STATE OF NORTH CAROLINA

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Constituent Institution of the University of North Carolina System and a Component Unit of the State of North Carolina

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RALEIGH, NORTH CAROLINA

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, North Carolina State University

We have completed a financial statement audit of North Carolina State University for the year ended June 30, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Carolina State University
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the NC State Investment Fund, Inc., which represent 17 percent, 27 percent, and 8 percent, respectively, of the assets, net position, and revenues of the University; nor the financial statements of the North Carolina State University Foundation, Inc., the NC State Student Aid Association, Inc., or The North Carolina Agricultural Foundation, Inc., the University's discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc. were not audited in accordance with *Government Auditing Standards*.

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 University'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 University'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 opinions.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina State University and its discretely presented component units, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 26, 2013

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Introduction

Management's Discussion and Analysis of the financial report provides an overview of the accompanying basic financial statements. It includes comparative financial analysis with discussion of significant changes from the prior year. The overview also includes information on currently known facts, decisions, or conditions affecting the financial affairs of the University.

Financial Highlights

NC State University's net position increased by $79.1 million to $1.82 billion in fiscal year 2013. Net position represents the University's equity. It is the residual of all the other elements of the statement of financial position, the assets and deferred outflows of resources less liabilities and deferred inflows of resources. Capital and debt-related net position were the major factors in this 4.5% increase in net position. Restricted expendable net position increased $138.3 million, primarily due to the proceeds from new bond issuances. These resources are to be used for capital projects. Although capital assets increased by $143.8 million, net investment in capital assets fell $78.7 million as the related debt showed an even greater increase. The unrestricted net position balance increased by $16.4 million.

Revenues increased by 5.5%, to $1.34 billion in fiscal year 2013. Revenues represent amounts received or accrued that are either operating or nonoperating on the accompanying financial statements. This change was primarily due to increases in tuition and fees, appropriations, investment income and sales and services income. While other revenue sources increased by small amounts, operating contracts and grants and federal student financial aid both fell slightly in 2013.

Operating expenses in fiscal year 2013 were up $84.5 million or 7.1% compared to fiscal year 2012. Operating expenses represent amounts paid or accrued for operating purposes. All the functional categories of expenses showed increases in 2013. However, instruction, auxiliary services, depreciation/amortization and academic support showed the largest increases.

Using the Financial Statements

The University's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

North Carolina State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*. Also, NC State blends two component units as if they were part of the University, and three entities are reported as discretely presented component units based on the nature and significance of their relationship to the University. Note 1A provides detailed information on the University's financial reporting entity.

The University's three financial statements are used to evaluate financial position as of June 30th and the results of operations for the fiscal year then ended. The *Statement of Net Position* provides information relative to the evaluation of financial position. The *Statement of Revenues, Expenses, and Changes in Net Position* provides information relative to the evaluation of the results of operations. Its ending net position agrees to the total net position on the *Statement of Net Position*.

The financial statements also include a *Statement of Cash Flows.* This statement is used to identify the University's sources and uses of cash. The ending cash on the *Statement of Cash Flows* agrees to the total cash reported on the *Statement of Net Position.* Also, this statement reconciles the net operating loss reported in the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

In using the financial statements, the *Notes to the Financial Statements* accompanying the financial statements should be read in conjunction with the financial statements. The notes provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investments, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other postemployment benefits, insurance against losses, commitments and contingencies, and accounting changes. If necessary, the disclosures include a discussion of adjustments to prior periods and events subsequent to the University's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

Comparative Condensed Financial Statement Information

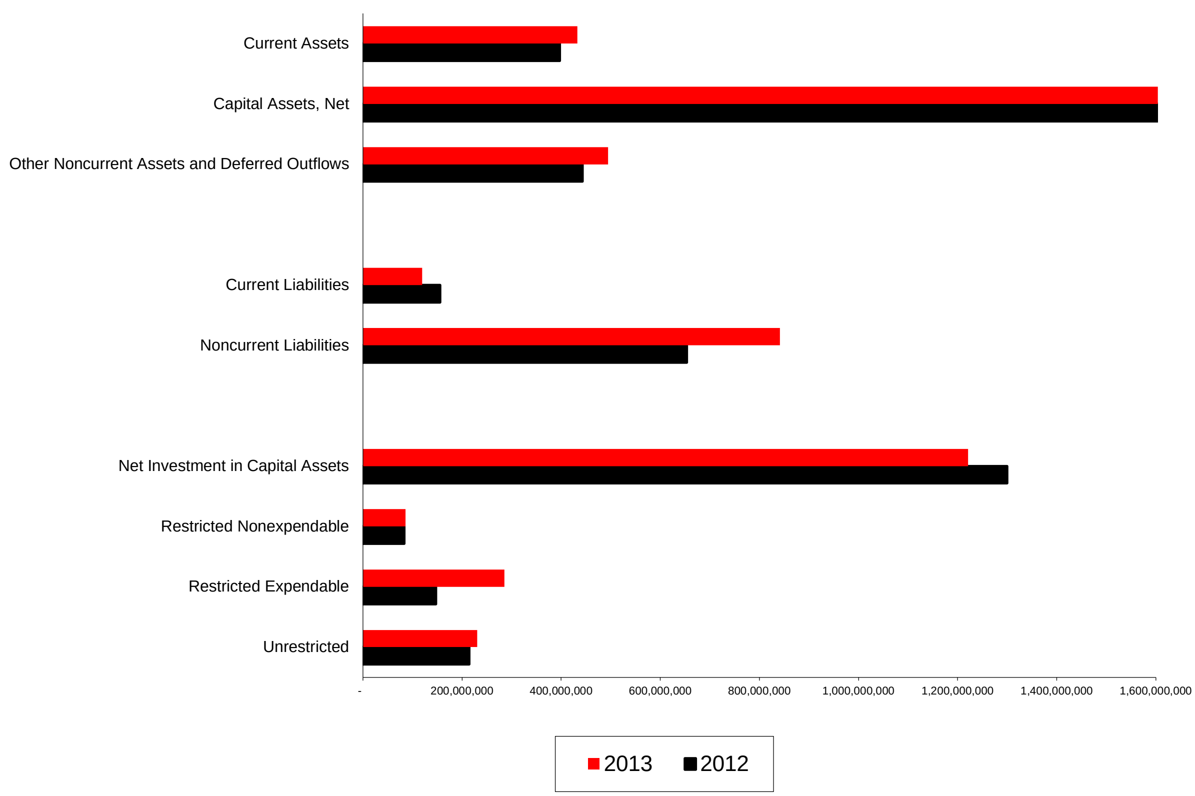
Statement of Net Position

The S*tatement of Net Position* provides information regarding the University's assets, deferred outflows and inflows of resources, liabilities, and net position as of June 30, 2013. Asset and liability balances are classified as either current or noncurrent. Assets classified as current are those that are available to pay for current liabilities or current year expenditures. Liabilities classified as current are those that are due and payable in the next fiscal year. The net position balances are classified as either net investment in capital assets, restricted or unrestricted. In addition, net position balances classified as restricted are classified as either nonexpendable or expendable. Overall, the *Statement of Net Position* provides information to evaluate the financial strength of the University and its ability to meet current and long-term obligations.

Following is a comparative analysis on the condensed balances reported in the *Statement of Net Position* as of June 30, 2012 and June 30, 2013.

	2013	2012 (As amended)	Increase/ (Decrease)
Assets			
Current Assets	$ 432,773,142	$ 396,975,650	$ 35,797,492
Capital Assets, Net	1,857,583,114	1,713,820,198	143,762,916
Other Noncurrent Assets	482,324,682	425,599,162	56,725,520
Total Assets	2,772,680,938	2,536,395,010	236,285,928
Deferred Outflows of Resources			
Accumulated Decrease in Fair Value of Hedging Derivatives	12,215,623	17,564,885	(5,349,262)
Liabilities			
Current Liabilities	119,556,573	155,746,024	(36,189,451)
Noncurrent Liabilities	841,328,178	653,307,297	188,020,881
Total Liabilities	960,884,751	809,053,321	151,831,430
Net Position			
Net Investment in Capital Assets	1,221,318,466	1,300,063,097	(78,744,631)
Restricted			
Nonexpendable	86,139,016	83,018,501	3,120,515
Expendable	285,752,034	147,406,474	138,345,560
Unrestricted	230,802,294	214,418,502	16,383,792
Total Net Position	$ 1,824,011,810	$ 1,744,906,574	$ 79,105,236

The following graph illustrates the assets, deferred outflows, liabilities and net position of the University as of June 30, 2013, as compared to June 30, 2012.



Assets totaled $2.77 billion, an increase of $236.3 million over the prior year. This change in assets includes capital asset growth of $143.8 million, an increase in current assets of $35.8 million and an increase in other noncurrent assets of $56.7 million.

The capital asset growth of $143.8 million is due to construction funding from capital grants and gifts, new capital financing and spending of prior year capital improvement monies. The University received $27.1 million in capital grant and appropriation resources in 2013, primarily from the State's bond/certificates of participation (COPs) program, $274.1 million in new bond financing, and $5.1 million in capital gifts.

Current assets increased by $35.8 million in fiscal year 2013. This increase was primarily the result of an increase in unrestricted cash of $26.5 million and in restricted cash of $10.1 million. However, accounts receivable fell by $2.0 million, primarily related to a decrease in contract and grant receivables. Unrestricted cash growth was primarily in auxiliaries cash of $15.5 million in areas such as housing, dining and athletics and overhead cash of $4.2 million. Changes in restricted cash classified as current assets primarily result from the movement of noncurrent cash to cover current liabilities for capital and debt purposes.

The $56.7 million increase in other noncurrent assets is made up of increases in restricted cash and endowment investments and a decrease in noncurrent restricted investments. Restricted cash increased $66.2 million due to the bond proceeds from the University's February 2013 Series 2013A and Series 2013B bond issuances. Endowment investments increased $16.0 million with improved market conditions and new gifts. Noncurrent restricted investments decreased by $24.9 million. This decrease was caused by the University's reporting of a new discretely presented entity. Based on the nature and significance of its relationship with the University, The North Carolina Agricultural Foundation, Inc. became NC State's third discretely presented component unit in 2013. As a discretely presented entity on the University's financial statements, the Agricultural Foundation's investment in the NC State Investment Fund of $48.6 was eliminated, as was the same related amount in funds held for pool participants. Without this elimination, noncurrent restricted investments would have shown an increase.

The deferred outflow of resources for the University's swap agreements is shown in a separate section of the financial statements in 2013. This change is based on GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The $5.3 million decrease in the deferred outflow of resources is based on market fluctuations.

Liabilities totaled $960.9 million, an increase of $151.8 million over the prior year. The increase in liabilities is attributable to a decrease in current liabilities of $36.2 million and an increase in noncurrent liabilities of $188.0 million.

Current liabilities totaled $119.6 million. These liabilities include accounts payable and accrued liabilities, due to other entities, deferred revenue, and the current portion of University debt. The current liabilities decrease of $36.2 million was primarily caused by $50.0 million of commercial paper debt paid off in 2013 with the proceeds of the new bond issuances. An increase in accounts payable of $8.1 million partially offset this short term debt decrease. Accounts payable included increases in construction and general payables in 2013. The new bonds also contributed to the $3.5 million increase in interest payable and the $1.1 million increase in the current part of long-term liabilities.

Noncurrent liabilities totaled $841.3 million, and include accounts payable, deposits payable, funds held for other entities, funds held in trust in the investment pool, long-term debt, compensated absences and the hedging derivative liability. The primary factor in the $188.0 million increase in noncurrent liabilities was the issuance of $274.1 million in new bonds. The net effect of new bonds, increased bond premium, bonds defeased and regular bond payment made was a $232.6 million increase in the long-term portion of bonds payable. The long-term portion of compensated absences also increased by $7.4 million, as employees were required to use their 40 hours of bonus leave or forfeit it, which resulted in less vacation leave being used. Partially offsetting these increases in noncurrent liabilities were decreases in funds held for others of $16.4 million, funds held in trust for pool participants of $27.1 million, and $5.3 million in the hedging derivative liability. The addition of the Agricultural Foundation as a discretely presented entity was a major factor in decreased liabilities in funds held for others and funds held in trust for pool participants. Because of the new presentation, $48.6 million was eliminated from funds held in trust for pool participants for NC State Investment Fund investments, and $28.7 was eliminated from funds held for cash in the State Treasurer's Short-Term Investment Fund. Other increases in the balances for funds held in trust for pool participants and the funds held for others were caused by changes in participant deposits and market values. The hedging derivative liability increases and decreases due to market conditions. Other noncurrent liabilities increased or decreased by small amounts.

Net position totaled $1.82 billion, an increase of $79.1 million over the prior year. Restricted expendable net position rose $138.3 million, with capital projects net position showing the largest increase. This $123.2 million increase was primarily from the addition of new bond proceeds for construction. The $78.7 million decrease in net investment in capital assets was also related to the new bonds. Although capital assets increased by $143.8 million this year, the amount netted for debt and related liabilities increased by greater amount. Restricted expendable for endowed professorships also increased by $9.2 million. Restricted nonexpendable net position rose $3.1 million with increases in endowed professorships and scholarships. Unrestricted net position rose by $16.4 million, a 7.6% increase.

The University's current assets are more than sufficient to cover current liabilities, with a ratio of 3.6 times compared to 2.5 times in the prior year. The University's total assets are significantly more than the University's liabilities with a ratio of 2.9 times as compared to 3.1 times in the prior year. These financial ratios are indicators of NC State's financial strength and its ability to meet current and long-term obligations.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* provides information regarding the University's activities for the year ending June 30, 2013. The activity balances are classified as operating, nonoperating, or other. Activities classified as operating include all revenues of the University except those considered nonoperating or those associated with funds received to enhance capital assets or permanent endowments. Operating expenses are all expenses except those related to interest expense on financing activities, loss on disposal of capital assets, and investment expenses (shown as net against investment income). Activities classified as nonoperating include state appropriations, noncapital gifts and grants revenue, investment income (net of investment expenses), and gains or losses on disposal of capital assets. Activities classified as other include capital gifts or grants and additions to permanent endowments. Overall, the *Statement of Revenues, Expenses, and Changes in Net Position* provides information to evaluate the University's management of operations and maintenance of financial strength.

Following is a comparative analysis on the condensed balances reported in the *Statement of Revenues, Expenses, and Changes in Net Position* for the fiscal years ended June 30, 2013, and June 30, 2012.

	2013	2012	Increase/ (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 242,771,900	$ 217,985,451	$ 24,786,449
Federal Appropriations	18,723,388	19,356,553	(633,165)
Grants and Contracts	243,986,225	245,877,630	(1,891,405)
Sales and Services, Net	201,346,622	189,992,892	11,353,730
Other	16,307,078	17,149,112	(842,034)
Total Operating Revenues	723,135,213	690,361,638	32,773,575
Operating Expenses			
Salaries and Benefits	802,243,208	752,282,566	49,960,642
Supplies and Materials	130,090,658	114,102,969	15,987,689
Services	196,058,974	190,748,182	5,310,792
Scholarships and Fellowships	47,507,403	43,830,528	3,676,875
Utilities	34,337,800	33,938,829	398,971
Depreciation	68,939,780	59,752,459	9,187,321
Total Operating Expenses	1,279,177,823	1,194,655,533	84,522,290
Net Operating Loss	(556,042,610)	(504,293,895)	(51,748,715)
Nonoperating Revenues (Expenses)			
State Appropriations	484,021,602	466,082,225	17,939,377
Noncapital Grants - Federal Student Financial Aid	24,630,869	25,877,792	(1,246,923)
Other Noncapital Grants and Gifts	83,945,033	77,832,067	6,112,966
Investment Income	18,617,624	5,558,144	13,059,480
Other	(13,000,902)	(11,546,720)	(1,454,182)
Net Nonoperating Revenues	598,214,226	563,803,508	34,410,718
Gain Before Other Revenue	42,171,616	59,509,613	(17,337,997)
Capital Appropriations, Gifts, and Grants	32,142,089	51,048,050	(18,905,961)
Additions to Permanent Endowments	4,791,531	4,547,078	244,453
Increase in Net Position	$ 79,105,236	$ 115,104,741	$ (35,999,505)

Operating and Nonoperating Activities

The following illustrates the relationships of operating and nonoperating revenue sources and expense functions to total revenue/expenses for the fiscal year 2013 and 2012, and the consistency of relationships between the two years.

Operating and Nonoperating Revenues

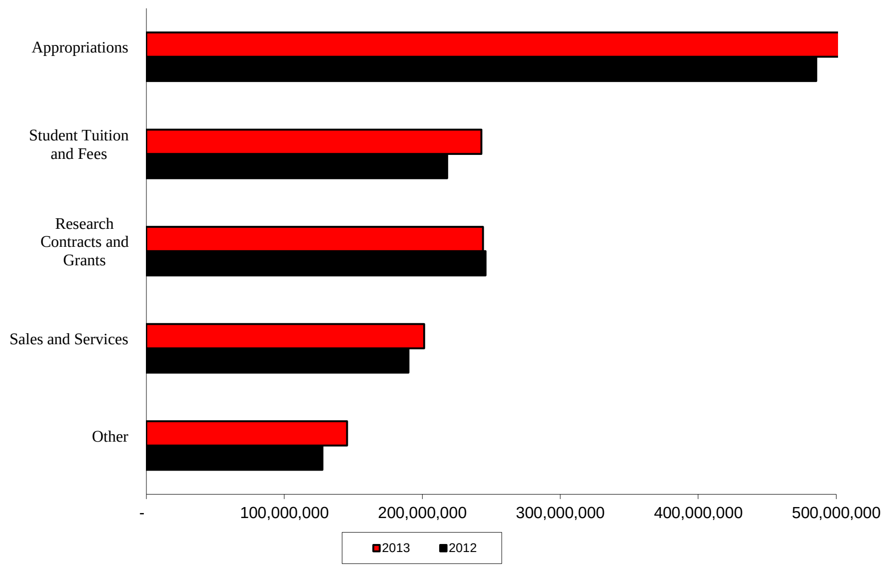
Title	% to Total 2013	% to Total 2012
State Appropriations	36%	37%
Research Contracts and Grants	19%	19%
Student Tuition and Fees	18%	17%
Sales and Services	15%	15%
Noncapital Grants and Gifts	8%	8%
Federal Appropriations	1%	2%
Other	3%	2%
Total	100%	100%

Operating and Nonoperating Expenses

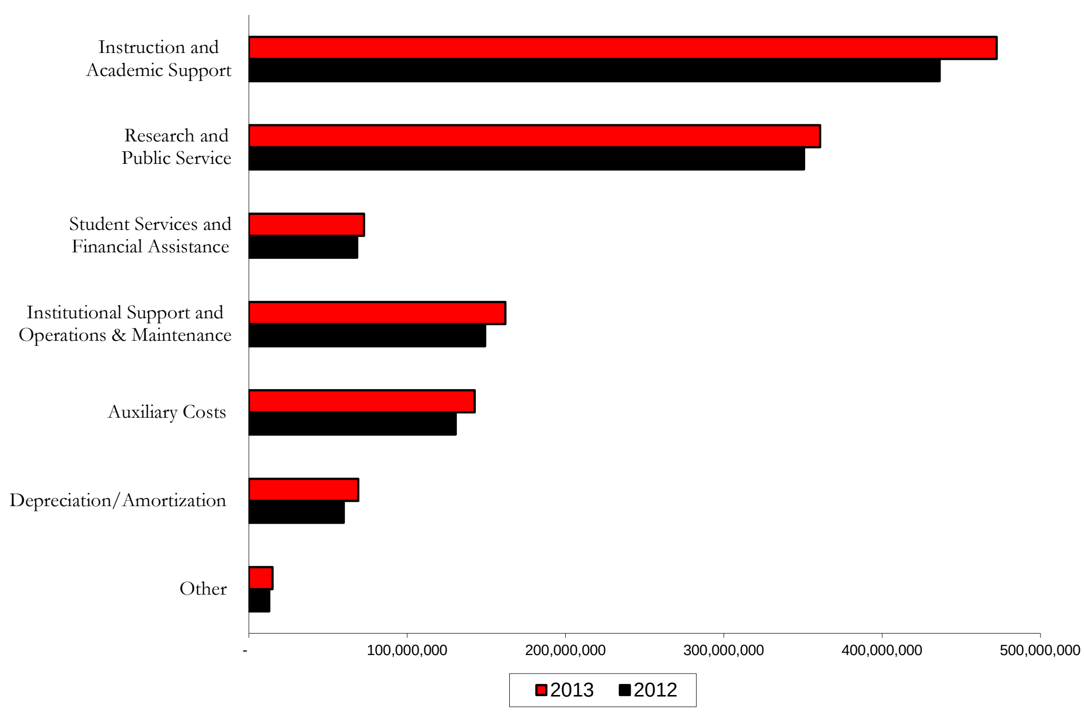
Title	% to Total 2013	% to Total 2012
Instruction	30%	30%
Research	18%	19%
Public Service	10%	10%
Auxiliary Enterprises	11%	11%
Operations & Maintenance of Plant	6%	6%
Academic Support	7%	6%
Institutional Support	6%	6%
Depreciation/Amortization	5%	5%
Student Financial Aid	4%	4%
Student Services	2%	2%
Other	1%	1%
Total	100%	100%

The following graphs illustrate the University's operating and nonoperating revenues/expenses by source/function.

Operating and Nonoperating Revenues



Operating and Nonoperating Expenses



Total revenues (operating and nonoperating) increased $69.3 million or 5.5% compared to the prior year. Student tuition and fees had the largest increase. $24.8 million, as rates increased in 2013 for resident and nonresident students. State appropriations increased $17.9 million in 2013 returning to positive growth after a $12.3 million dip in the prior year. Investment income also recovered, increasing $13.1 million with the gains due to the changing economy and related market fluctuations. Sales and services revenues were up $11.4 million or 6.0%, with increases in various services including athletics, blended golf course and nonwoven textile activity, dining, and veterinary services. Also, other noncapital grants rose $4.5 million as UNC need-based grants increased in support of greater student need. Noncapital gifts and other nonoperating revenue also increased by small amounts. Government cuts reduced federal financial aid $1.2 million. The only other revenue decrease was $1.9 million in research contracts and grants. Although federal contracts and grants will likely be affected by research contract reductions next year, the current year decreases are in state and nongovernmental research contracts and grants.

Total expenses (operating and nonoperating) increased $86.7 million or 7.2% compared to the prior year. Salaries and benefits increased $50.0 million or 6.6% in 2013 due to legislative increases, other salary increases, increases in the related benefits, and increases in the University's required contribution to the employee retirement plan. The largest salary increases were in instruction and auxiliary enterprises. Supplies and materials increased $16.0 million or 14.0%, recovering after a $10.5 million drop in 2012. The largest increases were in instruction and academic support, including increases in information technology and library purchases. As capital assets rose, the related depreciation/amortization expense also increased by $9.2 million or 15.4%. Services increased by $5.3 million or 2.8%, with the largest increases in instruction and public service. Scholarships and fellowships rose $3.7 million as financial aid followed the higher tuition and fee rates and student need. Utilities expenses increased by a very small amount, just 1.2% and mostly in auxiliaries. With the new bond issues in 2012 and 2013, interest and fees on debt increased $4.1 million or 38.2%.

Other Activity

Other activity totaled $36.9 million, down $18.7 million from the prior year. Capital grants decreased by $19.8 million, primarily in state bond/COPs aid. However the University did receive an additional $2.1 million in capital appropriations. Capital gifts fell $1.2 million and additions to permanent endowments increased only $0.2 million as the State's economy has not yet achieved a full recovery from the recession.

Capital Assets and Long-Term Debt Activities

Capital Assets

The University capitalizes assets that have a value or cost equal to or greater than $5,000 at the date of acquisition and an expected useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater. Repairs and renovations that do not extend the life of the building beyond the expected useful life at acquisition, nor increase the future service potential of the building are expensed and not capitalized.

Machinery and equipment are depreciated over their estimated useful lives, generally 4 to 22 years beginning in the year of acquisition. Buildings and general infrastructure are depreciated over their estimated useful lives, generally 10 to 50 years for buildings and 15 to 75 years for general infrastructure beginning in the year that the construction is completed or, if purchased after construction, when acquired. Computer software is amortized over a useful life of 2 to 15 years. Land, construction in progress, and computer software in development are nondepreciable capital assets. When a construction project is completed, the capital project costs are moved from the construction in progress account to either buildings or general infrastructure as appropriate.

As shown in the following table, the University increased its net capital assets by $143.8 million during fiscal year 2013.

	2013	2012	Increase/ (Decrease)
Land	$ 36,617,019	$ 36,587,946	$ 29,073
Construction in Progress	247,093,834	192,616,191	54,477,643
Computer Software in Development	6,220,164	8,416,887	(2,196,723)
Buildings	1,770,800,729	1,650,337,603	120,463,126
Machinery and Equipment	319,886,981	306,182,486	13,704,495
General Infrastructure	197,094,366	188,073,307	9,021,059
Computer Software	7,235,422	2,291,073	4,944,349
Total Capital Assets	2,584,948,515	2,384,505,493	200,443,022
Accumulated Depreciation/Amortization	(727,365,401)	(670,685,295)	(56,680,106)
Net Capital Assets	$ 1,857,583,114	$ 1,713,820,198	$ 143,762,916

During fiscal year 2013, NC State continued to build new facilities and work on renovations to modernize campus. Funding for these improvements came from funds provided by University debt financing and NC bonds and certificates of participation. In addition to costs incurred, the University had $93,674,685 million in outstanding commitments for construction projects as of June 30, 2013.

Following are some of the major construction projects that were completed or were in progress as of June 30, 2013.

The James B. Hunt, Jr. Library, opened in January 2013, is N.C. State University's second main library, as well as the intellectual and social center of Centennial Campus. It is the main library for engineering, textiles, and other science programs. At over 221,000 gross square feet, including space for the Institute for Emerging Issues and other university centers and institutes. Anchoring Centennial Campus' Academic Oval, the building is actually longer and wider than a football field and rising 88 feet high at its tallest point, providing dramatic views of Lake Raleigh and city skyline.

The library has almost 100 group study rooms and technology-equipped spaces to support learning, research, and collaboration. Having only 30,000 books on its library shelves it may appear that the library lacks books, however, the bookBot, a robot-driven automated book delivery system holds up to 2 million volumes in 1/9 the space of conventional shelving, allowing the library to provide more space for learning and collaboration. The bookBot is 50 feet wide by 160 feet long by 50 feet tall and is excavated 20 feet below the first floor. It delivers books within minutes of a click to the Libraries' online catalog and viewers can watch the bookBot deliver their books through a glass wall on the first floor named "Robot Alley."

The Hunt Library is the model of N.C. State University's commitment to advancing sustainability as a moral imperative and an economic advantage. Shaded by its graceful solar fins, warming its water with rooftop solar panels, cooled and heated by innovative chilled beam and radiant panel systems, filtering storm runoff with beautiful green roofs and the Rain Garden, and flooded with natural light, the building has been designed for a Leadership in Energy and Environmental Design (LEED) Silver environmental rating.

Work continued on the six-building Wolf Ridge Apartments, the first student housing ever built on Centennial Campus in its 25 years of existence. With breathtaking views of the new Hunt Library, its own state-of-the-art dining facility, a new bookstore, a gymnasium for residents, a student supply store opening in September 2013 and a pending LEED Silver certification, Wolf Ridge Apartments promises to be yet another gem in the continued growth of Centennial Campus and the NCSU community.

The continuing renovation and addition to Talley Student Center establishes it as the central hub of activity on campus. The new Talley Student Center, when completed, will be a hub for quality student experiences providing them with a community atmosphere that will be ideally suited for collaboration, interaction and innovation. Its design will exemplify the University's values and history of NCSU and provide a place for the campus community to come together.

Long-Term Debt Activities

The University incurs long-term debt to finance construction projects, to purchase equipment using lease arrangements and to provide for accumulated unused vacation benefits for employees. As shown in the following chart, the University increased its long-term debt by $238.2 million during fiscal year 2013.

	2013	2012	Increase/ (Decrease)
Bonds Payable	$ 528,657,654	$ 296,073,276	$ 232,584,378
Capital Leases Payable	630,801	403,257	227,544
Notes Payable	79,497,894	81,121,121	(1,623,227)
Compensated Absences	62,849,417	55,879,370	6,970,047
Total Long-term Liabilities	$ 671,635,766	$ 433,477,024	$ 238,158,742

Long-term liabilities rose by $238.2 million, primarily due to increases in bonds payable. The University issued $274.1 million in General Revenue Refunding Bonds, Series 2013A and Series 2013B in February 2013. The bonds were issued to advance refund $47.5 million of outstanding Series 2005A General Revenue Bonds, pay off $100 million in commercial paper and provide financing for the Wolf Ridge Housing and the Talley Student Center. The remainder of the change in bonds payable was an increase in the bond premium, which was partially offset by scheduled principal payments. The liability for compensated absences increased by $7.0 million as employees used their forty hours of bonus leave instead of vacation leave. Notes payable decreased $1.6 million due to note payments.

Economic Factors That Will Affect the Future

The State of North Carolina continues to experience little growth in state revenues which has been diminished somewhat by recent tax reform legislation passed by the 2013 General Assembly. The State's unemployment rate is 8.9% (July, 2013) which is above the national average of 7.6%. The 2013 North Carolina General Assembly passed and the Governor signed the Tax Simplification and Reduction Act that reduces state income taxes for both individuals and corporations. It eliminates the franchise tax on utilities and the tax on piped natural gas, taxing both utilities and piped natural gas under the sales and use tax. The Act also expands the sales tax to include warranties and service contracts tied to the sale of tangible personal property and eliminates many exemptions including preferential sales tax rates for movies and amusements. The impact is a reduction in state revenue of $683.8 million over the biennium.

The North Carolina General Assembly passed and the Governor signed a 2013-15 Appropriation Bill that reduced NC State University's state appropriated funds by $21.1 million in 2013-14 and at least another $4.6 million in additional reductions for 2014-15. The Appropriation bill did include recurring operating funds of $12.3 million for anticipated 2013-14 enrollment change, although in future years the University is planning for only very gradual enrollment growth that is focused on graduate students. The University is also scheduled to receive an additional $12 million for repairs and renovations for facilities and infrastructure and $9.9 million in additional tuition receipts from increases approved by the UNC Board of Governors in February, 2013. In addition, the University was awarded a $60.7 million grant from the National Security Agency in May 2013, for the purpose of researching the challenge of collecting, sorting and storing computer data. The entire award is over a five year period.

As with previous budget reductions, the University administration has not allocated the 2013-14 reduction on an across-the-board manner to its colleges and academic and administrative support units. The colleges and other student credit hour producing units were allocated a reduction percentage that is approximately two thirds of the amount allocated to support and administrative units. The majority of the reduction will be absorbed through the elimination of filled and vacant positions but no tenured or tenure track faculty will be terminated and, to the extent possible, the University's core instructional mission will be protected. As with prior budget reductions, the final reduction exempted the student financial aid budget.

Due to the significant tax changes noted above, it is too early in the fiscal year to obtain a reasonable measure of the state revenues for fiscal year 2013-14. However, the State's 2013-14 appropriation includes $250 million of unobligated funds. It is also too early in the fiscal year to ignore the potential for additional state budget reversions or reductions, especially if the state's unemployment rate continues to grow or the national economy falters dramatically. The University administration has held sufficient unallocated resources to cover modest shortfalls in tuition collections without adversely impacting campus budgets.

The University's projected enrollment growth through 2020 has been revised to flatten and somewhat stabilize undergraduate and master's degree enrollment with a focus on growing doctoral enrollment, especially in the STEM (Science, Technology, Engineering, Mathematics) disciplines. The quality of the undergraduate student body has increased and retention and graduation rates have improved with graduating student debt at a very modest level among major public research universities. The University continues to be one of the country's best buys in higher education.

North Carolina State University
Statement of Net Position
June 30, 2013

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	254,635,332
Restricted Cash and Cash Equivalents		100,566,237
Receivables, Net (Note 4)		57,985,078
Due from Primary Government		7,603,689
Due from State of North Carolina Component Units		3,550,081
Inventories		5,291,153
Notes Receivable, Net (Note 4)		3,141,572
Total Current Assets		432,773,142
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		148,900,522
Endowment Investments		177,402,072
Restricted Investments		146,873,592
Other Investments		25,584
Notes Receivable, Net (Note 4)		9,122,912
Capital Assets - Nondepreciable (Note 5)		289,931,017
Capital Assets - Depreciable, Net (Note 5)		1,567,652,097
Total Noncurrent Assets		2,339,907,796
Total Assets		2,772,680,938
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives (Note 9)		12,215,623
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		54,267,508
Due to Primary Government		6,924,317
Due to State of North Carolina Component Units		581,230
Unearned Revenue		33,624,924
Interest Payable		6,030,756
Long-Term Liabilities - Current Portion (Note 8)		18,127,838
Total Current Liabilities		119,556,573
Noncurrent Liabilities:		
Accounts Payable and Accrued Liabilities		1,717,065
Deposits Payable		1,054,826
Funds Held for Others		21,970,158
U. S. Government Grants Refundable		5,578,802
Funds Held in Trust for Pool Participants		145,283,776
Hedging Derivative Liability (Note 9)		12,215,623
Long-Term Liabilities (Note 8)		653,507,928
Total Noncurrent Liabilities		841,328,178
Total Liabilities		960,884,751

NET POSITION

Net Investment in Capital Assets		1,221,318,466
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		11,719,665
Endowed Professorships		60,990,529
Departmental Uses		5,971,566
Loans		7,457,256
Expendable:		
Scholarships and Fellowships		24,885,332
Research		17,396,124
Endowed Professorships		50,043,911
Departmental Uses		37,347,164
Loans		1,731,523
Capital Projects		138,957,190
Debt Service		15,390,790
Unrestricted		230,802,294
Total Net Position	$	1,824,011,810

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

North Carolina State University
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013 *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 11)	$ 242,771,900
Federal Appropriations	18,723,388
Federal Grants and Contracts	135,990,024
State and Local Grants and Contracts	35,476,494
Nongovernmental Grants and Contracts	72,519,707
Sales and Services, Net (Note 11)	201,346,622
Interest Earnings on Loans	253,031
Other Operating Revenues, Net (Note 11)	16,054,047
Total Operating Revenues	723,135,213
EXPENSES	
Operating Expenses:	
Salaries and Benefits	802,243,208
Supplies and Materials	130,090,658
Services	196,058,974
Scholarships and Fellowships	47,507,403
Utilities	34,337,800
Depreciation/ Amortization	68,939,780
Total Operating Expenses	1,279,177,823
Operating Loss	(556,042,610)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	484,021,602
Noncapital Grants - Student Financial Aid	24,630,869
Noncapital Grants	24,587,393
Noncapital Gifts	59,357,640
Investment Income (Net of Investment Expense of $582,064)	18,617,624
Interest and Fees on Debt	(14,930,596)
Federal Interest Subsidy on Debt	1,222,684
Other Nonoperating Revenues	707,010
Net Nonoperating Revenues	598,214,226
Income Before Other Revenues, Expenses, Gains, or Losses	42,171,616
Capital Appropriations	2,074,000
Capital Grants	24,996,937
Capital Gifts	5,071,152
Additions to Endowments	4,791,531
Increase in Net Position	79,105,236
NET POSITION	
Net Position - July 1, 2012	1,744,906,574
Net Position - June 30, 2013	$ 1,824,011,810

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

North Carolina State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 708,645,586
Payments to Employees and Fringe Benefits	(795,235,769)
Payments to Vendors and Suppliers	(358,872,963)
Payments for Scholarships and Fellowships	(47,507,403)
Loans Issued	(1,999,580)
Collection of Loans	1,865,118
Interest Earned on Loans	255,218
Other Receipts	16,455,388
Net Cash Used by Operating Activities	(476,394,405)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	484,021,602
Noncapital Grants - Student Financial Aid	24,630,869
Noncapital Grants	24,925,336
Noncapital Gifts	59,357,754
Additions to Endowments	4,791,531
William D. Ford Direct Lending Receipts	114,202,515
William D. Ford Direct Lending Disbursements	(114,383,164)
Related Activity Agency Receipts	26,053,192
Related Activity Agency Disbursements	(42,444,339)
External Participation in Investment Fund Receipts	48,000,000
External Participation in Investment Fund Disbursements	(8,798,570)
Other Receipts	466,042
Net Cash Provided by Noncapital Financing Activities	620,822,768
CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	347,372,343
State Capital Appropriations	2,074,000
Capital Grants	23,641,966
Capital Gifts	3,257,409
Proceeds from Sale of Capital Assets	692,935
Acquisition and Construction of Capital Assets	(197,830,841)
Principal Paid on Capital Debt and Leases	(114,105,149)
Interest and Fees Paid on Capital Debt and Leases	(14,944,398)
Payment to Bond Escrow Agent	(53,935,070)
Federal Interest Subsidy on Debt Received	1,222,684
Other Payments	(1,160,868)
Net Cash Used by Capital Financing and Related Financing Activities	(3,714,989)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	41,763,768
Investment Income	264,914
Purchase of Investments and Related Fees	(80,014,467)
Net Cash Provided by Investing Activities	(37,985,785)
Net Increase in Cash and Cash Equivalents	102,727,589
Cash and Cash Equivalents - July 1, 2012	401,374,502
Cash and Cash Equivalents - June 30, 2013	$ 504,102,091

North Carolina State University
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2013 — *Page 2 of 2*

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(556,042,610)
Adjustments to Reconcile Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		68,939,780
Allowances, Write-Offs, and Amortizations		(1,554,553)
Changes in Assets and Liabilities:		
Receivables (Net)		3,362,331
Due from Primary Government		(375,491)
Inventories		167,517
Notes Receivable (Net)		110,432
Accounts Payable and Accrued Liabilities		597,128
Due to Primary Government		606,767
Due to State of North Carolina Component Units		306,636
Unearned Revenue		211,383
Compensated Absences		6,970,047
Deposits Payable		306,228
Net Cash Used by Operating Activities	$	(476,394,405)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	254,635,332
Restricted Cash and Cash Equivalents		100,566,237
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		148,900,522
Total Cash and Cash Equivalents - June 30, 2013	$	504,102,091

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	$	344,465
Assets Acquired through a Gift		1,813,629
Change in Fair Value of Investments		15,233,527
Gain on Disposal of Capital Assets		221,184
Bond Issuance Cost Withheld		(859,272)
Amortization of Bond Premiums/Discounts		(4,670,419)

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

North Carolina State University Foundations
Statement of Financial Position
June 30, 2013

Exhibit B-1

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.	The North Carolina Agricultural Foundation, Inc.
ASSETS			
Cash and Cash Equivalents	$ 17,426,426	$ 11,613,514	$ 29,391,025
Investments	12,144,886	31,506,986	4,810,995
Investments with University Investment Pool	136,879,024		48,580,852
Cash Surrender Value of Life Insurance	235,296	115,417	70,478
Assets Held in Charitable Trusts and Annuities	27,657,560		5,158,967
Real Estate Held for Resale	2,298,300	7,587,679	3,586,418
Receivables, Net	1,552,879	378,644	67,129
Pledges Receivable/Promises	49,812,899	22,558,356	13,580,814
Prepaid Expenses		140,159	
Notes/Loans Receivable, Net		446,350	4,745,630
Property and Equipment, Net	4,554,417	32,584,669	29,402,249
Total Assets	252,561,687	106,931,774	139,394,557
LIABILITIES			
Accounts Payable and Accrued Expenses	467,356	428,727	241,695
Due to Others			122,579
Deferred Revenue	8,156	2,516,159	647,877
Interest Payable		13,851	
Funds Held for Others	811,110		
Split Interest Agreement Obligations	17,867,975		2,618,251
Notes Payable		1,027,000	
Bonds Payable		12,660,000	
Total Liabilities	19,154,597	16,645,737	3,630,402
NET ASSETS			
Unrestricted	8,555,315	26,941,507	2,056,853
Temporarily Restricted	57,015,315	28,342,455	63,420,914
Permanently Restricted	167,836,460	35,002,075	70,286,388
Total Net Assets	$ 233,407,090	$ 90,286,037	$ 135,764,155

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

North Carolina State University Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2013 — *Exhibit B-2*

	North Carolina State University Foundation, Inc.	NC State Student Aid Association, Inc.	The North Carolina Agricultural Foundation, Inc.
CHANGES IN UNRESTRICTED NET ASSETS			
Revenues and Gains:			
Contributions	$ 2,431	$ 10,051,430	$ 1,507,571
Changes in Pledges Receivable	(49)		
Donated Services and Noncash Contributions	826,000	505,854	1,160,000
Investment Income	94,792	673,978	97,463
Net Unrealized and Realized Gains on Long-Term Investments	839,715	2,959,377	125,800
Net Asset Reclassification - Underwater Endowments	149,777		83,775
Executive Education, LLC Income	1,231,504		
Other	824,395	943,661	1,222,872
Total Unrestricted Revenues and Gains	3,968,565	15,134,300	4,197,481
Net Assets Released from Restrictions:			
Satisfaction of Program or Time Restrictions	14,858,769		10,571,702
Facility Improvements		7,693,900	
Total Net Assets Released from Restrictions	14,858,769	7,693,900	10,571,702
Total Unrestricted Revenues, Gains, and Other Support	18,827,334	22,828,200	14,769,183
Expenses and Losses:			
University Support	11,251,835	8,960,599	11,159,141
University Facilities Support	3,689,832	7,693,900	
Management and General	479,734	2,092,756	375,649
Fund Raising	2,476,403	3,883,230	1,844,622
Total Expenses	17,897,804	22,630,485	13,379,412
Increase in Unrestricted Net Assets	929,530	197,715	1,389,771
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Contributions	10,019,451	1,798,646	9,443,263
Changes in Pledges Receivable	(3,364,597)		(2,834,631)
Donated Services and Noncash Contributions		27,022	
Grant Revenues			244,307
Investment Income	51,389	29,084	971,864
Net Unrealized and Realized Gains on Long-Term Investments	11,489,729	87,953	5,236,972
Realized/Unrealized Gain on Swap Contracts		230,698	
Net Asset Reclassification - Underwater Endowments	(149,777)		(83,775)
Vaughn Towers Revenue		3,661,556	
Disposal of Other Assets			13,052,491
Other	3,213,512	63,257	758,578
Net Assets Released from Restrictions:			
Satisfaction of Program or Time Restrictions	(14,858,769)		(10,571,702)
Facility Improvements		(7,693,900)	
Increase (Decrease) in Temporarily Restricted Net Assets	6,400,938	(1,795,684)	16,217,367
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Contributions	48,875,867	475,872	1,473,732
Changes in Pledges Receivable	37,545,758		7,541,886
Investment Income	112,494		86,554
Net Unrealized and Realized Gains on Long-Term Investments	648,755		11,945
Change in Value of Split Interest Agreements	(48,732)		(173,059)
Disposal of Other Assets			(486,500)
Other	243,307		832,839
Increase in Permanently Restricted Net Assets	87,377,449	475,872	9,287,397
Increase (Decrease) in Net Assets	94,707,917	(1,122,097)	26,894,535
Net Assets at Beginning of Year	138,699,173	91,408,134	108,869,620
Net Assets at End of Year	$ 233,407,090	$ 90,286,037	$ 135,764,155

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. North Carolina State University is a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds belonging to the University and its component units. While the Board of Governors of the University of North Carolina System has ultimate responsibility, the Chancellor, the Board of Trustees, and the Board of Trustees of the Endowment Fund have delegated responsibilities for financial accountability of the University's funds. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Blended Component Units - Although legally separate, the NC State Investment Fund, Inc. (Investment Fund) and the NC State University Partnership Corporation (Corporation), component units of the University, are reported as if they were part of the University.

The Investment Fund is governed by a board consisting of six ex officio directors and five elected directors. The Investment Fund's purpose is to support the University by operating an investment fund for charitable, nonprofit foundations, associations, trusts, endowments, and funds that are organized and operated primarily to support the University. The Investment Fund is a governmental external investment pool. Because the elected directors of the Investment Fund are appointed by the members of the North Carolina State University Board of Trustees and the Investment

Fund's primary purpose is to benefit North Carolina State University, its financial statements have been blended with those of the University.

The Corporation is governed by a Board of Directors appointed by the Chancellor of the University. The Corporation's purpose is to support and benefit the University with the aims of creating new knowledge and improving the lives of the people of North Carolina. The Corporation formed NC State University Centennial Development, LLC on January 25, 2002, to develop, construct, own, finance, manage and otherwise deal with a nonprofit hotel, golf course, conference center and related meeting facilities on Centennial Campus as outlined in the Campus Master Plan. In addition, the Corporation formed NC State Upfit, LLC on October 27, 2006, to develop, construct, own, finance, manage and otherwise upfit facilities and other infrastructure on Centennial Campus, and it formed NC State Residence, LLC on October 27, 2006, to develop, construct, own, finance, manage and otherwise deal with a nonprofit chancellor's residence on Centennial Campus. This property was transferred to the University in October 2011 and the LLC dissolution was requested on June 29, 2012, and filed on August 22, 2012. Also, the Corporation formed NC State CBC Land I, LLC on June 1, 2007, to acquire, develop, own, lease, hold, manage, sell, and otherwise exercise all right of ownership of land and flex lab facilities on Centennial Biomedical Campus. Additionally, the Corporation formed NC State American Home, LLC on August 8, 2007, and changed its name to Bell Tower Holdings LLC on December 14, 2009. The purposes of Bell Tower Holdings LLC are to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of real property and enter into any related agreements for assisting with the acquisition, development, financing, construction, management and operation of real property. On March 31, 2008, the Corporation formed NC State CC Holdings I, LLC to acquire, develop, own, lease, hold, manage, sell and otherwise exercise all right of ownership of land and facilities on Centennial Campus. Leaders in Innovation and Nonwovens Commercialization, LLC (LINC), was established on July 9, 2012, to foster economic development and creation of new knowledge by facilitating commercialization of technologies developed at the Nonwovens Institute at NC State University. Because the Corporation's Board is appointed by the Chancellor and its sole purpose is to support and benefit the University, the Corporation and the LLCs are considered part of the University for financial reporting purposes.

Separate financial statements for the Investment Fund and for the Corporation and the LLCs may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149. Other related foundations and similar nonprofit corporations for which the University is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 18.

Discretely Presented Component Units – The North Carolina State University Foundation, Inc. (Foundation), NC State Student Aid Association, Inc. (Athletic Club) and North Carolina Agricultural Foundation, Inc. (Agricultural Foundation) are legally separate not-for-profit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the University.

The Foundation, Athletic Club and Agricultural Foundation are legally separate, tax-exempt component units of the University. These entities act primarily as fund-raising organizations to supplement the resources that are available to the University in support of its programs. Separate Boards of Directors govern these entities independent of the University's Board of Trustees. Although the University does not control the timing or amount of receipts from these entities, the majority of resources, or income thereon, that these entities hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by these entities can only be used by, or for the benefit of the University, these entities are considered component units of the University and are reported in separate financial statements because of the difference in their reporting model, as described below.

The Foundation, Athletic Club and Agricultural Foundation are private not-for-profit organizations that report their financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to their financial information in the University's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed $13,119,029 to the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

During the year ended June 30, 2013, the Athletic Club distributed $11,464,252 to the University for both restricted and unrestricted purposes. Complete financial statements for the Athletic Club can be obtained from the NC State Student Aid Association, PO Box 37100, Raleigh, NC 27627, or by calling (919) 865-1500.

During the year ended June 30, 2013, the Agricultural Foundation distributed $11,228,862 to the University for both restricted and unrestricted purposes. Complete financial statements for the Agricultural Foundation can be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149.

B. Basis of Presentation - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

C. Basis of Accounting - The financial statements of the University have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF 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.

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds, real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated. Private equity funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the University for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. However, real estate held as quasi-endowments or principally for other than investment purposes is reported at cost.

Restricted investments include funds of affiliated entities that are neither part of the University's reporting entity nor reported discretely but invested through the Investment Fund.

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method. Exceptions are the bookstore, which uses the retail inventory method, and physical plant, which uses the moving weighted average method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The University capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, 4 to 22 years for equipment, and 2 to 15 years for computer software.

The University does not capitalize its collections. These collections adhere to the University's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources legally segregated for the payment of principal and interest as required by debt covenants, unspent debt proceeds, and endowment and other restricted investments.

J. **Funds Held in Trust for Pool Participants** - Funds held in trust for pool participants represent the external portion of the University's governmental external investment pool more fully described in Note 2.

K. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of revenue bonds payable, notes payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

Revenue bonds payable are reported net of unamortized premiums or discounts. The University amortizes bond premiums/discounts over the life of the bonds using the straight-line method. Losses on refunding and issuance costs on bonds payable are not material to the accompanying financial statements and are expensed in the year incurred.

L. **Compensated Absences** - The University's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the University has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Net Position - The University's net position is classified as follows:

Net Investment in Capital Assets - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, royalties, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

N. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the University and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship discount.

O. Revenue and Expense Recognition - The University classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the University, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to University departments, as well as to its customers. These institutional auxiliary operations include activities such as Central Stores, the Creamery, Telecommunications, Physical Plant, and Motor Pool. In addition, the University has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to University departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - Unless specifically exempt, the University is required by *North Carolina General Statute* 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. However, the University of North Carolina Board of Governors, pursuant to G.S. 116-36.1, may authorize the University to deposit its institutional trust funds in interest-bearing accounts and other investments authorized by the Board of Governors, without regard to any statute or rule of law relating to the investment of funds by fiduciaries. Although specifically exempted, the University may voluntarily deposit institutional trust funds, endowment funds, special funds, revenue bond proceeds, debt service funds, and funds received for services rendered by health care professionals with the State Treasurer. Special funds consist of moneys for intercollegiate athletics and agency funds held directly by the University.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $500,356,922 which represents the University's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Cash on hand at June 30, 2013, was $373,776. The carrying amount of the University's deposits not with the State Treasurer was $3,371,393 and the bank balance was $3,524,112. Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University follows the Cash Management Plan (Plan) approved by the North Carolina Office of the State Controller. As provided by the Plan, all funds belonging to the University are deposited with the State Treasurer pursuant to G.S.147-77 and G.S. 147-69.1. As provided by the Plan, imprest checking accounts are established with outside banks when considered effective in meeting management objectives. All imprest checking accounts are authorized by the University Treasurer and are limited to the minimum amount needed for sanctioned purposes. In addition, pursuant to G.S. 116-36(e), the University invests certain endowment funds with outside bank accounts. The University does not have a deposit policy for custodial credit risk. As of June 30, 2013, the University's bank balance exposed to custodial credit risk (amounts that are uninsured and uncollateralized) was $2,303,782.

B. Investments - The University is authorized by The University of North Carolina Board of Governors pursuant to G.S. 116-36.2 and Section 600.2.4 of the Policy Manual of the University of North Carolina to invest its special funds and funds received for services rendered by health care professionals in the same manner as the State Treasurer is required to invest, as discussed below.

G.S. 147-69.1(c), applicable to the State's General Fund, and G.S. 147-69.2, applicable to institutional trust funds, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper; and asset-backed securities with specified ratings. Also, G.S. 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. G.S. 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

In accordance with the bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

G.S. 116-36(e) provides that the trustees of the Endowment Fund shall be responsible for the prudent investment of the Fund in the exercise of their sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries but in compliance with any lawful condition placed by the donor upon that part of the Endowment Fund to be invested.

Investments of the endowment funds, including those invested in the Investment Fund, a University component unit, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of various funds may be pooled unless prohibited by statute or by terms of the gift or contract. The University utilizes investment pools to manage investments and distribute investment income.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University does not have a formal policy that addresses credit risk.

Investment Fund - The Investment Fund began operations in April 1999 and is classified as a non-rated 2a7-like governmental external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Endowment Fund of North Carolina State University, The North Carolina Agricultural Foundation, Inc., and the North Carolina State University Foundation, Inc. represent the Investment Fund's internal participants. The North Carolina Agricultural Foundation, Inc. and the North Carolina State University Foundation, Inc. are discretely presented component units in the accompanying financial statements. Other affiliated organizations not included in the University's reporting entity represent the pool's external participants. The external portion of the pool is presented in the accompanying financial statements as "Funds Held in Trust for Pool Participants."

The Investment Fund is not subject to any formal oversight other than that provided by the Investment Fund Members Board or its Board of Directors. The Members Board is responsible for adopting investment objectives and policies and for monitoring policy implementation and investment performance. The Members Board has chosen not to make individual security selection decisions. The Board of Directors has the responsibility to oversee the allocation of the Investment Fund's portfolio among the asset classes, investment vehicles, and investment managers.

Bank of New York Mellon is the custodian for the pool and provides the University with quarterly statements defining income and fair value information, which is then allocated among the fund's participants. Each participant holds Master Trust Units of the Fund. The unit price fluctuates based on the investment experience of the investment pool. There are no involuntary participants in the pool. The University has not provided or obtained any legally binding guarantees during the period to support the value for the pool's investments. The annual financial report for the Investment Fund may be obtained from the Foundations Accounting and Investments Office, Campus Box 7207, Raleigh, NC 27695, or by calling (919) 513-7149 or at http://foundationsaccounting.ofb.ncsu.edu/investment-fund.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the Investment Fund.

Investment Fund

	Fair Value	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Collective Investment Funds	$ 22,655,512	$ 22,655,512
Other Securities		
UNC Investment Fund	428,661,401	
Private Equity Limited Partnerships	30,813,629	
Total Investment Fund	$ 482,130,542	

At June 30, 2013, investments in the Investment Fund had the following credit quality distribution for securities with credit exposure (based on Moody's rating):

	Fair Value	BBB Baa
Collective Investment Funds	$ 22,655,512	$ 22,655,512

UNC Investment Fund, LLC - At June 30, 2013, the University's investments include $428,661,401 which represents the University's equity position in the UNC Investment Fund, LLC (UNC Investment Fund). The UNC Investment Fund is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Asset and ownership interests of the UNC Investment Fund are determined on a market unit valuation basis each month. Investment risks associated with the UNC Investment Fund are included in audited financial statements of the UNC Investment Fund, LLC which may be obtained from UNC Management Company, Inc., 1400 Environ Way, Chapel Hill, NC 27517.

Non-Pooled Investments - The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, for the University's non-pooled investments.

Non-Pooled Investments

	Fair Value	Investment Maturities (in Years) Less Than 1
Investment Type		
Debt Securities		
Money Market Mutual Funds	$ 4,431,903	$ 4,431,903
Other Securities		
Investment in Real Estate	23,123,492	
Domestic Stocks	25,584	
Collections and Mineral Rights	49,603	
Total Non-Pooled Investments	$ 27,630,582	

At June 30, 2013, the University's non-pooled investments had the following credit quality distribution for securities with credit exposure (based on Moody's and S&P ratings):

	Fair Value	AAA Aaa
Money Market Mutual Funds	$ 4,431,903	$ 4,431,903

Total Investments - The following table presents the fair value of the total investments at June 30, 2013:

	Fair Value
Investment Type	
Debt Securities	
Collective Investment Funds	$ 22,655,512
Money Market Mutual Funds	4,431,903
Other Securities	
UNC Investment Fund	428,661,401
Investments in Real Estate	23,123,492
Private Equity Limited Partnerships	30,813,629
Domestic Stocks	25,584
Collections and Mineral Rights	49,603
Total Investments	$ 509,761,124

Total investments include $185,459,876 held in the Investment Fund for the North Carolina State University Foundation, Inc. and The North Carolina Agricultural Foundation, Inc. This amount is excluded from the University prepared financial statements and included in the accompanying component unit financial statements.

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the University's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the University's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the University's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the University pooled endowment funds are determined by applying 4% (the Board approved spending rate) to the average market value of the long term investment pool (for a 20 quarter period), divided by the number of investment units in the pool to determine the "average spending amount" per unit of investment. The individual endowment fund payout or spending budget is then determined by applying the "average spending amount" to the number of investment units held by the individual endowment fund. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the University uses accumulated income and appreciation from restricted and unrestricted, expendable net position endowment balances to make up the difference. At June 30, 2013, net appreciation of $115,178,476 was available to be spent, of which $98,183,524 was classified in net position as restricted, expendable as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

During the current year, the University experienced positive investment gains. As a result, at June 30, 2013 no eroded corpus has been reported against the nonexpendable endowment as compared to $358,651 at the prior fiscal year end.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 3,016,414	$ 1,508,509	$ 1,507,905
Student Sponsors	4,677,748		4,677,748
Accounts	31,131,153	2,166,694	28,964,459
Intergovernmental	22,484,108		22,484,108
Interest on Loans	371,700	326,513	45,187
Federal Interest Subsidy on Debt	305,671		305,671
Total Current Receivables	$ 61,986,794	$ 4,001,716	$ 57,985,078
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 2,894,314	$ 15,430	$ 2,878,884
Institutional Student Loan Programs	264,789	2,101	262,688
Total Notes Receivable - Current	$ 3,159,103	$ 17,531	$ 3,141,572
Notes Receivable - Noncurrent:			
Federal Loan Programs	$ 9,569,568	$ 607,023	$ 8,962,545
Institutional Student Loan Programs	299,007	138,640	160,367
Total Notes Receivable - Noncurrent	$ 9,868,575	$ 745,663	$ 9,122,912

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 36,587,946	$ 29,073	$ 0	$ 36,617,019
Construction in Progress	192,616,191	139,850,741	85,373,098	247,093,834
Computer Software in Development	8,416,887	2,747,626	4,944,349	6,220,164
Total Capital Assets, Nondepreciable	237,621,024	142,627,440	90,317,447	289,931,017
Capital Assets, Depreciable:				
Buildings	1,650,337,603	123,019,135	2,556,009	1,770,800,729
Machinery and Equipment	306,182,486	23,895,345	10,190,850	319,886,981
General Infrastructure	188,073,307	9,021,059		197,094,366
Computer Software	2,291,073	4,944,349		7,235,422
Total Capital Assets, Depreciable	2,146,884,469	160,879,888	12,746,859	2,295,017,498
Less Accumulated Depreciation/Amortization for:				
Buildings	436,999,006	43,641,048	2,221,319	478,418,735
Machinery and Equipment	188,490,881	19,406,114	10,038,355	197,858,640
General Infrastructure	43,749,472	4,721,291		48,470,763
Computer Software	1,445,936	1,171,327		2,617,263
Total Accumulated Depreciation/Amortization	670,685,295	68,939,780	12,259,674	727,365,401
Total Capital Assets, Depreciable, Net	1,476,199,174	91,940,108	487,185	1,567,652,097
Capital Assets, Net	$ 1,713,820,198	$ 234,567,548	$ 90,804,632	$ 1,857,583,114

During the year ended June 30, 2013, the University incurred $18,435,231 in interest costs related to the acquisition and construction of capital assets. Of this total, $12,196,170 was charged in interest expense, and $6,239,061 was capitalized.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities	
Accounts Payable	$ 16,475,093
Accounts Payable - Capital	17,093,800
Accrued Payroll	11,319,483
Contract Retainage	8,667,434
Intergovernmental Payables	767
Severance Payable	668,939
Other	41,992
Total	$ 54,267,508

NOTE 7 - SHORT-TERM DEBT – COMMERCIAL PAPER PROGRAM

The University has available Commercial Paper Program financing for short-term debt credit up to $100,000,000 to finance capital construction projects. The University's available funds are pledged to the Commercial Paper Program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2013, $0 in Tax-Exempt Commercial Paper was outstanding.

Short-term debt activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Draws	Repayments	Balance June 30, 2013
Commercial Paper Program	$ 50,000,000	$ 50,000,000	$ 100,000,000	$ 0

NOTE 8 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Revenue Bonds Payable	$ 287,655,000	$ 274,090,000	$ 59,830,000	$ 501,915,000	$ 13,425,000
Add Premium	8,418,276	22,994,797	4,670,419	26,742,654	
Total Revenue Bonds Payable	296,073,276	297,084,797	64,500,419	528,657,654	13,425,000
Notes Payable	81,121,121		1,623,227	79,497,894	1,860,775
Capital Leases Payable	403,257	344,464	116,920	630,801	244,891
Compensated Absences	55,879,370	40,219,745	33,249,698	62,849,417	2,597,172
Total Long-Term Liabilities	$ 433,477,024	$ 337,649,006	$ 99,490,264	$ 671,635,766	$ 18,127,838

Additional information regarding capital lease obligations is included in Note 10.

B. Revenue Bonds Payable - The University was indebted for revenue bonds payable for the purposes shown in the following table:

Purpose	Series	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013
GENERAL REVENUE						
Housing System Projects / Doak Fields Projects	2003A	3.125% - 5%	10/01/2013	$ 26,735,000	$ 23,745,000	$ 2,990,000
Housing System Projects / Doak Fields Projects	2003B	3.54% swap*	10/01/2027	45,660,000	2,655,000	43,005,000
Various Construction Projects	2005A	4.6% - 5%	10/01/2015	81,615,000	68,755,000	12,860,000
Various Construction Projects	2008A	3.862% swap*	10/01/2028	66,605,000		66,605,000
Various Construction Projects	2008B	3.5% - 5%	10/01/2020	26,955,000	15,955,000	11,000,000
Various Construction Projects	2010A	4% - 5%	10/01/2022	18,065,000	2,530,000	15,535,000
Various Construction Projects	2010B	5.079% - 6.027%**	10/01/2035	59,565,000		59,565,000
Advance Refund Series 2003A	2012	3% - 5%	10/01/2018	16,265,000		16,265,000
Adv Refund 2005A / Wolf Ridge Housing	2013A	2% - 5%	10/01/2042	132,440,000		132,440,000
Adv Refund 2005A / Talley Student Center	2013B	0.267% - 4%	10/01/2041	141,650,000		141,650,000
Total Revenue Bonds Payable (principal only)				$ 615,555,000	$ 113,640,000	501,915,000
Plus: Unamortized Premium						26,742,654
Total Revenue Bonds Payable						$ 528,657,654

* For variable rate debt, interest rates in effect at June 30, 2013 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

** The University has elected to treat these bonds as federally taxable "Build America Bonds" for the purposes of the American Recovery and Reinvestment Act and to receive a cash subsidy from the U.S. Treasury equal to 35% of the interest payable on these bonds. For these bonds, the interest rate included is the taxable rate, which does not factor in the cash subsidy from the U.S. Treasury.

C. Demand Bonds - Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the University's remarketing or paying agents.

With regards to the following demand bonds, the University has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

North Carolina State University at Raleigh Variable Rate – General Revenue Bonds, Series 2003B: On June 20, 2003, the University issued tax-exempt variable rate revenue demand bonds in the amount of $45,660,000 that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the

Remarketing Agent, Wells Fargo Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003, and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2013, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in 12 quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the purchase date along with accrued interest at the Liquidity Provider rate. In the event the entire outstanding $43,005,000 of demand bonds was “put” and not resold, the University would be required to pay $15,000,000 a year for three years under this agreement assuming a 3.25% interest rate.

North Carolina State University at Raleigh Variable Rate – General Revenue Bonds, Series 2008A: On July 10, 2008, the University issued tax-exempt variable rate revenue demand bonds in the amount of $66,605,000 that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University’s proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets Inc., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Wells Fargo Bank, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.39% of the available commitment, payable quarterly in arrears, beginning on October 1, 2012, and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the base rate (the greater of the bank prime commercial lending rate plus 1.0%, the federal funds rate plus 2.0%, or 7.0%) for 180 days. Beginning on day 181 (the amortization date), the Bank Bonds become Term Bonds and bear interest at the base rate plus 1.0%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2013, there were no Bank Bonds held by the Liquidity Facility. The initial Liquidity Facility expiration date is July 6, 2015, unless otherwise extended based on the terms of the Agreement.

After the amortization date, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semi-annual installments, rounded to the nearest Authorized Denomination, beginning the first business day of the month immediately following the commencement of the Term Bank Bond period. In the event the entire outstanding $66,605,000 of demand bonds was "put" and not resold, the University would be required to pay $25,000,000 a year for three years under this agreement assuming an 8.0% interest rate.

D. Annual Requirements - The annual requirements to pay principal and interest on the long-term obligations at June 30, 2013, are as follows:

	Annual Requirements				
	Revenue Bonds Payable			Notes Payable	
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest
2014	$ 13,425,000	$ 17,864,740	$ 2,737,794	$ 1,860,775	$ 3,351,770
2015	12,935,000	16,571,953	2,737,794	2,140,857	3,265,991
2016	13,465,000	16,082,432	2,676,962	3,412,294	3,163,411
2017	13,985,000	15,657,764	2,538,759	2,714,261	3,046,724
2018	14,510,000	15,280,149	2,395,043	3,241,090	2,919,981
2019-2023	76,450,000	71,869,059	9,609,043	23,591,271	11,974,761
2024-2028	93,605,000	64,252,464	2,977,567	37,886,569	5,523,222
2029-2033	96,130,000	46,519,109		4,650,777	220,611
2034-2038	74,930,000	27,977,693			
2039-2043	92,480,000	10,438,050			
Total Requirements	$ 501,915,000	$ 302,513,413	$ 25,672,962	$ 79,497,894	$ 33,466,471

Interest on the variable rate 2003B general revenue bonds is calculated at 0.05% at June 30, 2013
Interest on the variable rate 2008A general revenue bonds is calculated at 0.06% at June 30, 2013
Interest rates are reset each week by the remarketing agent based upon University credit ratings and market conditions.

This schedule also includes the debt service requirements for debt associated with interest rate swaps. More detailed information about interest rate swaps is presented in Note 9 Derivative Instruments.

E. Bond Defeasance - The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

On February 13, 2013, the University issued $132,440,000 in North Carolina State University at Raleigh General Revenue Bonds, Series 2013A and $141,650,000 in North Carolina State University at Raleigh Taxable General Revenue Bonds, Series 2013B bonds with an average coupon of 4.213%. The bonds were issued to advance refund $47,465,000 of outstanding North Carolina State University at Raleigh General Revenue Bonds, Series 2005A bonds with an average coupon of 4.83%. The net proceeds of the refunding bonds were used to purchase U.S. government securities. These securities were deposited into an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University's Statement of Net Position. This advance refunding was undertaken to reduce total debt service payments by $4,833,246 over the next 13 years and resulted in an economic loss of $3,630,916. At June 30, 2013, the outstanding balance was $47,465,000 for the defeased North Carolina State University at Raleigh General Revenue Bonds, Series 2005A bonds.

Prior Year Defeasances - During prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2013, the outstanding balance of prior year defeased bonds was $17,290,000.

F. **Notes Payable** - The University was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Compounded Interest	Principal Outstanding June 30, 2013
Energy Conservation Loan	BB&T	4.97%	06/01/2030	$ 19,700,703	$ 485,878	$ 707,470	$ 19,922,295
Energy Conservation Loan	Bank of America	4.07%	08/17/2028	56,060,010	987,349	3,522,938	58,595,599
Lonnie Poole Golf Course	Suntrust	Variable	01/30/2015	5,000,000	4,020,000		980,000
Total Notes Payable				$ 80,760,713	$ 5,493,227	$ 4,230,408	$ 79,497,894

NOTE 9 - DERIVATIVE INSTRUMENTS

Derivative instruments held at June 30, 2013, are as follows:

		Change in Fair Value		Fair Value at June 30, 2013	
Type	Notional Amount	Classification	Increase	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-Fixed Interest Rate Swap 2003B Bonds	$ 24,655,000	Deferred Outflow of Resources	$ 2,287,069	Hedging Derivative Liability	$ (3,763,131)
Pay-Fixed Interest Rate Swap 2008A Bonds	$ 50,000,000	Deferred Outflow of Resources	$ 3,062,193	Hedging Derivative Liability	$ (8,452,492)
Total Derivative Instruments			$ 5,349,262		$ (12,215,623)

Hedging derivative instruments held at June 30, 2013, are as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows on General Revenue 2003B Series Bonds	$ 24,655,000	06/20/03	10/01/27	Pay 3.54% Receive 75% LIBOR
Pay-Fixed Interest Rate Swap	Hedge changes in cash flows on General Revenue 2008A Series Bonds	$ 50,000,000	09/01/08	10/01/26	Pay 3.862% Receive SIFMA

As of June 30, 2013, the synthetic interest rates on the swapped portion of the 2003B and 2008A bonds were 3.44% and 3.86%, respectively. The fair value of the pay-fixed interest rate swaps was estimated using the market value method. This method calculates the market price of traded instruments.

Future Swaps: The University has also entered into a future dated interest rate swap agreement for $22,382,500 to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

Hedging Derivative Risks

Credit Risk: At June 30, 2013, the University was not exposed to credit risk on its interest rate swaps because the swaps had negative fair values. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A or better.

Interest Rate Risk: The University is exposed to interest rate risk on its interest rate swaps. The fair values of these instruments are highly sensitive to interest rate changes. Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2013. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2013. Both of the swaps outstanding have termination dates greater than 13 years. As the yield curve rises, the value of the swaps will increase and as rates fall, the value of the swaps will decrease.

Basis Risk: The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than Securities Industry and Financial Markets Association (SIFMA). Should the relationship between London Interbank Offering Rate (LIBOR) and SIFMA move to convergence, the expected cost savings may not be realized. The current outstanding swaps and the related bonds reset rates weekly and pay monthly. As of June 30, 2013, the SIFMA rate was 0.06%, whereas 75% of LIBOR was 0.14%.

Termination Risk: The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Rollover Risk: By definition, the University is exposed to rollover risk because the swap related to the 2008A bonds terminates October 1, 2026, two years before the related bonds mature on October 1, 2028. It is not the intent of the University, at this time, to re-hedge the bonds.

NOTE 10 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	$ 257,374
2015	257,374
2016	135,452
2017	5,918
Total Minimum Lease Payments	656,118
Amount Representing Interest (2.1819% Rate of Interest)	25,317
Present Value of Future Lease Payments	$ 630,801

Machinery and equipment acquired under capital lease amounted to $909,208 at June 30, 2013. Depreciation for the capital assets associated with capital leases is included in depreciation expense.

B. Operating Lease Obligations - The University entered into operating leases for equipment and property rental. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

Fiscal Year	Amount
2014	$ 5,455,194
2015	5,079,692
2016	4,546,964
2017	3,739,321
2018	3,477,191
2019-2023	15,258,986
2024-2028	12,857,765
Total Minimum Lease Payments	$ 50,415,113

Rental expense for all operating leases during the year was $7,366,139.

NOTE 11 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibales	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 321,459,267	$ 478,991	$ 79,216,277	$ (1,007,901)	$ 242,771,900
Sales and Services	$ 276,474,451	$ 57,339,842	$ 17,933,298	$ (145,311)	$ 201,346,622
Other Operating Revenue	$ 20,784,150	$ 5,131,444	$ 0	$ (401,341)	$ 16,054,047

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

NOTE 12 - OPERATING EXPENSES BY FUNCTION

The University's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 323,049,936	$ 30,622,484	$ 35,293,700	$ 0	$ 3,798	$ 0	$ 388,969,918
Research	161,703,657	19,048,495	50,987,503		953,766		232,693,421
Public Service	86,765,328	11,511,331	29,319,720		475,371		128,071,750
Academic Support	45,565,525	18,846,784	18,936,393		21,205		83,369,907
Student Services	15,968,945	1,432,661	5,628,932		234,248		23,264,786
Institutional Support	64,060,088	4,456,504	13,004,859		9,532		81,530,983
Operations and Maintenance of Plant	37,009,506	8,110,705	8,497,625		26,802,841		80,420,677
Student Financial Aid	999,888	68,106	759,122	47,507,403			49,334,519
Auxiliary Enterprises	67,120,335	35,993,588	33,631,120		5,837,039		142,582,082
Depreciation/Amortization						68,939,780	68,939,780
Total Operating Expenses	$ 802,243,208	$ 130,090,658	$ 196,058,974	$ 47,507,403	$ 34,337,800	$ 68,939,780	$ 1,279,177,823

NOTE 13 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. TSERS is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the University had a total payroll of $670,799,014, of which $306,165,883 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $25,503,618 and $18,369,953, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The University made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $25,503,618, $22,231,989, and $15,004,360, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators and eligible faculty of the University may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2013, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The University assumes no liability other than its contribution.

For the current fiscal year, the University had a total payroll of $670,799,014, of which $237,661,287 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $16,256,032 and $14,259,677, respectively.

B. **Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the University. The voluntary contributions by employees amounted to $3,355,918 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the University except for a 5% employer contribution for the University's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of University law enforcement officers for the year ended June 30, 2013, were $113,539. The voluntary contributions by employees amounted to $4,650,894 for the year ended June 30, 2013.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible University employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is UNC General Administration. No costs are incurred by the University. The voluntary contributions by employees amounted to $12,171,668 for the year ended June 30, 2013.

C. **Federal Employment Retirement –** The Federal Retirement System is a multiple-employer system and is composed of three retirement programs: the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1987, the Federal Employees Retirement System (FERS) for participants employed after January 1, 1987, and the Civil Retirement Offset System for reemployed CSRS employees.

North Carolina Cooperative Extension employees with federal appointments prior to January 1, 1987, participate in the CSRS. Currently, 38 employees participate in CSRS. Participating employees and the University are required by federal statute to contribute 7% of salary to CSRS. In addition, the CSRS employees may contribute to the Thrift Savings Plan (a defined contribution plan managed by the Federal Retirement Thrift Investment Board) up to the IRS annual elective limits with no agency matching contributions. Total employee and employer contributions for CSRS for the year ended June 30, 2013, was $256,796 and $283,234, respectively. Employees covered under CSRS contributed $17,112 to the Thrift Savings Plan.

Under the FERS, employees are required to contribute 0.8% of salary and the University 11.9%. Currently, seven employees participate in FERS. In addition, the FERS employees may contribute to the Thrift Savings Plan up to the IRS annual elective limits with an agency matching contribution on up to 5.0% of the employee’s contribution. Total employee and employer contributions for the year ended June 30, 2013, were $5,742 and $85,416, respectively. For employees covered under FERS the total employee and employer contributions to the Thrift Savings Plan for the year ended June 30, 2013, were $76,924 and $35,484, respectively.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The University participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan’s benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers’ and State Employees’ Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the University contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The University made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $28,822,840, $26,143,971, and $25,706,534, respectively. The University assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. **Disability Income** - The University participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the University made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The University made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $2,392,840, $2,718,973, and $2,728,040, respectively. The University assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 15 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The University pays the premium, based on a composite rate, directly to the private insurer.

The University is required to maintain fire and lightning coverage on all state-owned buildings and contents through the State Property Fire Insurance Fund (Fund), an internal service fund of the State. Such coverage is provided at no cost to the University for operations supported by the State's General Fund. Other operations not supported by the State's General Fund are charged for the coverage. Losses covered by the Fund are subject to a $5,000 per occurrence deductible. University departments, as an individual business decision, may also purchase, through the Fund, primary extended coverage for buildings and contents. Coverage may also be purchased through the Fund for theft, vandalism, sprinkler leakage, or all-risk perils. University departments also have the option to purchase all-risk coverage for computers and "miscellaneous equipment" on a scheduled basis. Flood insurance may also be purchased through the Fund for qualifying assets. Receipts-supported auxiliary units insure assets for additional perils coverage, as per the options noted above, in addition to the fire and lightning perils. General-funded departments and units insure for the perils of fire and lightning with the exception of certain coastal properties which are also insured for extended coverage perils and the peril of flood.

All state-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The University pays premiums to the North Carolina Department of Insurance for the coverage.

The University is protected for losses from employee dishonesty and computer fraud. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. Universities are charged a premium by the private insurance company. Coverage limit is $1,000,000 per occurrence. The applicable deductible is $25,000 per occurrence.

The University purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance and the State's Agent of Record. The types of insurance policies purchased include: medical professional liability, veterinary professional liability, fine arts, property, master crime, inland marine property for musical instruments, campers accident and sickness, athletic accident, boiler and machinery, watercraft, oceanographic equipment, and nuclear energy liability.

University employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan has contracted with third parties to process claims.

The North Carolina Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State and its component units are included in the program. When an employee is injured, the University's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The University is responsible for paying medical benefits and compensation in accordance with the North Carolina Workers' Compensation Act. The University retains the risk for workers' compensation.

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The University has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $93,674,685 at June 30, 2013.

The University has amended the Use Agreement for the PNC Arena with the Centennial Authority (a related party) and therein agreed to make scheduled capital contributions totaling $6,000,000 to the Authority's Building Enhancement Fund over a 15 year period. The total outstanding commitment on this agreement was $4,225,000 as of June 30, 2013.

B. Pending Litigation and Claims - As previously reported, the Environmental Protection Agency (EPA) filed a civil action against the University pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The complaint sought relief that would cause the University to enter into remediation of a hazardous waste site known as “Lot 86.” The University is involved in ongoing discussions and negotiations with the EPA concerning the appropriate means for addressing the remediation. A Consent Decree executed by North Carolina State University and the EPA has been approved by the Court. Remedial clean-up pursuant to the Consent Decree continues. The remediation costs remaining are estimated to be approximately $1,600,000.

As previously reported, the NC School Boards Association, et. al. filed a civil action against various state officials in their official capacity seeking a judicial determination as to whether the state constitution requires certain monetary payments collected by state agencies to be paid to the local county school funds. On July 1, 2005, the NC Supreme Court held in favor of the school boards with regard to parking fines. The matter was remanded back to the trial court for disposition in accordance with the Superior Court’s decision. On August 8, 2008, the Wake County Superior Court issued judgment that the estimated amounts collected from January 1, 1996, to June 30, 2005, by UNC Campuses belong and should have been paid to the public schools of the State by payment to the State’s Civil Penalty and Forfeiture Fund. The manner in which the judgment will be settled is uncertain and is to be determined by the North Carolina General Assembly. At issue for NC State University is approximately $6,749,207 in transportation fines collected since January 1, 1996, to June 30, 2005. Of this amount, the University has transferred $2,273,817 to the Office of State Budget and Management leaving approximately $4,475,390 still outstanding. Since July 2005, the University has been forwarding transportation fine collections, less collection costs, to the Office of State Budget and Management on a monthly basis.

As previously reported, on September 16, 2005, Ward Transformer Company, Inc. and related entities (collectively the “Ward Performing Parties”) entered into a Settlement Agreement with the United States Environmental Protection Agency (“EPA”). In the Agreement, the Ward Performing Parties agreed to fund and carry out a removal action to address PCB contamination at and in the vicinity of the 11-acre Ward Transformer facility on Mount Herman Road near the Raleigh-Durham International Airport. It is currently estimated that the removal action will involve the excavation and onsite treatment or offsite disposal of approximately 60,000 cubic yards, or about 220,000 tons, of PCB-contaminated soils. Current estimates indicate that the costs may be in the range upwards of $70 million (the University would be responsible for a portion of this amount). The Ward Performing Parties have notified NC State that they believe that the University is responsible for some of the PCB contamination because NC State allegedly had Ward repair and refurbish transformers during the 1960’s through the 1990’s. On March 24, 2010, the Court granted the University’s Motion to Dismiss based on the 11th Amendment sovereign immunity. However, this case is still open pending an appeal by the plaintiffs. In January 2013, the EPA indicated its desire to pursue a global settlement involving all parties for all past and future remediation costs, and indicated that parties not participating in the global settlement negotiations will face enforcement action by the EPA. As the University would not have a sovereign immunity defense available in an enforcement action brought by the EPA, on March 5, 2013, the University communicated its intent to participate in future global settlement negotiations with the EPA. Such negotiations have not yet begun and it is too early to determine the potential costs to the University.

The University is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. University management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the University.

NOTE 17 - RELATED PARTIES

Foundations - There are 10 separately incorporated nonprofit foundations associated with the University. These foundations are The North Carolina Agricultural Foundation, Inc., North Carolina State University Foundation, Inc., North Carolina Tobacco Foundation, Inc., North Carolina State University College of Sciences Foundation, Inc., North Carolina Engineering Foundation, Inc., North Carolina Veterinary Medical Foundation, Inc., NC State Natural Resources Foundation, Inc., North Carolina Textile Foundation, Inc., NC State Student Aid Association, Inc., and the North Carolina State Alumni Association, Inc.

These organizations serve as the primary fundraising arm of the University through which individuals, corporations, and other organizations support University programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific colleges and the University's overall academic environment. As described in Note 1 to the financial statements, The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc., and the NC State Student Aid Association, Inc. are considered component units of the University for reporting purposes and their financial statements are presented separately as a part of the University's financial statements. The University's financial statements do not include the assets, liabilities, net position, or operational transactions of the other foundations, except for support from each organization to the University. This support of the foundations, excluding amounts from The North Carolina Agricultural Foundation, Inc., the North Carolina State University Foundation, Inc., and the NC State Student Aid Association, Inc. approximated $18,095,232 for the year ended June 30, 2013.

Nonprofit Corporation - The Centennial Authority (Authority) was created by the 1995 General Assembly (Senate Bill 606) for the purpose of studying, designing, planning, constructing, owning, promoting, financing and operating a regional facility on land owned by the State. Prior to this act, the General Assembly authorized the construction by the University of a facility to be known as the "Entertainment and Sports Arena" (ESA). This facility serves as a regional sports entertainment center and is available for cultural performances, sporting events, and other activities of the University or of other entities (the Centennial Center project). With the 1995 legislation, the Centennial Center project was transferred to the Authority.

The Authority entered into a Ground Lease with the State of North Carolina to lease land for the ESA for a period of 99 years at an annual rent of $1. The University entered into a Use Agreement with the Authority. Both parties agreed that the University shall be the primary and preferred user of all areas of the ESA. The University is required to pay the greater of 10% of gross ticket revenues or $49,324 for each men's and $21,573 for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the ESA and the anticipated attendance.

In fiscal year 2001, a naming rights agreement was executed to change the name of the ESA to the “RBC Center.” The University received $13,184,000 over a ten-year period beginning in fiscal year 2003.

In fiscal year 2008, the University entered into a Capital Improvement Plan Agreement with the Authority to pay $6,000,000 in quarterly installments over the next 15 years.

In fiscal year 2012, the name "RBC Center" changed to "PNC Arena" due to the purchase of RBC Bank by PNC Bank.

NOTE 18 - BLENDED COMPONENT UNITS

Condensed combining information for the University's blended component units for the year ended June 30, 2013, is presented as follows:

Condensed Statement of Net Position June 30, 2013

	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
ASSETS				
Current Assets	$ 3,079,885	$ 2,839,787	$ (396,656)	$ 5,523,016
Capital Assets		15,540,060		15,540,060
Other Noncurrent Assets	482,130,542			482,130,542
Total Assets	485,210,427	18,379,847	(396,656)	503,193,618
LIABILITIES				
Current Liabilities	236,259	1,763,151	(824,003)	1,175,407
Noncurrent Liabilities		3,980,837	(2,730,750)	1,250,087
Total Liabilities	236,259	5,743,988	(3,554,753)	2,425,494
Deferred Inflows of Resources		31,605		31,605
NET POSITION				
Net Investment in Capital Assets		12,010,060	2,730,750	14,740,810
Restricted - Nonexpendable	484,974,168			484,974,168
Restricted - Expendable		224,429	427,347	651,776
Unrestricted		89,765		89,765
Total Net Position	$ 484,974,168	$ 12,324,254	$ 3,158,097	$ 500,456,519

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013

	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Eliminations	Total
OPERATING REVENUES				
Operating Revenues	$ 0	$ 5,772,068	$ 107,349	$ 5,879,417
OPERATING EXPENSES				
Operating Expenses	1,741,885	4,882,982	(1,944,985)	4,679,882
Depreciation		334,801		334,801
Total Operating Expenses	1,741,885	5,217,783	(1,944,985)	5,014,683
Operating Income	(1,741,885)	554,285	2,052,334	864,734
NONOPERATING REVENUES (EXPENSES)				
Investment Income	51,295,705			51,295,705
Participation Additions	52,502,000			52,502,000
Participant Withdrawals	(14,273,690)			(14,273,690)
Interest and Fees on Debt		(14,931)		(14,931)
Net Nonoperating Revenues (Expenses)	89,524,015	(14,931)		89,509,084
Capital Contributions		1,926,500		1,926,500
Transfers		32,323		32,323
Increase in Net Position	87,782,130	2,498,177	2,052,334	92,332,641
NET POSITION				
Net Position, July 1, 2012	397,192,038	9,826,077	1,105,763	408,123,878
Net Position, June 30, 2013	$ 484,974,168	$ 12,324,254	$ 3,158,097	$ 500,456,519

Condensed Statement of Cash Flows
June 30, 2013

	NC State Investment Fund, Inc.	NC State University Partnership Corporation	Total
Net Cash Provided by Operating Activities	$ 0	$ 2,449,565	$ 2,449,565
Net Cash Used by Capital and Related Financing Activities		(494,074)	(494,074)
Net Cash Provided (Used) by Investing Activities	(20,127,476)	38,136	(20,089,340)
Net Increase (Decrease) in Cash and Cash Equivalents	(20,127,476)	1,993,627	(18,133,849)
Cash and Cash Equivalents, July 1, 2012	23,207,361	755,081	23,962,442
Cash and Cash Equivalents, June 30, 2013	$ 3,079,885	$ 2,748,708	$ 5,828,593

NOTE 19 - SUBSEQUENT EVENTS

On July 31, 2013, NC State University Centennial Development, LLC entered into a new loan agreement for $3,100,000 to provide financing for the construction of the Carol Johnson Poole Clubhouse at the Lonnie Poole Golf Course.

On October 25, 2013, the Board of Trustees of the Endowment Fund entered into a sales agreement for Hofmann Forest. This sale, along with an additional contribution, will generate $150 million to be deposited in the University's Endowment Fund for the benefit of the College of Natural Resources.

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS

The University’s discretely presented component units use the accounting and reporting standards promulgated by FASB. Selected disclosures from the discretely presented component units’ audited financial statements follow:

North Carolina State University Foundation, Inc.

Endowment

The Foundation’s endowment consists of approximately 530 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. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation's interpretation of UPMIFA, 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 $(14,866) as of June 30, 2013.

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 Foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the NCSIF and the SRI Fund in a manner that is intended to produce results that exceed a 70% MCSI ACWI 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 20 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 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 $2,385,060 and $2,434,250 for fiscal years 2013 and 2014, 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 addition, the NCSIF 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 2,673,588	$ 27,071,422	$ 80,459,011	$ 110,204,021
Net Assets Reclassification - Underwater Endowments	149,777	(149,777)		
Endowment Net Assets After Reclassification	2,823,365	26,921,645	80,459,011	110,204,021
Total Investment Return	1,340,438	11,232,282	761,249	13,333,969
Contributions, Including Change in Accrued Pledges & Other Income	1,008	292,035	86,437,895	86,730,938
Appropriations of Endowment Assets for Expenditure	(607,865)	(2,326,883)		(2,934,748)
Change in Value of Split Interest Agreements & Charitable Lead Trust			(48,732)	(48,732)
Other Changes:				
Transfers			227,037	227,037
Endowment Net Assets, End of Year	$ 3,556,946	$ 36,119,079	$ 167,836,460	$ 207,512,485

The following represents endowment net asset composition by type of fund, as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated-Underwater Endowments	$ (14,866)	$ 0	$ 0	$ (14,866)
Board-Designated Endowment Funds	3,525,558			3,525,558
Donor Restricted Endowment Funds	46,254	36,119,079	167,836,460	204,001,793
Total Funds	$ 3,556,946	$ 36,119,079	$ 167,836,460	$ 207,512,485

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, 2013, consisted of:

	Cost	Fair Value
STIF	$ 9,085,740	$ 9,085,740
NC State Investment Fund, Inc. (NCSIF)	121,479,227	136,879,024
SRI Fund	1,002,780	983,688
Wells Fargo - Life Income Funds	6,574,963	6,715,905
Total	$ 138,142,710	$ 153,664,357

Investments held by the NCSIF at June 30, 2013, were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio (“LPP”), a bundle of exchange-traded funds, and the STIF. As of June 30, 2013, approximately 88.5% of these limited partnerships were with the UNC Management Company, 6.3% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 4.7% was invested in the LPP, and 0.5% was invested in the STIF. NCSIF’s net assets were valued at approximately $484,974,000 at June 30, 2013. The Foundation’s investment in the NCSIF represents approximately 28.2% of the member equity of NCSIF at June 30, 2013.

The Foundation’s SRI Fund holds approximately 10% of its investments in a Calvert Investments fund that invests in a balanced portfolio of equity and fixed income investments that satisfy investment criteria, including financial, sustainability, and social responsibility factors. The remaining 90% of the endowment balance was invested in the STIF at June 30, 2013, pending selection of a manager for the funds.

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

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)

The Foundation's assets itemized below are measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total Fair Value
STIF	$ 9,085,740	$ 0	$ 0	$ 9,085,740
Municipal Bonds		373,054		373,054
Commmonfund Intermediate Term Fund		1,700,276		1,700,276
NC State Investment Fund, Inc.			136,879,024	136,879,024
SRI Fund		983,688		983,688
Wells Fargo - Life Income Funds		6,715,905		6,715,905
Externally Managed Irrevocable Trust		20,265,972		20,265,972
Beneficial Interest in Life Insurance Policies			235,296	235,296
Total Assets	$ 9,085,740	$ 30,038,895	$ 137,114,320	$ 176,238,955

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:

	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning Balance	$ 86,955,168	$ 235,594
Unrealized Gain	11,345,769	26,686
Realized Gain	1,436,383	1,470
Purchases	40,465,000	
Sales	(3,323,296)	(28,454)
Ending Balance	$ 136,879,024	$ 235,296

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

STIF – Categorized in Level 1 of the fair value hierarchy because it 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 but calculate NAV.

NC State Investment Fund, Inc. – The NCSIF's investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. While categorized as a Level 3 investment, the NCSIF has full redemption privileges from UNCMC with a 60-day notice requirement. The NCSIF'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 NCSIF's investment in LPP is valued at the closing price of the exchange-traded fund's shares. The NCSIF also has an investment in the STIF, valued as described above.

SRI Fund – This investment is a combination of exchange-traded equity and fixed income securities valued at quoted market prices.

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

Externally Managed Irrevocable Trust – Determined by the custodian on a trade date basis and based on projected settled balances for cash, deposits, and money market funds.

Beneficial Interest in Life Insurance Policies – Valued based on the 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.

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, 2013, have asset balances of $6,715,905.

The liabilities for distributions to grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries, and totaled $4,130,833 at June 30, 2013. Payments from these funds were $445,324 during the year ended June 30, 2013. An unrestricted reserve account has been established in the Foundation's Charitable Gift Annuity ("CGA") pool to receive 5% 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 5% of the total value of the Foundation's CGA pool. As of June 30, 2013, the CGA reserve balance was $28,665.

In addition to the above life income funds, the Foundation was named the recipient of an externally managed trust in 2011 which represents irrevocable life income funds with a market value totaling $20,265,972 and life income funds payable of $12,500,825 as of June 30, 2013. The Foundation is not serving as trustee for these funds. These life income funds have been reflected in the financial statements at their fair value and estimated future distributions to the beneficiaries have been reflected in the financial statements computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancy of the beneficiaries.

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:

Receivable in Less Than One Year	$	3,290,728
Receivable in One to Five Years		46,571,278
Receivable in Greater Than Five Years		3,023,370
Total Gross Pledges Receivable		52,885,376
Less Allowance for Uncollectibale Pledges		(293,000)
Less Unamortized Discount		(2,779,477)
Net Pledges Receivable	$	49,812,899

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding the Lonnie C. Poole, Jr. College of Management Endowment pledge and the Park Scholarships Endowment which the Foundation is reasonably assured of collecting. 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.

NC State Student Aid Association, Inc.

Concentrations of Credit Risk

The Association maintains cash balances at several financial institutions located in Raleigh, North Carolina, and in several brokerage accounts located in North Carolina. The balances in the financial institutions are insured by the Federal Deposit Insurance Corporation up to $250,000 at June 30, 2013. The balances in the brokerage accounts are insured at varying amounts. The Association's uninsured cash balances totaled $9,293,392 at June 30, 2013.

Pledges Receivable

The Association carries its pledges receivable at cost less a discount for pledges receivable due in more than a year and less an allowance for doubtful accounts. On a periodic basis, the Association evaluates its receivables and establishes an allowance for doubtful accounts, based on history of past write-offs and current credit conditions.

Pledges receivable at June 30, 2013, are as follows:

Pledges Receivable	$	29,087,314
Less Allowance for Uncollectible Pledges		1,461,020
Less Discount on Pledges		5,067,938
		22,558,356
Less Current Portion		5,644,601
Pledges Due After One Year	$	16,913,755

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

Receivable in Less Than One Year	$	5,948,690
Receivable in One to Five Years		16,040,656
Receivable in More Than Five Years		7,097,968
		29,087,314
Less Allowance for Uncollectible Pledges		1,461,020
Less Discount on Pledges		5,067,938
Net Pledges Receivable	$	22,558,356

Under the Vaughn Towers Management and Use Agreement dated March 2013, Goal Line Drive and Wolfpack Pride campaign pledge revenues totaling $7,206,915 were committed to be paid to NCSU to retire certain facility debt and other obligations related to NCSU's athletic facilities. Payments in the amount of $1,441,383 are due annually over five years through May 2017. The remaining commitment at June 30, 2013, was $5,765,532.

Investments

The Association held the following investments at June 30, 2013:

	Historical Cost	Market Value
U.S. Government Obligations	$ 6,075,438	$ 6,056,210
Marketable Equity Securities	10,248,665	12,321,911
Other Marketable Debt Securities	6,450,998	6,427,101
Alternative Investments	4,341,157	5,048,264
Mutual Funds	1,567,666	1,653,500
Total	$ 28,683,924	$ 31,506,986

Investment income consists of the following:

Interest	$	392,659
Dividends		573,941
Realized Gain on Sale of Investments		1,284,209
Unrealized Gain (Loss) on Investments		1,763,121
Investment Expenses		(263,538)
Total	$	3,750,392

Long-Term Debt

Bond Indentures - Vaughn Towers

The Association, through the North Carolina Capital Facilities Finance Agency issued a $15,855,000 Series 2004A bond and a $17,685,000 Series 2004B bond in November 2004. The proceeds from these bonds were used to construct Vaughn Towers at Carter-Finley Stadium. The bonds pay interest monthly at variable rates. The Series 2004A bond pays interest based on a variable rate established weekly by Wells Fargo Bank, remarketing agent. The Series 2004B bond paid interest based on a variable rate established weekly by Banc of America Securities, LLC, remarketing agent. The Association paid a 1.85% quarterly letter of credit fee. The Association paid an annual remarketing fee of .10% of the outstanding bonds to the remarketing agents. The Series 2004A bond matures in September 2024. The Series 2004B bond was paid in full during the year ended June 30, 2012. The Series 2004A bond was refinanced in March 2013.

In March 2013, the Series 2004A bond was refinanced with Branch Banking & Trust Company (BB&T) through a $12,660,000 Series 2013 bond, issued through the North Carolina Capital Facilities Finance Agency. The bond pays interest monthly at a variable rate based on the monthly London Interbank Offered Rates (LIBOR). The variable rate was 1.2% at June 30, 2013. Principal payments of $1,055,000 are due annually until the bond matures in September 2024.

The Association had entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps had been adjusted to their fair value at June 30, 2012, which, because of changes in forecasted levels of interest rates, resulted in reporting a liability of $1,271,854 at June 30, 2012, for the fair value of the net payments forecasted under the swap. During the year ended June 30, 2013, the swap contract was settled for a realized gain of $199,855.

Notes Payable--North End Zone

During the year ended June 30, 2008, the Association converted bank lines of credit with Wells Fargo Bank and Bank of America into notes payable, collateralized by certain endowment investment accounts. The note payable to Wells Fargo Bank required an annual principal payment of $120,960 plus interest at LIBOR (1.0692% at June 30, 2012) plus 1.5% through November 2012. The note payable to Bank of America required an annual principal payment of $130,786 plus interest at LIBOR (1.0692% at June 30, 2012) plus 1.5% through November 2012.

In November 2012, the Association refinanced the existing notes payable to Wells Fargo Bank and Bank of America into one note payable to Branch Banking and Trust Company (BB&T). Annual principal payments of $256,750 are payable until the note matures in November 2016. Interest is payable monthly at a rate equal to the One Month LIBOR (0.19428% at June 30, 2013) plus 1.15% per annum. The Association must maintain a cash flow coverage ratio of 1.00 times debt service.

The Association entered into swap contracts for a majority of this debt to hedge against interest rate fluctuations. The swaps were issued at market terms so that they had no value at their inception. The carrying amount of the swaps have been adjusted to their fair market value at June 30, 2012, which because of changes in forecasted levels of interest rates, resulted in reporting a liability of $30,843 for the fair value of the net payments forecasted under the swap. The swap contract expired in November 2012.

The adjustments on the value of the swap contracts resulted in an unrealized gain of $30,843, which is reported in the Statements of Activities for the year ended June 30, 2013.

Long-term debt consists of the following at June 30, 2013:

Vaughn Towers Project--Series 2013	$ 12,660,000
Note Payable--Branch Banking and Trust Company	1,027,000
Total	13,687,000
Less Amount Classified as Current Liability	1,311,750
Amount Due After One Year	$ 12,375,250

Maturities of long-term debt are as follows:

Year Ending June 30	Amount
2014	$ 1,311,750
2015	1,311,750
2016	1,311,750
2017	1,311,750
2018	1,055,000
Thereafter	7,385,000
	$ 13,687,000

Fair Value Measurements

The Association follows ASC 820, *Fair Value Measurements and Disclosures*, as amended, with respect to fair value measurements of its financial assets. 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013. There were no transfers or reclassifications between Level 2 or Level 3 during the year ended June 30, 2013.

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

Alternative investments represent hedge fund, limited partnership and similar interests held by the Association in funds that invest in public and private securities and follow a variety of investment strategies. Terms and conditions of these investments, including liquidity provisions, are different for each fund. The valuation of these securities is determined by external pricing based on secondary markets. The Association believes that the carrying amount of its alternative investments is a reasonable estimate of the fair value of such investments at June 30, 2013.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association 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 table below includes the major categorization for debt and equity securities on the basis of the nature and risk of the investments at June 30, 2013:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
U.S. Government Obligations	$ 6,056,210	$ 6,056,210	$ 0	$ 0
Marketable Equity Securities	12,321,911	12,321,911		
Other Marketable Debt Securities	6,427,101	6,427,101		
Alternative Investments	5,048,264		5,048,264	
Mutual Funds	1,653,500	1,653,500		
Total Assets	$ 31,506,986	$ 26,458,722	$ 5,048,264	$ 0

Endowment Fund

The Association's endowment fund provides long-term scholarship support through annual earnings. 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 (NC) Uniform Prudent Management of Institutional Funds Act (UPMIFA), 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.

For the year ended June 30, 2013, the Association has classified as permanently restricted net assets the original value of gifts donated to the permanent endowment. Gains and losses will be classified as unrestricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence described in UPMIFA.

Changes in endowment assets for the year ended June 30, 2013, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets--Beginning of Year	$ (8,106,082)	$ 67,226	$ 34,526,203	$ 26,487,347
Investment Return:				
Investment Income	338,370			338,370
Realized Gain on Sale of Investments	493,260			493,260
Net Appreciation on Investments	2,243,199			2,243,199
Total Investment Return	3,074,829			3,074,829
Contributions			475,872	475,872
Increase in CSV of Life Insurance Policies	3,148			3,148
Appropriation of Endowment Assets for Expenditure	(1,263,158)	(67,226)		(1,330,384)
Endowment Net Assets--End of Year	$ (6,291,263)	$ 0	$ 35,002,075	$ 28,710,812

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 Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets were $6,291,263 as of June 30, 2013. These deficiencies resulted from unfavorable market fluctuations.

Investment Return Objectives and Strategies

The Association’s investment policies include several investment objectives relative to its long-term investments, including permanent endowment funds. These objectives include (1) preservation of capital, (2) prudent investment of capital, (3) production of reasonable earnings and (4) low-risk growth in principal of invested capital. To achieve these objectives, the Association has employed the investment strategy of diversifying amongst various fund managers. The investment 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 Association has a policy of appropriating for distribution each year the net earnings from investments. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, the

Association expects the current spending policy to sustain its endowment and investment return objectives.

The North Carolina Agricultural Foundation, Inc.

Endowment

The Foundation's endowment consists of approximately 560 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. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation's interpretation of UPMIFA, 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 $0 as of June 30, 2013.

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% MSCI/ACWI 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 20 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 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 $1,048,280 and $1,113,235 for fiscal years 2013 and 2014, 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 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 Investment Manager(s) seek to diversify exposure to all asset classes by hiring multiple managers that use a variety of investment approaches.

The following represents changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ (121,115)	$ 13,398,626	$ 60,998,991	$ 74,276,502
Net Assets Reclassification - Underwater Endowments	83,775	(83,775)		
Endowment Net Assets After Reclassification	(37,340)	13,314,851	60,998,991	74,276,502
Total Investment Return	350,060	5,787,358	98,499	6,235,917
Contributions, Including Change in Accrued Pledges & Other Income		1,273	8,538,688	8,539,961
Appropriations of Endowment Assets for Expenditure	(120,010)	(1,204,125)		(1,324,135)
Change in Value of Split Interest Agreements			(173,059)	(173,059)
Other Changes:				
Transfers			823,269	823,269
Endowment Net Assets, End of Year	$ 192,710	$ 17,899,357	$ 70,286,388	$ 88,378,455

The following represents endowment net asset composition by type of fund, as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated Endowment Funds	$ 312,720	$ 0	$ 0	$ 312,720
Donor Restricted Endowment Funds	(120,010)	17,899,357	70,286,388	88,065,735
Total Funds	$ 192,710	$ 17,899,357	$ 70,286,388	$ 88,378,455

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, 2013, consisted of:

	Cost	Fair Value
STIF	$ 141,216	$ 141,216
NC State Investment Fund, Inc. (NCSIF)	41,556,411	48,580,852
Wells Fargo - Life Income Funds	4,892,207	5,017,751
	$ 46,589,834	$ 53,739,819

Investments held by the NCSIF at June 30, 2013, were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio (“LPP”), a bundle of exchange-traded funds, and the STIF. As of June 30, 2013, approximately 88.5% of these limited partnerships were with the UNC Management Company (UNCMC), 6.3% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 4.7% was invested in the LPP, and 0.5% was invested in the STIF. NCSIF’s net assets were valued at approximately $484,974,000 at June 30, 2013. The Foundation’s investment in NCSIF represents approximately 10% of the member’s equity of NCSIF at June 30, 2013.

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

Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board 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)

The Foundation's assets itemized below are measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total Fair Value
STIF	$ 141,216	$ 0	$ 0	$ 141,216
Municipal Bonds		373,054		373,054
Commmonfund Intermediate Term Fund		4,278,867		4,278,867
NC State Investment Fund, Inc.			48,580,852	48,580,852
Wells Fargo - Life Income Funds		5,017,751		5,017,751
Beneficial Interest in Life Insurance Policies			70,478	70,478
Total Assets	$ 141,216	$ 9,669,672	$ 48,651,330	$ 58,462,218

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:

	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning Balance	$ 42,327,805	$ 68,736
Unrealized Gain on Investments	4,708,007	1,742
Realized Gain on Investments	559,951	
Purchases	2,465,000	
Sales	(1,479,911)	
Ending Balance	$ 48,580,852	$ 70,478

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

STIF – Categorized in Level 1 of the fair value hierarchy because it 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 but calculate NAV.

NC State Investment Fund, Inc. – The NCSIF's investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. While categorized as a Level 3 investment, the NCSIF has full redemption privileges from UNCMC with a 60-day notice requirement. The

NCSIF'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 NCSIF's investment in LPP is valued at the closing price of the exchange-traded fund's shares. The NCSIF also has an investment in the STIF, valued as described above.

Wells Fargo 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 the 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.

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, 2013, have asset balances of $5,017,751.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled $2,618,251 for the year ended June 30, 2013. Payments from these funds were $329,037 during the year ended June 30, 2013. An unrestricted reserve account has been 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, 2013, the CGA reserve balance was $14,928.

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:

Receivable in Less Than One Year	$ 6,139,926
Receivable in One to Five Years	7,843,594
Receivable in Greater Than Five Years	24,580
Total Gross Pledges Receivable	14,008,100
Less Allowance for Uncollectibale Pledges	(301,000)
Less Unamortized Discount	(126,286)
Net Pledges Receivable	$ 13,580,814

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding the Prestage Family Department of Poultry Science Endowment for Excellence pledge which the Foundation is reasonably assured of collecting. 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.

Closely Held Stock

Closely held stock consists of 150,000 shares of Orbit, 81,630 shares of RDM Products, Inc. and 1,000 shares of Bank of Granite stock. This closely held stock is recorded at the market value at the time of donation and was valued at $4,972 at June 30, 2013.

As of June 30, 2012, closely held stock also included 30,228 shares of Albion Medical Holdings, Inc. The shares of Albion Medical were received from the White estate in 2009 (20,000 shares) and 2011 (10,228 shares) and were valued at $4,105,869 as of June 30, 2012. Dividends received from the Albion Medical stock were $910,467 in fiscal year 2013. During fiscal year 2013, the Albion Medical stock was sold and the Foundation received $13,572,332. Per the terms of the sale, the Foundation also recorded receivables for monies to be received after the date of sale totaling $3,561,028, which represent the Foundation's portion of a buyer note, escrow fund, and working capital.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
North Carolina State University
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina State University, a constituent institution of the multi-campus University of North Carolina System, which is a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 26, 2013. Our report includes a reference to other auditors who audited the financial statements of the NC State Investment Fund, Inc., and the discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the North Carolina State University Foundation, Inc. and the NC State Student Aid Association, Inc., discretely presented component units, were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONCLUDED)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

November 26, 2013

ORDERING INFORMATION

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For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 1,524 audit hours at an approximate cost of $115,824.