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NORTH CAROLINA TEXTILE FOUNDATION, INC.

Financial Statements

June 30, 2018 and 2017

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The Board of Directors
North Carolina Textile Foundation, Inc.
Raleigh, North Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of North Carolina Textile Foundation, Inc., which comprise the statements of assets, liabilities, and net assets--modified cash basis as of June 30, 2018 and 2017, and the related statements of revenue, gains and other support and expenses and changes in net assets--modified cash basis and cash flows--modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of North Carolina Textile Foundation, Inc., as of June 30, 2018 and 2017, and its revenue, gains and other support and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

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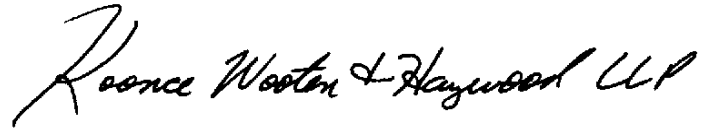
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Basis of Accounting

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

A handwritten signature in black ink that reads "Rance Wooten & Haywood LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
November 2, 2018

NORTH CAROLINA TEXTILE FOUNDATION, INC.
 Statements of Assets, Liabilities and Net Assets--Modified Cash Basis
 June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Cash	\$ 34,015	\$ 115,546
PROPERTY AND EQUIPMENT:		
Furniture and Equipment	33,154	32,204
Less Accumulated Depreciation	22,365	19,173
Net Property and Equipment	10,789	13,031
OTHER ASSETS:		
Investments	48,025,982	45,010,544
Investments Held Under Gift Annuities and Charitable Remainder Trusts	507,417	523,307
Beneficial Interest in Charitable Remainder Trusts		174,440
Cash Surrender Value of Life Insurance	43,054	39,673
Total Other Assets	48,576,453	45,747,964
Total Assets	\$ 48,621,257	\$ 45,876,541

LIABILITIES AND NET ASSETS

LIABILITIES:		
Due to Donors of Charitable Remainder Trusts and Annuitants	\$ 419,712	\$ 447,838
NET ASSETS:		
Unrestricted	6,436,222	6,081,486
Temporarily Restricted	22,746,201	20,851,232
Permanently Restricted	19,019,122	18,495,985
Total Net Assets	48,201,545	45,428,703
Total Liabilities and Net Assets	\$ 48,621,257	\$ 45,876,541

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUE, GAINS AND OTHER SUPPORT AND EXPENSES
AND CHANGES IN NET ASSETS--MODIFIED CASH BASIS

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Statements of Revenue, Gains and Other Support and Expenses
and Changes in Net Assets--Modified Cash Basis
For The Years Ended June 30, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE, GAINS AND OTHER SUPPORT:				
Contributions	\$ 545,532	\$ 1,105,783	\$ 513,521	\$ 2,164,836
Interest and Dividend Income, net	55,687	272,728		328,415
Net Realized Gain on Sale of Investments	278,565	1,364,256		1,642,821
Unrealized Gain on Investments	201,523	1,731,851		1,933,374
Scholarship and Enrichment Repayments				
Change in Value of Split-Interest Agreements	(2)	2,622	9,616	12,236
Other Income	1,136			1,136
Increase in Cash Surrender Value of Life Insurance	3,381			3,381
Net Assets Released from Donor Restrictions	<u>2,582,271</u>	<u>(2,582,271)</u>		
Total Revenue, Gains and Other Support	<u>3,668,093</u>	<u>1,894,969</u>	<u>523,137</u>	<u>6,086,199</u>
EXPENSES:				
Program Services:				
NCSU College of Textiles Support	1,555,487			1,555,487
Scholarship Awards	942,800			942,800
Naming Opportunity Program				
Designated Purchases	150,033			150,033
Other	1,446			1,446
Total Program Services	<u>2,649,766</u>			<u>2,649,766</u>
Supporting Services:				
Management and General	468,952			468,952
Development	194,639			194,639
Total Supporting Services	<u>663,591</u>			<u>663,591</u>
Total Expenses	<u>3,313,357</u>			<u>3,313,357</u>
CHANGES IN NET ASSETS	354,736	1,894,969	523,137	2,772,842
NET ASSETS--Beginning of Year	<u>6,081,486</u>	<u>20,851,232</u>	<u>18,495,985</u>	<u>45,428,703</u>
NET ASSETS--End of Year	<u>\$ 6,436,222</u>	<u>\$ 22,746,201</u>	<u>\$ 19,019,122</u>	<u>\$ 48,201,545</u>

The accompanying notes are an integral part of the financial statements.

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 38,477	\$ 699,417	\$ 439,106	\$ 1,177,000
73,538	372,814		446,352
303,871	1,540,532		1,844,403
461,465	2,325,932		2,787,397
	951		951
611	4,261	112,607	117,479
380			380
2,942			2,942
<u>2,119,043</u>	<u>(2,119,043)</u>		
<u>3,000,327</u>	<u>2,824,864</u>	<u>551,713</u>	<u>6,376,904</u>
1,138,205			1,138,205
881,024			881,024
153,050			153,050
103			103
<u>2,172,382</u>			<u>2,172,382</u>
530,395			530,395
233,302			233,302
<u>763,697</u>			<u>763,697</u>
<u>2,936,079</u>			<u>2,936,079</u>
64,248	2,824,864	551,713	3,440,825
<u>6,017,238</u>	<u>18,026,368</u>	<u>17,944,272</u>	<u>41,987,878</u>
<u>\$ 6,081,486</u>	<u>\$ 20,851,232</u>	<u>\$ 18,495,985</u>	<u>\$ 45,428,703</u>

NORTH CAROLINA TEXTILE FOUNDATION, INC.
 Statements of Cash Flows--Modified Cash Basis
 For The Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in Net Assets	\$ 2,772,842	\$ 3,440,825
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	3,316	2,869
Increase in Cash Surrender Value of Life Insurance	(3,381)	(2,942)
Net Realized Gain on Sale of Investments	(1,642,821)	(1,844,403)
Unrealized Gain on Investments	(1,933,374)	(2,787,397)
Change in Value of Split-Interest Agreements	30,614	(74,629)
Contributions Restricted for Permanent Endowment	(513,521)	(439,106)
Net Cash Used by Operating Activities	(1,286,325)	(1,704,783)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	18,892,591	19,635,166
Purchase of Investments	(18,331,834)	(18,503,458)
Purchase of Furniture and Equipment	(1,074)	(8,460)
Net Cash Provided by Investing Activities	559,683	1,123,248
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Permanent Endowment	513,521	439,106
Proceeds from Obligations Under Split-Interest Agreements	174,440	34,602
Payments on Obligations Under Split-Interest Agreements	(42,850)	(42,850)
Net Cash Provided by Financing Activities	645,111	430,858
NET DECREASE IN CASH	(81,531)	(150,677)
CASH--Beginning of Year	115,546	266,223
CASH--End of Year	\$ 34,015	\$ 115,546

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

1. Nature of Activities and Summary of Significant Accounting Policies

A. Nature of Activities:

North Carolina Textile Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized in 1942. The mission of the Foundation is to promote the welfare, future development and reputation of the College of Textiles (the "College") at North Carolina State University as the premier institution for textile education and research. As a not-for-profit organization, the Foundation supports the College by providing funds for scholarships to deserving undergraduate and graduate students, recruitment and retention of highly qualified educators and researchers and the acquisition and maintenance of state-of-the-art equipment and facilities for research and education.

B. Basis of Accounting:

The Foundation's financial statements are prepared on a modified cash basis of accounting. As the Foundation applies this basis, contributions and earnings from interest and dividends are recognized when collected, rather than when the rights to receive accrue to the Foundation. Expenses are recognized when paid rather than when incurred. Therefore, accrued investment earnings, pledges receivable, and accounts payable and accrued expenses are not included in the financial statements. The significant modifications to the cash basis are the recognition of unrealized gains and losses on investments, the recording of actuarial liabilities related to split-interest agreements, the recording of the cash surrender value of a life insurance policy, and the recording of beneficial interests in charitable remainder trusts. Therefore, the accompanying financial statements are not intended to present financial position or changes in net assets in conformity with accounting principles generally accepted in the United States of America.

C. Accounting Estimates:

The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Basis of Presentation:

Financial reporting standards require not-for-profit organizations to classify resources into three net asset categories according to externally imposed restrictions. Accordingly, net assets of the Foundation and changes therein may be 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 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 general or specific purposes.

E. Restricted and Unrestricted Revenue:

Contributions of cash and other assets are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

F. Investments:

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

G. Income Tax Status:

The Foundation is exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code and is classified under Section 501(c)(3) as a public charity. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions provided in Section 170(b)(1)(A)(vi).

It is the Foundation's policy to evaluate all tax positions to identify those that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the benefit of any certain tax position should be recognized in the period the change occurs.

The Foundation files its Form 990 series tax returns in the U.S. Federal jurisdiction. The Foundation's returns are subject to examination by the Internal Revenue Service for a period of three years after the respective filing deadlines.

H. Property and Equipment:

Property and equipment are recorded at cost or estimated fair market value at date of donation. A capitalization threshold of \$500 is utilized. Depreciation is computed on a straight-line basis over estimated useful lives.

I. Cash and Cash Equivalents:

The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

2. Investments

Investments of the Foundation at June 30, 2018 and 2017 consist of the following:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Market Value</u>	<u>Historical Cost</u>	<u>Market Value</u>	<u>Historical Cost</u>
Cash Equivalents	\$ 268,837	\$ 268,837	\$ 188,465	\$ 188,465
Fixed Income Securities	9,131,729	8,880,893	8,258,486	7,939,625
Equities	36,746,879	26,681,097	34,215,827	28,008,606
Alternative Investments	<u>1,878,537</u>	<u>1,036,715</u>	<u>2,347,766</u>	<u>1,662,602</u>
	<u>\$ 48,025,982</u>	<u>\$ 38,867,542</u>	<u>\$ 45,010,544</u>	<u>\$ 37,799,298</u>

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

2. Investments (Continued)

The following schedule summarizes the investment income, after investment expenses of \$145,341, for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and Dividend Income, net	\$ 55,687	\$ 272,728	\$	\$ 328,415
Realized Gains	278,565	1,364,256		1,642,821
Unrealized Gains	<u>201,523</u>	<u>1,731,851</u>		<u>1,933,374</u>
Total Investment Income	<u>\$ 535,775</u>	<u>\$ 3,368,835</u>	<u>\$</u>	<u>\$ 3,904,610</u>

The following schedule summarizes the investment income, after investment expenses of \$166,462, for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and Dividend Income, net	\$ 73,538	\$ 372,814	\$	\$ 446,352
Realized Gains	303,871	1,540,532		1,844,403
Unrealized Gains	<u>461,465</u>	<u>2,325,932</u>		<u>2,787,397</u>
Total Investment Income	<u>\$ 838,874</u>	<u>\$ 4,239,278</u>	<u>\$</u>	<u>\$ 5,078,152</u>

Investments (including those held under gift annuity agreements and charitable remainder trusts) in equity securities with readily determinable fair values and all debt securities are reported at fair value. Alternative investments represent investments for which a readily determinable fair value does not exist. These investments are carried at estimated fair values as provided by the respective fund managers of these investments. Brown Brothers Harriman, the Foundation's investment advisor, reviews and evaluates the values provided by the fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have initially been used had a ready market for these investments existed. Unrealized gains and losses, interest and dividend income collected, and realized gains and losses are included in change in net assets in the statement of revenue, gains, and other support and expenses and changes in net assets--modified cash basis.

The Foundation invests in a combination of stocks, fixed income securities, money market funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the Foundation's investment balance reported in the statements of assets, liabilities and net assets--modified cash basis.

Alternative investments at June 30, 2018 and 2017 includes the Foundation's investment in multi-strategy hybrid funds of funds that employ a variety of low volatility, absolute return oriented strategies designed to achieve consistent returns which are not dependent upon a rising equity market or correlated with the major stock or bond markets. The funds employ a multi-strategy, multi-manager investment approach using traditional and nontraditional alternative strategies. The Foundation has certain restrictions for withdrawal of funds that generally require 60 days' notice. The Foundation's equity in the funds is less than 2% of the funds' participant equity.

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

3. Investments Held Under Gift Annuities and Charitable Remainder Trusts

The Foundation has been named as a beneficiary in gift annuities and charitable remainder trusts in which the Foundation is the trustee. When the Foundation receives assets in connection with an annuity or charitable remainder trust, the assets are recorded at fair value, generally invested in stocks and fixed income securities, while a liability is recorded at the present value of the expected future payments to be made to the beneficiary. The discount rate and actuarial assumptions used in determining the present value of the expected future payments are based on applicable Internal Revenue Service discount rates and life expectancy assumptions. The Change in Value of Split-Interest Agreements on the Statements of Activities includes the change in market value of the investments, the change in present value of future payments to donors, actual payments made to donors, and contributions of split-interest agreements received. During the years ended June 30, 2018 and 2017, payments to donors and redemptions totaled \$42,850 and \$42,850, respectively.

Investments held under gift annuities and charitable remainder trusts consist of the following:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Market Value</u>	<u>Historical Cost</u>	<u>Market Value</u>	<u>Historical Cost</u>
Cash Equivalents	\$ 16,945	\$ 16,945	\$ 14,391	\$ 14,391
Fixed Income Securities	208,562	215,238	213,643	215,619
Equities	215,881	183,865	229,494	204,999
Alternative Investments	<u>66,029</u>	<u>70,687</u>	<u>65,779</u>	<u>71,364</u>
	<u>\$ 507,417</u>	<u>\$ 486,735</u>	<u>\$ 523,307</u>	<u>\$ 506,373</u>

4. Fair Value Measurements

The Foundation follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, as amended, with respect to fair value measurements of its financial assets and liabilities. This standard defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The hierarchy is broken down into three levels. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The valuation methodologies used for the Foundation's assets measured at fair value is as follows:

Government and corporate bonds and notes, common and preferred stocks and mutual funds are held in brokerage accounts and valued at readily available, quoted market prices in principal active markets that are considered to be representative of fair value. The Foundation classifies these investments within Level 1 of the valuation hierarchy.

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

4. Fair Value Measurements (Continued)

Alternative investments measured by the Net Asset Value provided by the investment company are considered to be Level 2 investments. The Foundation believes that the carrying amount of its alternative investments is a reasonable estimate of the fair value of such investments.

Fair value for the beneficial interest in charitable remainder trust and amounts due to donors of charitable remainder trusts and annuities is determined using the income approach based on calculating the present value of the annuity using published life expectancy tables and a discount rate of 2.31% and 1.99% for the years ended June 30, 2018 and 2017, respectively. The Foundation classifies these investments Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2018 and 2017. The Foundation recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2018 and 2017.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In accordance with ASC 820, the tables below provide information by level for assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018 and 2017:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2018</u>				
ASSETS				
Cash Equivalents	\$ 268,837	\$ 268,837	\$	\$
Fixed Income Securities	9,131,729	9,131,729		
Equities	36,746,879	36,746,879		
Alternative Investments	1,878,537		1,878,537	
Investments held under Gift Annuities and Charitable Remainder Trusts	<u>507,417</u>	<u>507,417</u>		
Total Assets	<u>\$ 48,533,399</u>	<u>\$ 46,654,862</u>	<u>\$ 1,878,537</u>	<u>\$</u>
LIABILITIES				
Due to Donors of Charitable Remainder Trusts and Annuities	<u>\$ 419,712</u>	<u>\$</u>	<u>\$ 419,712</u>	<u>\$</u>

NORTH CAROLINA TEXTILE FOUNDATION, INC.
Notes to Financial Statements
June 30, 2018 and 2017

4. Fair Value Measurements (Concluded)

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2017</u>				
ASSETS				
Cash Equivalents	\$ 188,465	\$ 188,465	\$	\$
Fixed Income Securities	8,258,486	8,258,486		
Equities	34,215,827	34,215,827		
Alternative Investments	2,347,766		2,347,766	
Investments held under Gift Annuities and Charitable Remainder Trusts	523,307	523,307		
Beneficial Interest in Charitable Remainder Trust	174,440		174,440	
Total Assets	\$ 45,708,291	\$ 43,186,085	\$ 2,522,206	\$
LIABILITIES				
Due to Donors of Charitable Remainder Trusts and Annuities	\$ 447,838	\$	\$ 447,838	\$

5. Beneficial Interest in Charitable Remainder Trusts

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable claims to such assets, including the right to income there from. Net realized and unrealized gains (losses) related to the beneficial interests are reported as changes in temporarily restricted or permanently restricted net assets based on explicit donor stipulations.

6. Endowment Fund

The Foundation's endowment fund provides long-term support to North Carolina State University College of Textiles through scholarships, educational and research related activities. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of North Carolina enacted the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective March 2009, the provisions of which apply to endowment funds existing on or established after that date. Absent donor stipulations to the contrary, the provisions of this state law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gifts.

NORTH CAROLINA TEXTILE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

6. Endowment Fund (Continued)

The Foundation has classified as permanently restricted net assets the original value of gifts donated to the permanent endowment. Gains and losses will be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence described in UPMIFA.

Changes in endowment assets for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at July 1, 2017	\$ 6,021,199	\$ 20,023,380	\$ 18,495,985	\$ 44,540,564
Investment Return:				
Investment Income, net	55,687	272,728		328,415
Net Appreciation (Realized and Unrealized)	480,088	3,096,107		3,576,195
Total Investment Return	<u>535,775</u>	<u>3,368,835</u>		<u>3,904,610</u>
Contributions and Repayments			513,521	513,521
Change in value of split interest agreement	(2)	2,622	9,616	12,236
Amounts appropriated for Expenditure	<u>(665,780)</u>	<u>(1,632,898)</u>		<u>(2,298,678)</u>
	<u>(665,782)</u>	<u>(1,630,276)</u>	<u>523,137</u>	<u>(1,772,921)</u>
Endowment Net Assets at June 30, 2018	<u>\$ 5,891,192</u>	<u>\$ 21,761,939</u>	<u>\$ 19,019,122</u>	<u>\$ 46,672,253</u>

Changes in endowment assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at July 1, 2016	\$ 5,965,713	\$ 17,288,739	\$ 17,944,272	\$ 41,198,724
Investment Return:				
Investment Income, net	73,538	372,814		446,352
Net Appreciation (Realized and Unrealized)	765,336	3,866,464		4,631,800
Total Investment Return	<u>838,874</u>	<u>4,239,278</u>		<u>5,078,152</u>
Contributions and Repayments			439,106	439,106
Change in value of split interest agreement	611	4,261	112,607	117,479
Amounts appropriated for Expenditure	<u>(783,999)</u>	<u>(1,508,898)</u>		<u>(2,292,897)</u>
	<u>(783,388)</u>	<u>(1,504,637)</u>	<u>551,713</u>	<u>(1,736,312)</u>
Endowment Net Assets at June 30, 2017	<u>\$ 6,021,199</u>	<u>\$ 20,023,380</u>	<u>\$ 18,495,985</u>	<u>\$ 44,540,564</u>

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6. Endowment Fund (Concluded)

The endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ 947,594	\$ 21,761,939	\$ 19,019,122	\$ 41,728,655
Board-designated Endowment Funds	<u>4,943,598</u>	<u> </u>	<u> </u>	<u>4,943,598</u>
Total Funds	<u>\$ 5,891,192</u>	<u>\$ 21,761,939</u>	<u>\$ 19,019,122</u>	<u>\$ 46,672,253</u>

The endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ 909,652	\$ 20,023,380	\$ 18,495,985	\$ 39,429,017
Board-designated Endowment Funds	<u>5,111,547</u>	<u> </u>	<u> </u>	<u>5,111,547</u>
Total Funds	<u>\$ 6,021,199</u>	<u>\$ 20,023,380</u>	<u>\$ 18,495,985</u>	<u>\$ 44,540,564</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at June 30, 2018 or 2017.

Investment Return Objectives and Strategies

The Foundation's investment policies include several investment objectives relative to its long-term investments, including permanent endowment funds. These objectives include (1) meeting the funding obligations of the Foundation, (2) preserving and/or increasing the purchasing power of the assets in light of inflation, (3) allowing for capital appreciation above and beyond the funding obligations and inflation and (4) to dampen volatility. To achieve these objectives, the Foundation has employed the investment strategy of diversifying within a modeled asset allocation range and reviewing the investment policy and performance regularly. The Fund composition at any given time is dependent upon a number of factors, including the amount available for investment and current market conditions.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year a percentage of a three year rolling average of the fair market value of the endowment funds as determined on an annual basis by the Board of Directors. In establishing this policy and the annual percentage, the Foundation considered the long-term expected return on its endowment. Accordingly, the Foundation expects the current spending policy to sustain its endowment and investment return objectives.

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7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 9,144,081	\$ 8,039,789
Professorships	7,234,573	6,931,792
Naming Opportunities Program	3,976,224	3,886,087
Other	<u>2,391,323</u>	<u>1,993,564</u>
	<u>\$ 22,746,201</u>	<u>\$ 20,851,232</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 14,446,587	\$ 14,158,090
Professorships	1,696,402	1,646,402
Other	<u>2,876,133</u>	<u>2,691,493</u>
	<u>\$ 19,019,122</u>	<u>\$ 18,495,985</u>

9. Major Sources and Concentrations of Revenue and Support

During the years ended June 30, 2018 and 2017, the Foundation received almost all of its funding from contributions and the income from investments. Contributions were primarily from individuals and textile companies.

For the years ended June 30, 2018 and 2017, the Foundation received \$630,000 and \$402,500 from one textile company. The Foundation also received unrestricted contributions of \$327,367 from one individual donor during the year ended June 30, 2018. These contributions represented 44.22% of total contributions received for the year ended June 30, 2018.

10. Concentration of Credit Risk

The Foundation maintains cash balances at a financial institution located in Raleigh, North Carolina. The balances in the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 at June 30, 2018 and 2017. The Foundation's uninsured cash balances totaled \$50,257 and \$44,727 at June 30, 2018 and 2017, respectively.

11. Cash Available from College of Textiles

The College of Textiles receives a portion of contributions obtained at the University level in an account that is available to be spent on development expenses only. Since the Foundation performs nearly all development functions for the College, these funds are sometimes used by the Foundation on behalf of the College. The available balance in these funds was \$40,367 and \$33,417 as of June 30, 2018 and 2017, respectively.

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12. Subsequent Events

Subsequent events have been evaluated through November 2, 2018, which is the date the financial statements were available to be issued.