

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

FINANCIAL REPORT

JUNE 30, 2018 and 2017

North Carolina Veterinary Medical Foundation, Inc.
Financial Report
For the Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of North Carolina Veterinary Medical Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Veterinary Medical Foundation, Inc. as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BDO USA, LLP

Raleigh, North Carolina
October 24, 2018

North Carolina Veterinary Medical Foundation, Inc.

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents (Note 1)	\$ 8,027,879	\$ 5,214,927
Intermediate investments (Note 1)	2,938,574	2,991,300
Long-term investments (Notes 1 and 3)	69,950,274	60,116,869
Pledges receivable, net (Notes 1 and 6)	3,751,570	8,485,939
Receivables from University-associated entities (Note 1)	20	4,793
Other assets (Note 1)	108,928	116,298
Total Assets	\$ 84,777,245	\$ 76,930,126
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 16,180	\$ 10,323
Life income funds payable (Note 5)	893,663	913,884
Due to others (Note 1)	27,022	23,715
Total Liabilities	936,865	947,922
Net Assets		
Unrestricted:		
Undesignated	3,367,012	2,714,288
Undesignated - underwater endowments (Note 2)	-	(12)
Board-designated - endowments (Note 2)	33,411,310	30,912,887
Temporarily restricted (Note 8)	15,755,665	11,581,704
Permanently restricted (Note 9)	31,306,393	30,773,337
Total Net Assets	83,840,380	75,982,204
Total Liabilities and Net Assets	\$ 84,777,245	\$ 76,930,126

See notes to financial statements.

North Carolina Veterinary Medical Foundation, Inc.

Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 1,115,497	\$ 2,537,291	\$ 5,361,634	\$ 9,014,422
Change in pledges receivable, net (Note 6)	-	(70,652)	(4,663,717)	(4,734,369)
Donated services, salaries, and facilities (Note 7)	324,000	-	-	324,000
Change in value of split interest agreements	-	-	(93,444)	(93,444)
Net asset reclassification - underwater endowments (Note 2)	12	(12)	-	-
Net investment income	3,508,025	3,318,925	58,867	6,885,817
Interest and dividends	150,892	30,063	20,348	201,303
Other income	-	28,567	-	28,567
Net assets released from restrictions (Note 10)	1,694,353	(1,694,353)	-	-
Total Revenues, Gains, and Other Income	6,792,779	4,149,829	683,688	11,626,296
Grants to Support the University Program:				
Scholarships and fellowships	548,663	-	-	548,663
Faculty support and professorships	306,333	-	-	306,333
Departmental support	462,395	-	-	462,395
Terry Hospital debt service	1,003,759	-	-	1,003,759
Facility support	68,553	-	-	68,553
Other current services	345,751	-	-	345,751
Total Program Support	2,735,454	-	-	2,735,454
Administrative	136,281	-	-	136,281
Fundraising	640,481	-	-	640,481
Total Other Support	776,762	-	-	776,762
Total Support	3,512,216	-	-	3,512,216
Excess of Revenues, Gains, and Other Income Over Total Support	3,280,563	4,149,829	683,688	8,114,080
Net Transfers				
To the Endowment Fund of NC State University	-	(55,904)	(200,000)	(255,904)
Among funds (Note 11)	(129,404)	80,036	49,368	-
Total Net Transfers	(129,404)	24,132	(150,632)	(255,904)
Change in Net Assets	3,151,159	4,173,961	533,056	7,858,176
Net Assets				
Beginning of year	33,627,163	11,581,704	30,773,337	75,982,204
End of year	\$ 36,778,322	\$ 15,755,665	\$ 31,306,393	\$ 83,840,380

See notes to financial statements.

North Carolina Veterinary Medical Foundation, Inc.

**Statement of Activities
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 1,054,733	\$ 1,862,523	\$ 4,256,415	\$ 7,173,671
Change in pledges receivable, net (Note 6)	-	13,512	(3,639,512)	(3,626,000)
Donated services, salaries, and facilities (Note 7)	388,000	-	-	388,000
Change in value of split interest agreements	-	-	(326,645)	(326,645)
Net asset reclassification - underwater endowments (Note 2)	207,178	(207,178)	-	-
Net investment income	3,342,938	2,770,157	175,713	6,288,808
Interest and dividends	108,255	23,234	25,023	156,512
Other income	93	57,656	-	57,749
Net assets released from restrictions (Note 10)	1,647,926	(1,647,926)	-	-
Total Revenues, Gains, and Other Income	6,749,123	2,871,978	490,994	10,112,095
Grants to Support the University				
Program:				
Scholarships and fellowships	478,244	-	-	478,244
Faculty support and professorships	291,880	-	-	291,880
Departmental support	582,557	-	-	582,557
Terry Hospital debt service	1,003,759	-	-	1,003,759
Facility support	1,516,783	-	-	1,516,783
Other current services	242,225	-	-	242,225
Total Program Support	4,115,448	-	-	4,115,448
Administrative	169,192	-	-	169,192
Fundraising	601,949	-	-	601,949
Total Other Support	771,141	-	-	771,141
Total Support	4,886,589	-	-	4,886,589
Excess of Revenues, Gains, and Other Income Over Total Support	1,862,534	2,871,978	490,994	5,225,506
Net Transfers				
To the Endowment Fund of NC State University	-	-	(1,300,000)	(1,300,000)
Among funds (Note 11)	(109,261)	74,134	35,127	-
Total Net Transfers	(109,261)	74,134	(1,264,873)	(1,300,000)
Change in Net Assets	1,753,273	2,946,112	(773,879)	3,925,506
Net Assets				
Beginning of year	31,873,890	8,635,592	31,547,216	72,056,698
End of year	\$ 33,627,163	\$ 11,581,704	\$ 30,773,337	\$ 75,982,204

See notes to financial statements.

North Carolina Veterinary Medical Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 7,858,176	\$ 3,925,506
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net investment income	(6,885,817)	(6,288,808)
Contributions restricted for permanent endowment	(5,361,634)	(4,256,415)
Investment income restricted for split interest agreements	(20,348)	(25,023)
Change in value of split interest agreements	90,137	324,433
Change in due to others	3,307	2,212
Decrease (increase) in:		
Pledges receivable, net	4,734,369	3,626,000
Receivables from University-associated entities	4,773	(988)
Other assets	7,370	(8,787)
Increase (decrease) in:		
Accounts payable - North Carolina State University	5,857	(23,599)
Net Cash Provided by (Used in) Operating Activities	436,190	(2,725,469)
Cash Flows From Investing Activities		
Proceeds from sales of investments	2,800,244	3,138,302
Purchases of investments	(5,695,106)	(4,516,516)
Net Cash Used in Investing Activities	(2,894,862)	(1,378,214)
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	5,361,634	4,256,415
Investment income restricted for split interest agreements	20,348	25,023
Payments on life income fund obligations	(110,358)	(102,786)
Net Cash Provided by Financing Activities	5,271,624	4,178,652
Net Increase in Cash and Cash Equivalents	2,812,952	74,969
Cash and Cash Equivalents		
Beginning of year	5,214,927	5,139,958
End of year	\$ 8,027,879	\$ 5,214,927

(Continued)

See notes to financial statements.

North Carolina Veterinary Medical Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2018		2017
Supplemental Disclosures of Noncash Activities			
Donated services, salaries, and facilities	\$ 324,000	\$	388,000
Transfers among funds	\$ 129,404	\$	109,261

See notes to financial statements.

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina Veterinary Medical Foundation, Inc. (the "Foundation") is one of a group of foundations which provide financial support exclusively to one or more of the colleges at North Carolina State University (the "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 instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times, the Foundation places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consist of accounts with the State Treasurer's Short-Term Investment Fund (the "STIF") and Paragon Bank. The STIF account maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

Intermediate investments: Intermediate investments consist of the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF") and an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term needs. These investments are reported at readily determinable fair values of \$2,938,574 and \$2,991,300 at June 30, 2018 and 2017, respectively. The cost of these investments was \$3,328,631 and \$3,337,722 as of June 30, 2018 and 2017, respectively.

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

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, 2018 and 2017**

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

Receivable from University-associated entities: Receivable from University-associated entities consists of amounts due to the Foundation from the University and other University-associated Foundations.

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 surrender value, less any loans outstanding on the policies. Cash surrender values of these policies were \$13,798 and \$13,444 at June 30, 2018 and 2017, respectively. Also included in other assets is nondepreciable artwork totaling \$94,495 at June 30, 2018 and 2017.

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 \$16,180 and \$10,323 at June 30, 2018 and 2017, respectively.

Due to others: Due to others at June 30, 2018 and 2017 included \$27,022 and \$23,715, 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 fundraising efforts. For the year ended June 30, 2018, a one-time fee of 7% is assessed on gifts that support current operations and facilities, with 4% designated for Central Development and 3% designated to the fundraising entity receiving the gift. For the year ended June 30, 2017, a one-time fee of 5% was assessed, with 3% designated for Central Development and 2% designated to the fundraising 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 approximately \$293,000 and \$226,000 for the years ended June 30, 2018 and 2017, 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 is assessed on the average twenty-quarter market value of assets held in the investment portfolio. For the year ended June 30, 2018, the annual fee was of 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts. For the year ended June 30, 2017, the annual fee was 0.50%, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, for the year ended June 30, 2017, an assessment of 0.25% was charged by the Foundation on the average twenty-quarter market value of assets held in the investment portfolio, for the support of University Advancement.

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, 2018 and 2017

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 2018 and 2017. 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, 2018, 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 2014.

Note 2. Endowment

The Foundation's endowment consists of approximately 140 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 either spending of corpus in accordance to the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were \$0 and (\$12) as of June 30, 2018 and 2017, 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 LTIP 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.

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

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 \$451,025 and \$956,580 for fiscal years 2018 and 2019, respectively.

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

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

The following represents changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 31,031,599	\$ 5,550,968	\$ 30,773,337	\$ 67,355,904
Net asset reclassification - underwater endowments	12	(12)	-	-
Endowment net assets after reclassification	31,031,611	5,550,956	30,773,337	67,355,904
Total investment return	3,562,416	3,348,486	79,215	6,990,117
Contributions, including change in accrued pledges and other income	-	300	697,917	698,217
Appropriations of endowment assets for expenditure	(1,043,740)	(1,213,916)	-	(2,257,656)
Change in value of split interest agreements	-	-	(93,444)	(93,444)
Other changes:				
Transfers	-	-	(150,632)	(150,632)
Endowment net assets, end of year	<u>\$ 33,550,287</u>	<u>\$ 7,685,826</u>	<u>\$ 31,306,393</u>	<u>\$ 72,542,506</u>

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 33,411,310	\$ -	\$ -	\$ 33,411,310
Donor-designated endowment funds	138,977	7,685,826	31,306,393	39,131,196
Total funds	<u>\$ 33,550,287</u>	<u>\$ 7,685,826</u>	<u>\$ 31,306,393</u>	<u>\$ 72,542,506</u>

The following represents changes in endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 28,434,744	\$ 3,529,697	\$ 31,547,216	\$ 63,511,657
Net asset reclassification - underwater endowments	207,178	(207,178)	-	-
Endowment net assets after reclassification	28,641,922	3,322,519	31,547,216	63,511,657
Total investment return	3,389,785	2,792,984	200,736	6,383,505
Contributions, including change in accrued pledges and other income	-	-	616,903	616,903
Appropriations of endowment assets for expenditure	(1,000,108)	(564,535)	-	(1,564,643)
Change in value of split interest agreements	-	-	(326,645)	(326,645)
Other changes:				-
Transfers	-	-	(1,264,873)	(1,264,873)
Endowment net assets, end of year	<u>\$ 31,031,599</u>	<u>\$ 5,550,968</u>	<u>\$ 30,773,337</u>	<u>\$ 67,355,904</u>

The following represents endowment net asset composition by type of fund, as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (12)	\$ -	\$ -	\$ (12)
Board-designated endowment funds	30,912,887	-	-	30,912,887
Donor-designated endowment funds	118,724	5,550,968	30,773,337	36,443,029
Total funds	<u>\$ 31,031,599</u>	<u>\$ 5,550,968</u>	<u>\$ 30,773,337</u>	<u>\$ 67,355,904</u>

North Carolina Veterinary Medical Foundation, Inc.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

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 consisted of the following at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 2,688	\$ 2,688	\$ 332,984	\$ 332,984
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	42,804,278	68,237,309	38,980,626	58,072,135
Life Income Funds	1,599,325	1,710,277	1,630,558	1,711,750
	<u>\$ 44,406,291</u>	<u>\$ 69,950,274</u>	<u>\$ 40,944,168</u>	<u>\$ 60,116,869</u>

As of June 30, 2018, approximately 87.4% of the LTIP was invested with the UNC Management Company, 9.2% in the LPP, 1.8% in other managers in private equity funds, and 1.6% in the STIF. The LTIP's net assets were valued at approximately \$1,008,370,000 and \$870,450,000 at June 30, 2018 and 2017, respectively. The Foundation's investment in the LTIP represents approximately 6.8% and 6.7% of the member equity of the LTIP at June 30, 2018 and 2017, respectively.

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

Note 4. Fair Value Measurement

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

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

Level 1 – Valuations based on quoted prices in active markets for identical investments

Level 2 – Valuations based on quoted prices in inactive markets or for which all significant inputs are observable (including quoted prices for similar investments, interest rates, credit risks, etc.)

Level 3 – Valuations based on significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments)

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 4. Fair Value Measurement (continued)

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

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 2,688	\$ -	\$ -	\$ 2,688
commonfund Intermediate Term Fund	-	2,383,493	-	2,383,493
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	555,081	-	555,081
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	68,237,309	68,237,309
Life Income Funds	-	1,710,277	-	1,710,277
Beneficial Interest in Life Insurance Policies	-	-	13,798	13,798
	\$ 2,688	\$ 4,648,851	\$ 68,251,107	\$ 72,902,646

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 332,984	\$ -	\$ -	\$ 332,984
commonfund Intermediate Term Fund	-	2,423,208	-	2,423,208
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	568,092	-	568,092
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	58,072,135	58,072,135
Life Income Funds	-	1,711,750	-	1,711,750
Beneficial Interest in Life Insurance Policies	-	-	13,444	13,444
	\$ 332,984	\$ 4,703,050	\$ 58,085,579	\$ 63,121,613

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 at June 30:

	2018		2017	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning balance	\$ 58,072,135	\$ 13,444	\$ 50,693,672	\$ 13,016
Participant additions	5,745,000	-	4,035,000	-
Investment income	29,723	-	28,146	-
Realized gains	795,629	-	760,359	-
Unrealized appreciation	6,341,521	354	5,634,631	428
Participant withdrawals	(2,457,656)	-	(2,864,643)	-
Expenses	(289,043)	-	(215,030)	-
Ending balance	\$ 68,237,309	\$ 13,798	\$ 58,072,135	\$ 13,444

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 4. Fair Value Measurement (continued)

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

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

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.

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

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

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

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

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is 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, 2018 and 2017 have asset balances of \$1,710,277 and \$1,711,750, 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 \$893,663 and \$913,884 at June 30, 2018 and 2017, respectively. Payments from these funds were \$110,358 and \$102,786 during the years ended June 30, 2018 and 2017, respectively. An unrestricted reserve account has been established in the Foundation’s Charitable Gift Annuity (“CGA”) pool to receive 10% 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 10% of the total value of the Foundation’s CGA pool. As of June 30, 2018 and 2017, the CGA reserve balance was \$3,895 and \$3,876, respectively.

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2018	2017
Receivable in less than one year	\$ 3,313,656	\$ 5,449,141
Receivable in one to five years	570,242	3,307,664
Receivable in greater than five years	11,500	-
Total pledges receivable, gross	3,895,398	8,756,805
Less allowance for uncollectible pledges	(35,000)	(118,000)
Less unamortized discount (discount rates of 2.33% to 2.87%)	(108,828)	(152,866)
Pledges receivable, net	\$ 3,751,570	\$ 8,485,939

An allowance for doubtful accounts has been established and is updated annually to reflect 5% of the Foundation's outstanding pledge balance, excluding two and three large pledges, as of June 30, 2018 and 2017, respectively, for which the Foundation is reasonably assured of collecting. Active past due pledges receivable are reviewed twice yearly by the Advancement Services office in order to determine if it is appropriate to write off such pledges.

Two donors represented approximately \$3.55 million and \$8.26 million of the total undiscounted pledges receivable at June 30, 2018 and 2017, respectively.

Note 7. Donated Services, Salaries, and Facilities

Donated services and facilities of approximately \$94,000 and \$127,000 for the years ended June 30, 2018 and 2017, respectively, have been reflected in the financial statements for services and facilities provided by the University Finance Division. In addition, donated salaries paid by the University for college development personnel of approximately \$230,000 and \$261,000 for the years ended June 30, 2018 and 2017, respectively, have been reflected in the accompanying financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets available for the following purposes at June 30:

	2018	2017
Scholarships and fellowships	\$ 1,129,283	\$ 771,473
Faculty support and professorships	61,250	61,508
Research support	2,180,543	1,742,274
Pledges receivable, net	238,653	309,305
Terry Center Equipment Fund	365,073	410,450
Endowment cumulative balance	7,685,826	5,550,968
Other	4,095,037	2,735,726
	\$ 15,755,665	\$ 11,581,704

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, 2018 and 2017**

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted as follows at June 30:

	2018	2017
Scholarships and fellowships	\$ 26,836,196	\$ 21,484,970
Faculty support and professorships	579,464	530,064
Research support	4,650,831	3,570,158
General Fund enhancement	1,061,971	992,710
Pledges receivable, net	3,512,917	8,176,634
Randall B. Terry Charitable Foundation Endowment	32,659,488	30,210,073
Amounts reported as unrestricted or temporarily restricted net assets	(41,236,113)	(36,582,567)
Other	3,241,639	2,391,295
	<u>\$ 31,306,393</u>	<u>\$ 30,773,337</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 at June 30:

	2018	2017
Scholarships and fellowships	\$ 548,663	\$ 478,244
Faculty support and professorships	306,333	291,880
Departmental support	424,926	514,026
Terry Hospital debt service	4,749	42,991
Fundraising and administrative	71,085	78,559
Other	338,597	242,226
	<u>\$ 1,694,353</u>	<u>\$ 1,647,926</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, 2018 and 2017, net endowment transfers among funds were \$49,368 and \$35,127, respectively.

North Carolina Veterinary Medical Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 12. Prior Year Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation with no effect on previously reported total net assets.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 24, 2018, the date which the consolidated financial statements were available to be issued, and there were none to report.

North Carolina Veterinary Medical Foundation, Inc.

General Fund Budget vs. Actual - Unaudited
Year Ended June 30, 2018

	Budget	Actual	(Under) Over Variance
Income			
Contributions:			
All Gifts Great and Small	\$ 278,000	\$ 239,400	\$ (38,600)
Walk of Honor	41,780	43,828	2,048
Gallop of Honor	6,000	6,143	143
Pet in Memoriam	7,600	10,451	2,851
Endowment spending budget	15,870	15,870	-
Interest and dividends	72,500	72,861	361
Total Income	421,750	388,553	(33,197)
Support			
Foundation administration	405,680	371,913	(33,767)
Dean's Discretionary	15,000	15,000	-
Total Support	420,680	386,913	(33,767)
Income Less Support	1,070	1,640	570
General Fund Balance			
Beginning of year	560,019	560,019	-
End of year	\$ 561,089	\$ 561,659	\$ 570

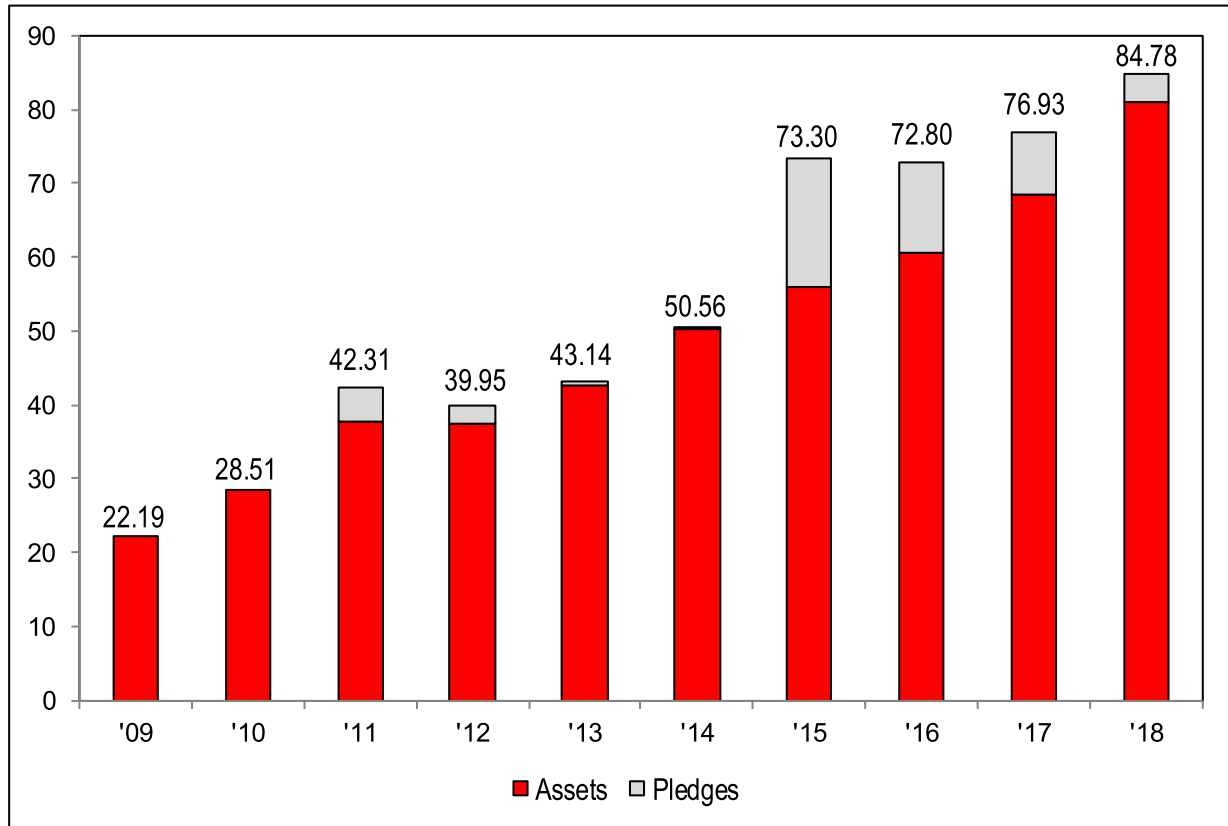
North Carolina Veterinary Medical Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited

As of June 30

TOTAL ASSETS*

(Dollars in Millions)

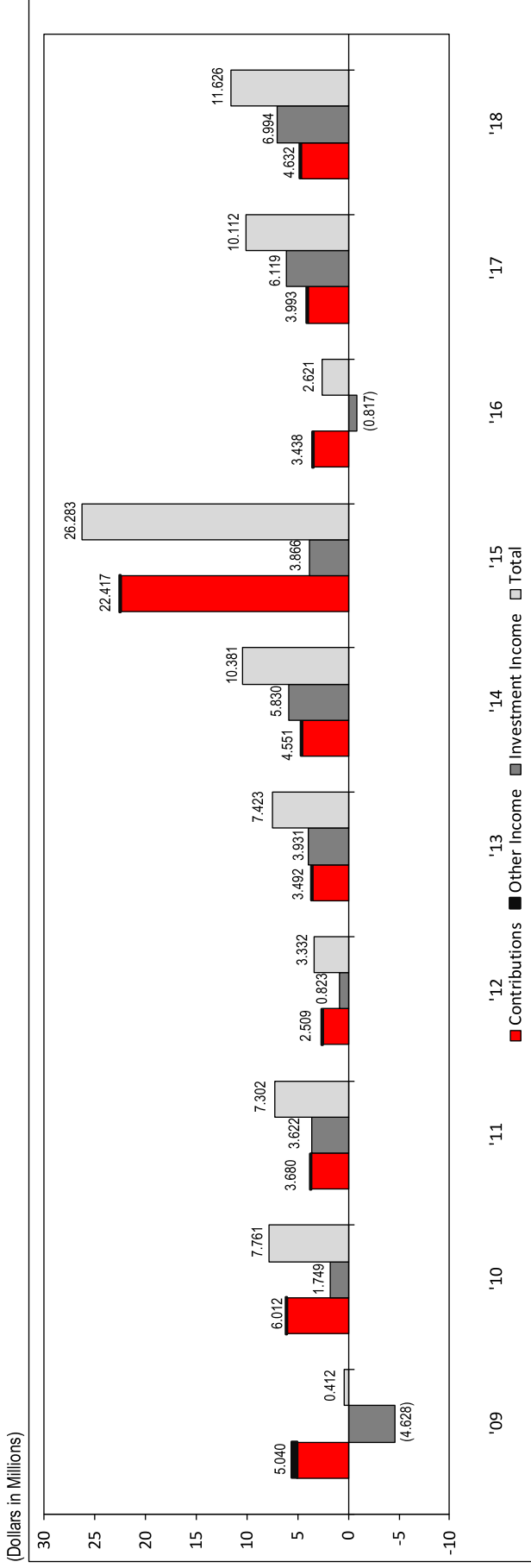


Fiscal years 2011 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

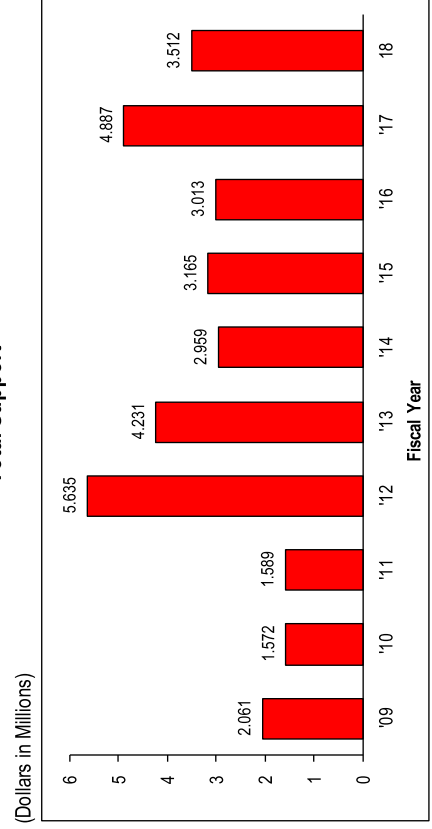
*Not reflected above for FY '18 are gifts-in-kind of \$104,073, which benefit the College of Veterinary Medicine. These gifts were received due to the efforts of Foundation members and the College Development Staff.

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 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.