

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

**FINANCIAL REPORT**

**JUNE 30, 2013 and 2012**

**North Carolina Veterinary Medical Foundation, Inc.**

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

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Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
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. ("Foundation"), a nonprofit organization, as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Raleigh • Greensboro

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Veterinary Medical Foundation, Inc. as of June 30, 2013 and 2012, 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.

## Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19 through 22, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
October 11, 2013

North Carolina Veterinary Medical Foundation, Inc.

Statements of Financial Position  
June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents (Note 1)	\$ 2,144,207	\$ 1,425,787
Intermediate investments (Note 1)	2,462,892	2,432,533
Long-term investments (Notes 1 and 3)	37,963,305	33,391,602
Pledges receivable (Notes 1 and 6)	460,782	2,545,644
Other assets (Note 1)	106,307	159,036
<b>Total assets</b>	<b>\$ 43,137,493</b>	<b>\$ 39,954,602</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable - North Carolina State University (Note 1)	\$ 17,173	\$ 20,171
Accounts payable (Note 1)	15,750	-
Life income funds payable (Note 5)	836,104	858,820
Due to others (Note 1)	19,922	18,501
<b>Total liabilities</b>	<b>888,949</b>	<b>897,492</b>
Net Assets:		
Unrestricted:		
Undesignated	341,646	2,289,791
Undesignated - underwater endowments (Note 2)	-	(17,064)
Board-designated - endowments	24,592,534	20,942,015
Temporarily restricted (Note 8)	6,721,502	5,394,272
Permanently restricted (Note 9)	10,592,862	10,448,096
<b>Total net assets</b>	<b>42,248,544</b>	<b>39,057,110</b>
<b>Total liabilities and net assets</b>	<b>\$ 43,137,493</b>	<b>\$ 39,954,602</b>

See Notes to Financial Statements.

North Carolina Veterinary Medical Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions	\$ 2,214,687	\$ 2,803,503	\$ 135,179	\$ 5,153,369
Change in pledges receivable	(1,877,550)	(201,804)	(5,508)	(2,084,862)
Donated services, salaries, and facilities (Note 7)	373,000	-	-	373,000
Change in value of split interest agreements	-	-	(87,510)	(87,510)
Net asset reclassification - underwater endowments (Note 2)	17,064	(17,064)	-	-
Net investment income	2,445,333	1,473,765	7,212	3,926,310
Interest and dividends	51,868	7,534	33,136	92,538
Other income	370	49,615	-	49,985
Net assets released from restrictions (Note 10)	3,579,616	(3,579,616)	-	-
<b>Total revenues, gains, and other income</b>	<b>6,804,388</b>	<b>535,933</b>	<b>82,509</b>	<b>7,422,830</b>
Grants to support the University:				
Program:				
Scholarships and fellowships	394,214	-	-	394,214
Faculty support and professorships	436,194	-	-	436,194
Departmental support	1,456,105	-	-	1,456,105
Terry Hospital Debt Service	1,059,504	-	-	1,059,504
Other current services	208,061	-	-	208,061
<b>Total program support</b>	<b>3,554,078</b>	<b>-</b>	<b>-</b>	<b>3,554,078</b>
Administrative	132,963	-	-	132,963
Fundraising	544,355	-	-	544,355
<b>Total other support</b>	<b>677,318</b>	<b>-</b>	<b>-</b>	<b>677,318</b>
<b>Total support</b>	<b>4,231,396</b>	<b>-</b>	<b>-</b>	<b>4,231,396</b>
<b>Excess of revenues, gains, and other income over total support</b>	<b>2,572,992</b>	<b>535,933</b>	<b>82,509</b>	<b>3,191,434</b>
Net transfers:				
Among funds (Note 11)	(853,554)	791,297	62,257	-
<b>Total net transfers</b>	<b>(853,554)</b>	<b>791,297</b>	<b>62,257</b>	<b>-</b>
<b>Change in net assets</b>	<b>1,719,438</b>	<b>1,327,230</b>	<b>144,766</b>	<b>3,191,434</b>
Net assets:				
Beginning	23,214,742	5,394,272	10,448,096	39,057,110
Ending	\$ 24,934,180	\$ 6,721,502	\$ 10,592,862	\$ 42,248,544

See Notes to Financial Statements.

**North Carolina Veterinary Medical Foundation, Inc.**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains, and other income:</b>				
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)	-	-
<b>Total revenues, gains, and other income</b>	<b>5,466,259</b>	<b>(2,698,252)</b>	<b>564,003</b>	<b>3,332,010</b>
<b>Grants to support the University:</b>				
<b>Program:</b>				
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
<b>Total program support</b>	<b>5,011,437</b>	<b>-</b>	<b>-</b>	<b>5,011,437</b>
Administrative	99,363	-	-	99,363
Fundraising	524,110	-	-	524,110
<b>Total other support</b>	<b>623,473</b>	<b>-</b>	<b>-</b>	<b>623,473</b>
<b>Total support</b>	<b>5,634,910</b>	<b>-</b>	<b>-</b>	<b>5,634,910</b>
 Excess of revenues, gains, and other income over total support	 (168,651)	 (2,698,252)	 564,003	 (2,302,900)
<b>Net transfers:</b>				
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	-
<b>Total net transfers</b>	<b>(388,365)</b>	<b>292,290</b>	<b>71,343</b>	<b>(24,732)</b>
 Change in net assets	 (557,016)	 (2,405,962)	 635,346	 (2,327,632)
<b>Net assets:</b>				
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

See Notes to Financial Statements.

**North Carolina Veterinary Medical Foundation, Inc.**

**Statements of Cash Flows  
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	\$ 3,191,434	\$ (2,327,632)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net investment gains	(3,926,310)	(776,472)
Contributions restricted for permanent endowment	(135,179)	(442,763)
Decrease in pledges receivable	2,084,862	1,974,330
Investment income restricted for split interest agreements	(33,136)	(37,084)
Actuarial change in value of split interest agreements	87,510	54,916
Decrease in other assets	52,729	14,280
(Decrease) increase in accounts payable - North Carolina State University	(2,998)	2,296
Increase in accounts payable	15,750	-
<b>Net cash provided by (used in) operating activities</b>	<b>1,334,662</b>	<b>(1,538,129)</b>
Cash Flows From Investing Activities:		
Proceeds from sales of investments	864,171	1,037,064
Purchases of investments	(1,539,923)	(2,210,954)
<b>Net cash used in investing activities</b>	<b>(675,752)</b>	<b>(1,173,890)</b>
Cash Flows From Financing Activities:		
Contributions restricted for permanent endowment	135,179	442,763
Investment income restricted for split interest agreements	33,136	37,084
Payments on life income fund obligations	(108,805)	(109,740)
Proceeds from life income fund obligations	-	25,942
<b>Net cash provided by financing activities</b>	<b>59,510</b>	<b>396,049</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>718,420</b>	<b>(2,315,970)</b>
Cash and Cash Equivalents		
Beginning	1,425,787	3,741,757
Ending	<u>\$ 2,144,207</u>	<u>\$ 1,425,787</u>
Supplemental Disclosures of Noncash Activities		
Donated services, salaries, and facilities	<u>\$ 373,000</u>	<u>\$ 416,000</u>
Transfers among funds	<u>\$ 853,554</u>	<u>\$ 388,365</u>

See Notes to Financial Statements.



**North Carolina Veterinary Medical Foundation, Inc.**

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

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

Nature of activities: North Carolina Veterinary Medical Foundation, Inc. ("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 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 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 \$2,462,892 and \$2,432,533 at June 30, 2013 and 2012, respectively. The cost of these investments was \$2,770,136 as of June 30, 2013 and 2012.

**North Carolina Veterinary Medical Foundation, Inc.**

**Notes to Financial Statements**

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

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

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

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.

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 \$11,812 and \$11,442 at June 30, 2013 and 2012, respectively. Also included in other assets is nondepreciable artwork totaling \$94,495 at June 30, 2013 and 2012, respectively. There was a receivable resulting from the sale of stock in the amount of \$53,099 included in other assets at June 30, 2012. There was no such receivable at June 30, 2013.

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 \$17,173 and \$20,171 at June 30, 2013 and 2012, respectively.

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

Due to others: Due to others at June 30, 2013 and 2012, consists of \$19,922 and \$18,501, respectively, due to remainder beneficiaries of life income funds.

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.

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

**North Carolina Veterinary Medical Foundation, Inc.**

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

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

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 \$133,949 and \$121,198 for the years ended June 30, 2013 and 2012, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University’s gift assessment program, an annual fee of 0.50% is assessed on the 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.

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

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

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

**Note 2. Endowment**

The Foundation’s endowment consists of approximately 115 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.

**North Carolina Veterinary Medical Foundation, Inc.**

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

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**Note 2. Endowment (continued)**

Interpretation of relevant law:

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted in North Carolina as NC General Statute 36E effective March 17, 2009. UPMIFA defines a prudence standard for management and investment of institutional funds. As a result of the Foundation's interpretation of UPMIFA, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the foundation's endowment spending policy.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were \$0 and \$(17,064) as of June 30, 2013 and 2012, respectively.

Investment return objectives and risk parameters:

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

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4% of its endowment fund's average market value over the prior 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 \$357,590 and \$349,340 for fiscal years 2013 and 2014, respectively.

North Carolina Veterinary Medical Foundation, Inc.

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

**Note 2. Endowment (continued)**

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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 20,977,570	\$ 1,788,483	\$ 10,448,096	\$ 33,214,149
Net asset reclassification - underwater endowments	17,064	(17,064)	-	-
Endowment net assets after reclassification	20,994,634	1,771,419	10,448,096	33,214,149
Total investment return	2,539,292	1,536,481	40,348	4,116,121
Contributions, including change in accrued pledges	2,007,523	50	129,671	2,137,244
Appropriations of endowment assets for expenditure	(37,210)	(373,185)	-	(410,395)
Change in value of split interest agreements	-	-	(87,510)	(87,510)
Other changes:				
Transfers	(846,560)	-	62,257	(784,303)
<b>Endowment net assets, end of year</b>	<b>\$ 24,657,679</b>	<b>\$ 2,934,765</b>	<b>\$ 10,592,862</b>	<b>\$ 38,185,306</b>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 24,592,534	\$ -	\$ -	\$ 24,592,534
Donor restricted endowment funds	65,145	2,934,765	10,592,862	13,592,772
<b>Total funds</b>	<b>\$ 24,657,679</b>	<b>\$ 2,934,765</b>	<b>\$ 10,592,862</b>	<b>\$ 38,185,306</b>

**North Carolina Veterinary Medical Foundation, Inc.**

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

**Note 2. Endowment (continued)**

The following represents changes in endowment net assets for the fiscal year ended June 30, 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	<u>\$ 20,977,570</u>	<u>\$ 1,788,483</u>	<u>\$ 10,448,096</u>	<u>\$ 33,214,149</u>

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	<u>\$ 20,977,570</u>	<u>\$ 1,788,483</u>	<u>\$ 10,448,096</u>	<u>\$ 33,214,149</u>

## North Carolina Veterinary Medical Foundation, Inc.

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

#### 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.

Long-term investments at June 30, 2013 and 2012 consisted of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 33,233	\$ 33,233	\$ 82,818	\$ 82,818
NC State Investment Fund, Inc.	30,385,397	36,189,041	29,299,963	31,604,114
Wells Fargo - Life Income Funds	1,681,864	1,741,031	1,751,331	1,704,670
	<u>\$ 32,100,494</u>	<u>\$ 37,963,305</u>	<u>\$ 31,134,112</u>	<u>\$ 33,391,602</u>

Investments held by the NCSIF at June 30, 2013 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio ("LPP"), a bundle of exchange-traded funds, and the STIF. As of June 30, 2013, approximately 88.5% of these limited partnerships were with the UNC Management Company, 6.3% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 4.7% was invested in the LPP, and 0.5% was invested in the STIF. NCSIF's net assets were valued at approximately \$484,974,000 and \$397,192,000 at June 30, 2013 and 2012, respectively. The Foundation's investment in the NCSIF represents approximately 7.5% and 8.0% of the member equity of the NCSIF at June 30, 2013 and 2012, respectively.

The Foundation's investments held by Wells Fargo – 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.

**North Carolina Veterinary Medical Foundation, Inc.**

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

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

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

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

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

	<b>2013</b>			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 33,233	\$ -	\$ -	\$ 33,233
Commonfund Intermediate Term Fund	-	2,462,892	-	2,462,892
NC State Investment Fund, Inc.	-	-	36,189,041	36,189,041
Wells Fargo - Life Income Funds	-	1,741,031	-	1,741,031
Beneficial Interest in Life Insurance Policies	-	-	11,812	11,812
	<b>\$ 33,233</b>	<b>\$ 4,203,923</b>	<b>\$ 36,200,853</b>	<b>\$ 40,438,009</b>

	<b>2012</b>			
	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
	<b>\$ 82,818</b>	<b>\$ 4,137,203</b>	<b>\$ 31,615,556</b>	<b>\$ 35,835,577</b>

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:

	<b>2013</b>		<b>2012</b>	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 31,604,114	\$ 11,442	\$ 27,512,915	\$ 61,099
Unrealized gain on investments	3,499,492	370	694,034	348
Realized gain on investments	418,207	-	223,103	-
Purchases	1,445,000	-	3,810,000	-
Sales	(777,772)	-	(635,938)	(50,005)
Ending balance	<b>\$ 36,189,041</b>	<b>\$ 11,812</b>	<b>\$ 31,604,114</b>	<b>\$ 11,442</b>



**North Carolina Veterinary Medical Foundation, Inc.**

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

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

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

STIF – Categorized in Level 1 of the fair value hierarchy because it has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

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

NC State Investment Fund, Inc. – The NCSIF’s investment in UNCMC is valued using the net asset value per share of the fund provided by the fund manager. While categorized as a Level 3 investment, the NCSIF has full redemption privileges from UNCMC with a 60-day notice requirement. The NCSIF’s private equity investments are initially valued based on transaction price with subsequent valuation adjustments based on trading multiples of comparable public companies adjusted for differences in factors such as liquidity. The NCSIF’s investment in LPP is valued at the closing price of the exchange-traded fund’s shares. The NCSIF also has an investment in the STIF, valued as described above.

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

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

**Note 5. Life Income Funds**

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2013 and 2012 have asset balances of \$1,741,031 and \$1,704,670 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 \$836,104 and \$858,820 at June 30, 2013 and 2012, respectively. Payments from these funds were \$108,805 and \$109,740 during the years ended June 30, 2013 and 2012, respectively. An unrestricted reserve account has been established in the Foundation’s Charitable Gift Annuity (“CGA”) pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation’s CGA pool. As of June 30, 2013 and 2012, the CGA reserve balance was \$2,332 and \$2,198, respectively.

**North Carolina Veterinary Medical Foundation, Inc.**

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

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**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:

	2013	2012
Receivable in less than one year	\$ 241,391	\$ 476,715
Receivable in one to five years	230,005	2,216,075
Receivable in greater than five years	20,491	17,500
Total gross pledges receivable	491,887	2,710,290
Less allowance for uncollectible pledges	(25,000)	(136,000)
Less unamortized discount	(6,105)	(28,646)
Net pledges receivable	<u>\$ 460,782</u>	<u>\$ 2,545,644</u>

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

One donor represented \$2 million of total undiscounted pledges receivable at June 30, 2012. This donor had no outstanding pledge balance at year end June 30, 2013 and made an additional contribution of \$1 million during the 2013 fiscal year.

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

Donated services and facilities of approximately \$88,000 and \$63,000 for the years ended June 30, 2013 and 2012, 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 \$285,000 and \$353,000 for the years ended June 30, 2013 and 2012, respectively, have been reflected in the financial statements.

**Note 8. Temporarily Restricted Net Assets**

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

	2013	2012
Scholarships	\$ 261,681	\$ 241,898
Fellowships	53,885	44,716
Professorships	21,533	14,301
Research support	1,260,341	1,281,916
Endowment cumulative balance	2,934,776	1,788,483
Other	2,189,286	2,022,958
	<u>\$ 6,721,502</u>	<u>\$ 5,394,272</u>

Temporarily 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, 2013 and 2012**

**Note 9. Permanently Restricted Net Assets**

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

	<u>2013</u>	<u>2012</u>
Investment in perpetuity, the income from which is expendable to support:		
General Fund enhancement	\$ 1,047,436	\$ 766,861
Scholarships	8,580,814	8,145,154
Fellowships	344,833	322,125
Professorships	405,294	370,308
Research Support	1,283,421	1,313,849
Randall B. Terry Charitable Foundation	24,007,650	20,398,919
Randall B. Terry Charitable Foundation - reported as unrestricted board-designated net assets	(24,007,650)	(20,398,919)
Other amounts reported as unrestricted net assets	(650,029)	(578,651)
Amounts reported as temporarily restricted net assets	(2,934,765)	(1,788,483)
Other	2,515,858	1,896,933
	<u>\$ 10,592,862</u>	<u>\$ 10,448,096</u>

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

**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>2013</u>	<u>2012</u>
Scholarships	\$ 262,682	\$ 164,990
Fellowships	1,791	26,313
Professorships	1,052	12,165
Research support	509,774	489,510
Other	2,804,317	4,316,873
	<u>\$ 3,579,616</u>	<u>\$ 5,009,851</u>

Net assets released from restriction 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, 2013 and 2012**

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**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, 2013 and 2012, net endowment transfers among funds were \$62,257 and \$101,343, respectively.

**Note 12. Prior Year Reclassifications**

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

**Note 13. Subsequent Events**

The Foundation has evaluated subsequent events through October 11, 2013, 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, 2013

	Budget	Actual	Variance
Income:			
Contributions:			
All Gifts Great and Small	\$ 120,000	\$ 114,601	\$ (5,399)
Pet in Memoriam	15,000	9,761	(5,239)
Annual Fund	25,000	27,699	2,699
Interest and dividends	40,000	40,841	841
Endowment assessment	21,310	21,310	-
Gallop of Honor	5,000	6,745	1,745
Walk of Honor	60,000	40,871	(19,129)
Endowment Spending Budget	15,900	15,900	-
<b>Total income</b>	<b>302,210</b>	<b>277,728</b>	<b>(24,482)</b>
Support:			
Program support:			
Public Relations	8,000	10,352	2,352
Equine Health Program	3,000	1,069	(1,931)
<b>Total program support</b>	<b>11,000</b>	<b>11,421</b>	<b>421</b>
Foundation administration	278,480	248,892	(29,588)
Commonfund Intermediate Fund loss	-	17,415	17,415
<b>Total support</b>	<b>289,480</b>	<b>277,728</b>	<b>(11,752)</b>
<b>Income less support</b>	<b>12,730</b>	<b>-</b>	<b>(12,730)</b>
General fund balance:			
Beginning	532,509	532,509	-
Ending	<b>\$ 545,239</b>	<b>\$ 532,509</b>	<b>\$ (12,730)</b>

North Carolina Veterinary Medical Foundation, Inc.

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

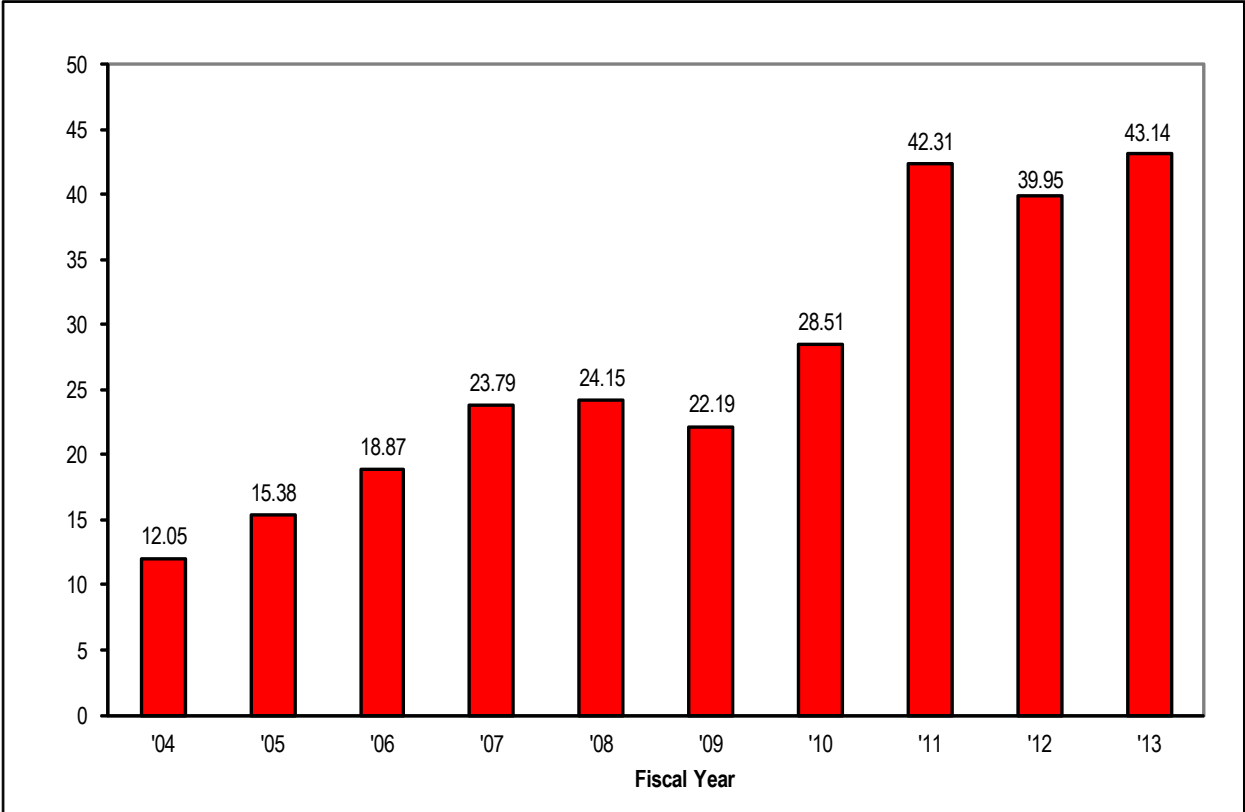
	Budget	Actual	Variance
Income:			
Contributions:			
All Gifts Great and Small	\$ 72,000	\$ 72,331	\$ 331
Pet in Memoriam	10,000	6,550	(3,450)
Annual Fund	12,000	25,988	13,988
Interest and dividends	40,000	41,833	1,833
Endowment assessment	8,065	8,065	-
Gallop of Honor	7,000	4,038	(2,962)
Walk of Honor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

**North Carolina Veterinary Medical Foundation, Inc.**

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

**Total Assets\***

(Dollars in Millions)

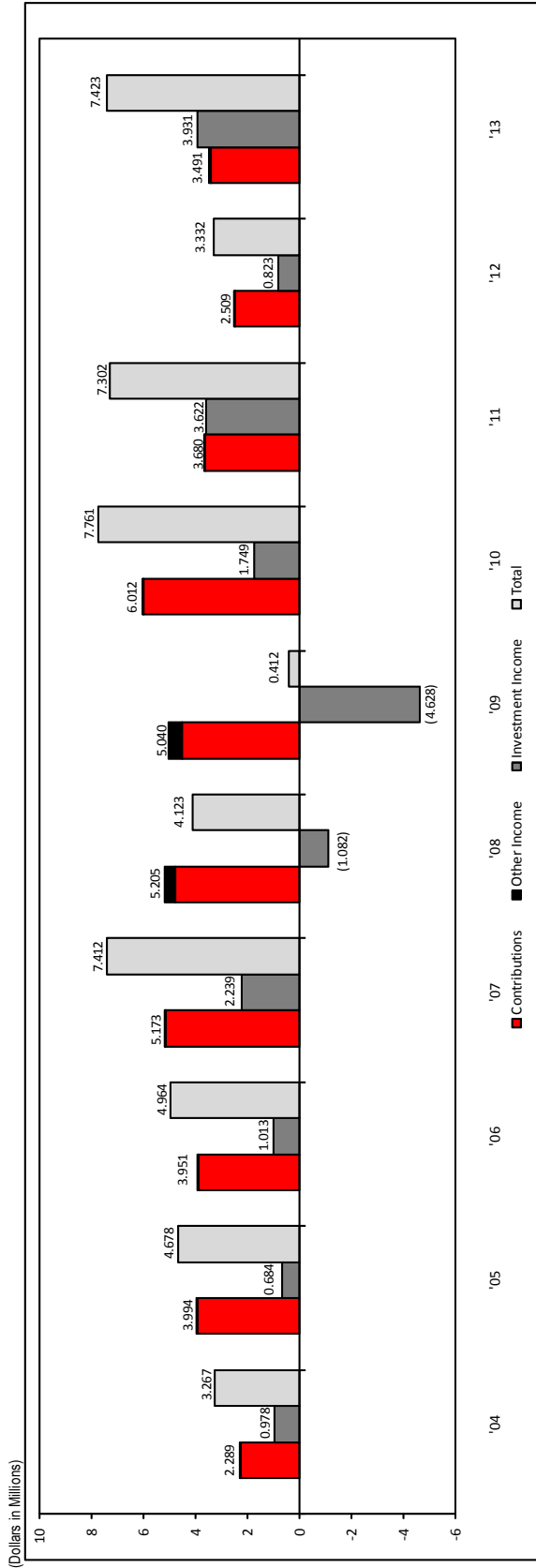


\*Fiscal years 2011 through 2013 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

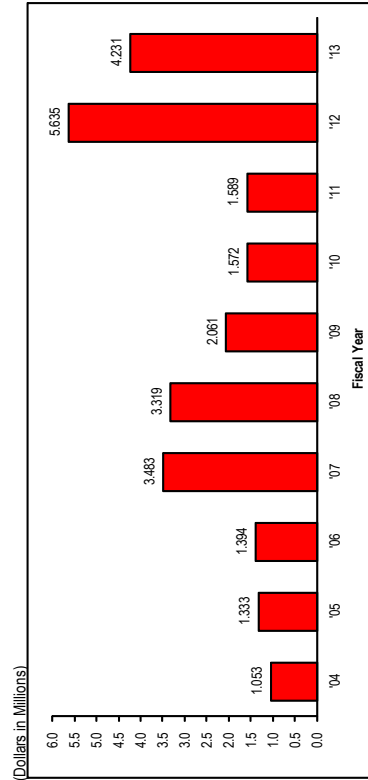


**North Carolina Veterinary Medical Foundation, Inc.**  
**Ten Year Summary of Revenues and Support - Unaudited**  
**Years Ended June 30**

**Total Revenues, Gains, and Other Income\***



**Total Support\***



\*Fiscal years 2011 through 2013 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 11, 2013

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. ("Foundation"), a nonprofit organization, for the year ended June 30, 2013, and have issued our report thereon dated October 11, 2013. 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 May 13, 2013. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

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

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

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

**Difficulties Encountered in Performing the Audit**

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

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No material misstatements were identified as a result of audit procedures and, as such, no adjustments were necessary.



## **Disagreements with Management**

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

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 11, 2013.

## **Management Consultations with Other Independent Accountants**

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

## **Other Audit Findings or Issues**

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

## **Other Matters**

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

## **Closing**

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

*Williams Dverman Pierce, LLP*