,153,815
Total noncurrent assets	<u>15,540,060</u>	13,703,815
Total assets	<u>\$ 18,379,847</u>	<u>\$ 14,560,821</u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 1)	\$ 1,645,319	\$ 120,627
Current installments of capital lease obligations (Note 5)	117,832	116,920
Total current liabilities	<u>1,763,151</u>	<u>237,547</u>
Noncurrent liabilities		
Capital lease obligations, less current installments (Note 5)	168,505	286,337
Funds held for others (Note 6)	101,582	63,446
Notes payable (Notes 7 and 9)	<u>3,710,750</u>	<u>3,860,750</u>
Total long-term liabilities	<u>3,980,837</u>	<u>4,210,533</u>
Total liabilities	<u>5,743,988</u>	<u>4,448,080</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue (Note 1)	<u>311,605</u>	<u>286,664</u>
NET POSITION		
Net investment in capital assets	12,010,060	10,023,815
Restricted net assets, expendable	224,429	-
Unrestricted net assets	<u>89,765</u>	<u>(197,738)</u>
Total net position	<u>12,324,254</u>	<u>9,826,077</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 18,379,847</u>	<u>\$ 14,560,821</u>

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, 2013 and 2012**

	2013	2012
OPERATING REVENUES AND EXPENSES		
Operating revenues	\$ 5,772,068	\$ 1,981,928
Operating expenses:		
Cost of sales	1,469,685	205,543
General operating expenses	3,413,297	1,666,428
Net operating income prior to depreciation and amortization	<u>889,086</u>	109,957
Depreciation expense	216,964	214,644
Amortization expense	117,837	119,410
Net operating income (loss)	<u>554,285</u>	<u>(224,097)</u>
 NONOPERATING REVENUES (EXPENSES)		
Contributed services revenue - golf course	-	8,200
Gain on lease disposal	-	19,905
Interest and fees on debt	(14,931)	(22,762)
Contributed services expense - golf course (Note 1)	-	(8,200)
Net nonoperating expenses	<u>(14,931)</u>	<u>(2,857)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>539,354</u>	<u>(226,954)</u>
Capital contributions - Chancellor's residence (Note 1)	-	625,000
Capital contributions (Note 1)	1,926,500	645,334
Contributed materials - Chancellor's residence (Note 1)	-	194,455
Contributed materials - golf course (Note 1)	-	23,200
Total capital contributions	<u>1,926,500</u>	1,487,989
Capital transfers	32,323	(2,444,635)
Change in net position	<u>2,498,177</u>	<u>(1,183,600)</u>
Net position		
Beginning	9,826,077	11,009,677
Ending	<u>\$ 12,324,254</u>	<u>\$ 9,826,077</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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Received from customers	\$ 5,797,766	\$ 2,265,320
Payments to employees and fringe benefits	(954,032)	(905,157)
Payments to vendors and suppliers	(2,394,169)	(1,040,193)
Net cash provided by operating activities	2,449,565	319,970
Cash flows from capital financing and related financing activities:		
Capital contributions, net	1,926,500	1,270,334
Purchases of fixed assets - golf course	(29,073)	-
Increase in net construction in progress	(2,141,973)	(1,489,647)
Payments on lease liabilities - golf course	(119,640)	(124,840)
Proceeds from notes payable - Chancellor's residence	-	930,000
Payments on notes payable - golf course	(150,000)	(1,345,000)
Payments on notes payable - residence	-	(1,600,000)
Interest paid on capital debt	(12,211)	(15,562)
Capital transfers	32,323	2,351,436
Net cash used by capital financing and related financing activities	(494,074)	(23,279)
Cash flows from investing activities:		
Investment income	38,136	90,804
Net cash provided by investing activities	38,136	90,804
Net increase in cash	1,993,627	387,495
Cash		
Beginning	755,081	367,586
Ending	\$ 2,748,708	\$ 755,081

(Continued)

NC State University Partnership Corporation and Affiliates

Consolidated Statements of Cash Flows (Continued)

For the Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of net operating revenues (expenses) to net cash provided by operating activities:		
Net operating income (loss):	\$ 554,285	\$ (224,097)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization - golf course	334,801	334,054
(Increase) decrease in:		
Accounts receivable	757	49,791
Inventories - golf course	10,089	(14,209)
Due from the University	-	135,742
Increase (decrease) in:		
Accounts payable	1,524,692	(59,170)
Deferred revenue - golf course	24,941	97,859
Net cash provided by operating activities	\$ 2,449,565	\$ 319,970
Supplemental disclosures of noncash activities		
Transfer of Assets to University - residence	-	(4,796,070)
Due to the University	-	(135,742)
Capital lease issuance	-	274,133
Donated materials and services - Chancellor's residence	-	194,455
Donated materials and services - golf course	-	31,400
Net noncash capital and financing activities	\$ -	\$ (4,431,824)

See Notes to Consolidated Financial Statements.

NC State University Partnership Corporation and Affiliates

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

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. 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 seven 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; NC State CC Holdings I, LLC, and Leaders in Innovation and Nonwovens Commercialization ("LINC"), LLC. NC State Residence, LLC was created to construct a Chancellor's residence located on the North Carolina State University Centennial Campus. This property was transferred to NC State University in October 2011 and the LLC dissolution was requested on June 29, 2012 and filed on August 22, 2012. 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 established on July 12, 2012 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 Financial Information section of this report contains additional details regarding the activities of the Corporation and the seven 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 high-quality financial institutions that may be in excess of federal insurance limits, making these excess deposits subject to custodial credit risk. The bank balance for the Partnership Corporation and its subsidiary LLCs' checking and money market accounts at June 30, 2013 was \$2,452,984. As of June 30, 2013 the Corporation's uninsured and uncollateralized bank balances that were exposed to custodial credit risk was \$1,104,426.

NC State University Partnership Corporation and Affiliates

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

Note 1. Nature of Activities (continued)

Trade receivables: Trade receivables consist mainly of amounts due the Corporation from online sales. Management believes substantially all trade receivable balances are collectible as of June 30, 2013 and 2012; therefore an allowance for doubtful accounts has not been recorded.

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. The cost of constructing the new clubhouse for the golf course is nondepreciable construction in progress until construction is complete, at which time 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 golf course is a nondepreciable capital asset.

Accounts payable: Accounts payable represents trade payables due to vendors at June 30, 2013 and 2012.

Deferred revenue: NC State University Centennial Development, LLC records deferred 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 deferred 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 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.

Capital contributions: All contributions are received from other University-affiliated 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. During fiscal year 2012, contributed services were provided by NC State University's Foundations Accounting and Investments staff for the Partnership Corporation as a whole, and by Campus Enterprises staff for the financial oversight of the Lonnie Poole Golf Course for the University. There were no contributed services in fiscal year 2013.

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

NC State University Partnership Corporation and Affiliates

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

Note 1. Nature of Activities (continued)

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 2013 and 2012. 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, 2013 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 2009.

Note 2. Property and Equipment

For the fiscal years ended June 30, 2013 and 2012, the Corporation owned the following property:

	<u>2013</u>	<u>2012</u>
Golf course	\$ 8,750,618	\$ 8,721,545
Modern Greens	512,319	512,319
Buildings	1,117,876	1,117,876
Equipment	691,986	691,987
Leased equipment	484,170	484,170
Accumulated depreciation and amortization	(961,257)	(626,457)
Golf course property and equipment, net of depreciation and amortization	10,595,712	10,901,440
Construction in progress - golf course clubhouse	2,394,348	252,375
Total property and equipment	<u>\$ 12,990,060</u>	<u>\$ 11,153,815</u>

Included in the cost of the property are cumulative donated materials of \$1,236,512 at June 30, 2013 and 2012. Total depreciation and amortization expense for the years ended June 30, 2013 and June 30, 2012 was \$334,801 and \$334,054, respectively.

NC State University Partnership Corporation and Affiliates

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

Note 3. Real Estate

Two tracts of land on Hillsborough Street are held by Bell Tower Holdings, LLC on behalf of its member, 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 \$2,730,750. The tracts of land are reported on the consolidated financial statements at their appraised value of \$2,550,000. This is the only asset reported at fair value on the consolidated financial statements and the valuation is based on a Level 2 input, which consists of quoted prices in active markets for similar assets, within the three-level fair value hierarchy established by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

Note 4. Operating Leases

During fiscal years 2013 and 2012, NC State University Centennial Development, LLC had operating leases for golf carts and maintenance equipment with total payments for the years ended June 30, 2013 and 2012 of \$61,199 and \$63,402, respectively. Future minimum lease payments at June 30, 2013 under the noncancelable operating leases are \$34,454 for fiscal year 2014.

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 \$484,170 as of June 30, 2013 and 2012, 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 \$176,755 and \$58,918 as of June 30, 2013 and 2012, respectively. Future minimum lease payments, gross of taxes, under capital leases at June 30, 2013 are as follows:

Years ending June 30:		
2014	\$	119,640
2015		119,640
2016		49,850
		<u>289,130</u>
Imputed interest		<u>(2,793)</u>
Present value of net minimum lease payments	\$	<u>286,337</u>

Note 6. Funds Held for Others

As of June 30, 2013 and 2012, Bell Tower Holdings, LLC had \$101,582 and \$63,446, respectively, in funds held for others, made up of cumulative earnings from investment real estate as well as unrealized gains and losses due to the change in market value of the real estate itself. During fiscal year 2013, Bell Tower Holdings, LLC generated net income of approximately \$38,000 for the year. These monies are held on behalf of the Endowment Fund of NC State University. See Note 3 above.

NC State University Partnership Corporation and Affiliates

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

Note 7. 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 \$980,000 and \$1,130,000 due on the note at June 30, 2013 and 2012, respectively. The interest rate on the note is the 1-month LIBOR plus 0.95% per annum, which was 1.144% and 1.189% at June 30, 2013 and 2012, respectively.

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, 2013, there have been no investments by the Endowment Fund for this obligation.

Note 8. 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 9. Prior Year Reclassifications

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

During fiscal year 2013, the Bell Tower Holdings, LLC entered into a non-interest bearing promissory note with the Endowment Fund of NC State University with an effective date of January 15, 2010 for the principal sum of \$2,730,750, the original purchase price paid by the Endowment Fund for the tracts of land. As a result of this promissory note, the Corporation determined that Bell Tower Holdings, LLC should reflect \$2,730,750 as a note payable in prior years instead of being classified as due to others. This change had no effect on previously reported net position.

Note 10. Subsequent Events

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 lease also contains an option to purchase, which is \$2.5 million until 2034 when the purchase price begins escalating annually for the remainder of the lease term.

NC State University Partnership Corporation and Affiliates

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

Note 10. Subsequent Events (continued)

On July 31, 2013, NC State University Centennial Development, LLC entered into a new loan agreement with SunTrust Bank to provide financing for the construction of the Carol Johnson Poole Clubhouse at the Lonnie Poole Golf Course. The loan is for \$3,100,000 and has an interest rate of the 1-month LIBOR plus 1.15% per annum and will mature on June 30, 2016.

The Corporation has evaluated subsequent events through August 19, 2013, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

SUPPLEMENTARY INFORMATION

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Position

June 30, 2013

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
ASSETS			
Current assets			
Cash	\$ 1,531,645	\$ 908,038	\$ 1,535
Trade receivables	-	-	-
Taxes receivable - golf course	-	16,889	-
Inventories - golf course	-	72,654	-
Total current assets	1,531,645	997,581	1,535
Noncurrent assets			
Real estate	-	-	-
Property and equipment			
Golf course property and equipment, net of depreciation and amortization	-	10,595,712	-
Construction in progress - golf course clubhouse	-	2,394,348	-
Total property and equipment	-	12,990,060	-
Total noncurrent assets	-	12,990,060	-
Total assets	\$ 1,531,645	\$ 13,987,641	\$ 1,535
LIABILITIES			
Current liabilities			
Accounts payable	\$ 616,978	\$ 1,005,480	\$ -
Current installments of capital lease obligations	-	117,832	-
Total current liabilities	616,978	1,123,312	-
Noncurrent liabilities			
Capital lease obligations, less current installments	-	168,505	-
Funds held for others	-	-	-
Notes payable	-	980,000	-
Total long-term liabilities	-	1,148,505	-
Total liabilities	616,978	2,271,817	-
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	-	311,605	-
NET POSITION			
Net investment in capital assets	-	12,010,060	-
Restricted net assets, expendable	-	224,429	-
Unrestricted net assets	914,667	(830,270)	1,535
Total net position	914,667	11,404,219	1,535
Total liabilities, deferred inflows of resources, and net position	\$ 1,531,645	\$ 13,987,641	\$ 1,535

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ 299,251	\$ 1,535	\$ 1,535	\$ 5,169	\$ 2,748,708
1,536	-	-	-	1,536
-	-	-	-	16,889
-	-	-	-	72,654
300,787	1,535	1,535	5,169	2,839,787
2,550,000	-	-	-	2,550,000
-	-	-	-	10,595,712
-	-	-	-	2,394,348
-	-	-	-	12,990,060
2,550,000	-	-	-	15,540,060
\$ 2,850,787	\$ 1,535	\$ 1,535	\$ 5,169	\$ 18,379,847
\$ 18,455	\$ -	\$ -	\$ 4,406	\$ 1,645,319
-	-	-	-	117,832
18,455	-	-	4,406	1,763,151
-	-	-	-	168,505
101,582	-	-	-	101,582
2,730,750	-	-	-	3,710,750
2,832,332	-	-	-	3,980,837
2,850,787	-	-	4,406	5,743,988
-	-	-	-	311,605
-	-	-	-	12,010,060
-	-	-	-	224,429
-	1,535	1,535	763	89,765
-	1,535	1,535	763	12,324,254
\$ 2,850,787	\$ 1,535	\$ 1,535	\$ 5,169	\$ 18,379,847

NC State University Partnership Corporation and Affiliates

Consolidating Statement of Net Position

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	-
Taxes receivable - golf course	-	11,802	-
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	-
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	\$ -
Current installments of capital lease obligations	-	116,920	-
Total current liabilities	-	230,503	-
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	-	1,646,840	-
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	-	286,664	-
NET POSITION			
Net investment in capital assets	-	10,023,815	-
Restricted net assets, expendable	-	-	-
Unrestricted net assets	-	(201,846)	1,085
Total net position	-	9,821,969	1,085
Total liabilities, deferred inflows of resources, and net position	\$ -	\$ 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
-	-	-	-	116,920
-	-	-	7,044	237,547
-	-	-	-	286,337
63,446	-	-	-	63,446
2,730,750	-	-	-	3,860,750
2,794,196	-	-	-	4,210,533
2,794,196	-	-	7,044	4,448,080
-	-	-	-	286,664
-	-	-	-	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 Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Leaders in Innovation and Nonwovens Commercialization, LLC	NC State University Centennial Development, LLC	NC State Upfit, LLC
OPERATING REVENUES AND EXPENSES			
Operating revenues:			
Contracted services revenue	\$ 3,811,450	\$ -	\$ -
Merchandise sales	-	272,773	-
Greens fees income	-	1,132,089	-
Golf cart income	-	261,176	-
Food and beverage sales	-	182,430	-
Other operating revenue	200	111,950	-
Total operating revenues	3,811,650	1,960,418	-
Operating expenses:			
Cost of sales	1,195,800	273,885	-
General operating expenses:			
Marketing expense	332	51,947	-
Contracted services expense	1,622,664	954,032	-
General and administrative expense	28,211	159,735	-
Clubhouse expense	-	135,316	-
Repairs and maintenance expense	205	288,946	-
Rental expense	-	50,978	-
Supplies expense	32,253	-	-
Office expense	3,351	3,247	-
Insurance expense	4,267	14,838	-
Other current services	10,400	50,585	200
Total general operating expenses	1,701,683	1,709,624	200
Net operating income (loss) prior to depreciation and amortization	914,167	(23,091)	(200)
Depreciation expense	-	216,964	-
Amortization expense	-	117,837	-
Total operating expenses	2,897,483	2,318,310	200
Net operating income (loss)	914,167	(357,892)	(200)
NONOPERATING EXPENSES			
Interest and fees on debt	-	(14,931)	-
Net nonoperating expenses	-	(14,931)	-
Net income (loss) before other revenues, expenses, gains, and losses	914,167	(372,823)	(200)
Capital contributions	500	150,000	-
Capital contributions - clubhouse	-	1,776,000	-
Total capital contributions	500	1,926,000	-
Capital transfers	-	29,073	650
Change in net position	914,667	1,582,250	450
Net position			
Beginning	-	9,821,969	1,085
Ending	\$ 914,667	\$ 11,404,219	\$ 1,535

Bell Tower Holdings, LLC	NC State CBC Land I, LLC	NC State CC Holdings I, LLC	NC State University Partnership Corporation	Consolidated
\$ -	\$ -	\$ -	\$ -	\$ 3,811,450
-	-	-	-	272,773
-	-	-	-	1,132,089
-	-	-	-	261,176
-	-	-	-	182,430
-	-	-	-	112,150
-	-	-	-	5,772,068
-	-	-	-	1,469,685
-	-	-	-	52,279
-	-	-	-	2,576,696
-	-	-	90	188,036
-	-	-	-	135,316
-	-	-	-	289,151
-	-	-	-	50,978
-	-	-	-	32,253
-	-	-	-	6,598
-	-	-	-	19,105
-	200	1,500	-	62,885
-	200	1,500	90	3,413,297
-	(200)	(1,500)	(90)	889,086
-	-	-	-	216,964
-	-	-	-	117,837
-	200	1,500	90	5,217,783
-	(200)	(1,500)	(90)	554,285
-	-	-	-	(14,931)
-	-	-	-	(14,931)
-	(200)	(1,500)	(90)	539,354
-	-	-	-	150,500
-	-	-	-	1,776,000
-	-	-	-	1,926,500
-	650	1,950	-	32,323
-	450	450	(90)	2,498,177
-	1,085	1,085	853	9,826,077
\$ -	\$ 1,535	\$ 1,535	\$ 763	\$ 12,324,254

NC State University Partnership Corporation and Affiliates

**Consolidating Statement of Revenues, Expenses, and Changes in Net Position
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, net	-	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)	-
Change in market value of real estate	-	-	-
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)
Capital contributions - residence	625,000	-	-
Capital contributions - golf course	-	645,334	-
Contributed materials - Chancellor's 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 position	(2,547,308)	1,363,708	-
Net position			
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

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, 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 as of and for the year ended June 30, 2013, and the related notes to the consolidated financial statements, which collectively comprise NC State University Partnership Corporation and Affiliates basic consolidated financial statements, and have issued our report thereon dated August 19, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NC State University Partnership Corporation and Affiliates 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 NC State University Partnership Corporation and Affiliates internal control. Accordingly, we do not express an opinion on the effectiveness of NC State University Partnership Corporation and Affiliates 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 NC State University Partnership Corporation and Affiliates 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 consolidated 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 results 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.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
August 19, 2013

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

August 19, 2013

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, 2013, and have issued our report thereon dated August 19, 2013. 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 14, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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, 2013. 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. The following material misstatements detected as a result of audit procedures were corrected by management:

Management recorded a material adjustment of approximately \$386,000 to accrue expenses.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the 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 19, 2013.

Management Consultations with Other Independent Accountants

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

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.

Williams Dverman Pierce, LLP