

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

FINANCIAL REPORT

JUNE 30, 2012 and 2011

The North Carolina Agricultural Foundation, Inc.
Financial Statements
For the years ended June 30, 2012 and 2011

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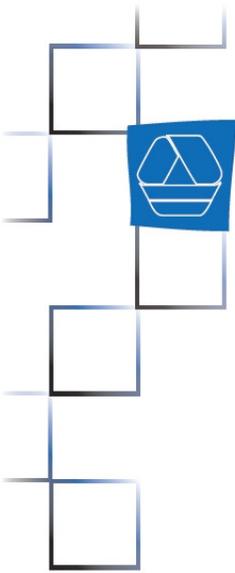
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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of The North Carolina Agricultural Foundation, Inc. taken as a whole. The supplementary information on pages 20 through 22, as well as the schedule of expenditures of state awards as required by North Carolina General Statute 143-6.1, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the information marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams Overman Pierce, LLP

Raleigh, North Carolina
October 26, 2012

The North Carolina Agricultural Foundation, Inc.

Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents (Note 1)	\$ 17,169,054	\$ 12,682,611
Intermediate investments (Note 1)	4,229,122	4,172,374
Marketable securities (Notes 1 and 3)	47,367,411	47,239,553
Closely held stock (Note 13)	4,110,760	4,110,760
The Lapaz Group, LLC (Note 14)	246,106	331,473
Accounts receivable (Note 1)	32,125	197,045
Pledges receivable (Note 6)	8,873,558	8,900,688
Donated property and land (Note 1)	33,483,117	33,605,274
Vehicles, net of accumulated depreciation of \$140,969 and \$137,946 in 2012 and 2011, respectively (Note 1)	37,357	22,026
Other assets (Note 1)	94,476	177,323
Total assets	\$ 115,643,086	\$ 111,439,127
LIABILITIES AND NET ASSETS		
Accounts payable - North Carolina State University (Note 1)	\$ 20,208	\$ 25,773
Accounts payable (Note 1)	219,056	241,894
Due to others (Note 1)	117,650	144,054
Deferred revenue (Note 1)	452,685	203,092
Note payable (Note 14)	3,200,000	1,500,000
Life income funds payable (Note 5)	2,763,867	2,579,051
Total liabilities	6,773,466	4,693,864
Net Assets:		
Unrestricted:		
Undesignated	788,197	701,476
Undesignated - underwater endowments (Note 2)	(83,775)	(270,339)
Board designated (Note 2)	(37,340)	(107,616)
Temporarily restricted (Note 8)	47,203,547	46,803,828
Permanently restricted (Note 9)	60,998,991	59,617,914
Total net assets	108,869,620	106,745,263
Total liabilities and net assets	\$ 115,643,086	\$ 111,439,127

The North Carolina Agricultural Foundation, Inc.

Statement of Activities
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 1,556,318	\$ 10,144,612	\$ 520,048	\$ 12,220,978
Grant revenue (Note 1)	-	312,341	-	312,341
Change in pledges receivable (Note 6)	-	(113,205)	86,075	(27,130)
Donated services and salaries (Note 7)	908,500	-	-	908,500
Net asset reclassification - underwater endowments	186,564	(186,564)	-	-
Net investment income	141,546	212,776	657,671	1,011,993
Interest and dividends	150,457	475,058	77,348	702,863
Change in value of split interest agreements	-	-	(431,970)	(431,970)
Disposal of other assets	-	3,450	-	3,450
Disposal of donated property	-	(90,157)	(32,000)	(122,157)
Royalties	-	406,441	-	406,441
Other income	-	1,123,371	10,319	1,133,690
Net assets released from restrictions (Note 10)	11,067,803	(11,067,803)	-	-
Total revenues, gains, and other income	14,011,188	1,220,320	887,491	16,118,999
Grants to support the University:				
Program:				
Scholarships and fellowships	2,109,706	-	-	2,109,706
Faculty support and professorships	3,156,674	-	-	3,156,674
Agricultural research support	529,440	-	-	529,440
Cooperative extension support	25,422	-	-	25,422
Departmental support	3,653,971	-	-	3,653,971
Other current services	2,782,060	-	-	2,782,060
Total program support	12,257,273	-	-	12,257,273
Administrative	329,281	-	-	329,281
Fundraising	1,404,189	-	-	1,404,189
Total other support	1,733,470	-	-	1,733,470
Total support	13,990,743	-	-	13,990,743
Excess of revenues, gains, and other income over total support	20,445	1,220,320	887,491	2,128,256
Net transfers:				
To other University-affiliated entities	-	(3,899)	-	(3,899)
Among funds (Note 11)	323,116	(816,702)	493,586	-
Total net transfers	323,116	(820,601)	493,586	(3,899)
Change in net assets	343,561	399,719	1,381,077	2,124,357
Net assets:				
Beginning	323,521	46,803,828	59,617,914	106,745,263
Ending	\$ 667,082	\$ 47,203,547	\$ 60,998,991	\$ 108,869,620

The North Carolina Agricultural Foundation, Inc.

Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 1,495,332	\$ 9,493,164	\$ 729,108	\$ 11,717,604
Grant revenue (Note 1)	-	871,511	-	871,511
Change in pledges receivable (Note 6)	-	4,077,612	71,363	4,148,975
Donated property and land	-	343,326	-	343,326
Donated property - closely held stock (Note 13)	-	1,389,269	-	1,389,269
Donated services and salaries (Note 7)	974,969	-	-	974,969
Net asset reclassification - underwater endowments	1,658,595	(1,658,595)	-	-
Net investment income	73,293	5,877,194	82,009	6,032,496
Interest and dividends	111,049	588,339	77,197	776,585
Change in value of split interest agreements	-	-	(285,398)	(285,398)
Disposal of other assets	-	4,735	-	4,735
Disposal of donated property	-	(438,200)	-	(438,200)
Royalties	-	346,392	-	346,392
Other income	1,328,614	-	29,765	1,358,379
Net assets released from restrictions (Note 10)	9,740,618	(9,740,618)	-	-
Total revenues, gains, and other income	15,382,470	11,154,129	704,044	27,240,643
Grants to support the University:				
Program:				
Scholarships and fellowships	2,633,142	-	-	2,633,142
Faculty support and professorships	2,241,981	-	-	2,241,981
Agricultural research support	500,958	-	-	500,958
Cooperative extension support	84,634	-	-	84,634
Departmental support	3,679,068	-	-	3,679,068
Other current services	3,455,112	-	-	3,455,112
Total program support	12,594,895	-	-	12,594,895
Administrative	360,645	-	-	360,645
Fundraising	1,165,941	-	-	1,165,941
Total other support	1,526,586	-	-	1,526,586
Total support	14,121,481	-	-	14,121,481
Excess of revenues, gains, and other income over total support	1,260,989	11,154,129	704,044	13,119,162
Net transfers:				
From other University-affiliated entities	-	9,822	11,962	21,784
Among funds (Note 11)	(1,154,706)	(238,895)	1,393,601	-
Total net transfers	(1,154,706)	(229,073)	1,405,563	21,784
Change in net assets	106,283	10,925,056	2,109,607	13,140,946
Net assets:				
Beginning	217,238	35,878,772	57,508,307	93,604,317
Ending	\$ 323,521	\$ 46,803,828	\$ 59,617,914	\$ 106,745,263

See accompanying notes to financial statements.

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets:	\$ 2,124,357	\$ 13,140,946
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,171	20,918
Net investment gains	(1,011,993)	(6,032,496)
Actuarial change in value of split interest agreements	431,970	285,398
Donated property	58,223	94,874
Contributions and grants restricted for permanent endowment	(520,048)	(729,108)
Investment income restricted for split interest agreements	(77,348)	(77,197)
Decrease (increase) in:		
Closely held stock	-	(1,389,269)
The Lapaz Group, LLC	85,367	118,091
Accounts receivable	164,920	55,527
Pledges receivable	27,130	(4,148,975)
Other assets (includes vehicles and other assets)	50,346	56,573
Increase (decrease) in:		
Accounts payable-North Carolina State University	(5,565)	(69,693)
Accounts payable	(22,838)	184,639
Due to others	(26,404)	(17,333)
Deferred revenue	249,593	(286,160)
Net cash provided by operating activities	1,544,881	1,206,735
Cash Flows From Investing Activities:		
Proceeds from sales of property	63,934	-
Proceeds from sales of investments	3,731,016	258,789
Purchases of investments	(2,903,630)	(1,233,679)
Net cash provided by (used in) investing activities	891,320	(974,890)
Cash Flows From Financing Activities:		
Contributions and grants restricted for permanent endowment	520,048	729,108
Investment income restricted for split interest agreements	77,348	77,197
Payments on life income fund obligations	(337,487)	(344,311)
Proceeds from life income fund obligations	90,333	83,455
Proceeds from note payable	1,700,000	-
Net cash provided by financing activities	2,050,242	545,449
Net increase in cash and cash equivalents	4,486,443	777,294
Cash and cash equivalents:		
Beginning	12,682,611	11,905,317
Ending	\$ 17,169,054	\$ 12,682,611

The North Carolina Agricultural Foundation, Inc.

Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
<hr/> Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 57,238</u>	<u>\$ 34,219</u>
 Supplemental Disclosures of Noncash Activities:		
Donated property and land	<u>\$ -</u>	<u>\$ 343,326</u>
Donated property-closely held stock	<u>\$ -</u>	<u>\$ 1,389,269</u>
Donated services and salaries	<u>\$ 908,500</u>	<u>\$ 974,969</u>
Disposal of donated property	<u>\$ (122,157)</u>	<u>\$ (438,200)</u>
Transfers between funds	<u>\$ 816,702</u>	<u>\$ 1,393,601</u>

The North Carolina Agricultural Foundation, Inc.

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

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The North Carolina Agricultural 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, founded in 1944, aids and promotes, by financial assistance and otherwise, all types of education, research and extension in the College of Agriculture and Life Sciences.

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

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

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

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

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

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

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

Intermediate investments: Intermediate investments consist of an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term cash needs. These investments are reported at readily determinable fair values of \$4,229,122 and \$4,172,374 at June 30, 2012 and 2011, respectively. The cost of these investments was \$4,759,885 as of June 30, 2012 and 2011.

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

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

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.

The North Carolina Agricultural Foundation, Inc.

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

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

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

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

Other assets: Other assets include beneficiary interests in life insurance policies contributed to the Foundation and the Foundation is the owner of these policies. These gifts are recorded at current cash values less any loans outstanding on the policies. Cash surrender values of these policies were \$68,736 and \$177,323 at June 30, 2012 and 2011, respectively. Other assets also includes \$25,740 in stock sold by broker, but cash proceeds not yet received at June 30, 2012.

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

In fiscal year 2011, the University instituted a gift assessment program in support of Central Development and college-level fund-raising efforts. Beginning October 1, 2010, a one-time fee of 5% is assessed on gifts that support current operations and facilities, with 3% designated for Central Development and 2% designated to the fund-raising entity receiving the gift.

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

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the "unit value" method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$172,529 and \$165,700 for the years ended June 30, 2012 and 2011, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University's gift assessment program, beginning on October 1, 2010, an annual fee of 0.50% is assessed on the twenty-quarter average market value of the assets held in the investment portfolio, with 0.25% designated for Central Development and 0.25% designated to college-level fund-raising efforts. In addition, an assessment of 0.50% is charged by the Foundation on the twenty-quarter average market value of assets held in the investment portfolio, for the support of Foundation fund-raising activities.

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

Accounts payable: Accounts payable represents trade payables due to vendors at June 30, 2012 and 2011.

Due to others: Due to others at June 30, 2012 and 2011, consists of \$116,242 and \$119,614, respectively, due to remainder beneficiaries of life income funds, and \$1,408 and \$24,440, respectively, received by the Foundation on behalf of the University and other affiliated organizations.

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

The North Carolina Agricultural Foundation, Inc.

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

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

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

Income taxes and uncertain tax positions: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Foundation had no significant unrelated trade or business income for 2012 and 2011. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Note 2. Endowment

The Foundation's endowment consists of approximately 500 individual funds established for a variety of purposes related to the mission of the University. The endowment includes both donor-restricted endowments and funds designated by the Foundation Board to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the Foundation's signed endowment gift agreements with donors have donor-imposed restrictions which stipulate that principal shall not be used to fund spending.

Interpretation of relevant law:

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

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original gift value. These deficiencies generally result from unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets, and were \$(83,775) and \$(270,339) as of June 30, 2012 and 2011, respectively.

The North Carolina Agricultural Foundation, Inc.

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

Note 2. Endowment (continued)

Investment return objectives and risk parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the NCSIF in a manner that is intended to produce results that exceed a 70% S&P 500 Index/30% Barclays Aggregate Bond Index benchmark over rolling five and ten year periods while assuming a moderate level of investment risk.

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4.0% of its endowment fund's average market value over the prior twenty quarters through the fiscal year-end preceding the fiscal year in which the spending is planned. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. However, in declining market conditions, many endowments are not able to fund spending at the 4.0% 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 \$780,480 and \$1,048,280 for fiscal years 2012 and 2013, respectively.

Strategies employed for achieving investment objectives:

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

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

The North Carolina Agricultural Foundation, Inc.

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (83,775)	\$ -	\$ -	\$ (83,775)
Board-designated endowment funds	(37,340)	-	-	(37,340)
Donor restricted endowment funds	-	13,398,626	60,998,991	74,397,617
Total funds	\$ (121,115)	\$ 13,398,626	\$ 60,998,991	\$ 74,276,502

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (2,256,602)	\$ 12,376,081	\$ 57,508,307	\$ 67,627,786
Net asset reclassification - underwater endowments	1,658,595	(1,658,595)	-	-
Endowment net assets after reclassification	(598,007)	10,717,486	57,508,307	67,627,786
Total investment return	220,052	5,616,534	159,206	5,995,792
Contributions and other income, net	-	7,590	830,236	837,826
Appropriation of endowment assets for expenditure	-	(853,895)	-	(853,895)
Change in value of split interest agreements	-	-	(285,398)	(285,398)
Other changes:				
Transfers	-	-	1,405,563	1,405,563
Endowment net assets, end of year	\$ (377,955)	\$ 15,487,715	\$ 59,617,914	\$ 74,727,674

The North Carolina Agricultural Foundation, Inc.

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

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (270,339)	\$ -	\$ -	\$ (270,339)
Board-designated endowment funds	(107,616)	-	-	(107,616)
Donor restricted endowment funds	-	15,487,715	59,617,914	75,105,629
Total funds	\$ (377,955)	\$ 15,487,715	\$ 59,617,914	\$ 74,727,674

Note 3. Long-Term Investments

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

Investments at June 30, 2012 and 2011 consisted of:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ -	\$ -	\$ 222,722	\$ 222,722
NC State Investment Fund, Inc. (NCSIF)	40,011,370	42,327,805	40,235,328	41,700,310
Wells Fargo - Life Income Funds	5,170,128	5,039,606	4,530,940	5,316,521
	\$ 45,181,498	\$ 47,367,411	\$ 44,988,990	\$ 47,239,553

Investments held by the NCSIF at June 30, 2012 were made up of limited partnerships and the State Treasurer's Short Term Investment Fund ("STIF"). As of June 30, 2012, approximately 87% of these limited partnerships were with the UNC Management Company ("UNCMC"), 7% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, and 6% invested in the STIF. NCSIF's net assets were valued at approximately \$397,192,000 and \$378,260,000 at June 30, 2012 and 2011, respectively. The Foundation's investment in NCSIF represents approximately 10.6% and 11.0% of the member's equity of NCSIF at June 30, 2012 and 2011, respectively.

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

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

Note 4. Fair Value Measurement

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

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

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risks, etc.)

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

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

A) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

C) Income approach - Uses valuation techniques to convert future amounts to a single present value amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

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

The North Carolina Agricultural Foundation, Inc.

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

Note 4. Fair Value Measurement (continued)

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

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 222,722	\$ -	\$ -	\$ 222,722
commonfund Intermediate Term Fund	-	4,172,374	-	4,172,374
NC State Investment Fund, Inc.	-	-	41,700,310	41,700,310
Wells Fargo - Life Income Funds	-	5,316,521	-	5,316,521
Beneficial Interest in Life Insurance Policies	-	-	177,323	177,323
	\$ 222,722	\$ 9,488,895	\$ 41,877,633	\$ 51,589,250

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

	2012		2011	
	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies	NC State Investment Fund, Inc.	Beneficial Interest in Life Insurance Policies
Beginning Balance	\$ 41,700,310	\$ 177,323	\$ 35,009,212	\$ 173,126
Unrealized loss	851,452	(108,587)	5,374,808	4,197
Realized gain	311,596	-	44,027	-
Net investment	(535,553)	-	1,272,263	-
Ending balance	\$ 42,327,805	\$ 68,736	\$ 41,700,310	\$ 177,323

Note 5. Life Income Funds

The financial statements include assets and liabilities of charitable gift annuities and unitrust agreements for which the Foundation is trustee. The grantors and/or beneficiaries retain future income interests in these assets until their death. These life income funds are recorded at fair value at the date of gift. Life income funds at June 30, 2012 and 2011 have asset balances of \$5,039,606 and \$5,316,521, respectively.

The liabilities for distributions to the grantors and/or beneficiaries are computed using Internal Revenue Code annuity valuation tables, the distribution terms of the agreements, and the life expectancies of the beneficiaries, and totaled \$2,763,867 and \$2,579,051 for the years ended June 30, 2012 and 2011, respectively. Payments from these funds were \$337,487 and \$344,311 during the years ended June 30, 2012 and 2011, respectively. An unrestricted reserve

The North Carolina Agricultural Foundation, Inc.

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

Note 5. Life Income Funds (continued)

account has been established in the Foundation's Charitable Gift Annuity (CGA) pool to receive 5% from all new CGAs established to offset the liabilities for any annuities that reach exhaustion. The goal is to build the unrestricted reserve fund to equal 5% of the total value of the Foundation's CGA pool. As of June 30, 2012 and 2011, the CGA reserve balance was \$12,178 and \$5,633, respectively.

Note 6. Pledges Receivable

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

	2012	2011
Receivable in less than one year	\$ 4,756,379	\$ 5,681,472
Receivable in one to five years	4,387,781	3,552,508
Receivable in greater than five years	305,195	341,335
Total gross pledges receivable	9,449,355	9,575,315
Less allowance for uncollectible pledges	(473,000)	(480,000)
Less unamortized discount	(102,797)	(194,627)
Net pledges receivable	\$ 8,873,558	\$ 8,900,688

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.

Note 7. Donated Services and Salaries

Donated services in the amount of \$170,000 and \$243,000 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements for services provided by the University Treasurer's Division. In addition, donated salaries and facilities provided by the University for college development in the amount of \$738,500 and \$731,969 for the years ended June 30, 2012 and 2011, respectively, have been reflected in the financial statements.

The North Carolina Agricultural Foundation, Inc.

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

Note 8. Temporarily Restricted Net Assets

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

	2012	2011
Scholarships	\$ 1,836,283	\$ 1,825,718
Fellowships	433,485	376,237
Professorships	(1,035)	24,925
Research support	10,011,315	9,215,047
Pledges receivable	8,267,406	8,380,610
Endowment cumulative balance	13,398,626	15,487,715
Other	13,257,467	11,493,576
	\$ 47,203,547	\$ 46,803,828

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

Note 9. Permanently Restricted Net Assets

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

	2012	2011
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 18,188,712	\$ 18,292,643
Fellowships	2,019,082	3,002,096
Drew Griffin Environmental Research	19,764,457	19,764,457
Professorships	958,324	1,053,664
Research	4,422,124	4,462,457
Pledges receivable	606,153	520,078
NC Agricultural Foundation Enhancement	2,962,660	2,892,384
NC Tobacco Trust Commission Agricultural Leadership Development Program	4,989,889	4,871,525
Amounts reported as unrestricted or temporarily restricted net assets	(13,277,511)	(15,109,760)
Charitable trusts & gift annuities	5,461,506	5,316,521
Other directly held assets	7,316,462	7,316,462
Other	7,587,133	7,235,387
	\$ 60,998,991	\$ 59,617,914

The North Carolina Agricultural Foundation, Inc.

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

Note 9. Permanently Restricted Net Assets (continued)

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

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:

	2012	2011
Scholarships	\$ 864,515	\$ 818,317
Fellowships	334,088	384,883
Professorships	25,960	10,735
Research and related support	4,266,158	4,266,944
Other	5,577,082	4,259,739
	<u>\$ 11,067,803</u>	<u>\$ 9,740,618</u>

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

Note 11. Transfers Among Funds To Permanently Restricted

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level due to additional contributions, the endowment is transferred to permanently restricted net assets. For the years ended June 30, 2012 and 2011, net endowment transfers among funds were \$493,586 and \$1,393,601, respectively.

Note 12. Commitments

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

Note 13. Closely Held Stock

Closely held stock consists of 30,228 shares of Albion Medical Holdings, Inc., as well as 150,000 shares of Orbit and 1,000 shares of Bank of Granite stock. The shares of Albion Medical were received from the White estate (see Note 14) in 2009 (20,000 shares) and 2011 (10,228 shares) and are valued at \$4,105,869 as of both fiscal years 2012 and 2011. Dividends received from the Albion Medical Holdings stock were \$455,234 and \$455,234 in fiscal year 2012 and fiscal year 2011, respectively. The remaining closely held stock for Orbit and Bank of Granite was valued at \$4,891 at both June 30, 2012 and 2011.

The North Carolina Agricultural Foundation, Inc.

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

Note 14. The LaPaz Group, LLC

The Foundation is the residuary beneficiary of the White Trust. As such, the Foundation received White's 56.6% membership interest in the LaPaz Group, LLC. The Foundation's membership interest in LaPaz Group, LLC is accounted for using the equity method with the original gift being recorded at \$502,046, less the operating loss as of each calendar year ending December 31: 2008 \$(10,891), 2009 \$(41,591), 2010 \$(118,091) and 2011 \$(85,367). The accompanying financial statements reflect annual operating losses incurred by LaPaz Group, LLC bringing net investment value as of June 30, 2012 to \$246,106.

The Foundation entered into a \$3,200,000 loan with BB&T to fund LaPaz capital improvements and operations on December 30, 2008. The Foundation had \$3,200,000 and \$1,500,00 drawn on the loan as of June 30, 2012 and 2011, respectively. The note matures on July 15, 2016 with quarterly interest payments due beginning April 15, 2009 and five annual principal payments of \$640,000 due beginning July 15, 2012. The loan's interest rate is prime less 1.0%, which was 2.25% as of June 30, 2012 and 2011. As of June 30, 2012, the Foundation's cumulative spending for the LaPaz project was \$3,825,947.

Note 15. Prior Year Reclassifications and Restatement

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

During fiscal year 2012, the Foundation determined that the Foundation's donated services and salaries and fundraising were understated in the fiscal year 2011 financial statements by \$590,469 due to a prior year reporting error identified by management with no effect on previously reported total net assets.

For the year ended June 30, 2011, the ending net assets have been modified due to a prior year reporting error identified by management with no effect on previously reported total net assets. As a result unrestricted undesignated net assets and temporarily restricted net assets are \$1,361,112 lower and \$1,361,112 higher, respectively, than the amounts previously reported.

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

	2011 as previously reported	Restatement	2011 as restated
Net Assets:			
Unrestricted:			
Undesignated	\$ 2,062,588	\$ (1,361,112)	\$ 701,476
Undesignated - underwater endowments	(270,339)	-	(270,339)
Board-designated	(107,616)	-	(107,616)
Temporarily restricted	45,442,716	1,361,112	46,803,828
Permanently restricted	59,617,914	-	59,617,914
Total net assets	\$ 106,745,263	\$ -	\$ 106,745,263

The North Carolina Agricultural Foundation, Inc.

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

Note 15. Prior Year Reclassifications and Restatement (continued)

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

	2011 as previously reported	Restatement	2011 as restated
Donated services and salaries	\$ 384,500	\$ 590,469	\$ 974,969
Fundraising	(575,472)	(590,469)	(1,165,941)
Change in net assets	\$ (190,972)	\$ -	\$ (190,972)

Note 16. Subsequent Events

The Foundation has evaluated subsequent events through October 26, 2012, the date which the financial statements were available to be issued, and there were none to report.

SUPPLEMENTARY INFORMATION

The North Carolina Agricultural Foundation, Inc.

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

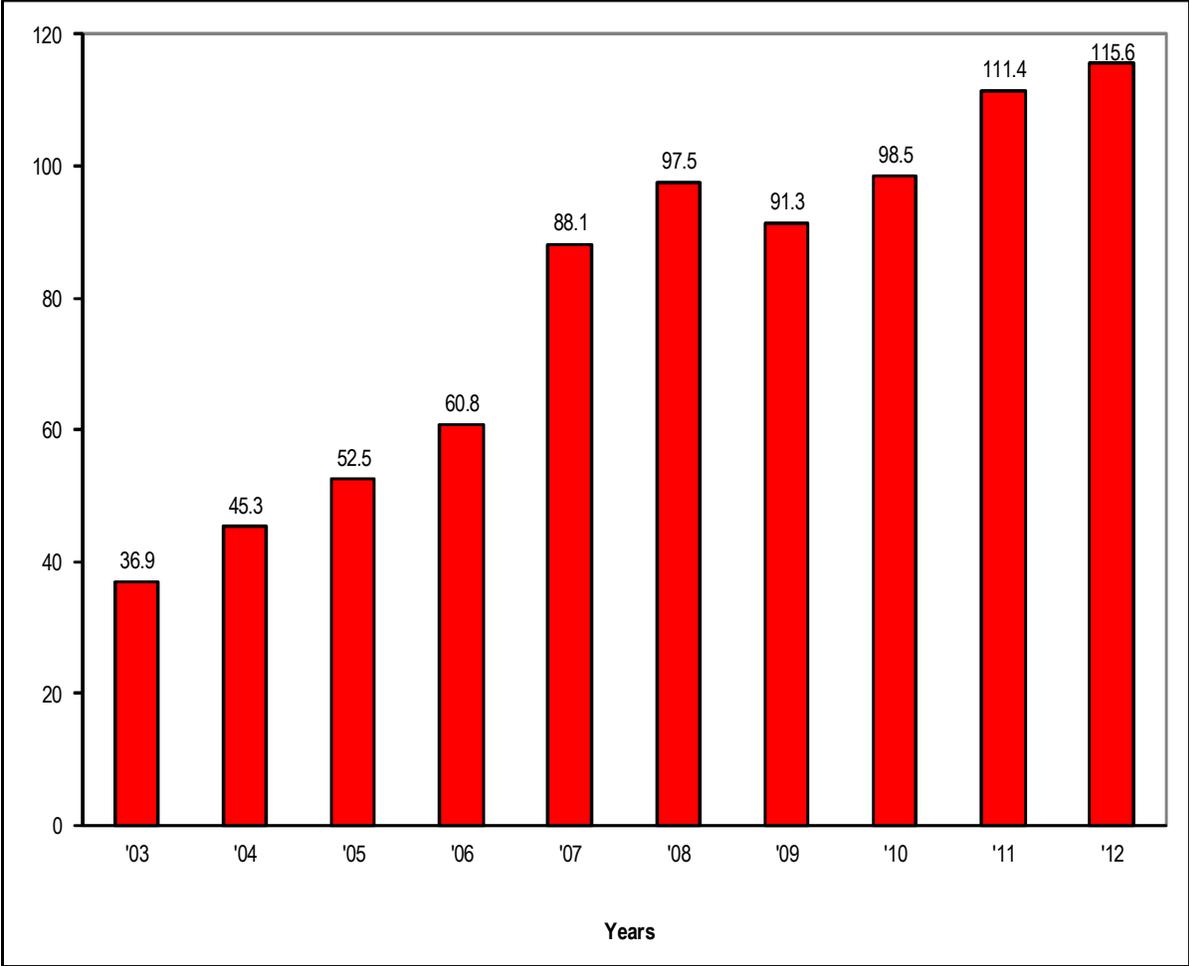
	Budget	Actual	Variance
Income:			
Annual fund campaign	\$ 180,000	\$ 156,773	\$ (23,227)
CALS Dean's Fund for Excellence	49,000	726	(48,274)
"Nickels for Know-How"	1,300,000	1,399,415	99,415
University Advancement assessment	44,320	44,385	65
College Advancement assessment	44,320	44,385	65
Additional enhancement fund fee	28,000	25,215	(2,785)
Interest and dividends	87,000	67,766	(19,234)
Grant administrator fee	20,000	32,955	12,955
Total income	1,752,640	1,771,620	18,980
Support:			
Program support	1,513,842	1,304,995	(208,847)
Foundation administration and development support	392,115	404,254	12,139
Endowment fee to University Advancement	44,320	44,385	65
common fund Intermediate Fund loss	87,208	87,208	-
Total support	2,037,485	1,840,842	(196,643)
Income less support	(284,845)	(69,222)	215,623
General fund balance:			
Beginning	1,183,683	1,183,683	-
Ending	\$ 898,838	\$ 1,114,461	\$ 215,623

The North Carolina Agricultural Foundation, Inc.

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

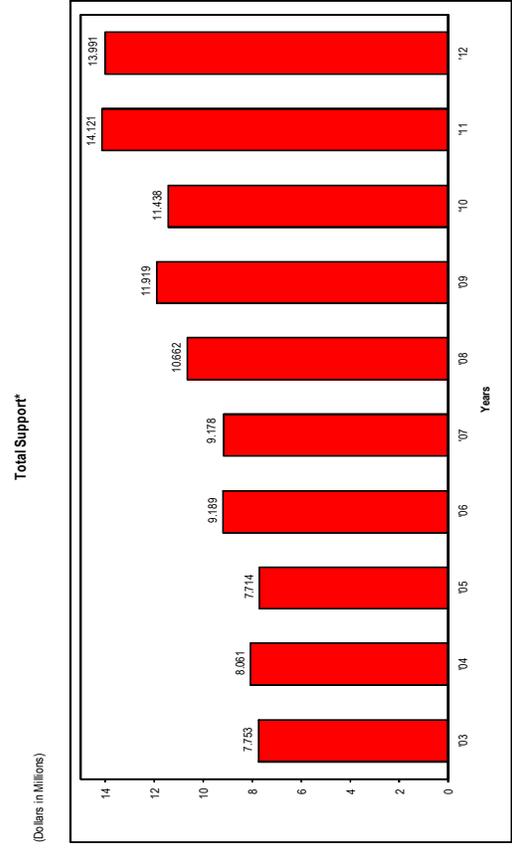
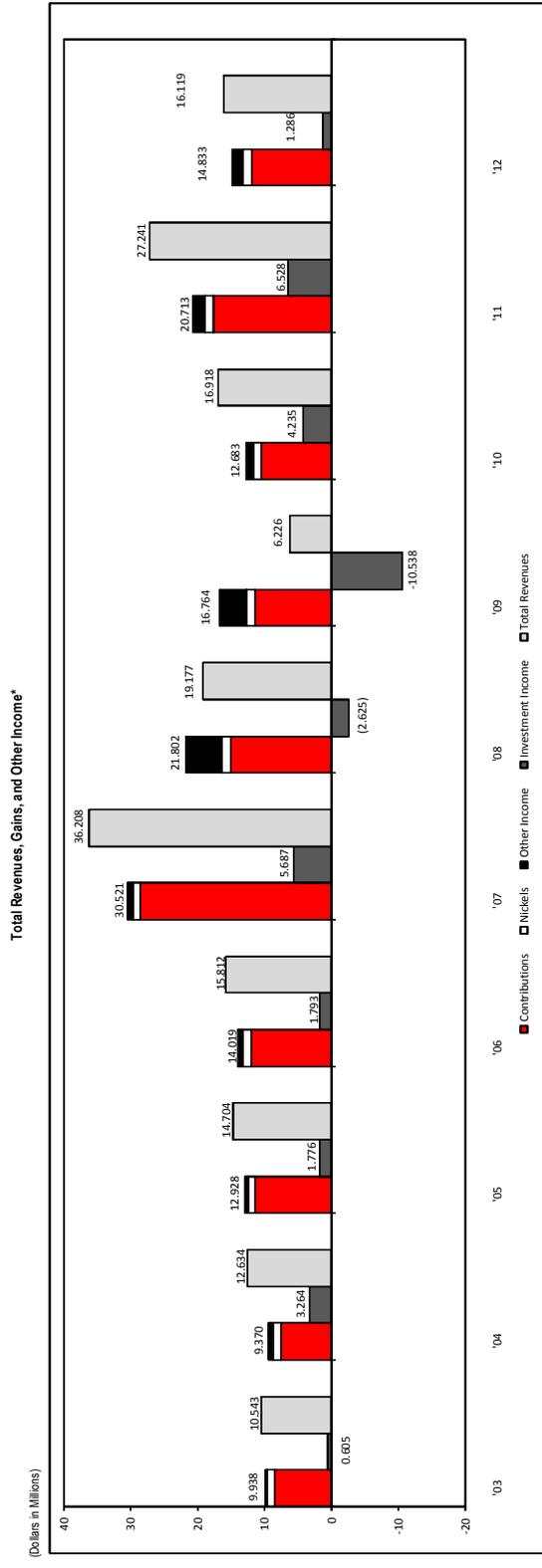
Total Assets*

(Dollars in Millions)



* Includes total assets for the North Carolina 4-H Development Fund and the North Carolina Dairy Foundation, Inc. which merged into The North Carolina Agricultural Foundation, Inc. effective July 1, 1999 and July 1, 2003, respectively.

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



* Includes revenues and expenses for the North Carolina 4-H Development Fund and the North Carolina Dairy Foundation, Inc. which merged into The North Carolina Agricultural Foundation, Inc. effective July 1, 1999 and July 1, 2003, respectively.

COMPLIANCE SECTION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

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

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

We have audited the financial statements of The North Carolina Agricultural Foundation, Inc. (the "Foundation"), a nonprofit organization, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of The North Carolina Agricultural Foundation, Inc. is responsible for established and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether The North Carolina Agricultural Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Williams Overman Pierce, LLP

Raleigh, North Carolina
October 26, 2012

The North Carolina Agricultural Foundation, Inc.

Schedule of Expenditures of State Awards
Year Ended June 30, 2012

State Grantor / Project Title	Expenditures
State Programs	
North Carolina Department of Agriculture	
Direct Projects:	
FFA Center State	\$ 37,531
Total Awards from North Carolina Department of Agriculture	<u>37,531</u>
North Carolina Rural Economic Development Center	
Direct Projects:	
Aspire	1,250
Farmhand Foods	50,566
Rural Partners Forum	14,092
Total Awards from Rural Economic Development Center	<u>65,908</u>
North Carolina Tobacco Trust Fund Commission	
Direct Projects:	
Agricultural Heritage	54,000
AgriSafe Program	4,066
AG Education Program	1,834
CALs Agricultural Leadership Development Program	4,302
Central Piedmont Jr Livestock	3,450
Farmhand Foods	36,054
Farm Safety & Health	1,500
Food Safety for Farmer's Markets	715
Food Safety Training	678
Heifers	500
Organic Canola/Spelt	750
Pest Burrack	400
Switchgrass Veal	76,150
Value Added Projects for Tobacco Farmers in Transition	204,659
Total Awards from North Carolina Tobacco Trust Fund Commission	<u>389,058</u>
 Total Expenditures of State Awards	 \$ 492,497

The North Carolina Agricultural Foundation, Inc.

**Notes to Schedule of Expenditures of State Awards
Year Ended June 30, 2012**

Note 1. Basis of Presentation

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

Note 2. State Awards

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

OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

October 26, 2012

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

We have audited the financial statements of The North Carolina Agricultural Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit.

We have communicated such information in our engagement letter to you dated June 13, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The North Carolina Agricultural Foundation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. 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, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Closing

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

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

Williams Dverman Pierce, LLP