

NC STATE ENGINEERING
FOUNDATION, INC.

FINANCIAL REPORT

JUNE 30, 2020 and 2019

NC State Engineering Foundation, Inc.

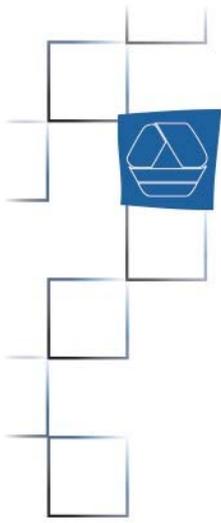
Financial Report
For the Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of NC State Engineering Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows 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 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 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 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 from 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 auditors' 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 financial position of NC State Engineering Foundation, Inc., as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 20 through 22, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information marked "unaudited" has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

William Overman Pierce, LLP

Greensboro, North Carolina
October 16, 2020

NC State Engineering Foundation, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents (Note 1)	\$ 25,970,466	\$ 28,361,164
Intermediate investments (Note 1)	6,426,430	9,280,573
Long-term investments (Notes 1 and 3)	95,196,627	90,779,350
Pledges receivable, net (Notes 1 and 7)	10,282,136	23,816,479
Externally managed irrevocable trust (Note 6)	89,735	104,252
Other assets (Note 1)	117,063	55,906
Total Assets	\$ 138,082,457	\$ 152,397,724
Liabilities and Net Assets		
Liabilities		
Accounts payable (Note 1)	\$ 82,057	\$ 100,797
Life income funds payable (Note 6)	1,010,003	1,016,631
Life income funds payable - externally managed irrevocable trust (Note 6)	47,645	57,203
Total Liabilities	1,139,705	1,174,631
Net Assets		
Without donor restrictions:		
Undesignated	3,163,602	2,673,685
Board-designated - endowments (Note 2)	3,079,014	3,168,547
With donor restrictions:		
Perpetual in nature (Note 9)	60,850,607	54,315,817
Purpose restricted (Note 9)	69,849,529	91,065,044
Total Net Assets	136,942,752	151,223,093
Total Liabilities and Net Assets	\$ 138,082,457	\$ 152,397,724

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Income			
Contributions (Note 1)	\$ 729,647	\$ 24,150,761	\$ 24,880,408
Change in pledges receivable, net (Note 7)	-	(13,534,343)	(13,534,343)
Donated services, salaries, and facilities (Note 8)	781,000	-	781,000
Donated property and land	-	916,000	916,000
Net investment income	443,222	1,340,477	1,783,699
Interest and dividends	166,526	715,215	881,741
Change in value of split interest agreements	-	10,542	10,542
Loss on disposal of donated property and land	-	(43,036)	(43,036)
Other income	-	252,943	252,943
Net assets released from restrictions (Note 10)	28,582,762	(28,582,762)	-
Total Revenues, Gains, and Other Income	30,703,157	(14,774,203)	15,928,954
Grants to Support the University			
Program:			
Scholarships and fellowships	2,840,850	-	2,840,850
Faculty support and professorships	696,591	-	696,591
Departmental support	2,902,012	-	2,902,012
Capital support	21,863,393	-	21,863,393
Total Program Support	28,302,846	-	28,302,846
Administrative	217,000	-	217,000
Fundraising	1,698,185	-	1,698,185
Total Other Support	1,915,185	-	1,915,185
Total Support (Note 11)	30,218,031	-	30,218,031
Excess (Deficit) of Revenues, Gains, and Other Income Over Total Support	485,126	(14,774,203)	(14,289,077)
Net Transfers			
From other University-associated entities	-	8,736	8,736
Among funds	(84,742)	84,742	-
Total Net Transfers	(84,742)	93,478	8,736
Change in Net Assets	400,384	(14,680,725)	(14,280,341)
Net Assets			
Beginning of year	5,842,232	145,380,861	151,223,093
End of year	\$ 6,242,616	\$ 130,700,136	\$ 136,942,752

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Income			
Contributions (Note 1)	\$ 1,740,436	\$ 9,011,393	\$ 10,751,829
Change in pledges receivable, net (Note 7)	-	(538,336)	(538,336)
Donated services, salaries, and facilities (Note 8)	776,000	-	776,000
Net investment income	576,799	5,702,463	6,279,262
Interest and dividends	614,604	221,287	835,891
Change in value of split interest agreements	-	400,753	400,753
Loss on disposal of donated property and land	-	(44,605)	(44,605)
Loss on disposal of other asset	(1,500)	-	(1,500)
Other income	-	189,756	189,756
Net assets released from restrictions (Note 10)	7,399,129	(7,399,129)	-
Total Revenues, Gains, and Other Income	11,105,468	7,543,582	18,649,050
Grants to Support the University			
Program:			
Scholarships and fellowships	3,183,563	-	3,183,563
Faculty support and professorships	718,722	-	718,722
Departmental support	3,169,153	-	3,169,153
Total Program Support	7,071,438	-	7,071,438
Administrative	222,750	-	222,750
Fundraising	1,860,539	-	1,860,539
Total Other Support	2,083,289	-	2,083,289
Total Support (Note 11)	9,154,727	-	9,154,727
Excess of Revenues, Gains, and Other Income Over Total Support	1,950,741	7,543,582	9,494,323
Net Transfers			
From other University-associated entities	-	7,200	7,200
Among funds	(120,593)	120,593	-
Total Net Transfers	(120,593)	127,793	7,200
Change in Net Assets	1,830,148	7,671,375	9,501,523
Net Assets			
Beginning of year	4,012,084	137,709,486	141,721,570
End of year	\$ 5,842,232	\$ 145,380,861	\$ 151,223,093

See notes to financial statements.

NC State Engineering Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ (14,280,341)	\$ 9,501,523
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for permanent endowment	(5,018,410)	(1,885,080)
Net investment income	(1,783,699)	(6,279,262)
Donated property and land	(916,000)	-
Investment income restricted for split interest agreements	(30,907)	(29,113)
Change in value of split interest agreements	(984)	(395,636)
Change in value of externally managed trust	(9,558)	(5,117)
Loss on disposal of donated property and land	43,036	44,605
Loss on disposal of other asset	-	1,500
(Increase) decrease in:		
Pledges receivable, net	13,534,343	538,336
Other assets	(61,157)	(370)
Increase (decrease) in:		
Accounts payable	(18,740)	(5,878)
Net Cash (Used in) Provided by Operating Activities	(8,542,417)	1,485,508
Cash Flows From Investing Activities		
Proceeds from sale of donated property	872,964	80,395
Proceeds from sales of investments	4,862,725	5,343,673
Purchases of investments	(4,627,643)	(3,801,649)
Net Cash Provided by Investing Activities	1,108,046	1,622,419
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	5,018,410	1,885,080
Investment income restricted for split interest agreements	30,907	29,113
Payments on life income fund obligations	(100,094)	(125,403)
Proceeds from life income fund obligations	94,450	-
Net Cash Provided by Financing Activities	5,043,673	1,788,790
Net (Decrease) Increase in Cash and Cash Equivalents	(2,390,698)	4,896,717
Cash and Cash Equivalents		
Beginning of year	28,361,164	23,464,447
End of year	\$ 25,970,466	\$ 28,361,164
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 781,000	\$ 776,000
Donated property and land	\$ 916,000	\$ -

See notes to financial statements.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The NC State Engineering Foundation, Inc., (the "Foundation") is one of a group of foundations which provide financial support exclusively to one or more of the colleges at North Carolina State University (the "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, 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:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that are either to be maintained permanently by the Foundation or will be released either by actions of the Foundation and/or by the passage of time. 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 instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. 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 the State Treasurer's Short Term Investment Fund (the "STIF"), and TowneBank. 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 taxable municipal bonds, the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF"), and an account with the common fund 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 \$6,426,430 and \$9,280,573 at June 30, 2020 and 2019, respectively. The cost of these investments was \$6,313,094 and \$9,653,820 as of June 30, 2020 and 2019, respectively.

Long-term investments: Long-term investments 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 values as provided by the respective fund managers of the investments. The Foundation, in accordance with investment policies promulgated by its Board of Directors (the "Board"), invests with the NC State Investment Fund, Inc. Long-Term Investment Pool (the "LTIP"). In addition, the Foundation has planned giving instruments invested with TIAA Kaspick.

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

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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

Other assets: Other assets includes a beneficial interest in life insurance policies contributed to the Foundation and the Foundation is the owner of these policies. These gifts are recorded at current cash surrender values. The cash surrender value of these policies was \$44,704 and \$44,452 at June 30, 2020 and 2019, respectively. Other assets also includes accrued interest on municipal bonds.

Accounts payable: Accounts payable includes amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses of \$82,057 and \$100,797 as of June 30, 2020 and 2019, respectively.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions in the statement of activities.

The University has a gift assessment program that supports Central Development and college-level fundraising efforts. For the years ended June 30, 2020 and 2019, a one-time fee of 7% was assessed on gifts that support current operations and facilities, with 4% designated for Central Development and 3% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for net assets with and without donor restrictions. 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 with or without donor restrictions, as appropriate. Earnings from investments are net of investment fees of approximately \$485,000 and \$394,000 for the years ended June 30, 2020 and 2019, 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, an annual fee is assessed on the average twenty-quarter market value of assets held in the endowment investment portfolio. For the years ended June 30, 2020 and 2019, the annual fee was 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts.

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.

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 2020 and 2019. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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

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 not 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, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the accompanying 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 tax year 2016.

Reclassifications: Certain prior year amounts have been reclassified for consistency with the current year presentation. The reclassification had no effect on the reported change in net assets.

Note 2. Endowment

The Foundation's endowment consists of approximately 460 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 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. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets perpetual in nature (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment funds that is not classified in net assets perpetual in nature is classified as purpose 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 (underwater endowments). These deficiencies generally result from either spending of corpus in accordance with the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. Deficiencies of this nature are reported in net assets with donor restrictions and were (\$46,749) and \$0 as of June 30, 2020 and 2019, respectively.

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 LTIP in a manner that is intended to produce results that exceed a 70% MSCI/ACWI Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 2. Endowment (continued)

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 endowments may not be able to fund spending at the 4% level. Unless the gift instrument specifies otherwise, it is the Foundation's policy to allow up to 15% of the corpus of an endowment to 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 endowments. Spending budgets were calculated at \$2,823,690 and \$2,938,980 for fiscal years 2020 and 2021, respectively.

Strategies employed for achieving investment objectives: For the long term, the primary investment objective 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 LTIP and to meet the spending needs of the University. To meet this investment objective, the LTIP 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.

The LTIP is 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 addition, the LTIP seeks to diversify exposure to all asset classes through the use of multiple managers that use a variety of investment approaches.

The following represents changes in endowment net assets for the fiscal year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,457,516	\$ 86,549,514	\$ 90,007,030
Total investment return	148,679	1,581,506	1,730,185
Contributions, including change in accrued pledges and other income	-	6,242,586	6,242,586
Appropriations of endowment assets for expenditure	(281,290)	(3,593,725)	(3,875,015)
Change in value of split interest agreements	-	10,542	10,542
Other changes:			
Transfers	20,000	524,742	544,742
Endowment net assets, end of year	\$ 3,344,905	\$ 91,315,165	\$ 94,660,070

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,079,014	\$ -	\$ 3,079,014
Donor-designated endowment funds			
Corpus	-	60,850,607	60,850,607
Appreciation	265,891	30,511,307	30,777,198
Underwater endowments	-	(46,749)	(46,749)
Total funds	<u>\$ 3,344,905</u>	<u>\$ 91,315,165</u>	<u>\$ 94,660,070</u>

The following represents changes in endowment net assets for the fiscal year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,208,150	\$ 82,065,643	\$ 85,273,793
Total investment return	518,936	5,594,935	6,113,871
Contributions, including change in accrued pledges and other income	-	1,596,996	1,596,996
Appropriations of endowment assets for expenditure	(269,570)	(3,406,465)	(3,676,035)
Change in value of split interest agreements	-	400,753	400,753
Other changes:			
Transfers	-	297,652	297,652
Endowment net assets, end of year	<u>\$ 3,457,516</u>	<u>\$ 86,549,514</u>	<u>\$ 90,007,030</u>

The following represents endowment net asset composition by type of fund, as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,168,547	\$ -	\$ 3,168,547
Donor-designated endowment funds			
Corpus	-	54,315,817	54,315,817
Appreciation	288,969	32,233,697	32,522,666
Total funds	<u>\$ 3,457,516</u>	<u>\$ 86,549,514</u>	<u>\$ 90,007,030</u>

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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 consisted of the following at June 30:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 138,360	\$ 138,360	\$ 424,550	\$ 424,550
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	53,895,553	93,548,523	49,458,715	88,852,115
Life Income Funds	1,503,874	1,509,744	1,439,855	1,502,685
	<u>\$ 55,537,787</u>	<u>\$ 95,196,627</u>	<u>\$ 51,323,120</u>	<u>\$ 90,779,350</u>

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 – Valuations based on quoted prices in active markets for identical investments

Level 2 – Valuations based on quoted prices in inactive markets or for which all significant inputs are observable (including quoted prices for similar investments, interest rates, credit risks, etc.)

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

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 4. Fair Value Measurement (continued)

The Foundation's assets itemized below are measured at fair value on a recurring basis as of June 30:

	2020			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 138,360	\$ -	\$ -	\$ 138,360
Municipal Bonds	-	2,148,460	-	2,148,460
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,277,970	-	4,277,970
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	93,548,523	93,548,523
Life Income Funds	-	1,509,744	-	1,509,744
Beneficial Interest in Life Insurance Policies	-	-	44,704	44,704
	<u>\$ 138,360</u>	<u>\$ 7,936,174</u>	<u>\$ 93,593,227</u>	<u>\$ 101,667,761</u>

	2019			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 424,550	\$ -	\$ -	\$ 424,550
Municipal Bonds	-	2,041,448	-	2,041,448
common/fund Intermediate Term Fund	-	2,964,458	-	2,964,458
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	4,274,667	-	4,274,667
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	88,852,115	88,852,115
Life Income Funds	-	1,502,685	-	1,502,685
Beneficial Interest in Life Insurance Policies	-	-	44,452	44,452
	<u>\$ 424,550</u>	<u>\$ 10,783,258</u>	<u>\$ 88,896,567</u>	<u>\$ 100,104,375</u>

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 for the years ended June 30:

	2020		2019	
	NC State Investment Fund, Inc. (LTIP)	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc. (LTIP)	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 88,852,115	\$ 44,452	\$ 83,505,452	\$ 44,082
Participant additions	6,775,000	-	2,995,000	-
Investment income	79,665	-	37,872	-
Realized gains	1,920,303	-	1,443,885	-
Unrealized appreciation	259,570	252	4,932,820	370
Participant withdrawals	(3,861,015)	-	(3,677,095)	-
Expenses	(477,115)	-	(385,819)	-
Ending balance	<u>\$ 93,548,523</u>	<u>\$ 44,704</u>	<u>\$ 88,852,115</u>	<u>\$ 44,452</u>

NC State Engineering Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2020 and 2019

Note 4. Fair Value Measurement (continued)

Following is a description of the valuation methodologies used for assets measured at fair value:

STIF – This investment 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.

Municipal Bonds – Valued by the custodian using a computerized pricing service or, for less actively traded issues, using a yield-based matrix system.

commonfund Intermediate Term Fund – Valued using the net asset value (“NAV”) per share of the fund provided by the fund manager. The Foundation considers this the best estimate of fair value for investments that do not have a quoted market price.

NC State Investment Fund, Inc. Intermediate Term Fund (“ITF”) – This investment is a combination of publicly traded mutual funds valued at quoted market prices.

NC State Investment Fund, Inc. Long-Term Investment Pool (“LTIP”) – The LTIP’s investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. The LTIP’s private equity investments are initially valued based on transaction price with subsequent valuation adjustments based on trading multiples of comparable public companies adjusted for differences in factors such as liquidity. The LTIP’s investment in a Blackrock Liquid Policy Portfolio (“LPP”) is valued at the closing price of the exchange-traded fund’s shares. The LTIP also has an investment in the STIF, valued as described above.

Life Income Funds – These investments are a combination of exchange-traded equity and fixed income securities valued at quoted market prices.

Beneficial Interest in Life Insurance Policies – Valued based on cash surrender value of the policies. Because these values are based on significant unobservable inputs, they are categorized in Level 3 of the fair value hierarchy.

You can find additional information regarding the LTIP and the ITF on the Foundations Accounting and Investments homepage at <https://foundationsaccounting.ofa.ncsu.edu/>.

Note 5. Financial Assets and Liquidity Resources

The Foundation’s endowment funds consist of donor-designated endowments and board-designated endowments. Income from most donor-designated endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As part of the Foundation’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The LTIP is responsible for managing liquidity in a manner that balances the short-term liquidity needs with the Fund’s longer-term return objectives. However, both the board-designated endowments and donor-designated endowments contain investments with redemption provisions that could impact the availability of funds. In addition, the Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 5. Financial Assets and Liquidity Resources (continued)

The Foundation has board-designated endowments of approximately \$3.08 million. Although the Foundation does not intend to spend from these board-designated endowments, other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation process, amounts could be made available if necessary. As described in Note 1, 0.60% of the annual endowment assessment fee is designated to college-level fundraising efforts. Approximately \$419,000 of endowment assessments will be available within the next 12 months. As described in Note 2, endowments have a spending rate of 4%. Approximately \$227,000 of appropriations from the board-designated endowments and \$31,000 from unrestricted donor-designated endowments will be available within the next 12 months.

As of June 30, 2020, financial assets available within one year for general expenditure, such as administrative and fundraising expenses, were as follows:

Total financial assets	\$ 138,082,457
Less those unavailable for general expenditures within one year, due to:	
Donor imposed restrictions:	
Restricted by donor in perpetuity	(60,850,607)
Subject to appropriation and satisfaction of donor restrictions	(69,665,635)
Board-designated endowments	(2,851,919)
Total liabilities	<u>(1,139,705)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,574,591</u>

Note 6. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the 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, 2020 and 2019 have asset balances of \$1,509,744 and \$1,502,685, 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, and totaled \$1,010,003 and \$1,016,631 at June 30, 2020 and 2019, respectively. Payments from these funds were \$100,094 and \$125,403 during the years ended June 30, 2020 and 2019, respectively. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 10% from all new CGAs established in order to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 10% of the total value of the Foundation's CGA pool. As of June 30, 2020 and 2019, the CGA reserve balance was \$26,093 and \$14,636, respectively.

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2016 which represents irrevocable life income funds with a market value totaling \$89,735 and \$104,252 and life income funds payable of \$47,645 and \$57,203 as of June 30, 2020 and 2019, respectively. The Foundation is not serving as trustee for these funds. Estimated future distributions to the beneficiaries have been reflected in the accompanying financial statements and were computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 7. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2020	2019
Receivable in less than one year	\$ 3,519,096	\$ 9,708,495
Receivable in one to five years	6,267,223	14,516,092
Receivable in greater than five years	1,130,000	2,014,345
Total pledges receivable, gross	<u>10,916,319</u>	<u>26,238,932</u>
Less allowance for uncollectible pledges	(546,000)	(1,312,000)
Less unamortized discount (discount rates of .18% to 2.00%)	(88,183)	(1,110,453)
Pledges receivable, net	<u>\$ 10,282,136</u>	<u>\$ 23,816,479</u>

An allowance for doubtful accounts 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.

Two donors represented approximately \$3.6 million and \$16.0 million of the total undiscounted pledges receivable at June 30, 2020 and 2019, respectively.

Note 8. Donated Services, Salaries, and Facilities

Donated services in the amount of \$125,000 and \$141,000 for the years ended June 30, 2020 and 2019, respectively, have been reflected in the accompanying financial statements for services provided by the University Finance Division. In addition, donated salaries and facilities provided by the University for college development personnel in the amount of \$656,000 and \$635,000 for the years ended June 30, 2020 and 2019, respectively, have been reflected in the accompanying financial statements.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30:

	2020	2019
Subject to expenditure for specified purpose:		
Scholarships and fellowships	\$ 3,887,408	\$ 3,275,680
Faculty support and professorships	980,305	968,151
Research support	4,086,493	3,968,582
Fitts-Woolard Hall Project Fund	13,986,045	20,727,792
Pledges receivable, net	9,850,780	23,619,217
Other	6,549,236	6,227,473
	<u>39,340,267</u>	<u>58,786,895</u>
Subject to passage of time:		
Beneficial interest in life insurance policies	44,704	44,452
Assets held under split-interest agreements, net	541,831	533,103
	<u>586,535</u>	<u>577,555</u>
Endowments:		
Subject to Foundation endowment spending policy and appropriation:		
Scholarships and fellowships	55,808,114	51,772,937
Faculty support and professorships	7,947,197	8,094,795
Research support	441,150	449,047
NC State Engineering Foundation Academic Enhancement Fund	3,500,000	3,500,000
Pledges receivable, net	431,356	197,262
Other	22,645,517	22,002,370
	<u>90,773,334</u>	<u>86,016,411</u>
Total Net Assets With Donor Restrictions	<u>\$ 130,700,136</u>	<u>\$ 145,380,861</u>

The "Other" grouping includes amounts designated for general college support, general University support, capital support and funds with multiple purposes.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

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 during the years ended June 30:

	2020	2019
Scholarships and fellowships	\$ 2,381,064	\$ 2,775,294
Faculty support and professorships	696,591	718,722
Departmental support	2,849,212	3,134,892
Capital support	21,863,393	-
Administrative and fundraising	792,502	770,221
	<u>\$ 28,582,762</u>	<u>\$ 7,399,129</u>

Note 11. Functional Expense

The Foundation's primary program is to provide financial support to the College of Engineering at NC State University. Expenses by functional classification for the year ended June 30, 2020 were as follows:

	Total Program	Supporting Activities		Total Support
		Management	Fundraising	
	Support	Support	Support	
Grants	\$ 3,498,888	\$ -	\$ 719,002	\$ 4,217,890
Legal	5,000	-	6,194	11,194
Accounting	-	74,000	-	74,000
Advertising	72,645	-	7,591	80,236
Office Expenses	22,330	-	74,724	97,054
Occupancy	48,803	-	-	48,803
Travel	466,948	-	35,766	502,714
Conferences and Meetings	79,148	-	15,473	94,621
Insurance	8,222	-	6,016	14,238
Departmental Equipment	54,019	-	6,447	60,466
Equip Rental and Maintenance	104,326	-	23,625	127,951
Contracted Services	34,251	-	2,604	36,855
Miscellaneous Services and Fees	1,514,703	143,000	692,036	2,349,739
Printing and Binding	61,968	-	93,514	155,482
Dues and Subscriptions	31,943	-	3,509	35,452
Supplies	436,259	-	11,684	447,943
Capital Transfers	21,863,393	-	-	21,863,393
Total	<u>\$ 28,302,846</u>	<u>\$ 217,000</u>	<u>\$ 1,698,185</u>	<u>\$ 30,218,031</u>

Grants includes scholarships, fellowships, and salary support. Miscellaneous Services and Fees includes donated salaries, services and facilities as well as University Advancement's portion of gift assessment fees. Capital Transfers includes payments for the Fitts-Woolard Hall.

NC State Engineering Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 11. Functional Expense (continued)

Expenses by functional classification for the year ended June 30, 2019 were as follows:

	Total Program Support	Supporting Activities		Total Support
		Management Support	Fundraising Support	
Grants	\$ 3,934,896	\$ -	\$ 810,452	\$ 4,745,348
Legal	10,000	-	7,666	17,666
Accounting	-	63,750	-	63,750
Advertising	63,711	-	21,323	85,034
Office Expenses	39,391	-	69,329	108,720
Occupancy	191,410	-	-	191,410
Travel	651,572	-	73,562	725,134
Conferences and Meetings	101,058	-	23,730	124,788
Insurance	8,848	-	6,016	14,864
Departmental Equipment	122,164	-	2,002	124,166
Equip Rental and Maintenance	67,761	-	25,948	93,709
Contracted Services	44,079	-	3,050	47,129
Miscellaneous Services and Fees	1,336,744	159,000	702,540	2,198,284
Printing and Binding	82,898	-	94,524	177,422
Dues and Subscriptions	34,214	-	757	34,971
Supplies	382,692	-	19,640	402,332
Total	\$ 7,071,438	\$ 222,750	\$ 1,860,539	\$ 9,154,727

Grants includes scholarships, fellowships, and salary support. Miscellaneous Services and Fees includes donated salaries, services and facilities as well as University Advancement's portion of gift assessment fees.

Note 12. COVID-19

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. The extent of COVID-19's effects on the Foundation's operational performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Foundation's operations. However, the pandemic could have a material adverse effect on the Foundation's results of operations, financial condition and cash flows.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 16, 2020, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

NC State Engineering Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2020

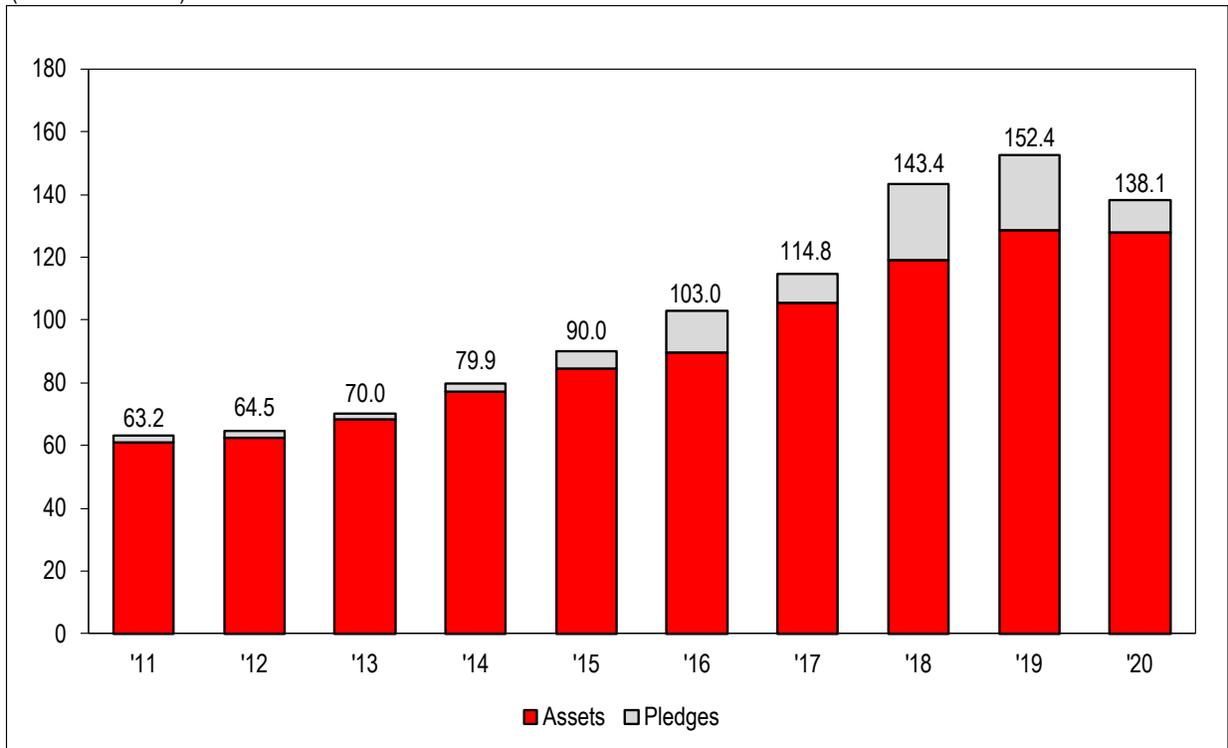
	Budget	Actual	Variance (Under)/Over
Income			
Contributions			
Directors - Engineering Leadership	\$ 140,000	\$ 111,801	\$ (28,199)
Engineering Leadership Fund	665,600	566,779	(98,821)
Other	-	205	205
Total Contributions	<u>805,600</u>	<u>678,785</u>	<u>(126,815)</u>
Endowment assessments	176,095	176,095	-
Interest and dividends	220,000	310,192	90,192
Total Income	<u>1,201,695</u>	<u>1,165,072</u>	<u>(36,623)</u>
Support			
Program support	460,000	459,786	(214)
Transfers to Opportunity Award project	50,000	50,000	-
Foundation administration	696,000	494,738	(201,262)
Total Support	<u>1,206,000</u>	<u>1,004,524</u>	<u>(201,476)</u>
Income Less Support	(4,305)	160,548	164,853
General Fund Balance			
Beginning of year	1,941,998	1,941,998	-
End of year	<u>\$ 1,937,693</u>	<u>\$ 2,102,546</u>	<u>\$ 164,853</u>

NC State Engineering Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited As of June 30

Total Assets

(Dollars in Millions)

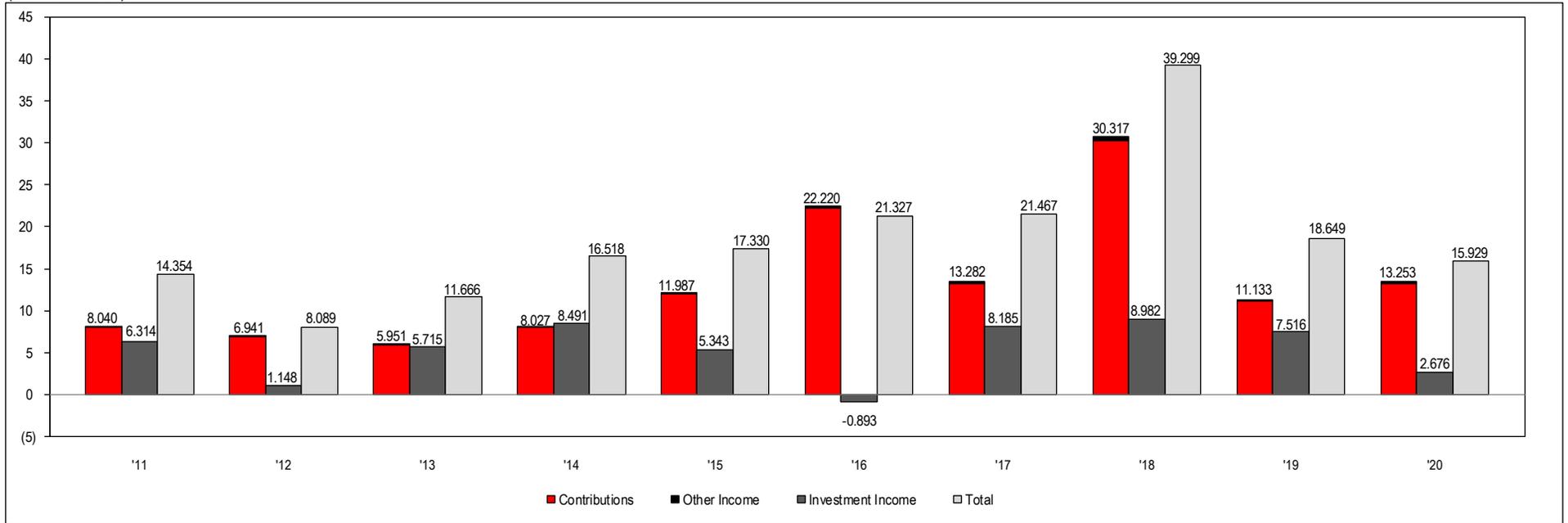


NC State Engineering Foundation, Inc.

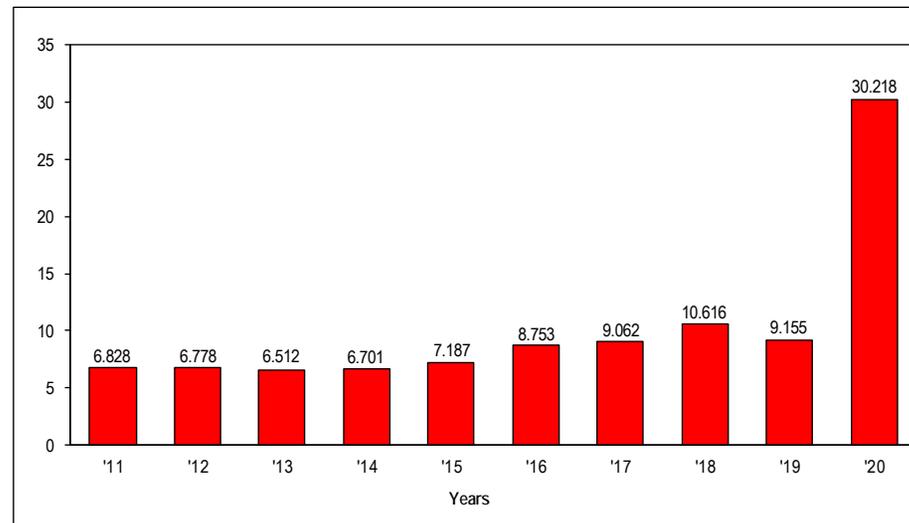
Ten Year Summary of Revenues and Support - Unaudited
Years Ended June 30

Total Revenues, Gains, and Other Income

(Dollars in Millions)



Total Support



Approximately \$21.5M was spent on Fitts-Woolard Hall in FY20.