

THE NORTH CAROLINA
AGRICULTURAL FOUNDATION, INC.

FINANCIAL REPORT

JUNE 30, 2016 and 2015

The North Carolina Agricultural Foundation, Inc.
Financial Report
For the Years Ended June 30, 2016 and 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina Agricultural Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina Agricultural Foundation, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards, as required by the State Single Audit Implementation Act and Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 audit 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.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 28 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

2015 Consolidated Financial Statements

The 2015 consolidated financial statements of the Foundation were audited by other auditors, whose report dated October 5, 2015 expressed an unmodified opinion on those statements.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016 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.

BDO USA, LLP

Raleigh, North Carolina
September 30, 2016

The North Carolina Agricultural Foundation, Inc.

Statements of Financial Position

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents (Note 1)	\$ 17,611,893	\$ 17,053,654
Intermediate investments (Note 1)	18,258,283	17,800,235
Long-term investments (Notes 1 and 3)	76,817,480	72,222,325
Closely held stock (Note 6)	4,890	4,972
Accounts receivable (Note 1)	1,073,783	12,699
Pledges receivable, net (Notes 1 and 7)	7,122,930	9,516,939
Notes receivable - The LaPaz Group, LLC (Note 15)	2,046,739	1,727,447
Receivable from sale of Albion stock (Note 8)	3,372,000	3,372,000
Donated property and land (Note 1)	32,605,980	33,090,480
Vehicles, net of accumulated depreciation of \$124,474 and \$159,416 in 2016 and 2015, respectively (Note 1)	82,848	70,908
Other assets (Note 1)	74,145	73,495
Total Assets	\$ 159,070,971	\$ 154,945,154
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 341,104	\$ 335,321
Accounts payable (Note 1)	9,868	24,583
Due to others (Note 1)	169,245	128,748
Deferred revenue (Note 1)	212,980	130,889
Life income funds payable (Note 5)	4,052,534	2,277,196
Contingent liability (Note 16)	219,738	54,252
Total Liabilities	5,005,469	2,950,989
Net Assets		
Unrestricted:		
Undesignated	2,421,712	2,090,125
Undesignated - underwater endowments (Note 2)	(23,208)	-
Board designated (Note 2)	686,206	862,111
Temporarily restricted (Note 10)	70,785,602	72,786,016
Permanently restricted (Note 11)	80,195,190	76,255,913
Total Net Assets	154,065,502	151,994,165
Total Liabilities and Net Assets	\$ 159,070,971	\$ 154,945,154

See notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 1,700,292	\$ 10,582,392	\$ 4,593,253	\$ 16,875,937
Change in pledges receivable (Note 7)	-	(272,260)	(2,121,749)	(2,394,009)
Grant revenue (Note 1)	-	499,081	-	499,081
Donated services, salaries, and facilities (Note 9)	1,288,000	-	-	1,288,000
Donated property and land (Note 1)	-	95,000	1,342,463	1,437,463
Net asset reclassification - underwater endowmen	(23,208)	23,208	-	-
Net investment income (loss)	2,444	(1,188,091)	18,503	(1,167,144)
Interest and dividends	221,258	329,425	96,842	647,525
Change in value of split interest agreements	-	-	(120,324)	(120,324)
Disposal of other assets	-	(41,491)	(225,575)	(267,066)
Royalties	-	280,809	-	280,809
Other income	-	1,168,550	35,636	1,204,186
Net assets released from restrictions (Note 12)	12,897,919	(12,897,919)	-	-
Total Revenues, Gains, and Other Income	16,086,705	(1,421,296)	3,619,049	18,284,458
Grants to Support the University Program:				
Scholarships and fellowships	3,312,116	-	-	3,312,116
Faculty support and professorships	2,797,771	-	-	2,797,771
Agricultural research support	773,558	-	-	773,558
Cooperative extension support	19,979	-	-	19,979
Departmental support	3,459,850	-	-	3,459,850
Facility support	1,051,323	-	-	1,051,323
Other current services	2,019,434	-	-	2,019,434
Total Program Support	13,434,031	-	-	13,434,031
Administrative	376,000	-	-	376,000
Fundraising	2,193,201	-	-	2,193,201
Total Other Support	2,569,201	-	-	2,569,201
Total Support	16,003,232	-	-	16,003,232
Excess of Revenues, Gains, and Other Income Over Total Support	83,473	(1,421,296)	3,619,049	2,281,226
Net Transfers				
To other University-affiliated entities	(29)	(162,972)	(46,888)	(209,889)
Among funds (Note 13)	49,030	(416,146)	367,116	-
Total Net Transfers	49,001	(579,118)	320,228	(209,889)
Change in Net Assets	132,474	(2,000,414)	3,939,277	2,071,337
Net Assets				
Beginning of year	2,952,236	72,786,016	76,255,913	151,994,165
End of year	\$ 3,084,710	\$ 70,785,602	\$ 80,195,190	\$ 154,065,502

See notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 1,796,265	\$ 9,025,826	\$ 3,241,354	\$ 14,063,445
Change in pledges receivable (Note 7)	-	1,234,944	(2,742,540)	(1,507,596)
Grant revenue (Note 1)	-	85,242	-	85,242
Donated services, salaries, and facilities (Note 9)	1,590,000	-	-	1,590,000
Donated property and land (Note 1)	-	51,000	-	51,000
Net investment (loss) income	(28,064)	5,023,353	79,267	5,074,556
Interest and dividends	423,376	170,528	76,101	670,005
Change in value of split interest agreements	-	-	(111,290)	(111,290)
Disposal of other assets	28,038	535,632	-	563,670
Royalties	-	429,479	-	429,479
Other income	60	1,148,328	5,565	1,153,953
Net assets released from restrictions (Note 12)	11,731,649	(11,731,649)	-	-
Total Revenues, Gains, and Other Income	15,541,324	5,972,683	548,457	22,062,464
Grants to Support the University Program:				
Scholarships and fellowships	3,605,533	-	-	3,605,533
Faculty support and professorships	2,186,753	-	-	2,186,753
Agricultural research support	563,734	-	-	563,734
Cooperative extension support	22,789	-	-	22,789
Departmental support	3,419,193	-	-	3,419,193
Facility support	135,077	-	-	135,077
Other current services	2,197,447	-	-	2,197,447
Total Program Support	12,130,526	-	-	12,130,526
Administrative	348,350	-	-	348,350
Fundraising	2,584,232	-	-	2,584,232
Total Other Support	2,932,582	-	-	2,932,582
Total Support	15,063,108	-	-	15,063,108
Excess of Revenues, Gains, and Other Income Over Total Support	478,216	5,972,683	548,457	6,999,356
Net Transfers				
To other University-affiliated entities	-	(2,591)	-	(2,591)
Among funds (Note 13)	122,335	(1,211,344)	1,089,009	-
Total Net Transfers	122,335	(1,213,935)	1,089,009	(2,591)
Change in Net Assets	600,551	4,758,748	1,637,466	6,996,765
Net Assets				
Beginning of year	2,351,685	68,027,268	74,618,447	144,997,400
End of year	\$ 2,952,236	\$ 72,786,016	\$ 76,255,913	\$ 151,994,165

See notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets:	\$ 2,071,337	\$ 6,996,765
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	27,745	19,285
Contributions and grants restricted for permanent endowment	(4,593,253)	(3,241,354)
Donated property	(1,437,463)	(51,000)
Transfer of donated property	120,000	-
Loss on sale of donated property	273,541	-
Gain on disposal of vehicles	(6,475)	-
Investment income restricted for split interest agreements	(96,842)	(76,101)
Net investment loss (income)	1,167,144	(5,074,556)
Change in value of split interest agreements	130,960	110,785
Change in value of split interest agreements due to others	(10,636)	505
Decrease (increase) in:		
Closely held stock	82	-
Accounts receivable	(1,061,084)	15,117
Pledges receivable	2,394,009	1,507,596
Notes receivable - The LaPaz Group, LLC	(319,292)	(137,023)
Other assets	(650)	(1,163)
Increase (decrease) in:		
Accounts payable - North Carolina State University	5,783	145,746
Accounts payable	(14,715)	(122,168)
Due to others	51,133	(46,192)
Deferred revenue	82,091	(89,985)
Contingent liability	165,486	54,252
Net Cash (Used in) Provided by Operating Activities	(1,051,099)	10,509
Cash Flows From Investing Activities		
Proceeds from sales of donated property	250,907	7,136
Proceeds from sales of vehicles	6,475	-
Proceeds from sales of investments	6,460,442	2,711,791
Purchases of property	(39,685)	(44,916)
Purchases of investments	(10,235,236)	(19,235,863)
Net Cash Used in Investing Activities	(3,557,097)	(16,561,852)
Cash Flows From Financing Activities		
Contributions and grants restricted for permanent endowment	4,593,253	3,241,354
Investment income restricted for split interest agreements	96,842	76,101
Payments on life income fund obligations	(382,447)	(329,222)
Proceeds from life income fund obligations	858,787	9,287
Net Cash Provided by Financing Activities	5,166,435	2,997,520
Net Increase (Decrease) in Cash and Cash Equivalents	558,239	(13,553,823)
Cash and Cash Equivalents:		
Beginning of year	17,053,654	30,607,477
End of year	<u>\$ 17,611,893</u>	<u>\$ 17,053,654</u>

(Continued)

See notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	\$ 1,288,000	\$ 1,590,000
Transfers between funds	\$ 416,146	\$ 1,211,344

See notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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 (the "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 instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times the Foundation places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consisted of accounts with the State Treasurer's Short-Term Investment Fund (the "STIF"), Paragon Bank, and 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 the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF"), taxable municipal bonds, and an account with the common/fund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$18,258,283 and \$17,800,235 at June 30, 2016 and 2015, respectively. The cost of these investments was \$18,807,431 and \$18,530,793 as of June 30, 2016 and 2015, respectively.

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

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

Accounts receivable: Accounts receivable consists of sales tax receivable, accrued interest on the STIF account and municipal bonds, and grant expenditures not yet reimbursed.

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

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

Vehicles: Vehicles are stated at cost less depreciation. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets (5 years).

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 \$74,145 and \$73,495 at June 30, 2016 and 2015, respectively.

Contributions: Restricted contributions are segregated for income and expense reporting purposes; however, the assets are commingled. When a donor or grantor restriction expires because the stipulated time restriction ends or purpose restriction is accomplished, 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 fundraising 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 fundraising 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 \$302,862 and \$259,091 for the years ended June 30, 2016 and 2015, 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 average twenty-quarter market value of the assets held in the investment portfolio, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.50% is charged by the Foundation on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% for the support of Foundation fundraising activities and 0.25% for the support of University Advancement.

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.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

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

Due to others: Due to others at June 30, 2016 and 2015, consists of \$115,985 and \$126,621, respectively, due to remainder beneficiaries of life income funds, and \$53,260 and \$2,127, respectively, due to other entities.

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 2016 and 2015. 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, 2016, 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 2012.

Note 2. Endowment

The Foundation's endowment consists of approximately 590 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 \$23,208 and \$0 as of June 30, 2016 and 2015, respectively.

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

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

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 \$1,812,100 and \$2,014,615 or fiscal years 2016 and 2017, respectively.

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

The LTIP is diversified both by asset class (e.g. common stocks and fixed income securities) and within asset classes (e.g., within common stocks by economic sector, geographic area, industry, quality, and size). In addition, the LTIP seeks to diversify exposure to all asset classes through the use of multiple managers that use a variety of investment approaches.

The following represents changes in endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 862,111	\$ 24,914,682	\$ 76,255,913	\$102,032,706
Net asset reclassification - underwater endowments	(23,208)	23,208	-	-
Endowment net assets after reclassification	838,903	24,937,890	76,255,913	102,032,706
Total investment return	(62,635)	(959,678)	(110,230)	(1,132,543)
Contributions, including change in accrued pledges and other income	-	50	3,849,603	3,849,653
Appropriations of endowment assets for expenditure	(113,270)	(2,341,970)	-	(2,455,240)
Change in value of split interest agreements	-	-	(120,324)	(120,324)
Other changes:				
Transfers	-	57,331	320,228	377,559
Endowment net assets, end of year	\$ 662,998	\$ 21,693,623	\$ 80,195,190	\$102,551,811

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2016:

	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Undesignated - underwater endowments	\$ (23,208)	\$ -	\$ -	\$ (23,208)
Board-designated endowment funds	686,206	-	-	686,206
Donor-designated endowment funds	-	21,693,623	80,195,190	101,888,813
Total funds	\$ 662,998	\$ 21,693,623	\$ 80,195,190	\$ 102,551,811

The following represents changes in endowment net assets for the fiscal year ended June 30, 2015:

	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Endowment net assets, beginning of year	\$ 649,526	\$ 20,631,214	\$ 74,618,447	\$ 95,899,187
Total investment return	324,625	5,403,063	155,368	5,883,056
Contributions, including change in accrued pledges and other income	-	250	504,379	504,629
Appropriation of endowment assets for expenditure	(112,040)	(2,119,845)	-	(2,231,885)
Change in value of split interest agreements	-	-	(111,290)	(111,290)
Other changes:				
Transfers	-	1,000,000	1,089,009	2,089,009
Endowment net assets, end of year	\$ 862,111	\$ 24,914,682	\$ 76,255,913	\$ 102,032,706

The following represents endowment net asset composition by type of fund, as of June 30, 2015:

	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Board-designated endowment funds	\$ 862,111	\$ -	\$ -	\$ 862,111
Donor-designated endowment funds	-	24,914,682	76,255,913	101,170,595
Total funds	\$ 862,111	\$ 24,914,682	\$ 76,255,913	\$ 102,032,706

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, 2016 and 2015 consisted of:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 208,207	\$ 208,207	\$ 1,167,820	\$ 1,167,820
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	49,876,222	67,709,880	46,916,170	66,200,323
Life Income Funds	8,674,688	8,899,393	4,533,656	4,854,182
	\$ 58,759,117	\$ 76,817,480	\$ 52,617,646	\$ 72,222,325

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 3. Long-Term Investments (continued)

Investments held by the LTIP at June 30, 2016 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, 2016, approximately 91.2% of these limited partnerships were with the UNC Management Company (“UNCMC”), 3.5% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 5.1% was invested in the LPP, and 0.2% was invested in the STIF. The LTIP’s net assets were valued at approximately \$683,380,000 and \$676,716,000 at June 30, 2016 and 2015, respectively. The Foundation’s investment in LTIP represents approximately 9.91% and 9.78% of the member’s equity of the LTIP at June 30, 2016 and 2015, respectively.

The Foundation’s investments in Life Income Funds consist of a diversified portfolio of bond and equity mutual funds.

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:

	2016			Total Fair Value
	Level 1	Level 2	Level 3	
STIF	\$ 208,207	\$ -	\$ -	\$ 208,207
Municipal Bonds	-	1,066,885	-	1,066,885
common/fund Intermediate Term Fund	-	4,271,223	-	4,271,223
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	12,920,175	-	12,920,175
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	67,709,880	67,709,880
Life Income Funds	-	8,899,393	-	8,899,393
Beneficial Interest in Life Insurance Policies	-	-	74,145	74,145
	<u>\$ 208,207</u>	<u>\$ 27,157,676</u>	<u>\$ 67,784,025</u>	<u>\$ 95,149,908</u>

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement (continued)

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 1,167,820	\$ -	\$ -	\$ 1,167,820
Municipal Bonds	-	561,911	-	561,911
common/fund Intermediate Term Fund	-	4,260,418	-	4,260,418
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	12,977,906	-	12,977,906
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	66,200,323	66,200,323
Life Income Funds	-	4,854,182	-	4,854,182
Beneficial Interest in Life Insurance Policies	-	-	73,495	73,495
	<u>\$ 1,167,820</u>	<u>\$ 22,654,417</u>	<u>\$ 66,273,818</u>	<u>\$ 90,096,055</u>

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

	2016		2015	
	NC State Investment Fund, Inc. (LTIP)	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc. (LTIP)	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 66,200,323	\$ 73,495	\$ 58,318,763	\$ 72,332
Participant additions	5,115,000	-	4,631,250	-
Investment Income	9,237	-	20,371	-
Realized gains	640,879	-	791,611	-
Unrealized (depreciation) appreciation	(1,450,494)	650	4,851,719	1,163
Participant withdrawals	(2,517,496)	-	(2,168,135)	-
Expenses	(287,569)	-	(245,256)	-
Ending balance	<u>\$ 67,709,880</u>	<u>\$ 74,145</u>	<u>\$ 66,200,323</u>	<u>\$ 73,495</u>

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

STIF – This investment has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

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

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

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement (continued)

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

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

Beneficial Interest in Life Insurance Policies – Valued based on 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.

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is the trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2016 and 2015 have asset balances of \$8,899,393 and \$4,854,182, 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 \$4,052,534 and \$2,777,196 at June 30, 2016 and 2015, respectively. Payments from these funds were \$382,447 and \$329,222 during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, the CGA reserve balance was \$40,962 and \$13,548, respectively.

Note 6. Closely Held Stock

Closely held stock consists of 150,000 shares of Orbit, 81,630 shares of RDM Products, Inc. and 5,610 shares of Bank of Granite stock. This closely held stock is recorded at the market value at the time of donation or purchase. Closely held stock balances were \$4,890 and \$4,972 at June 30, 2016 and 2015, respectively.

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 7. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2016		2015
Receivable in less than one year	\$ 3,567,591	\$	3,780,661
Receivable in one to five years	3,446,661		5,312,911
Receivable in greater than five years	550,000		1,005,541
Total gross pledges receivable	<u>7,564,252</u>		<u>10,099,113</u>
Less allowance for uncollectible pledges	(279,000)		(305,000)
Less unamortized discount (discount rate of 0.55% to 1.44%)	(162,322)		(277,174)
Pledges receivable, net	<u>\$ 7,122,930</u>	\$	<u>9,516,939</u>

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.

Three donors represent approximately \$4.55 million and \$6.8 million of total undiscounted pledges receivable at June 30, 2016 and 2015, respectively.

Note 8. Receivable from Sale of Albion Stock

During fiscal year 2013, 30,228 shares of Albion Medical Holdings, Inc. 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 within five years after the date of sale totaling \$3,561,028 as of June 30, 2013, which represent the Foundation's portion of a buyer note, escrow fund, and working capital. The receivable balance as of June 30, 2016 and June 30, 2015 was \$3,372,000.

Note 9. Donated Services, Salaries, and Facilities

Donated services in the amount of \$218,000 and \$202,000 for the years ended June 30, 2016 and 2015, 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 \$1,070,000 and \$1,388,000 for the years ended June 30, 2016 and 2015, respectively, have been reflected in the accompanying financial statements.

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Scholarships	\$ 2,394,100	\$ 2,375,140
Fellowships	425,612	500,539
Professorships	139,555	83,366
Research support	11,802,678	10,631,948
LaPaz - North Carolina aquaculture support	12,468,005	12,414,355
Pledges receivable	3,720,431	3,992,690
Endowment cumulative balance	21,693,623	24,914,682
Other	18,141,598	17,873,296
	<u>\$ 70,785,602</u>	<u>72,786,016</u>

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

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to:

	2016	2015
Scholarships	\$ 24,253,786	\$ 24,972,050
Fellowships	2,211,769	2,190,330
Professorships	2,189,698	2,316,929
Research	5,074,083	5,292,524
Pledges receivable	3,402,500	5,524,248
NC Agricultural Foundation Enhancement	3,686,206	3,862,111
NC Tobacco Trust Commission Agricultural Leadership Development Program	5,791,900	6,120,324
Drew Griffin Environmental Research - Land	19,764,458	19,764,458
Charitable trusts and gift annuities (net)	4,846,859	2,576,986
Other directly held assets	6,735,850	6,925,492
Amounts reported as unrestricted or temporarily restricted net assets	(22,356,621)	(25,776,793)
Other	24,594,702	22,487,254
	<u>\$ 80,195,190</u>	<u>\$ 76,255,913</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, 2016 and 2015

Note 12. 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:

	2016	2015
Scholarships	\$ 1,083,514	\$ 962,686
Fellowships	350,367	222,051
Professorships	15,321	15,258
Research and related support	4,126,946	4,987,948
Other	7,321,771	5,543,706
	<u>\$ 12,897,919</u>	<u>\$ 11,731,649</u>

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

Note 13. 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, 2016 and 2015, net endowment transfers among funds were \$367,116 and \$1,089,009, respectively.

Note 14. 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 15. 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), 2012 \$(92,004), 2013 \$(337,992), 2014 \$(543,999), and 2015 \$(318,314). The accompanying financial statements reflect annual operating losses incurred by LaPaz Group, LLC bringing net investment value as of June 30, 2016 to \$0.

The LaPaz Group, LLC entered into a \$150,000 line of credit with the Foundation on May 23, 2013 to provide liquidity for operations. The most current amendment to the agreement dated June 3, 2016 increased availability on the line of credit to \$900,000. The LaPaz Group, LLC had \$825,000 drawn on the line as of June 30, 2016. There was \$33,580 of interest accrued as of June 30, 2016. The line matures on December 31, 2016 with interest accruing monthly. The line's interest rate is prime less 1.0%, which was 2.50% as of June 30, 2016. The line of credit is included in notes receivable on the accompanying statements of financial position.

The North Carolina Agricultural Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 15. The LaPaz Group, LLC (continued)

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 \$79,528 of interest accrued as of June 30, 2016. 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 2.50% as of June 30, 2016. The note is included in notes receivable in the accompanying statements of financial position.

Note 16. Contingent Liability

The Foundation holds funds in agency accounts for the purpose of constructing a Plant Sciences Research Complex. These funds are restricted for the later phases (#4-7) of the project, which will not begin until after the building is fully funded and authorized to be constructed, and are contingent upon receiving such approval. As of June 30, 2016 and 2015, funds held in agency accounts for the construction of the Plant Sciences Research Complex total \$219,738 and \$54,252, respectively.

Note 17. Prior Year Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported total net assets.

Note 18. Subsequent Events

The Foundation has evaluated events through September 30, 2016, the dates which the financial statements were available to be issued, and there were no additional subsequent events to report.



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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*

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. (the "Foundation") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 whether the Foundation'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 result 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.

BDO USA, LLP

Raleigh, North Carolina
September 30, 2016



Independent Auditor's Report on Compliance For Each Major State Program and Report on Internal Control Over Compliance Required by the State Single Audit Implementation Act and the Uniform Guidance

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

Report on Compliance for Each Major State Program

We have audited The North Carolina Agricultural Foundation, Inc. (the "Foundation") compliance with the types of compliance requirements described in the *North Carolina State Compliance Supplements* and the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major state programs for the year ended June 30, 2016. The Foundation's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of the State Single Audit Implementation Act and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards, the State Single Audit Implementation Act and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major State Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.



Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Implementation Act and the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foundation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Implementation Act and the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

Raleigh, North Carolina
September 30, 2016

The North Carolina Agricultural Foundation, Inc.

Schedule of Expenditures of State Awards
Year Ended June 30, 2016

State Grantor / Project Title	Expenditures
State Programs	
North Carolina Department of Agriculture	
Direct Projects:	
FFA Center State	\$ 100,000
Total Awards from North Carolina Department of Agriculture	<u>100,000</u>
North Carolina Tobacco Trust Fund Commission	
Direct Projects:	
AG Education Program	94,925
Stevia Production	1,029
Develop Future NC Farmers	98,378
NC Real	35,019
NC Ag Ventures	296,936
Total Awards from North Carolina Tobacco Trust Fund Commission	<u>526,287</u>
Total Expenditures of State Awards	<u><u>\$ 626,287</u></u>

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, 2016

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying schedule of expenditures of state awards (the "Schedule") includes the state grant activity of The North Carolina Agricultural Foundation, Inc. (the "Foundation") under State of North Carolina programs for the year ended June 30, 2016. The information in this Schedule is presented on the cash basis of accounting and in accordance with the requirements of North Carolina General Statute 143-6.1 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation. Therefore, some amounts presented in the Schedule may differ from amounts presented in the Foundation's financial statements.

All of the Foundation's state awards were in the form of cash assistance for the year ended June 30, 2016.

Note 2. Subrecipient Payments

The expenditure of state awards for the year ended June 30, 2016 included the following subrecipient payments to FFA Center State and North Carolina State University (the "University"):

State Grantor / Project Title	Subrecipient	Disbursements
State Programs		
North Carolina Department of Agriculture		
Direct Projects:		
FFA Center State	FFA Center	\$ 100,000
Total Awards from North Carolina Department of Agriculture		<u>100,000</u>
North Carolina Tobacco Trust Fund Commission		
Direct Projects:		
AG Education Program	University	94,925
Develop Future NC Farmers	University	95,333
NC Real	University	19,934
NC Ag Ventures	University	292,441
Total Awards from North Carolina Tobacco Trust Fund Commission		<u>502,633</u>
Total Disbursements to Subrecipients		<u><u>\$ 602,633</u></u>

The North Carolina Agricultural Foundation, Inc.

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified? yes x none reported
- Noncompliance material to financial statements noted? yes x no

State Awards

Internal control over major state programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance for major state programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act and 2 CFR 200.516(a)?

 yes x no

Identification of major state program(s):

NC AgVentures

Section II - Financial Statement Findings

This section should identify significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting.

No financial statement findings noted.

Section III - State Award Findings and Questioned Costs

This section should identify the audit findings required to be reported by the State Single Audit Implementation Act and the 2 CFR 200.516(a) (for example, significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs and material abuse - see paragraph 23.38 of the Guide). Where practical, findings should be organized by state agency or pass-through entity.

There were no findings or questioned costs identified.

The North Carolina Agricultural Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2016

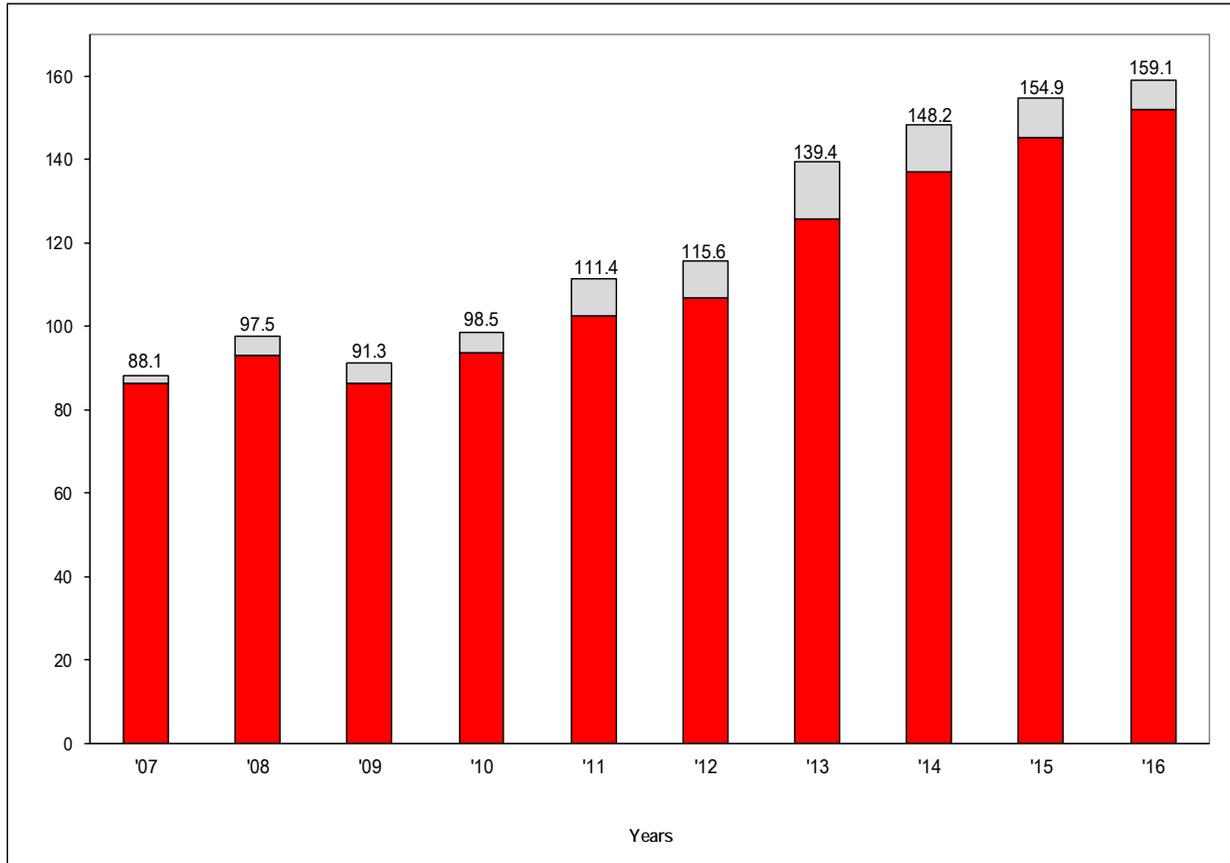
	Budget	Actual	Variance
Income			
Annual fund campaign	\$ 200,000	\$ 172,141	\$ (27,859)
CALS Dean's Fund for Excellence	27,500	167	(27,333)
"Nickels for Know-How"	1,600,000	1,527,945	(72,055)
University Advancement assessment	103,985	103,985	-
College Advancement assessment	103,985	103,985	-
Endowment spending budget	112,040	112,040	-
Interest and dividends	255,000	279,056	24,056
Grant administrator fee	5,000	5,000	-
Total Income	2,407,510	2,304,319	(103,191)
Support			
Program support	1,964,881	1,344,027	(620,854)
Foundation administration and development support	690,920	690,956	36
Total Support	2,655,801	2,034,983	(620,818)
Income Less Support	(248,291)	269,336	517,627
General Fund Balance			
Beginning of year	1,756,560	1,756,560	-
End of year	\$ 1,508,269	\$ 2,025,896	\$ 517,627

The North Carolina Agricultural Foundation, Inc.

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

Total Assets*

(Dollars in Millions)

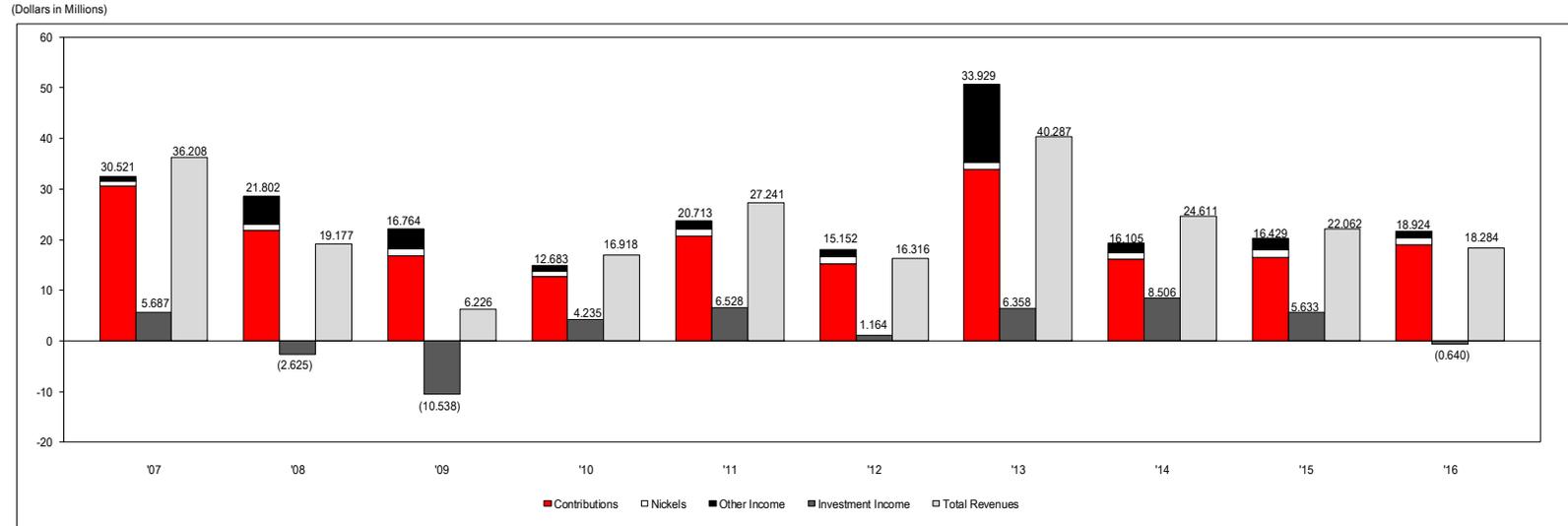


* Not reflected above for FY'16 are gifts-in-kind of \$248,585 which benefit the College of Agricultural and Life Sciences. These gifts were received due to the efforts of Foundation members and the College Development Staff.

The North Carolina Agricultural Foundation, Inc.

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

Total Revenues, Gains, and Other Income



Total Support

