

**NORTH CAROLINA VETERINARY MEDICAL
FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2012 and 2011

North Carolina Veterinary Medical Foundation, Inc.
Financial Report
For the years ended June 30, 2012 and 2011

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
North Carolina Veterinary Medical Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of financial position of North Carolina Veterinary Medical Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 12, during the year ended June 30, 2012 the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended June 30, 2011 have been retrospectively adjusted to reflect the accrual basis of accounting adopted in the year ended June 30, 2012.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 17 through 20 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentations of the supplementary information. However, we did not audit the information and express no opinion on it.

Williams Overman Pierce, LLP

Raleigh, North Carolina
October 5, 2012

Raleigh • Greensboro

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North Carolina Veterinary Medical Foundation, Inc.

Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents (Note 1)	\$ 1,425,787	\$ 3,741,757
Intermediate investments (Note 1)	2,432,533	2,401,595
Marketable securities (Notes 3 and 4)	33,391,602	31,472,177
Pledges receivable (Notes 1 and 6)	2,545,644	4,519,974
Land (Note 1)	-	30,000
Other assets (Note 1)	159,036	143,316
Total assets	\$ 39,954,602	\$ 42,308,819
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable - North Carolina State University (Note 1)	\$ 20,171	\$ 17,875
Life income funds payable (Note 5)	858,820	890,270
Due to others (Note 1)	18,501	15,932
Total liabilities	897,492	924,077
Net Assets:		
Unrestricted:		
Undesignated	2,289,791	4,594,837
Undesignated - underwater endowments (Note 2)	(17,064)	(38,566)
Board-designated - endowments	20,942,015	19,215,487
Temporarily restricted (Note 8)	5,394,272	7,800,234
Permanently restricted (Note 9)	10,448,096	9,812,750
Total net assets	39,057,110	41,384,742
Total liabilities and net assets	\$ 39,954,602	\$ 42,308,819

North Carolina Veterinary Medical Foundation, Inc.

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions	\$ 2,106,336	\$ 1,490,441	\$ 442,763	\$ 4,039,540
Change in pledges receivable	(1,829,079)	(145,210)	(41)	(1,974,330)
Donated services and salaries (Note 7)	416,000	-	-	416,000
Change in value of split interest agreements	-	-	(54,916)	(54,916)
Net asset reclassification - underwater endowments (Note 2)	21,502	(21,502)	-	-
Net investment income	(298,926)	936,286	139,113	776,473
Interest and dividends	40,124	23,889	37,084	101,097
Other income	451	27,695	-	28,146
Net assets released from restrictions (Note 10)	5,009,851	(5,009,851)	-	-
Total revenues, gains, and other income	5,466,259	(2,698,252)	564,003	3,332,010
Grants to support the University:				
Program:				
Scholarships and fellowships	296,163	-	-	296,163
Faculty support and professorships	442,420	-	-	442,420
Departmental support	467,231	-	-	467,231
Terry Hospital Debt Service	3,683,771	-	-	3,683,771
Other current services	121,852	-	-	121,852
Total program support	5,011,437	-	-	5,011,437
Administrative	99,363	-	-	99,363
Fundraising	524,110	-	-	524,110
Total other support	623,473	-	-	623,473
Total support	5,634,910	-	-	5,634,910
Excess of revenues, gains, and other income over total support	(168,651)	(2,698,252)	564,003	(2,302,900)
Net transfers:				
To the Endowment Fund of North Carolina State University	-	-	(30,000)	(30,000)
From other University-associated entities	-	5,268	-	5,268
Among funds (Note 11)	(388,365)	287,022	101,343	-
Total net transfers	(388,365)	292,290	71,343	(24,732)
Change in net assets	(557,016)	(2,405,962)	635,346	(2,327,632)
Net assets:				
Beginning	23,771,758	7,800,234	9,812,750	41,384,742
Ending	\$ 23,214,742	\$ 5,394,272	\$ 10,448,096	\$ 39,057,110

North Carolina Veterinary Medical Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions	\$ 5,133,076	\$ 1,507,255	\$ 207,967	\$ 6,848,298
Change in pledges receivable	(3,524,705)	(147,860)	(16,632)	(3,689,197)
Donated services and salaries (Note 7)	498,000	-	-	498,000
Change in value of split interest agreements	-	-	(109,723)	(109,723)
Net asset reclassification -				
underwater endowments (Note 2)	302,474	(302,474)	-	-
Net investment income	2,192,982	1,354,431	32,515	3,579,928
Interest and dividends	95,599	17,070	38,942	151,611
Other income	22,897	-	-	22,897
Net assets released from restrictions (Note 10)	846,426	(846,426)	-	-
Total revenues, gains, and other income	5,566,749	1,581,996	153,069	7,301,814
Grants to support the University:				
Program:				
Scholarships and fellowships	230,695	-	-	230,695
Faculty support and professorships	278,506	-	-	278,506
Departmental support	259,432	-	-	259,432
Other current services	108,717	-	-	108,717
Total program support	877,350	-	-	877,350
Administrative	113,170	-	-	113,170
Fundraising	598,386	-	-	598,386
Total other support	711,556	-	-	711,556
Total support	1,588,906	-	-	1,588,906
Excess of revenues, gains, and other income over total support	3,977,843	1,581,996	153,069	5,712,908
Net transfers:				
To the Endowment Fund of North Carolina State University	-	-	(166,500)	(166,500)
Among funds (Note 11)	138,393	(163,393)	25,000	-
Total net transfers	138,393	(163,393)	(141,500)	(166,500)
Change in net assets	4,116,236	1,418,603	11,569	5,546,408
Net assets:				
Beginning	19,655,522	6,381,631	9,801,181	35,838,334
Ending	\$ 23,771,758	\$ 7,800,234	\$ 9,812,750	\$ 41,384,742

North Carolina Veterinary Medical Foundation, Inc.

**Statements of Cash Flows
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ (2,327,632)	\$ 5,546,408
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net investment income reinvested	(776,472)	(3,579,928)
Contributions restricted for permanent endowment	(442,763)	(207,967)
Decrease in pledges receivable	1,974,330	3,689,197
Investment income restricted for split interest agreements	(37,084)	(38,942)
Actuarial change in value of split interest agreements	54,916	109,723
Decrease (increase) in other assets	14,280	(7,751)
Increase (decrease) in accounts payable - North Carolina State University	2,296	-
Increase (decrease) in due to others	2,569	15,588
Net cash (used in) provided by operating activities	<u>(1,535,560)</u>	<u>5,526,328</u>
Cash Flows From Investing Activities:		
Purchases of property	-	(18,750)
Proceeds from sales of investments	1,037,064	254,125
Purchases of investments	<u>(2,210,954)</u>	<u>(5,087,335)</u>
Net cash used in investing activities	<u>(1,173,890)</u>	<u>(4,851,960)</u>
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	442,763	207,967
Investment income restricted for split interest agreements	37,084	38,942
Payments on life income fund obligations	(109,740)	(105,364)
Proceeds from life income fund obligations	<u>23,373</u>	<u>22,695</u>
Net cash provided by financing activities	<u>393,480</u>	<u>164,240</u>
Net (decrease) increase in cash and cash equivalents	(2,315,970)	838,608
Cash and Cash Equivalents		
Beginning	<u>3,741,757</u>	<u>2,903,149</u>
Ending	<u>\$ 1,425,787</u>	<u>\$ 3,741,757</u>
Supplemental Disclosures of Noncash Activities		
Donated services	<u>\$ 416,000</u>	<u>\$ 498,000</u>
Transfers among funds	<u>\$ 388,365</u>	<u>\$ 163,393</u>

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements

For the years ended June 30, 2012 and 2011

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The North Carolina Veterinary Medical 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, established in 1978, provides financial support for all types of education and research in the field of veterinary medicine at North Carolina State University.

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 marketable securities. 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 consist 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 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 needs. These investments are reported at readily determinable fair values of \$2,432,533 and \$2,401,595 at June 30, 2012 and 2011, respectively. The cost of these investments was \$2,770,136 as of June 30, 2012 and 2011.

Marketable securities: Long-term investments and marketable securities 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.

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.

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2012 and 2011**

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

Land: Land is carried at fair value at the date of donation and is held in accordance with donor restrictions. All land was transferred to The Endowment Fund of North Carolina State University during fiscal year 2012.

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 \$11,442 and \$61,099 at June 30, 2012 and June 30, 2011, respectively. Also included in other assets is artwork totaling \$94,495 and \$12,575 at June 30, 2012 and 2011, respectively. A receivable resulting from the sale of stock in the amount of \$53,099 is also included in other assets at June 30, 2012. There was no such receivable at June 30, 2011.

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 statements of activities.

In fiscal year 2011, the University instituted a gift assessment program in support of Central Development and college-level fund-raising efforts. Beginning October 1, 2010, 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.

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 \$121,198 and \$103,330 for the years ended June 30, 2012 and 2011, 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, beginning October 1, 2010, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for Central Development and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.55% is charged by the Foundation on the average twenty-quarter market value of the assets held in the investment portfolio, for the support of Foundation's fundraising 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 and totaled \$20,171 and \$17,875 at June 30, 2012 and 2011, respectively.

Due to others: Due to others at June 30, 2012 and 2011, consists of \$18,501 and \$15,932, respectively, due to remainder beneficiaries of life income funds.

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

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2012 and 2011**

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

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 2012 and 2011. 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 Internal Revenue Service. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2012, 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 2008.

Note 2. Endowment

The Foundation's endowment consists of approximately 110 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's 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 \$(17,064) and \$(38,566) as of June 30, 2012 and 2011, 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% S&P 500 Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2012 and 2011**

Note 2. Endowment (continued)

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many newer 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 \$171,105 and \$357,590 for fiscal years 2012 and 2013, 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 Fund and to meet the spending needs of the University. To meet this investment objective, the NCSIF invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 19,176,921	\$ 2,518,530	\$ 9,812,750	\$ 31,508,201
Net asset reclassification - underwater endowments	21,502	(21,502)	-	-
Endowment net assets after reclassification	19,198,423	2,497,028	9,812,750	31,508,201
Total investment return	616,127	(282,247)	176,197	510,077
Contributions, including change in accrued pledges	2,003,000	-	442,722	2,445,722
Appropriations of endowment assets for expenditure	(16,845)	(426,298)	-	(443,143)
Change in value of split interest agreements	-	-	(54,916)	(54,916)
Other changes:				
Transfers	(823,135)	-	71,343	(751,792)
Endowment net assets, end of year	\$ 20,977,570	\$ 1,788,483	\$ 10,448,096	\$ 33,214,149

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the years ended June 30, 2012 and 2011**

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	\$ (17,064)	\$ -	\$ -	\$ (17,064)
Board-designated endowment funds	20,942,015	-	-	20,942,015
Donor restricted endowment funds	52,619	1,788,483	10,448,096	12,289,198
Total funds	\$ 20,977,570	\$ 1,788,483	\$ 10,448,096	\$ 33,214,149

The following represents changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,694,690	\$ 2,273,071	\$ 9,801,181	\$ 23,768,942
Net asset reclassification - underwater endowments	302,474	(302,474)	-	-
Endowment net assets after reclassification	11,997,164	1,970,597	9,801,181	23,768,942
Total investment return	2,197,322	671,323	71,457	2,940,102
Contributions, including change in accrued pledges	5,000,000	-	191,335	5,191,335
Appropriations of endowment assets for expenditure	(17,565)	(123,390)	-	(140,955)
Change in value of split interest agreements	-	-	(109,723)	(109,723)
Other changes:				
Transfers	-	-	(141,500)	(141,500)
Endowment net assets, end of year	\$ 19,176,921	\$ 2,518,530	\$ 9,812,750	\$ 31,508,201

The following represents endowment net asset composition by type of fund, as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (38,566)	\$ -	\$ -	\$ (38,566)
Board-designated endowment funds	19,215,487	-	-	19,215,487
Donor restricted endowment funds	-	2,518,530	9,812,750	12,331,280
Total funds	\$ 19,176,921	\$ 2,518,530	\$ 9,812,750	\$ 31,508,201

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements For the years ended June 30, 2012 and 2011

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, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 82,818	\$ 82,818	\$ 2,174,834	\$ 2,174,834
NC State Investment Fund, Inc.	29,299,963	31,604,114	25,902,798	27,512,915
Wells Fargo - Life Income Funds	1,751,331	1,704,670	1,639,727	1,784,428
	<u>\$ 31,134,112</u>	<u>\$ 33,391,602</u>	<u>\$ 29,717,359</u>	<u>\$ 31,472,177</u>

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the State Treasurer's Short Term Investment Fund ("STIF"). As of June 30, 2012, approximately 87% of these limited partnerships were with the UNC Management Company ("UNCMC"), 7% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, and 6% invested in the STIF. NCSIF's net assets were valued at approximately \$397,192,000 and \$378,260,000 at June 30, 2012 and 2011, respectively. The Foundation's investment in the NCSIF represents approximately 8.0% and 7.3% of the member equity of NCSIF at June 30, 2012 and 2011, respectively.

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

The Foundation's investments held by Citigroup Trust Bank primarily consist of common equity securities.

Note 4. Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The fair value hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.)
- Level 3 – significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments)

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements

For the years ended June 30, 2012 and 2011

Note 4. Fair Value Measurement (continued)

To measure fair value, there are three general valuation techniques that may be used, as described below:

- A) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below are measured at fair value on a recurring basis using both market and income approaches. The market approach was used for level 2 and the income approach was used for level 3. While the NCSIF is categorized below as a Level 3 investment, as a member of the UNCMC, the NCSIF has full redemption privileges with a 60 day notice requirement.

The following represents fair value at June 30, 2012 and 2011:

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 82,818	\$ -	\$ -	\$ 82,818
commonfund Intermediate Term Fund	-	2,432,533	-	2,432,533
NC State Investment Fund, Inc.	-	-	31,604,114	31,604,114
Wells Fargo - Life Income Funds	-	1,704,670	-	1,704,670
Beneficial Interest in Life Insurance Policies	-	-	11,442	11,442
	\$ 82,818	\$ 4,137,203	\$ 31,615,556	\$ 35,835,577

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 2,174,834	\$ -	\$ -	\$ 2,174,834
commonfund Intermediate Term Fund	-	2,401,595	-	2,401,595
NC State Investment Fund, Inc.	-	-	27,512,915	27,512,915
Wells Fargo - Life Income Funds	-	1,784,428	-	1,784,428
Beneficial Interest in Life Insurance Policies	-	-	61,099	61,099
	\$ 2,174,834	\$ 4,186,023	\$ 27,574,014	\$ 33,934,871

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:

	2012		2011	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 27,512,915	\$ 61,099	\$ 21,539,038	\$ 59,861
Unrealized gain on investments	694,034	348	3,348,797	1,238
Realized gain on investments	223,103	-	27,424	-
Net investment	3,174,062	(50,005)	2,597,656	-
Ending balance	\$ 31,604,114	\$ 11,442	\$ 27,512,915	\$ 61,099

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements For the years ended June 30, 2012 and 2011

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, 2012 and 2011 have asset balances of \$1,704,670 and \$1,784,428 respectively.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreement, and the life expectancy of the beneficiaries, and totaled \$858,820 and \$890,270 at June 30, 2012 and 2011, respectively. Payments from these funds were \$109,739 and \$105,364 during the years ended June 30, 2012 and 2011, 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, 2012 and 2011, the CGA reserve balance was \$2,198 and \$2,230 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 at June 30:

	2012	2011
Receivable in less than one year	\$ 476,715	\$ 591,671
Receivable in one to five years	2,216,075	4,254,561
Receivable in greater than five years	17,500	25,000
Total gross pledges receivable	2,710,290	4,871,232
Less allowance for uncollectible pledges	(136,000)	(244,000)
Less unamortized discount	(28,646)	(107,258)
Net pledges receivable	<u>\$ 2,545,644</u>	<u>\$ 4,519,974</u>

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance. Active past due pledges receivable are reviewed biannually by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Note 7. Donated Services and Salaries

Donated services and facilities of approximately \$63,000 and \$85,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for services and facilities provided by the University Treasurer's Division. In addition, donated salaries paid by the University for college development personnel of approximately \$353,000 and \$413,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2012 and 2011

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 241,898	\$ 233,285
Fellowships	44,716	69,199
Professorships	14,301	17,676
Research support	1,281,916	1,278,256
Veterinary Medical Center	2,930	1,674,441
Endowment cumulative balance	1,788,483	2,518,530
Other	2,020,028	2,008,847
	<u>\$ 5,394,272</u>	<u>\$ 7,800,234</u>

Temporarily restricted net asset grouping "Other" includes amounts designated for general college support and funds with multiple purposes.

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2012 and 2011 are restricted to:

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income from which is expendable to support		
General Fund enhancement	\$ 280,789	\$ 294,497
Scholarships	8,145,154	7,518,554
Fellowships	322,125	330,622
Professorships	370,308	377,284
Research Support	1,313,849	1,065,361
Randall B. Terry Charitable Foundation	20,398,919	18,645,844
Randall B. Terry Charitable Foundation - reported as unrestricted board designated net assets	(20,398,919)	(18,645,844)
Other amounts reported as unrestricted net assets	(578,651)	(531,077)
Amounts reported as temporarily restricted net assets	(1,788,483)	(2,518,530)
Other	2,383,005	3,276,039
	<u>\$ 10,448,096</u>	<u>\$ 9,812,750</u>

Permanently restricted net asset grouping "Other" includes amounts designated for general college support and funds with multiple purposes.

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2012 and 2011

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:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 164,990	\$ 150,736
Fellowships	26,313	1,000
Research support	489,510	236,727
Other	4,329,038	457,963
	<u>\$ 5,009,851</u>	<u>\$ 846,426</u>

Net assets released from restriction grouping "Other" includes amounts designated for general college support and funds with multiple purposes.

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 amount, due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2012 and 2011, net endowment transfers among funds were \$101,343 and \$25,000, respectively.

Note 12. Prior Year Reclassifications and Restatement

Certain other amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation also with no effect on previously reported net assets.

In previous years, the Foundation prepared its financial statements using the modified cash basis of accounting. In fiscal year 2012, the Foundation adopted accounting principles generally accepted in the United States of America as the basis for its financial statements. The fiscal year 2011 comparative financial statements have been restated to conform with the new basis of accounting. Accordingly, as a result of the differences between accounting principles generally accepted in the United States of America and the modified cash basis of accounting, unrestricted, temporarily restricted, and permanently restricted net assets at the beginning of fiscal year 2011 are \$7,236,020 higher, \$950,496 higher, and \$22,655 higher, respectively and the change in unrestricted, temporarily restricted, and permanently restricted net assets is \$3,540,583 lower, \$140,929 lower, and \$16,632 lower, respectively, than the amounts previously reported.

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements
For the years ended June 30, 2012 and 2011

Note 12. Prior Year Reclassifications and Restatement (continued)

Statement of financial position at June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Assets:			
Pledges receivable	\$ -	\$ 4,519,974	\$ 4,519,974
Total assets	\$ 37,788,845	\$ 4,519,974	\$ 42,308,819
Liabilities:			
Accounts payable - North Carolina State University	\$ -	\$ 17,875	\$ 17,875
Due to others	24,860	(8,928)	15,932
Total liabilities	\$ 915,130	\$ 8,947	\$ 924,077
Net Assets:			
Unrestricted:			
Undesignated	\$ 1,178,787	\$ 3,416,050	\$ 4,594,837
Undesignated - underwater endowments	(38,566)	-	(38,566)
Board-designated - endowments	18,936,100	279,387	19,215,487
Temporarily restricted	6,990,667	809,567	7,800,234
Permanently restricted	9,806,727	6,023	9,812,750
Total net assets	\$ 36,873,715	\$ 4,511,027	\$ 41,384,742

Statement of activities for the year ended June 30, 2011 has been restated as follows:

	2011 as previously reported	Restatement	2011 as restated
Changes in pledges receivable	\$ -	\$ (3,689,197)	\$ (3,689,197)
Other current services	99,770	8,947	108,717
Change in net assets	\$ 9,244,552	\$ (3,698,144)	\$ 5,546,408

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 5, 2012, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

North Carolina Veterinary Medical Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2012

	Budget	Actual	Variance
Income:			
Contributions:			
All Gifts Great and Small	\$ 72,000	\$ 72,331	\$ 331
Pet in Memoriam	10,000	6,550	(3,450)
Annual Fund	12,000	25,988	13,988
Interest and dividends	40,000	41,833	1,833
Endowment assessment	8,065	8,065	-
Gallop of Honor	7,000	4,038	(2,962)
Walk of Honor	55,000	42,141	(12,859)
Endowment Spending Budget	16,845	16,845	-
Honor Garden	-	760	760
Total income	220,910	218,551	(2,359)
Support:			
Program support:			
Public Relations	4,000	6,972	2,972
Equine Health Program	1,000	1,924	924
Total program support	5,000	8,896	3,896
Foundation administration	216,100	258,864	42,764
Total support	221,100	267,760	46,660
Income less support	(190)	(49,209)	(49,019)
General fund balance:			
Beginning	581,718	581,718	-
Ending	\$ 581,528	\$ 532,509	\$ (49,019)

North Carolina Veterinary Medical Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2011

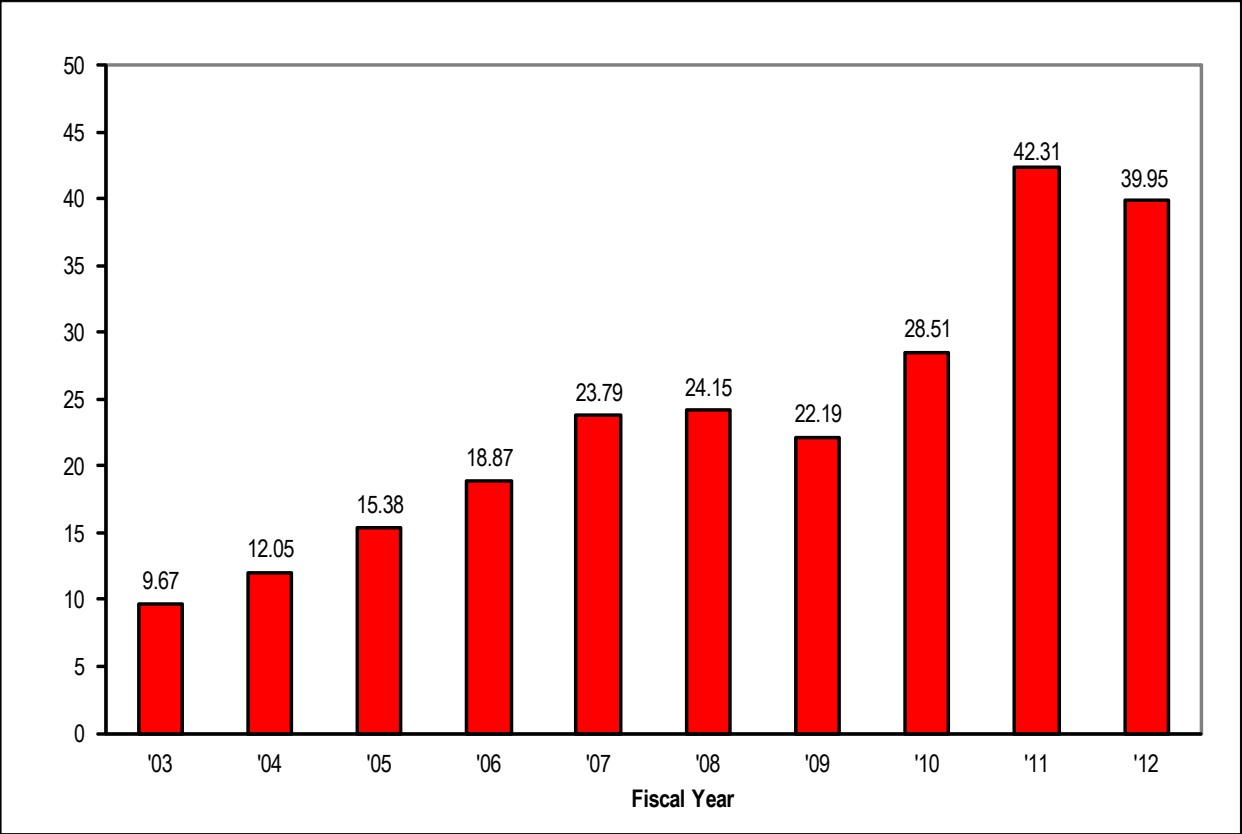
	Budget	Actual	Variance
Income:			
Contributions:			
All Gifts Great and Small	\$ 72,000	\$ 68,994	\$ (3,006)
Pet in Memoriam	14,500	7,829	(6,671)
Annual Fund	15,000	18,186	3,186
Interest and dividends	53,000	61,386	8,386
Endowment assessment	5,395	5,395	-
Gallop of Honor	10,000	5,719	(4,281)
Walk of Honor	55,000	28,833	(26,167)
Endowment Spending Budget	17,565	17,565	-
Honor Garden	1,500	150	(1,350)
Total income	<u>243,960</u>	<u>214,057</u>	<u>(29,903)</u>
Support:			
Program support:			
Public Relations	14,000	3,989	(10,011)
Equine Health Program	2,000	270	(1,730)
Total program support	<u>16,000</u>	<u>4,259</u>	<u>(11,741)</u>
Foundation administration	227,890	198,718	(29,172)
Total support	<u>243,890</u>	<u>202,977</u>	<u>(40,913)</u>
Income less support	70	11,080	11,010
General fund balance:			
Beginning	570,638	570,638	-
Ending	<u>\$ 570,708</u>	<u>\$ 581,718</u>	<u>\$ 11,010</u>

North Carolina Veterinary Medical Foundation, Inc.

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

Total Assets*

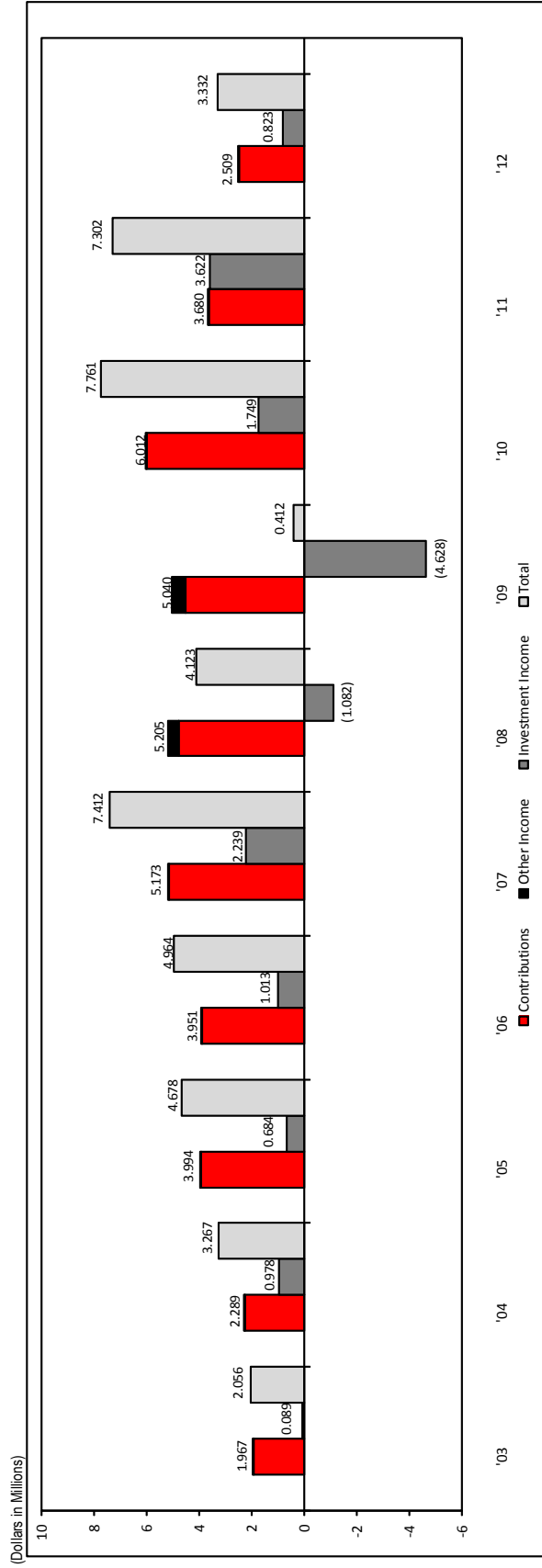
(Dollars in Millions)



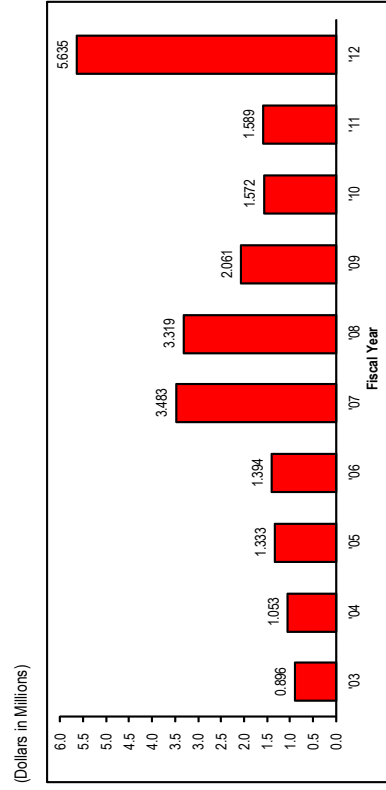
*Fiscal years 2011 and 2012 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

North Carolina Veterinary Medical Foundation, Inc.
Ten Year Summary of Revenues and Support - Unaudited
Years Ended June 30

Total Revenues, Gains, and Other Income*



Total Support*



*Fiscal years 2011 and 2012 are reported using accrual basis of accounting, preceding years are reported using modified cash basis.

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

October 5, 2012

To the Board of Directors
North Carolina Veterinary Medical Foundation, Inc.
Raleigh, North Carolina

We have audited the financial statements of North Carolina Veterinary Medical Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated October 5, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 13, 2012. 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 North Carolina Veterinary Medical Foundation, Inc. are described in Note 1 to the financial statements. As described in Note 12, the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America during the year ended June 30, 2012. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. 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. There was one prior year uncorrected misstatement due to a pledge confirmation that was corrected in the current year (see the attached summary). Management has determined that the prior year effect is immaterial, both individually and in the aggregate, to the financial statements for the year ended June 30, 2011 taken as a whole.



Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 5, 2012.

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 auditor's 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 Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles selected by the Foundation, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. However, we did not audit the supplementary information and, therefore, do not express an opinion on it.

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 Veterinary Medical Foundation, Inc.

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

Williams Overman Pierce, LLP



North Carolina Veterinary Medical Foundation, Inc.
 Summary of Passed Adjustments
 Year Ended June 30, 2012

	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>
Year ended June 30, 2011:					
Effect of audit differences:					
Overstatement of pledges receivable	\$ 32,880	\$ -	\$ -	\$ 32,880	\$ 32,880
Cumulative financial statement adjustment at June 30, 2011	\$ 32,880	\$ -	\$ -	\$ 32,880	\$ 32,880
Year ended June 30, 2012:					
Adjustment of prior year audit differences	\$ -	\$ -	\$ 32,880	\$ (32,880)	\$ -
Cumulative financial statement adjustment at June 30, 2012	\$ -	\$ -	\$ 32,880	\$ (32,880)	\$ -