

**THE NORTH CAROLINA  
AGRICULTURAL FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2013 and 2012**

**The North Carolina Agricultural Foundation, Inc.**  
**Financial Statements**  
**For the years ended June 30, 2013 and 2012**

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Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The North Carolina Agricultural Foundation, Inc.  
Raleigh, North Carolina

We have audited the accompanying financial statements of The North Carolina Agricultural Foundation, Inc. (the "Foundation"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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.

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

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

Raleigh • Greensboro

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Agricultural Foundation, Inc., as of June 30, 2013 and 2012, and the changes in its net assets and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards and related notes on pages 25 through 26, as required by North Carolina required General Statute 143-6.1, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013, on our consideration of the Foundation'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 Foundation's internal control over financial reporting and compliance.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
October 4, 2013

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**The North Carolina Agricultural Foundation, Inc.**

**Statements of Financial Position**

**June 30, 2013 and 2012**

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents (Note 1)	\$ 29,391,025	\$ 17,169,054
Intermediate investments (Note 1)	4,651,921	4,229,122
Long-term investments (Notes 1 and 3)	53,739,819	47,367,411
Closely held stock (Note 13)	4,972	4,110,760
The Lapaz Group, LLC (Note 14)	154,102	246,106
Accounts receivable (Note 1)	67,129	32,125
Pledges receivable (Notes 1 and 6)	13,580,814	8,873,558
Notes receivable (Note 14)	1,184,602	-
Receivable from sale of Albion stock (Note 13)	3,561,028	-
Donated property and land (Note 1)	32,926,616	33,483,117
Vehicles, net of accumulated depreciation of \$157,741 and \$140,969 at 2013 and 2012, respectively (Note 1)	62,051	37,357
Other assets (Note 1)	70,478	94,476
<b>Total assets</b>	<b>\$ 139,394,557</b>	<b>\$ 115,643,086</b>

**LIABILITIES AND NET ASSETS**

Accounts payable - North Carolina State University (Note 1)	\$ 148,416	\$ 221,034
Accounts payable (Note 1)	93,279	18,230
Due to others (Note 1)	122,579	117,650
Deferred revenue (Note 1)	647,877	452,685
Note payable (Note 14)	-	3,200,000
Life income funds payable (Note 5)	2,618,251	2,763,867
<b>Total liabilities</b>	<b>3,630,402</b>	<b>6,773,466</b>

Net Assets:

Unrestricted:

Undesignated	1,744,133	788,197
Undesignated - underwater endowments (Note 2)	-	(83,775)
Board designated (Note 2)	312,720	(37,340)
Temporarily restricted (Note 8)	63,420,914	47,203,547
Permanently restricted (Note 9)	70,286,388	60,998,991
<b>Total net assets</b>	<b>135,764,155</b>	<b>108,869,620</b>

**Total liabilities and net assets**

**\$ 139,394,557      \$ 115,643,086**

See Notes to Financial Statements.

The North Carolina Agricultural Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 1,507,571	\$ 9,443,263	\$ 1,473,732	\$ 12,424,566
Grant revenue (Note 1)	-	244,307	-	244,307
Change in pledges receivable (Note 6)	-	(2,834,631)	7,541,886	4,707,255
Donated services, salaries, and facilities (Note 7)	1,160,000	-	-	1,160,000
Net asset reclassification - underwater endowments	83,775	(83,775)	-	-
Net investment income	125,800	5,236,972	11,945	5,374,717
Interest and dividends	97,463	971,864	86,554	1,155,881
Change in value of split interest agreements	-	-	(173,059)	(173,059)
Disposal of other assets and donated property	-	13,052,491	(486,500)	12,565,991
Royalties	-	704,332	-	704,332
Other income	8,471	2,105,438	9,570	2,123,479
Net assets released from restrictions (Note 10)	10,571,702	(10,571,702)	-	-
<b>Total revenues, gains, and other income</b>	<b>13,554,782</b>	<b>18,268,559</b>	<b>8,464,128</b>	<b>40,287,469</b>
Grants to support the University:				
Program:				
Scholarships and fellowships	2,414,570	-	-	2,414,570
Faculty support and professorships	2,633,676	-	-	2,633,676
Agricultural research support	516,829	-	-	516,829
Cooperative extension support	65,987	-	-	65,987
Departmental support	3,351,427	-	-	3,351,427
Other current services	2,176,652	-	-	2,176,652
<b>Total program support</b>	<b>11,159,141</b>	<b>-</b>	<b>-</b>	<b>11,159,141</b>
Administrative	375,649	-	-	375,649
Fundraising	1,844,622	-	-	1,844,622
<b>Total other support</b>	<b>2,220,271</b>	<b>-</b>	<b>-</b>	<b>2,220,271</b>
<b>Total support</b>	<b>13,379,412</b>	<b>-</b>	<b>-</b>	<b>13,379,412</b>
<b>Excess of revenues, gains, and other income over total support</b>	<b>175,370</b>	<b>18,268,559</b>	<b>8,464,128</b>	<b>26,908,057</b>
Net transfers:				
From (to) other University-affiliated entities	(500)	(35,525)	22,503	(13,522)
Among funds (Note 11)	1,214,901	(2,015,667)	800,766	-
<b>Total net transfers</b>	<b>1,214,401</b>	<b>(2,051,192)</b>	<b>823,269</b>	<b>(13,522)</b>
<b>Change in net assets</b>	<b>1,389,771</b>	<b>16,217,367</b>	<b>9,287,397</b>	<b>26,894,535</b>
Net assets:				
Beginning	667,082	47,203,547	60,998,991	108,869,620
Ending	\$ 2,056,853	\$ 63,420,914	\$ 70,286,388	\$ 135,764,155

See Notes to Financial Statements.

**The North Carolina Agricultural Foundation, Inc.**

**Statement of Activities  
Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 1,556,318	\$ 10,144,612	\$ 520,048	\$ 12,220,978
Grant revenue (Note 1)	-	312,341	-	312,341
Change in pledges receivable (Note 6)	-	(113,205)	86,075	(27,130)
Donated services, salaries, and facilities (Note 7)	1,105,500	-	-	1,105,500
Net asset reclassification - underwater endowments	186,564	(186,564)	-	-
Net investment income	141,546	212,776	657,671	1,011,993
Interest and dividends	150,457	475,058	77,348	702,863
Change in value of split interest agreements	-	-	(431,970)	(431,970)
Disposal of other assets and donated property	-	(86,707)	(32,000)	(118,707)
Royalties	-	406,441	-	406,441
Other income	-	1,123,371	10,319	1,133,690
Net assets released from restrictions (Note 10)	11,067,803	(11,067,803)	-	-
Total revenues, gains, and other income	14,208,188	1,220,320	887,491	16,315,999
Grants to support the University:				
Program:				
Scholarships and fellowships	2,051,125	-	-	2,051,125
Faculty support and professorships	3,092,082	-	-	3,092,082
Agricultural research support	529,440	-	-	529,440
Cooperative extension support	25,422	-	-	25,422
Departmental support	3,560,967	-	-	3,560,967
Other current services	2,649,075	-	-	2,649,075
Total program support	11,908,111	-	-	11,908,111
Administrative	329,281	-	-	329,281
Fundraising	1,950,351	-	-	1,950,351
Total other support	2,279,632	-	-	2,279,632
Total support	14,187,743	-	-	14,187,743
Excess of revenues, gains, and other income over total support	20,445	1,220,320	887,491	2,128,256
Net transfers:				
To other University-affiliated entities	-	(3,899)	-	(3,899)
Among funds (Note 11)	323,116	(816,702)	493,586	-
Total net transfers	323,116	(820,601)	493,586	(3,899)
Change in net assets	343,561	399,719	1,381,077	2,124,357
Net assets:				
Beginning	323,521	46,803,828	59,617,914	106,745,263
Ending	\$ 667,082	\$ 47,203,547	\$ 60,998,991	\$ 108,869,620

See Notes to Financial Statements.

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets:	\$ 26,894,535	\$ 2,124,357
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,773	17,171
Net investment gains	(5,374,717)	(1,011,993)
Actuarial change in value of split interest agreements	173,059	431,970
Loss on sale of donated property	461,753	58,223
Contributions and grants restricted for permanent endowment	(1,473,732)	(520,048)
Investment income restricted for split interest agreements	(86,554)	(77,348)
Decrease (increase) in:		
Closely held stock	4,105,788	-
The Lapaz Group, LLC	92,004	85,367
Accounts receivable	(35,004)	164,920
Pledges receivable	(4,707,256)	27,130
Notes receivable	(4,745,630)	-
Other assets	23,998	50,346
Increase (decrease) in:		
Accounts payable - North Carolina State University	(72,618)	(5,565)
Accounts payable	75,049	(22,838)
Due to others	392	(26,404)
Deferred revenue	195,192	249,593
<b>Net cash provided by operating activities</b>	<b>15,543,032</b>	<b>1,544,881</b>
Cash Flows From Investing Activities:		
Proceeds from sales of property	94,748	63,934
Proceeds from sales of investments	2,203,288	3,731,016
Purchases of property	(41,467)	-
Purchases of investments	(3,623,778)	(2,903,630)
<b>Net cash (used in) provided by investing activities</b>	<b>(1,367,209)</b>	<b>891,320</b>
Cash Flows From Financing Activities:		
Contributions and grants restricted for permanent endowment	1,473,732	520,048
Investment income restricted for split interest agreements	86,554	77,348
Payments on life income fund obligations	(329,037)	(337,487)
Proceeds from life income fund obligations	14,899	90,333
Proceeds from note payable	-	1,700,000
Payments on note payable	(3,200,000)	-
<b>Net cash (used in) provided by financing activities</b>	<b>(1,953,852)</b>	<b>2,050,242</b>
<b>Net increase in cash and cash equivalents</b>	<b>12,221,971</b>	<b>4,486,443</b>
Cash and cash equivalents:		
Beginning	17,169,054	12,682,611
Ending	<b>\$ 29,391,025</b>	<b>\$ 17,169,054</b>

(Continued)

See Notes to Financial Statements.

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows (Continued)

Years Ended June 30, 2013 and 2012

	2013	2012
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 50,200</u>	<u>\$ 57,238</u>
Supplemental Disclosures of Noncash Activities:		
Donated services, salaries, and facilities	<u>\$ 1,160,000</u>	<u>\$ 1,105,500</u>
Disposal of donated property	<u>\$ (461,753)</u>	<u>\$ (122,157)</u>
Transfers between funds	<u>\$ 2,015,667</u>	<u>\$ 816,702</u>

See Notes to Financial Statements.

## The North Carolina Agricultural Foundation, Inc.

### Notes to Financial Statements

For the years ended June 30, 2013 and 2012

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#### Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The North Carolina Agricultural Foundation, Inc., (the "Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation, founded in 1944, aids and promotes, by financial assistance and otherwise, all types of education, research and extension in the College of Agriculture and Life Sciences.

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

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

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

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

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

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

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

Intermediate investments: Intermediate investments consist of taxable municipal bonds purchased during fiscal year 2013 and an account with the Commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$4,651,921 and \$4,229,122 at June 30, 2013 and 2012, respectively. The cost of these investments was \$5,163,563 and \$4,759,885 as of June 30, 2013 and 2012, respectively.

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

Accounts receivable: Accounts receivable consists of sales tax receivable and grant expenditures not yet reimbursed.

**The North Carolina Agricultural Foundation, Inc.**

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

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

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

Donated property and land: Donated property and land are stated at cost. Cost for property acquired by gift is defined as market value on the date of the gift.

Vehicles: Vehicles are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Other assets: Other assets include beneficiary interests in life insurance policies contributed to the Foundation and the Foundation is the owner of these policies. These gifts are recorded at current cash values less any loans outstanding on the policies. Cash surrender values of these policies were \$70,478 and \$68,736 at June 30, 2013 and 2012, respectively. Other assets at June 30, 2012 also includes \$25,740 in stock that had been sold by the broker but for which cash proceeds had not yet been received.

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

The University has a gift assessment program that supports Central Development and college-level fund-raising efforts. A one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the fund-raising entity receiving the gift.

Grant revenue: Grant revenue consists of amounts awarded to the Foundation by various State of North Carolina agencies for research and extension purposes.

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$180,007 and \$172,529 for the years ended June 30, 2013 and 2012, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

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

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

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

**The North Carolina Agricultural Foundation, Inc.**

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

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

Due to others: Due to others at June 30, 2013 and 2012, consists of \$120,779 and \$116,242, respectively, due to remainder beneficiaries of life income funds, and \$1,800 and \$1,408, respectively, received by the Foundation on behalf of the University and other affiliated organizations.

Deferred Revenue: Deferred revenue consists of the unspent balance of grants whose obligations have not yet been met.

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

Income taxes and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2013 and 2012. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

**Note 2. 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.

**The North Carolina Agricultural Foundation, Inc.**

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

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**Note 2. Endowment (continued)**

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 and \$(83,775) as of June 30, 2013 and 2012, respectively.

Investment return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the 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 twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many 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 North Carolina Agricultural Foundation, Inc.

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

**Note 2. Endowment (continued)**

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 asset 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
<b>Endowment net assets, end of year</b>	<b>\$ 192,710</b>	<b>\$ 17,899,357</b>	<b>\$ 70,286,388</b>	<b>\$ 88,378,455</b>

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	-	-	312,720
Donor restricted endowment funds	(120,010)	17,899,357	70,286,388	88,065,735
<b>Total funds</b>	<b>\$ 192,710</b>	<b>\$ 17,899,357</b>	<b>\$ 70,286,388</b>	<b>\$ 88,378,455</b>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (377,955)	\$ 15,487,715	\$ 59,617,914	\$ 74,727,674
Net asset reclassification - underwater endowments	186,564	(186,564)	-	-
Endowment net assets after reclassification	(191,391)	15,301,151	59,617,914	74,727,674
Total investment return	70,276	(481,551)	735,019	323,744
Contributions, including change in accrued pledges & other income	-	17,546	584,442	601,988
Appropriation of endowment assets for expenditure	-	(1,438,520)	-	(1,438,520)
Change in value of split interest agreements	-	-	(431,970)	(431,970)
Other changes:				
Transfers	-	-	493,586	493,586
<b>Endowment net assets, end of year</b>	<b>\$ (121,115)</b>	<b>\$ 13,398,626</b>	<b>\$ 60,998,991</b>	<b>\$ 74,276,502</b>

**The North Carolina Agricultural Foundation, Inc.**

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

**Note 2. Endowment (continued)**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (83,775)	\$ -	\$ -	\$ (83,775)
Board-designated endowment funds	(37,340)	-	-	(37,340)
Donor restricted endowment funds	-	13,398,626	60,998,991	74,394,617
<b>Total funds</b>	<b>\$ (121,115)</b>	<b>\$ 13,398,626</b>	<b>\$ 60,998,991</b>	<b>\$ 74,276,502</b>

**Note 3. Long-Term Investments**

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

Investments at June 30, 2013 and 2012 consisted of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 141,216	\$ 141,216	\$ -	\$ -
NC State Investment Fund, Inc.	41,556,411	48,580,852	40,011,370	42,327,805
Wells Fargo - Life Income Funds	4,892,207	5,017,751	5,170,128	5,039,606
	<b>\$ 46,589,834</b>	<b>\$ 53,739,819</b>	<b>\$ 45,181,498</b>	<b>\$ 47,367,411</b>

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 and \$397,192,000 at June 30, 2013 and 2012, respectively. The Foundation's investment in NCSIF represents approximately 10% and 10.6% of the member's equity of NCSIF at June 30, 2013 and 2012, respectively.

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

**The North Carolina Agricultural Foundation, Inc.**

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

**Note 4. 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.

	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
STIF	\$ 141,216	\$ -	\$ -	\$ 141,216
Municipal Bonds	-	373,054	-	373,054
Commonfund 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
	<b>\$ 141,216</b>	<b>\$ 9,669,672</b>	<b>\$ 48,651,330</b>	<b>\$ 58,462,218</b>

	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Commonfund Intermediate Term Fund	\$ -	\$ 4,229,122	\$ -	\$ 4,229,122
NC State Investment Fund, Inc.	-	-	42,327,805	42,327,805
Wells Fargo - Life Income Funds	-	5,039,606	-	5,039,606
Beneficial Interest in Life Insurance Policies	-	-	68,736	68,736
	<b>\$ -</b>	<b>\$ 9,268,728</b>	<b>\$ 42,396,541</b>	<b>\$ 51,665,269</b>

**The North Carolina Agricultural Foundation, Inc.**

**Notes to Financial Statements**

**For the years ended June 30, 2013 and 2012**

**Note 4. Fair Value Measurement (continued)**

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:

	2013		2012	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 42,327,805	\$ 68,736	\$ 41,700,310	\$ 177,323
Unrealized gain (loss) on investments	4,708,007	1,742	851,452	(108,587)
Realized gain on investments	559,951	-	311,596	-
Purchases	2,465,000	-	1,463,040	-
Sales	(1,479,911)	-	(1,998,593)	-
Ending balance	\$ 48,580,852	\$ 70,478	\$ 42,327,805	\$ 68,736

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.

## The North Carolina Agricultural Foundation, Inc.

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

#### Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2013 and 2012 have asset balances of \$5,017,751 and \$5,039,606, respectively.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$2,618,251 and \$2,763,867 at June 30, 2013 and 2012, respectively. Payments from these funds were \$329,037 and \$337,487 during the years ended June 30, 2013 and 2012, respectively. 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 and 2012, the CGA reserve balance was \$14,928 and \$12,178, respectively.

#### Note 6. Pledges Receivable

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

	2013	2012
Receivable in less than one year	\$ 6,139,926	\$ 4,756,379
Receivable in one to five years	7,843,594	4,387,781
Receivable in greater than five years	24,580	305,195
Total gross pledges receivable	14,008,100	9,449,355
Less allowance for uncollectible pledges	(301,000)	(473,000)
Less unamortized discount	(126,286)	(102,797)
Net pledges receivable	\$ 13,580,814	\$ 8,873,558

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.

Two donors represented approximately \$9.78 million and \$1.78 million of total undiscounted pledges receivable at years ended June 30, 2013 and 2012, respectively.

#### Note 7. Donated Services, Salaries, and Facilities

Donated services in the amount of \$235,000 and \$170,000 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries and facilities provided by the University for college development in the amount of \$925,000 and \$935,500 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements.

**The North Carolina Agricultural Foundation, Inc.**

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

**Note 8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Scholarships	\$ 2,023,631	\$ 1,836,283
Fellowships	501,573	433,485
Professorships	9,416	(1,035)
Research support	10,945,247	10,011,315
Pledges receivable	5,432,775	8,267,406
Endowment cumulative balance	17,899,357	13,398,626
Other	26,608,915	13,257,467
	<u>\$ 63,420,914</u>	<u>\$ 47,203,547</u>

Temporarily restricted net asset grouping "Other" includes amounts designated for facility support, general college support and general 4-H and Dairy support

**Note 9. Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2013 and 2012 are restricted to:

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 19,192,718	\$ 18,188,712
Fellowships	1,530,706	2,019,082
Drew Griffin Environmental Research	19,764,458	19,764,457
Professorships	1,125,420	958,324
Research	4,338,649	4,422,124
Pledges receivable	8,148,039	606,153
NC Agricultural Foundation Enhancement	3,312,720	2,962,660
NC Tobacco Trust Commission Agricultural Leadership Development Program	5,519,480	4,989,889
Charitable trusts and gift annuities	5,017,751	5,461,506
Other directly held assets	6,726,139	7,316,462
Other	13,702,375	7,587,133
Amounts reported as unrestricted or temporarily restricted net assets	<u>(18,092,067)</u>	<u>(13,277,511)</u>
	<u>\$ 70,286,388</u>	<u>\$ 60,998,991</u>

Permanently restricted net asset grouping "Other" includes amounts designated for general college support and general 4-H and Dairy support.

**The North Carolina Agricultural Foundation, Inc.**

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

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**Note 10. Net Assets Released From Donor Restrictions**

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

	<b>2013</b>	<b>2012</b>
Scholarships	\$ 905,833	\$ 864,515
Fellowships	322,336	334,088
Professorships	28,189	25,960
Research and related support	4,224,562	4,266,158
Other	5,090,782	5,577,082
	<b>\$ 10,571,702</b>	<b>\$ 11,067,803</b>

Net assets released from restriction grouping "Other" includes amounts designated for general college support and general 4-H and Dairy support.

**Note 11. Transfers Among Funds To Permanently Restricted**

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2013 and 2012, net endowment transfers among funds were \$800,766 and \$493,586, respectively.

**Note 12. Commitments**

The Foundation holds conservation easements for which it may have future commitments for an undeterminable amount. The purpose of these conservation easements is to maintain wetland and/or riparian resources and other natural values and prevent the use or development for any purpose or in any manner that would conflict with the maintenance of the properties in their natural conditions.

**Note 13. 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. Closely held stock balances were \$4,972 and \$4,891 at June 30, 2013 and 2012, respectively.

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 (see Note 14) 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 and \$455,234 in fiscal year 2013 and fiscal year 2012, respectively. 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.

## The North Carolina Agricultural Foundation, Inc.

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

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#### **Note 14. The LaPaz Group, LLC**

The Foundation was the residuary beneficiary of the White Trust. As such, the Foundation received White's 56.6% membership interest in the LaPaz Group, LLC. The Foundation's membership interest in LaPaz Group, LLC is accounted for using the equity method with the original gift being recorded at \$502,046, less the operating loss as of each calendar year ending December 31: 2008 \$(10,891), 2009 \$(41,591), 2010 \$(118,091), 2011 \$(85,367), and 2012 \$(92,004). The accompanying financial statements reflect annual operating losses incurred by LaPaz Group, LLC bringing net investment value as of June 30, 2013 to \$154,102.

The Foundation entered into a \$3,200,000 loan with BB&T to fund LaPaz capital improvements and operations on December 30, 2008. The Foundation had \$3,200,000 drawn on the loan as of June 30, 2012. As of June 30, 2013, the note had been paid in its entirety.

The LaPaz Group, LLC entered into a \$150,000 line of credit with the Foundation on May 23, 2013 to provide liquidity for operations. LaPaz Group, LLC had \$75,000 drawn on the line as of June 30, 2013 and the remaining principal is available for distribution until December 31, 2013. There was \$14 of interest accrued as of June 30, 2013. The line matures on December 31, 2016 with interest accruing monthly. The line's interest rate is prime less 1.0%, which was 2.25% as of June 30, 2013. The line of credit is included in Notes receivable on the accompanying statements of financial position.

The LaPaz Group, LLC entered into a \$1,108,631 loan with the Foundation on June 17, 2013 to reimburse the Foundation for capital improvements paid for by the Foundation less accumulated depreciation through the completion of the research project on March 31, 2013. Interest is to be paid annually on the average outstanding principal balance. There was \$957 of interest accrued as of June 30, 2013. Principal payments of twenty percent of the net profits before depreciation, interest, and taxes of LaPaz are due annually beginning March 30, 2014 with a repayment goal of ten years. The loan's interest rate is prime less 1.0%, which was 2.25% as of June 30, 2013. The note is included in Notes receivable on the accompanying statements of financial position. As of June 30, 2013 the Foundation's cumulative spending for LaPaz research project less the loan amount was \$3,283,461.

#### **Note 15. Prior Year Reclassifications and Restatement**

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

During fiscal year 2013 it was determined that additional donated salaries should have been recognized in the prior year. The Foundation has restated donated services, salaries, and facilities to reflect this change in the accompanying comparative financial statements. As a result, donated services, salaries, and facilities and fundraising support for fiscal year 2012 increased \$197,000 to \$1,105,500. This restatement had no effect on previously reported net assets.

#### **Note 16. Subsequent Events**

The Foundation has evaluated subsequent events through October 4, 2013, the date which the financial statements were available to be issued, and there were none to report.

## **SUPPLEMENTARY INFORMATION**

The North Carolina Agricultural Foundation, Inc.

General Fund Budget vs. Actual - Unaudited  
Year Ended June 30, 2013

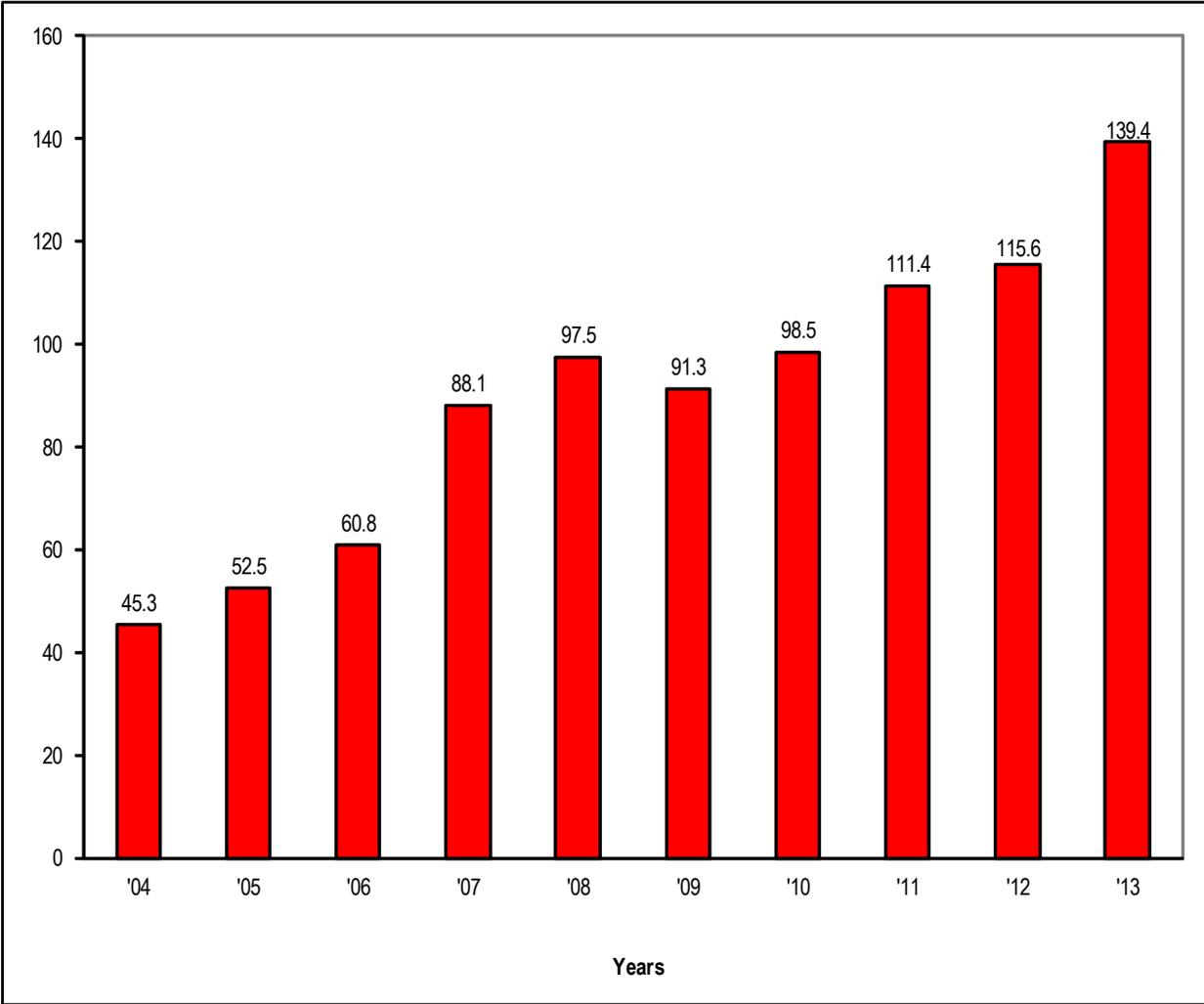
	Budget	Actual	Variance
Income:			
Annual fund campaign	\$ 180,000	\$ 164,215	\$ (15,785)
CALS Dean's Fund for Excellence	49,000	687,373	638,373
"Nickels for Know-How"	1,300,000	1,343,026	43,026
University Advancement assessment	60,005	60,005	-
College Advancement assessment	60,005	60,005	-
Additional enhancement fund fee	28,000	21,729	(6,271)
Interest and dividends	75,000	67,435	(7,565)
Grant administrator fee	20,000	16,050	(3,950)
<b>Total income</b>	<b>1,772,010</b>	<b>2,419,838</b>	<b>647,828</b>
Support:			
Program support	1,374,028	1,329,830	(44,198)
Foundation administration and development support	406,965	413,637	6,672
Endowment fee to University Advancement	60,005	60,005	-
<b>Total support</b>	<b>1,840,998</b>	<b>1,803,472</b>	<b>(37,526)</b>
<b>Income less support</b>	<b>(68,988)</b>	<b>616,366</b>	<b>685,354</b>
General fund balance:			
Beginning	1,114,461	1,114,461	-
Ending	\$ 1,045,473	\$ 1,730,827	\$ 685,354

**The North Carolina Agricultural Foundation, Inc.**

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

**Total Assets\***

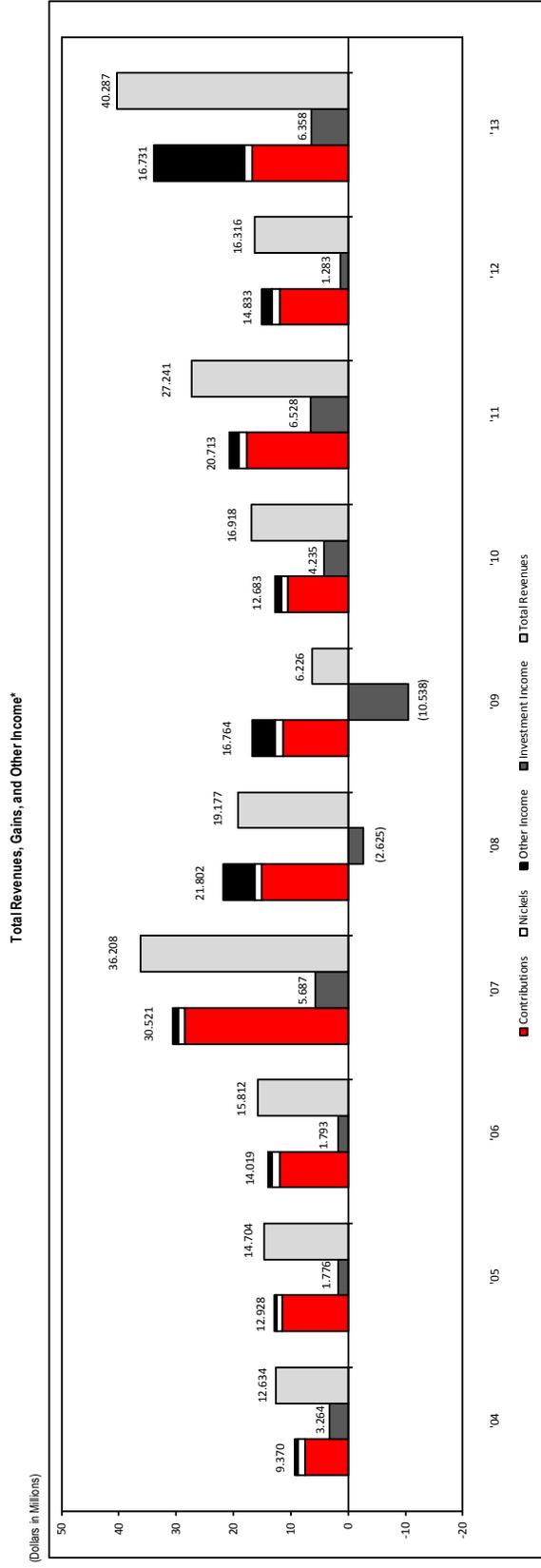
(Dollars in Millions)



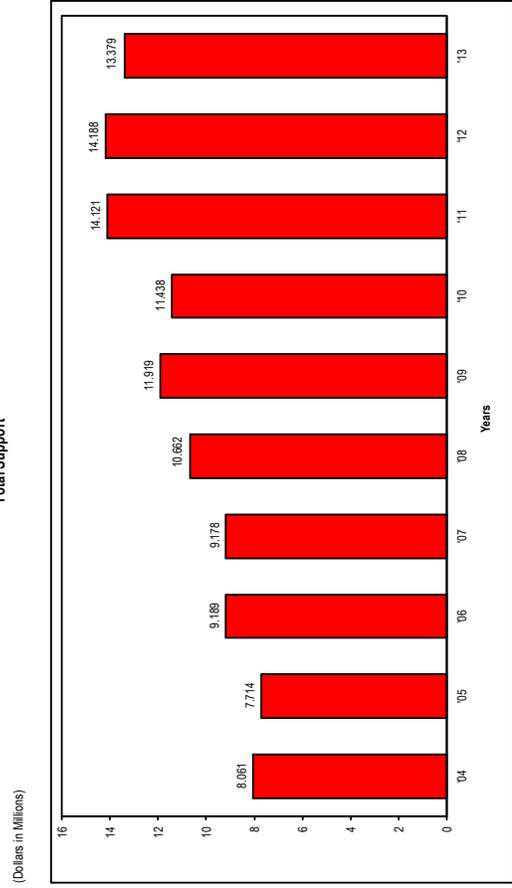
\* Not reflected above for FY'13 are gifts-in-kind of \$384,998 which benefit the College of Agricultural and Life Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

The North Carolina Agricultural Foundation, Inc.

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



**Total Support\***



\* Includes revenues and expenses for the North Carolina 4-H Development Fund and the North Carolina Dairy Foundation, Inc., which merged into The North Carolina Agricultural Foundation, Inc. effective July 1, 1998 and July 1, 2003, respectively.

## **COMPLIANCE SECTION**



Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

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

To the Board of Directors  
The North Carolina Agricultural Foundation, Inc.  
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 The North Carolina Agricultural Foundation, Inc. as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The North Carolina Agricultural Foundation, Inc. basic financial statements, and have issued our report thereon dated October 4, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The North Carolina Agricultural Foundation, Inc.'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The North Carolina Agricultural Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The North Carolina Agricultural Foundation, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 The North Carolina Agricultural Foundation, Inc.'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Williams Dverman Pierce, LLP*

Raleigh, North Carolina  
October 4, 2013

**The North Carolina Agricultural Foundation, Inc.**

**Schedule of Expenditures of State Awards**

**Year Ended June 30, 2013**

<b>State Grantor / Project Title</b>	<b>Expenditures</b>
State Programs	
North Carolina Department of Commerce	
Direct Projects:	
FFA Center State	\$ 35,855
Total Awards from North Carolina Department of Commerce	<u>35,855</u>
North Carolina Rural Economic Development Center	
Direct Projects:	
Aspire	32,965
Farmhand Foods	37,887
Total Awards from Rural Economic Development Center	<u>70,852</u>
North Carolina Tobacco Trust Fund Commission	
Direct Projects:	
Agricultural Heritage	2,150
AG Education Program	160,645
CALS Agricultural Leadership Development Program	40,095
Food Safety for Farmer's Markets	300
Stevia Production	1,000
Strengthening Markets	920
Switchgrass Veal	644
Value Added Cost Share Program 2012	27,995
Value Added Cost Share Program	328,709
Total Awards from North Carolina Tobacco Trust Fund Commission	<u>562,458</u>
<b>Total Expenditures of State Awards</b>	<b>\$ <u>669,165</u></b>

See Notes to Schedule of Expenditures of State Awards.

**The North Carolina Agricultural Foundation, Inc.**

**Notes to Schedule of Expenditures of State Awards  
Year Ended June 30, 2013**

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**Note 1. Basis of Presentation**

The schedule of expenditures of state awards includes the grant activity of The North Carolina Agricultural Foundation, Inc. and is presented on the cash basis of accounting. The information in these schedules is presented in accordance with the requirements of North Carolina General Statute 143-6.1.

**Note 2. State Awards**

The North Carolina Department of Commerce, the North Carolina Rural Economic Development Center and the North Carolina Tobacco Trust Fund Commission are state programs having compliance requirements identified as having a direct and material effect on the financial statements.

## **OTHER INFORMATION**



**Williams Overman Pierce, LLP**  
Certified Public Accountants and Consultants

October 4, 2013

To the Board of Directors  
The North Carolina Agricultural Foundation, Inc.  
Raleigh, North Carolina

We have audited the financial statements of The North Carolina Agricultural Foundation, Inc. (the "Foundation"), a nonprofit organization and a component unit of North Carolina State University, for the year ended June 30, 2013, and have issued our report thereon dated October 4, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 14, 2013. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The North Carolina Agricultural Foundation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

*Difficulties Encountered in Performing the Audit*

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



### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected some known misstatements identified during audit procedures. However, the attached schedule summarizes uncorrected misstatements of the financial statements detected as a result of audit procedures. Management has determined that the corrected and uncorrected misstatements detected as a result of audit procedures were immaterial, either individually or in the aggregate, to the Foundation's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 4, 2013.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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



### **Other Matters**

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

### **Closing**

We are happy to respond to any questions you may have concerning this communication. We appreciate the opportunity to continue to serve The North Carolina Agricultural Foundation, Inc.

*Williams Dverman Pierce, LLP*



The North Carolina Agricultural Foundation, Inc.  
Summary of Passed Adjustments  
Year Ended June 30, 2013

	Effect of Misstatement Overstatement (Understatement)				
	<u>Assets</u>	<u>Liabilities</u>	<u>Beginning Net Assets</u>	<u>Change in Net Assets</u>	<u>Ending Net Assets</u>
<b>Year ended June 30, 2012:</b>					
Effect of audit differences:					
Understatement of royalty income	\$ (81,926)	\$ -	\$ -	\$ (81,926)	\$ (81,926)
Cumulative financial statement adjustment at June 30, 2012	<u>\$ (81,926)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,926)</u>	<u>\$ (81,926)</u>
<b>Year ended June 30, 2013:</b>					
Correction of prior year audit difference	\$ -	\$ -	\$ (81,926)	\$ 81,926	\$ -
Cumulative financial statement adjustment at June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (81,926)</u>	<u>\$ 81,926</u>	<u>\$ -</u>