

**NC STATE ENGINEERING
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2012 and 2011

NC State Engineering Foundation, Inc.

**Financial Report
For the years ended June 30, 2012 and 2011**

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NC State Engineering Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of financial position of NC State Engineering Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 12, during the year ended June 30, 2012 the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended June 30, 2011 have been retrospectively adjusted to reflect the accrual basis of accounting adopted in the year ended June 30, 2012.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams Overman Pierce, LLP

Raleigh, North Carolina
October 17, 2012

Raleigh • Greensboro

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

NC State Engineering Foundation, Inc.

**Statements of Financial Position
June 30, 2012 and 2011**

	2012	2011
ASSETS		
Cash and cash equivalents (Note 1)	\$ 9,200,307	\$ 8,076,321
Intermediate investments (Note 1)	2,979,058	2,941,170
Marketable securities (Notes 3 and 4)	50,063,853	49,756,343
Pledges receivable (Notes 1 and 6)	2,210,067	2,435,506
Property held for others	11,000	11,000
Other assets	1,500	1,500
Total assets	\$ 64,465,785	\$ 63,221,840

LIABILITIES AND NET ASSETS

Accounts payable - North Carolina State University (Note 1)	\$ 11,164	\$ 21,578
Accounts payable (Note 1)	53,843	49,149
Due to others (Note 1)	11,000	11,000
Life income funds payable (Note 5)	1,628,020	1,691,720
Total liabilities	1,704,027	1,773,447

Net Assets:

Unrestricted:

Undesignated (Note 1)	1,032,254	1,204,275
Undesignated - underwater endowments (Note 2)	(88,093)	(145,610)
Board-designated - endowments (Note 2)	1,192,237	1,121,741
Temporarily restricted (Note 8)	24,197,307	25,343,993
Permanently restricted (Note 9)	36,428,053	33,923,994

Total net assets

Total liabilities and net assets

62,761,758	61,448,393
\$ 64,465,785	\$ 63,221,840

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 659,502	\$ 4,361,912	\$ 1,604,297	\$ 6,625,711
Change in pledges receivable	(18,541)	(463,147)	256,249	(225,439)
Donated services and salaries (Note 7)	776,000	-	-	776,000
Net asset reclassification -				
underwater endowments (Note 2)	57,517	(57,517)	-	-
Net investment income	11,130	465,356	552,299	1,028,785
Interest and dividends	91,797	31,626	62,999	186,422
Change in value of split interest agreements	-	-	(66,872)	(66,872)
Other income	-	91,774	-	91,774
Net assets released from restrictions (Note 10)	5,255,318	(5,255,318)	-	-
Total revenues, gains, and other income	6,832,723	(825,314)	2,408,972	8,416,381
Grants to support the University:				
Program:				
Scholarships and fellowships	2,730,738	-	-	2,730,738
Faculty support and professorships	1,078,592	-	-	1,078,592
Departmental support	1,179,745	-	-	1,179,745
Other current services	545,913	-	-	545,913
Total program support	5,534,988	-	-	5,534,988
Administrative	141,496	-	-	141,496
Fund-raising	1,428,070	-	-	1,428,070
Total other support	1,569,566	-	-	1,569,566
Total support	7,104,554	-	-	7,104,554
Excess of revenues, gains, and other income over total support	(271,831)	(825,314)	2,408,972	1,311,827
Net transfers:				
From (to) other University-associated entity	-	1,538	-	1,538
Among funds (Note 11)	227,823	(322,910)	95,087	-
Total net transfers	227,823	(321,372)	95,087	1,538
Change in net assets	(44,008)	(1,146,686)	2,504,059	1,313,365
Net assets:				
Beginning	2,180,406	25,343,993	33,923,994	61,448,393
Ending	\$ 2,136,398	\$ 24,197,307	\$ 36,428,053	\$ 62,761,758

NC State Engineering Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 719,654	\$ 5,144,940	\$ 1,095,031	\$ 6,959,625
Change in pledges receivable	14,846	43,683	(95,837)	(37,308)
Donated services and salaries (Note 7)	951,750	-	-	951,750
Net asset reclassification - underwater endowments (Note 2)	1,741,181	(1,741,181)	-	-
Net investment income	1,093,315	5,299,918	74,727	6,467,960
Interest and dividends	136,731	47,264	59,398	243,393
Change in value of split interest agreements	-	-	(397,290)	(397,290)
Other income	159,137	-	6,290	165,427
Net assets released from restrictions (Note 10)	5,062,932	(5,062,932)	-	-
Total revenues, gains, and other income	9,879,546	3,731,692	742,319	14,353,557
Grants to support the University:				
Program:				
Scholarships and fellowships	2,559,088	-	-	2,559,088
Faculty support and professorships	1,086,088	-	-	1,086,088
Departmental support	1,234,225	-	-	1,234,225
Other current services	659,693	-	-	659,693
Total program support	5,539,094	-	-	5,539,094
Administrative	169,771	-	-	169,771
Fund-raising	1,118,810	-	-	1,118,810
Total other support	1,288,581	-	-	1,288,581
Total support	6,827,675	-	-	6,827,675
Excess of revenues, gains, and other income over total support	3,051,871	3,731,692	742,319	7,525,882
Net transfers:				
From (to) other University-associated entity	(27,848)	45,493	124,928	142,573
Among funds (Note 11)	(726,869)	679,285	47,584	-
Total net transfers	(754,717)	724,778	172,512	142,573
Change in net assets	2,297,154	4,456,470	914,831	7,668,455
Net assets:				
Beginning	(116,748)	20,887,523	33,009,163	53,779,938
Ending	\$ 2,180,406	\$ 25,343,993	\$ 33,923,994	\$ 61,448,393

NC State Engineering Foundation, Inc.

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

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets:	\$ 1,313,365	\$ 7,668,455
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net investment income	(1,028,785)	(6,467,960)
Investment income restricted for split interest agreements	(62,999)	(59,398)
Actuarial change in value of split interest agreements	66,872	397,290
Contributions restricted for permanent endowment	(1,604,297)	(1,095,031)
(Increase) decrease in pledges receivable	225,439	37,308
(Increase) decrease in property held for others	-	(11,000)
Increase (decrease) in accounts payable - North Carolina State University	(10,414)	3,654
Increase (decrease) in accounts payable	4,694	49,150
Increase (decrease) in due to others	-	11,000
Net cash provided by (used in) operating activities	(1,096,125)	533,468
Cash Flows From Investing Activities:		
Proceeds from sales of investments	4,453,601	342,616
Purchases of investments	(3,770,214)	(601,166)
Net cash provided by (used in) investing activities	683,387	(258,550)
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	1,604,297	1,095,031
Investment income restricted for split interest agreements	62,999	59,398
Payments on life income fund obligations	(211,446)	(240,743)
Proceeds from life income fund obligations	80,874	-
Net cash provided by financing activities	1,536,724	913,686
Net increase in cash and cash equivalents	1,123,986	1,188,604
Cash and cash equivalents:		
Beginning	8,076,321	6,887,717
Ending	\$ 9,200,307	\$ 8,076,321
Supplemental Disclosures of Noncash Activities:		
Donated services and salaries	\$ 776,000	\$ 951,750
Transfers among funds	\$ 322,910	\$ 726,869

NC State Engineering Foundation, Inc.

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

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Engineering Foundation, Inc., ("Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation, established in 1944, aids and promotes, by financial assistance and otherwise, education, research, and extension at the University's College of Engineering.

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

Basis of accounting and presentation: The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Foundation's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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

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

Intermediate investments: Intermediate investments consist of an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term needs. These investments are reported at readily determinable fair values of \$2,979,058 and \$2,941,170 at June 30, 2012 and 2011, respectively. The cost of these investments was \$3,363,389 as of June 30, 2012 and 2011.

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

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

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

Pledges receivable: Unconditional pledges receivable are recognized as support and assets in the period received. Conditional pledges are recognized when the conditions on which they depend are substantially met.

Contributions: Restricted contributions are segregated for income and expense reporting purposes; however, the assets are commingled. When a donor or grantor restriction expires because the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

In fiscal year 2011, the University instituted a gift assessment program in support of Central Development and college-level fundraising efforts. Beginning October 1, 2010, a one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$191,101 and \$185,861 for the years ended June 30, 2012 and 2011, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

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

Accounts payable - North Carolina State University: Accounts payable to the University include amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses.

Accounts payable: Accounts payable represents trade payables due to vendors at year end.

Due to others: Due to others at June 30, 2012 and 2011 consists of \$11,000, respectively, due to external parties.

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

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

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

Income taxes and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2012 and 2011. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Note 2. Endowment

The Foundation's endowment consists of approximately 340 individual funds established for a variety of purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Foundation's Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the Foundation's signed endowment gift agreements with donors have donor-imposed restrictions which stipulate that principal shall not be used to fund spending.

Interpretation of relevant law:

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was adopted in North Carolina as NC General Statute 36E effective March 17, 2009. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation's interpretation of UPMIFA and the signed endowment agreements with donors, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation's endowment spending policy.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were (\$88,093) as of June 30, 2012, and (\$145,610) as of June 30, 2011, respectively.

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

Note 2. Endowment (continued)

Investment return objectives and risk parameters:

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

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many newer endowments are not able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, up to 15% of the corpus of an endowment may be expended if reserves are not sufficient to fund the programmatic spending amount, subject to the guidelines provided by UPMIFA. However, if the gift instrument does not allow spending of corpus, the Foundation does not initiate or renew spending for the individual endowments affected by declining market conditions until their market value has been recovered and exceeds their original gift value. In establishing the spending policy, the Foundation considered the long-term expected return on its endowment. Spending budgets were calculated at \$643,695 and \$1,469,115 for fiscal years 2012 and 2013, respectively.

Strategies employed for achieving investment objectives:

For the long term, the primary investment objective for the NCSIF is to earn a total return (net of investment and custodial fees), within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the NCSIF and to meet the spending needs of the University. To meet this investment objective, the NCSIF invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

NCSIF's investments are diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g., within common stocks by economic sector, geographic area, industry, quality, and size). In general, the NCSIF seeks to diversify exposure to all asset classes by hiring multiple managers that use a variety of investment approaches.

NC State Engineering Foundation, Inc.

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

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 976,131	\$ 15,388,356	\$ 33,923,994	\$ 50,288,481
Net asset reclassification - underwater endowments	57,517	(57,517)	-	-
Endowment net assets after reclassification	1,033,648	15,330,839	33,923,994	50,288,481
Total investment return	(98,259)	(52,671)	615,298	464,368
Contributions, including change in accrued pledges	-	1,593	1,860,546	1,862,139
Appropriations of endowment assets for expenditure	168,755	(1,959,718)	-	(1,790,963)
Change in value of split interest agreements	-	-	(66,872)	(66,872)
Other changes:				
Transfers	-	-	95,087	95,087
Endowment net assets, end of year	\$ 1,104,144	\$ 13,320,043	\$ 36,428,053	\$ 50,852,240

The following represents endowment net asset composition by type of fund, as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (88,093)	\$ -	\$ -	\$ (88,093)
Board-designated endowment funds	1,192,237	-	-	1,192,237
Donor restricted endowment funds	-	13,320,043	36,428,053	49,748,096
Total funds	\$ 1,104,144	\$ 13,320,043	\$ 36,428,053	\$ 50,852,240

NC State Engineering Foundation, Inc.

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

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (1,260,605)	\$ 11,953,959	\$ 33,009,163	\$ 43,702,517
Net asset reclassification - underwater endowments	1,741,181	(1,741,181)	-	-
Endowment net assets after reclassification	480,576	10,212,778	33,009,163	43,702,517
Total investment return	495,555	5,989,467	140,415	6,625,437
Contributions, including change in accrued pledges	-	-	999,194	999,194
Appropriations of endowment assets for expenditure	-	(813,889)	-	(813,889)
Change in value of split interest agreements	-	-	(397,290)	(397,290)
Other changes:				
Transfers	-	-	172,512	172,512
Endowment net assets, end of year	\$ 976,131	\$ 15,388,356	\$ 33,923,994	\$ 50,288,481

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (145,610)	\$ -	\$ -	\$ (145,610)
Board-designated endowment funds	1,121,741	-	-	1,121,741
Donor restricted endowment funds	-	15,388,356	33,923,994	49,312,350
Total funds	\$ 976,131	\$ 15,388,356	\$ 33,923,994	\$ 50,288,481

Note 3. Long-Term Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments at June 30, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 250,508	\$ 250,508	\$ 76,034	\$ 76,034
NC State Investment Fund, Inc.	43,499,685	46,544,288	43,962,498	46,052,623
Wells Fargo - Life Income Funds	3,352,230	3,269,057	3,042,401	3,627,686
	\$ 47,102,423	\$ 50,063,853	\$ 47,080,933	\$ 49,756,343

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

Note 3. Long-Term Investments (continued)

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the State Treasurer's Short Term Investment Fund ("STIF"). As of June 30, 2012, approximately 87% of these limited partnerships were with the UNC Management Company ("UNCMC"), 7% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, and 6% invested in the STIF. NCSIF's net assets were valued at approximately \$397,192,000 and \$378,260,000 at June 30, 2012 and 2011, respectively. The Foundation's investment in the NCSIF represents approximately 11.7% and 12.2% of the member equity of NCSIF at June 30, 2012 and 2011, respectively.

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

The Foundation's investments held by Citigroup Trust Bank primarily consist of common equity securities.

Note 4. Fair Value Measurement

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

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

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.)

Level 3 – significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments)

To measure fair value, there are three general valuation techniques that may be used, as described below:

A) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

NC State Engineering Foundation, Inc.

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

Note 4. Fair Value Measurement (continued)

C) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below are measured at fair value on a recurring basis using both market and income approaches. The market approach was used for level 2 and the income approach was used for level 3. While the NCSIF is categorized below as a Level 3 investment, as a member of the UNCMC, the NCSIF has full redemption privileges with a 60 day notice requirement.

The following represents fair value at June 30, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 250,508	\$ -	\$ -	\$ 250,508
commonfund Intermediate Term Fund	-	2,979,058	-	2,979,058
NC State Investment Fund, Inc.	-	-	46,544,288	46,544,288
Wells Fargo - Life Income Funds	-	3,269,057	-	3,269,057
	\$ 250,508	\$ 6,248,115	\$ 46,544,288	\$ 53,042,911

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 76,034	\$ -	\$ -	\$ 76,034
commonfund Intermediate Term Fund	-	2,941,170	-	2,941,170
NC State Investment Fund, Inc.	-	-	46,052,623	46,052,623
Wells Fargo - Life Income Funds	-	3,627,686	-	3,627,686
	\$ 76,034	\$ 6,568,856	\$ 46,052,623	\$ 52,697,513

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

	2012	2011
	NC State Investment Fund, Inc.	NC State Investment Fund, Inc.
Beginning balance	\$ 46,052,623	\$ 39,917,263
Unrealized gain on investments	954,479	6,016,953
Realized gain on investments	344,029	48,813
Net investment / withdrawal	(806,843)	69,594
Ending balance	\$ 46,544,288	\$ 46,052,623

NC State Engineering Foundation, Inc.

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

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2012 and 2011 have asset balances of \$3,269,057 and \$3,627,686, respectively.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreement, and the life expectancy of the beneficiaries. Liabilities were \$1,628,020 and \$1,691,720 at June 30, 2012 and June 30, 2011, respectively. Payments from these funds were \$211,446 and \$240,743 during the years ended June 30, 2012 and 2011, respectively. An unrestricted reserve account was established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2012 and 2011, the CGA reserve balance was \$4,323 and \$-0-, respectively.

Note 6. Pledges Receivable

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using Federal Reserve rates of return, and are as follows:

	2012	2011
Receivable in less than one year	\$ 1,315,855	\$ 1,648,945
Receivable in one to five years	1,023,794	946,245
Total gross pledges receivable	2,339,649	2,595,190
Less allowance for uncollectible pledges	(117,000)	(130,000)
Less unamortized discount	(12,582)	(29,684)
Net pledges receivable	<u>\$ 2,210,067</u>	<u>\$ 2,435,506</u>

An allowance for uncollectible pledges has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Note 7. Donated Services and Salaries

Donated services in the amount of \$87,000 and \$123,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries paid by the University for college development personnel in the amount of \$689,000 and \$828,750 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

NC State Engineering Foundation, Inc.

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

Note 8. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 1,217,496	\$ 1,260,887
Fellowships	328,740	268,193
Professorships	789,878	780,192
Research support	4,837,837	4,763,989
Endowment cumulative balance	13,320,043	15,388,356
Other	3,703,313	2,882,376
	<u>\$ 24,197,307</u>	<u>\$ 25,343,993</u>

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

Note 9. Permanently Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 21,035,831	\$ 20,272,453
Fellowships	6,233,889	6,316,728
Professorships	3,995,916	4,237,036
NC State Engineering Foundation Academic Enhancement	3,621,087	3,664,884
Amounts reported as unrestricted or temporarily restricted net assets	(14,424,187)	(16,364,487)
Other	15,965,517	15,797,380
	<u>\$ 36,428,053</u>	<u>\$ 33,923,994</u>

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

NC State Engineering Foundation, Inc.

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

Note 10. Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions as restrictions were met via the passage of time or by incurring expenses satisfying the restricted purposes specified by donors as follows:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 771,290	\$ 627,609
Fellowships	276,744	334,214
Professorships	163,405	134,100
Research support	1,563,394	1,639,204
Other	2,480,485	2,327,805
	<u>\$ 5,255,318</u>	<u>\$ 5,062,932</u>

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

Note 11. Transfers Among Funds To Permanently Restricted

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level, due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2012 and 2011, net endowment transfers among funds were \$95,087 and \$47,584 respectively.

Note 12. Prior Year Reclassifications and Restatement

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

In previous years, the Foundation prepared its financial statements using the modified cash basis of accounting. In fiscal year 2012, the Foundation adopted accounting principles generally accepted in the United States of America as the basis for its financial statements. The fiscal year 2011 comparative financial statements have been restated to conform with the new basis of accounting. Accordingly, as a result of the differences between accounting principles generally accepted in the United States of America and the modified cash basis of accounting, unrestricted, temporarily restricted, and permanently restricted net assets at the beginning of fiscal year 2011 are \$36,753 higher, \$1,808,087 higher, and \$627,975 higher, respectively and the change in unrestricted, temporarily restricted, and permanently restricted net assets is \$861,568 lower, \$870,947 higher, and \$95,837 lower, respectively, than the amounts previously reported.

NC State Engineering Foundation, Inc.

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

Note 12. Prior Year Reclassifications and Restatement (continued)

Statement of financial position at June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Assets:			
Pledges receivable	\$ -	\$ 2,435,506	\$ 2,435,506
Total assets	\$ 60,786,334	\$ 2,435,506	\$ 63,221,840
Liabilities:			
Accounts payable	\$ -	\$ 49,149	\$ 49,149
Total liabilities	\$ 1,724,298	\$ 49,149	\$ 1,773,447
Net Assets:			
Unrestricted:			
Undesignated	\$ 1,923,785	\$ (719,510)	\$ 1,204,275
Undesignated - underwater endowments	(145,610)	-	(145,610)
Board-designated - endowments	1,227,046	(105,305)	1,121,741
Temporarily restricted	22,664,959	2,679,034	25,343,993
Permanently restricted	33,391,856	532,138	33,923,994
Total net assets	\$ 59,062,036	\$ 2,386,357	\$ 61,448,393

Statement of activities for the year ended June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Contributions	\$ 6,860,625	\$ 99,000	\$ 6,959,625
Changes in pledges receivable	-	(37,308)	(37,308)
Other current services	610,543	49,150	659,693
Change in net assets	\$ 7,754,913	\$ (86,458)	\$ 7,668,455

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 17, 2012, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

NC State Engineering Foundation, Inc.

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

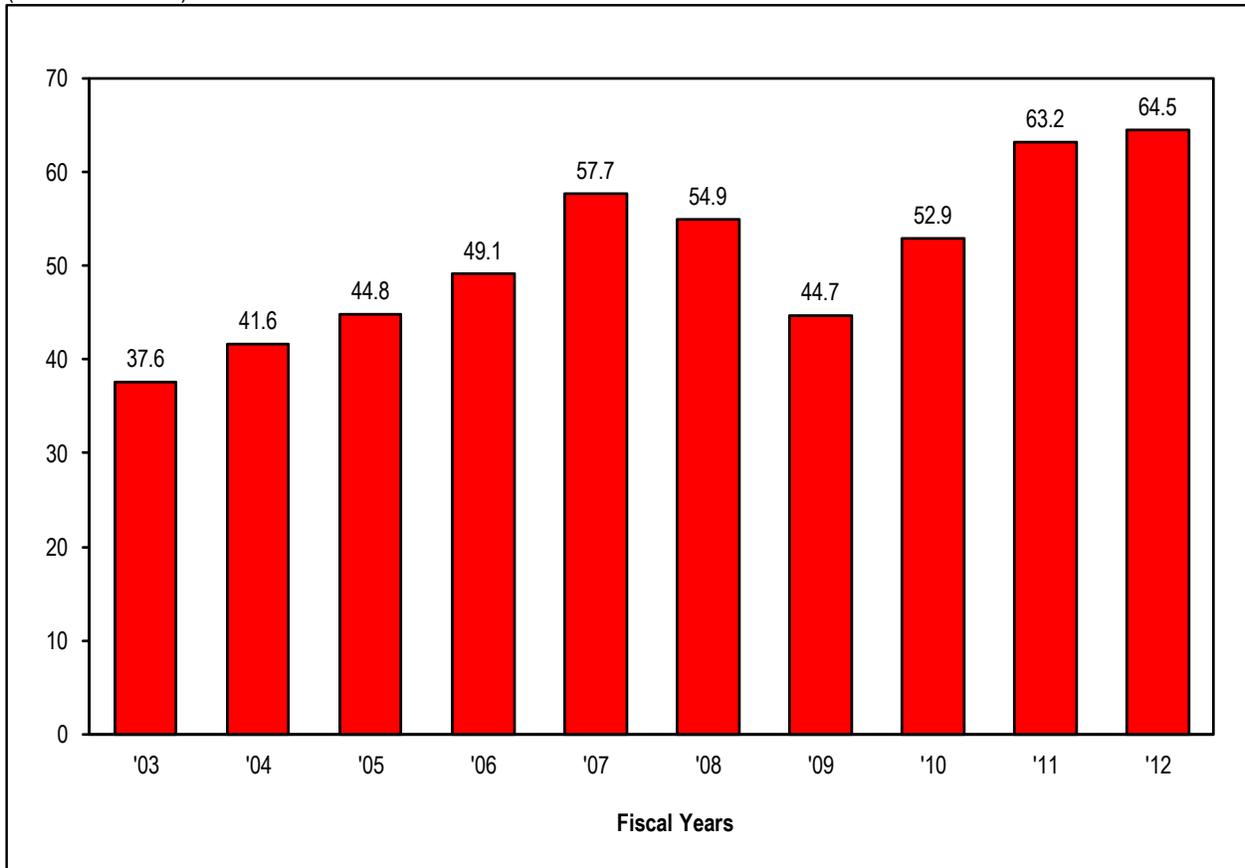
	Budget	Actual	Variance
Income:			
Contributions:			
Annual Fund	\$ 325,000	\$ 403,408	\$ 78,408
Engineering Leadership Fund - Annual Fund	500	550	50
Engineering Leadership Fund	220,000	159,656	(60,344)
Directors	160,000	95,701	(64,299)
Other	100	120	20
Total contributions	705,600	659,435	(46,165)
Endowment assessments	110,025	110,025	-
Interest and dividends	117,000	95,639	(21,361)
Total income	932,625	865,099	(67,526)
Support			
Program support	360,000	334,938	(25,062)
Advancement services	36,825	36,825	-
Gift assessment fees	-	11,987	11,987
Foundation administration	706,000	702,701	(3,299)
Total support	1,102,825	1,086,451	(16,374)
Income less support	(170,200)	(221,352)	(51,152)
Enhancement Fund Cash Balance:			
Beginning	1,115,931	1,115,931	-
Ending	\$ 945,731	\$ 894,579	\$ (51,152)

NC State Engineering Foundation, Inc.

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

Total Assets*

(Dollars in Millions)



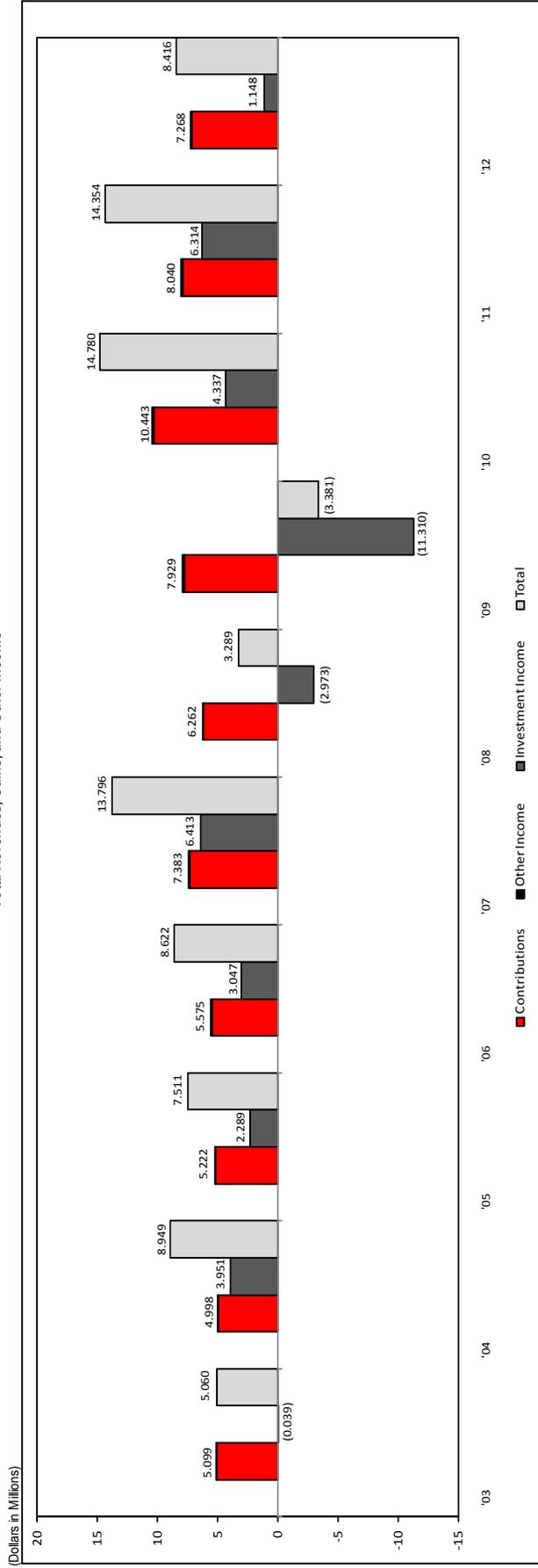
Not reflected in the chart above are contributions deposited with the University in the amount of \$130,485 which benefit the College of Engineering. These gifts were received due to the efforts of Foundation members and the College Development Staff.

*Fiscal years 2011 and 2012 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

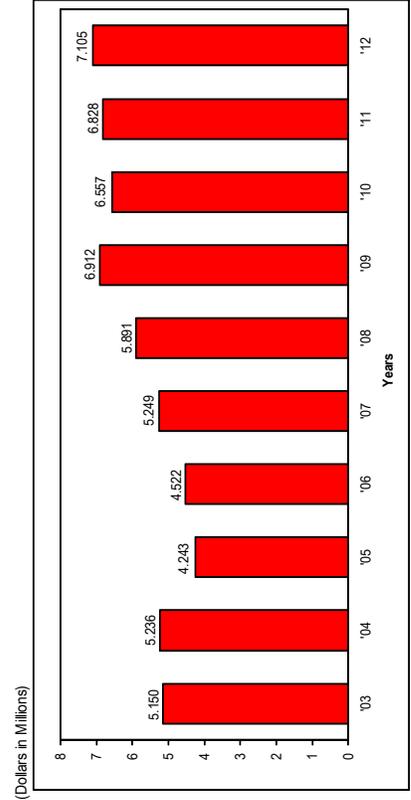
NC State Engineering Foundation, Inc.

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

Total Revenues, Gains, and Other Income*



Total Support*



*Fiscal years 2011 and 2012 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

OTHER INFORMATION



Williams Overman Pierce, LLP

Certified Public Accountants and Consultants

October 17, 2012

To the Board of Directors
NC State Engineering Foundation, Inc.
Raleigh, North Carolina

We have audited the financial statements of NC State Engineering Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 13, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by NC State Engineering Foundation, Inc. are described in Note 1 to the financial statements. As described in Note 12, the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America during the year ended June 30, 2012. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were prior year uncorrected misstatements due to pledge confirmations and prior year unrecorded pledges that were corrected in the current year (see the attached summary). Management has determined that the prior year effect is immaterial, both individually and in the aggregate, to the financial statements for the year ended June 30, 2011 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 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 October 17, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Closing

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve the NC State Engineering Foundation, Inc.

This information is intended solely for the use of the Board of Directors and management of NC State Engineering Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Williams Dverman Pierce, LLP



NC State Engineering Foundation, Inc.
Summary of Passed Adjustments
Year Ended June 30, 2012

Effect of Misstatement
Overstatement (Understatement)

	<u>Assets</u>	<u>Liabilities</u>	<u>Beginning Net Assets</u>	<u>Change in Net Assets</u>	<u>Ending Net Assets</u>
Year ended June 30, 2011:					
Effect of audit differences:					
Understatement of pledges receivable	\$ (107,664)	\$ -	\$ (107,664)		\$ (107,664)
Understatement of pledge allowance	5,422			5,422	5,422
Cumulative financial statement adjustment at June 30, 2011	<u>\$ (102,242)</u>	<u>\$ -</u>	<u>\$ (107,664)</u>	<u>\$ 5,422</u>	<u>\$ (102,242)</u>
Year ended June 30, 2012:					
Adjustment of prior year audit differences	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (102,242)</u>	<u>\$ 102,242</u>	<u>\$ -</u>
Cumulative financial statement adjustment at June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (102,242)</u>	<u>\$ 102,242</u>	<u>\$ -</u>