

**NORTH CAROLINA
TOBACCO FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2014 and 2013

North Carolina Tobacco Foundation, Inc.

**Financial Statements
For The Years Ended June 30, 2014 and 2013**

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets, liabilities, and net assets – modified cash basis of North Carolina Tobacco Foundation, Inc. (“Foundation”), a nonprofit organization, as of June 30, 2014 and 2013, and the related statements of revenues, gains, and other income and support and changes in net assets – modified cash basis, and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements – modified cash basis.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of North Carolina Tobacco Foundation, Inc. as of June 30, 2014 and 2013, and its revenues, gains, and other income and support for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 17 through 19, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Williams Dverman Pierce, LLP

Raleigh, North Carolina
October 23, 2014

North Carolina Tobacco Foundation, Inc.

Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents (Note 1)	\$ 3,029,106	\$ 2,524,776
Intermediate investments (Note 1)	750,851	749,278
Long-term investments (Notes 1 and 3)	2,462,588	2,202,644
Accounts receivable (Note 1)	51,079	3,261
Total assets	\$ 6,293,624	\$ 5,479,959
LIABILITIES AND NET ASSETS		
Liabilities:		
Agency funds held in custody for others (Note 5)	\$ 371,552	\$ 548,630
Due to others (Note 1)	547	6,103
Total liabilities	372,099	554,733
Net assets:		
Unrestricted	621,748	594,343
Temporarily restricted (Note 7)	3,953,629	2,985,235
Permanently restricted (Note 8)	1,346,148	1,345,648
Total net assets	5,921,525	4,925,226
Total liabilities and net assets	\$ 6,293,624	\$ 5,479,959

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statement of Revenues, Gains, and Other Income and Support
and Changes in Net Assets - Modified Cash Basis

Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 105,600	\$ 2,005,348	\$ 500	\$ 2,111,448
Donated services, salaries, and facilities (Note 6)	32,000	-	-	32,000
Net investment income	4,955	335,771	-	340,726
Interest and dividends	14,057	2,801	-	16,858
Net assets released from restrictions (Note 9)	1,376,296	(1,376,296)	-	-
Total revenues, gains, and other income	1,532,908	967,624	500	2,501,032
Grants to support the University:				
Program:				
Scholarships and fellowships	293,052	-	-	293,052
Faculty support and professorships	668,280	-	-	668,280
Agricultural research support	57,415	-	-	57,415
Cooperative extension support	3,083	-	-	3,083
Departmental support	215,267	-	-	215,267
Other current services	198,456	-	-	198,456
Total program support	1,435,553	-	-	1,435,553
Administrative	25,250	-	-	25,250
Fundraising	44,330	-	-	44,330
Total other support	69,580	-	-	69,580
Total support	1,505,133	-	-	1,505,133
Excess of revenues, gains, and other income over total support	27,775	967,624	500	995,899
Net transfers:				
From other University-affiliated entities	400	-	-	400
Among funds	(770)	770	-	-
Total net transfers	(370)	770	-	400
Change in net assets	27,405	968,394	500	996,299
Net assets:				
Beginning	594,343	2,985,235	1,345,648	4,925,226
Ending	\$ 621,748	\$ 3,953,629	\$ 1,346,148	\$ 5,921,525

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statement of Revenues, Gains, and Other Income and Support
and Changes in Net Assets - Modified Cash Basis

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 102,918	\$ 1,680,477	\$ -	\$ 1,783,395
Donated services, salaries, and facilities (Note 6)	24,000	-	-	24,000
Net investment income	11,581	236,086	-	247,667
Interest and dividends	14,330	2,852	-	17,182
Other income	-	9,063	-	9,063
Net assets released from restrictions (Note 9)	1,482,185	(1,482,185)	-	-
Total revenues, gains, and other income	1,635,014	446,293	-	2,081,307
Grants to support the University:				
Program:				
Scholarships and fellowships	297,554	-	-	297,554
Faculty support and professorships	630,207	-	-	630,207
Agricultural research support	73,042	-	-	73,042
Cooperative extension support	14,596	-	-	14,596
Departmental support	318,827	-	-	318,827
Other current services	235,597	-	-	235,597
Total program support	1,569,823	-	-	1,569,823
Administrative	27,845	-	-	27,845
Fundraising	31,858	-	-	31,858
Total other support	59,703	-	-	59,703
Total support	1,629,526	-	-	1,629,526
Excess of revenues, gains, and other income over total support	5,488	446,293	-	451,781
Net transfers:				
Among funds	92	(92)	-	-
Total net transfers	92	(92)	-	-
Change in net assets	5,580	446,201	-	451,781
Net assets:				
Beginning	588,763	2,539,034	1,345,648	4,473,445
Ending	\$ 594,343	\$ 2,985,235	\$ 1,345,648	\$ 4,925,226

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statements of Cash Flows - Modified Cash Basis
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ 996,299	\$ 451,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net investment gains	(340,726)	(247,667)
(Increase) decrease in:		
Accounts receivable	(47,818)	2,694
Increase (decrease) in:		
Agency funds held in custody for others	(177,078)	(179,916)
Due to others	(5,556)	5,994
Net cash provided by operating activities	425,121	32,886
Cash Flows From Investing Activities:		
Net proceeds from sales of investments	110,437	106,144
Net purchases of investments	(31,228)	(27,006)
Net cash provided by investing activities	79,209	79,138
Net increase in cash and cash equivalents	504,330	112,024
Cash and cash equivalents:		
Beginning	2,524,776	2,412,752
Ending	<u>\$ 3,029,106</u>	<u>\$ 2,524,776</u>
Supplemental Disclosures of Noncash Activities:		
Donated services, salaries, and facilities	\$ 32,000	\$ 24,000
Transfers among funds	<u>\$ 770</u>	<u>\$ 92</u>

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements – Modified Cash Basis For The Years Ended June 30, 2014 and 2013

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: North Carolina Tobacco Foundation, Inc., ("Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University ("University"). The Foundation, established in 1975, provides aid and support for all types of extension and research pertaining to the production, manufacturing, and use of tobacco and tobacco products.

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

Basis of accounting: The Foundation's policy is to prepare its financial statements on a modified cash basis of accounting which includes the recording of unrealized appreciation and depreciation in the value of its investments. Additionally, the Foundation recognizes donated services provided by the University Treasurer's Division. Under the modified cash basis of accounting, contributions and other revenues are recognized when collected, rather than when rights to receive transfer to the Foundation. Expenses are recognized when paid rather than when incurred. Liabilities, consisting of agency funds held for others and amounts due to others that are disbursed by the University on behalf of the Foundation for payment of various normal operating expenses, are recorded when due but not yet paid. Accounts receivable, consisting of amounts due from other University associated entities and interest earned but not yet received, are recorded when owed and are included in the financial statements. Pledges receivable are not included in the financial statements. Therefore, the accompanying financial statements are not intended to present financial position or changes in net assets in conformity with accounting principles generally accepted in the United States of America.

Basis of presentation: In preparing its financial statements, the Foundation's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

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

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

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

Cash and cash equivalents consist of accounts with BNY Mellon's Liquidity DIRECT, the State Treasurer's Short-Term Investment Fund ("STIF"), and 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.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013**

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

Intermediate investments: Intermediate investments consist of an account with the Commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term needs.

These investments are reported at readily determinable fair values of \$750,851 and \$749,278 at June 30, 2014 and 2013 respectively. The cost of these investments was \$826,718 as of June 30, 2014 and 2013.

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, utilizes services of the NC State Investment Fund, Inc. ("NCSIF").

Accounts receivable: Accounts receivable consists of amounts due from other University associated entities and interest earned but not yet received on the STIF account.

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 revenues, gains, and other income and support and changes in net assets - modified cash basis.

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

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 \$8,835 and \$8,425 for the years ended June 30, 2014 and 2013, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University's gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter average market value of 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 average twenty-quarter average market value of the assets held in the investment portfolio, for the support of Foundation fund-raising activities.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013**

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

Due to others: Due to others includes amounts disbursed by the University on behalf of the Foundation for payment of various normal operating expenses and totaled \$547 and \$6,103 at June 30, 2014 and 2013, respectively.

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

Income taxes: 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 2014 and 2013. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Management evaluates 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, 2014, 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 2010.

Note 2. Endowment

The Foundation's endowment consists of seven individual funds established for a variety of purposes related to the mission of the University. 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.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013**

Note 2. Endowment (continued)

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. There were no deficiencies of this nature reported in unrestricted net assets as of June 30, 2014 and 2013.

Investment return objectives and risk parameters:

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

Spending policy:

The Foundation has a policy of appropriating for programmatic spending each year 4.0% 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 \$72,955 and \$73,545 for fiscal years 2014 and 2015, 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 long term investment pool ("LTI") and to meet the spending needs of the University. To meet this investment objective, the LTI 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 LTI 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 LTI seeks to diversify exposure to all asset classes through the use of multiple managers that use a variety of investment approaches.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,971	\$ 843,025	\$ 1,345,648	\$ 2,202,644
Total investment return	3,395	334,744	-	338,139
Contributions	-	-	500	500
Appropriations of endowment assets for expenditure	(855)	(77,840)	-	(78,695)
Endowment net assets, end of year	\$ 16,511	\$ 1,099,929	\$ 1,346,148	\$ 2,462,588

The following represents endowment net asset composition by type of fund, as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 16,511	\$ 1,099,929	\$ 1,346,148	\$ 2,462,588
Total funds	\$ 16,511	\$ 1,099,929	\$ 1,346,148	\$ 2,462,588

The following represents changes in endowment net assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 12,461	\$ 685,243	\$ 1,345,648	\$ 2,043,352
Total investment return	2,355	234,607	-	236,962
Appropriations of endowment assets for expenditure	(845)	(76,825)	-	(77,670)
Endowment net assets, end of year	\$ 13,971	\$ 843,025	\$ 1,345,648	\$ 2,202,644

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements – Modified Cash Basis For The Years Ended June 30, 2014 and 2013

Note 2. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 13,971	\$ 843,025	\$ 1,345,648	\$ 2,202,644
Total funds	\$ 13,971	\$ 843,025	\$ 1,345,648	\$ 2,202,644

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 assets, liabilities, and net assets – modified cash basis.

Long-term investments at June 30, 2014 and 2013 consisted of:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 3	\$ 3	\$ 8,389	\$ 8,389
NC State Investment Fund, Inc.	1,848,231	2,462,585	1,898,387	2,194,255
	<u>\$ 1,848,234</u>	<u>\$ 2,462,588</u>	<u>\$ 1,906,776</u>	<u>\$ 2,202,644</u>

Investments held by the NCSIF at June 30, 2014 were made up of limited partnerships, an investment with a Blackrock Liquid Policy Portfolio (“LPP”), a bundle of exchange-traded funds, and the STIF. As of June 30, 2014, approximately 87.9% of these limited partnerships were with the UNC Management Company, 5.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.8% was invested in the LPP, and 0.2% was invested in the STIF. NCSIF’s net assets were valued at approximately \$597,884,000 and \$484,974,000 at June 30, 2014 and 2013, respectively. The Foundation’s investment in the NCSIF represents approximately 0.4% of the member equity of NCSIF at June 30, 2014 and 2013.

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. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013

Note 4. Fair Value Measurement (continued)

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

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

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

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

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

	2014			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 3	\$ -	\$ -	\$ 3
Commonfund Intermediate Term Fund	-	750,851	-	750,851
NC State Investment Fund, Inc.	-	-	2,462,585	2,462,585
	<u>\$ 3</u>	<u>\$ 750,851</u>	<u>\$ 2,462,585</u>	<u>\$ 3,213,439</u>

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 8,389	\$ -	\$ -	\$ 8,389
Commonfund Intermediate Term Fund	-	749,278	-	749,278
NC State Investment Fund, Inc.	-	-	2,194,255	2,194,255
	<u>\$ 8,389</u>	<u>\$ 749,278</u>	<u>\$ 2,194,255</u>	<u>\$ 2,951,922</u>

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

	2014	2013
	NC State Investment Fund, Inc.	NC State Investment Fund, Inc.
Beginning balance	\$ 2,194,255	\$ 2,034,963
Unrealized gain on investments	318,486	220,888
Realized gain on investments	29,502	25,969
Purchases	8,889	-
Sales	(88,547)	(87,565)
Ending balance	<u>\$ 2,462,585</u>	<u>\$ 2,194,255</u>

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013**

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 but calculate NAV.

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

Note 5. Agency Funds

The Foundation has a directed fund agreement with the Tobacco Education and Research Council, Inc. to maintain proceeds of a settlement agreement with Philip Morris USA. Under this agreement, the funds are held by the Foundation and used for land grant university tobacco programs, continuing support of tobacco farmer projects to improve the quality of leaf tobacco, and to reduce Tobacco Specific Nitrosamines and/or suspected harmful substances in the tobacco leaf. At June 30, 2014 and 2013, agency funds were \$371,552 and \$548,630, respectively.

Note 6. Donated Services, Salaries, and Facilities

Donated services in the amount of \$7,000 for the years ended June 30, 2014 and 2013, 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 \$25,000 and \$17,000 for the years ended June 30, 2014 and 2013, respectively, have been reflected in the financial statements.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 78,765	\$ 68,058
Fellowships	71,240	69,623
Professorships	389,803	158,757
Research and related support	1,603,232	1,207,489
Endowment cumulative balance	1,099,929	843,025
Other	710,660	638,283
	<u>\$ 3,953,629</u>	<u>\$ 2,985,235</u>

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

Note 8. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 and 2013 are restricted to:

	<u>2014</u>	<u>2013</u>
Investment in perpetuity, the income from which is expendable to support		
Scholarships	\$ 665,000	\$ 615,063
Professorships	1,724,772	1,541,349
Amounts reported as unrestricted or temporarily restricted net assets	(1,116,440)	(856,996)
Other	72,816	46,232
	<u>\$ 1,346,148</u>	<u>\$ 1,345,648</u>

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

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements – Modified Cash Basis
For The Years Ended June 30, 2014 and 2013**

Note 9. Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions as restrictions were met via the passage of time or by incurring expenses satisfying the restricted purposes specified by donors as follows:

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 51,418	\$ 55,280
Fellowships	59,634	73,158
Professorships	73,585	75,391
Research and related support	908,276	975,652
Other	283,383	302,704
	<u>\$ 1,376,296</u>	<u>\$ 1,482,185</u>

The grouping “Other” includes amounts spent for general college support and funds with multiple purposes.

Note 10. Prior Year Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation with no effect on previously reported total net assets.

Note 11. Subsequent Events

As of October 16, 2014, UNCMC revised their redemption policy. The policies surrounding normal spending distributions and withdrawals less than \$10 million will remain at a thirty day notice period. For withdrawals in excess of \$10 million (excluding spending distributions), a ninety day notice is expected to be required and funds may be withdrawn on a quarterly basis. After the ninety day notice period, requests up to \$200 million will be fulfilled via \$50 million payments per quarter until the redemption is complete. For requests in excess of \$200 million, \$50 million will be paid quarterly for the first four quarters. The following four quarters will pay the greater of \$50 million or 25% excess over \$200 million until the redemption is complete. The change in redemption policy is effective January 1, 2015.

The Foundation has evaluated subsequent events through October 23, 2014, the date which the financial statements were available to be issued, and there were no additional subsequent events to report.

SUPPLEMENTARY INFORMATION

North Carolina Tobacco Foundation, Inc.

General Fund Budget vs. Actual - Unaudited

As of June 30, 2014

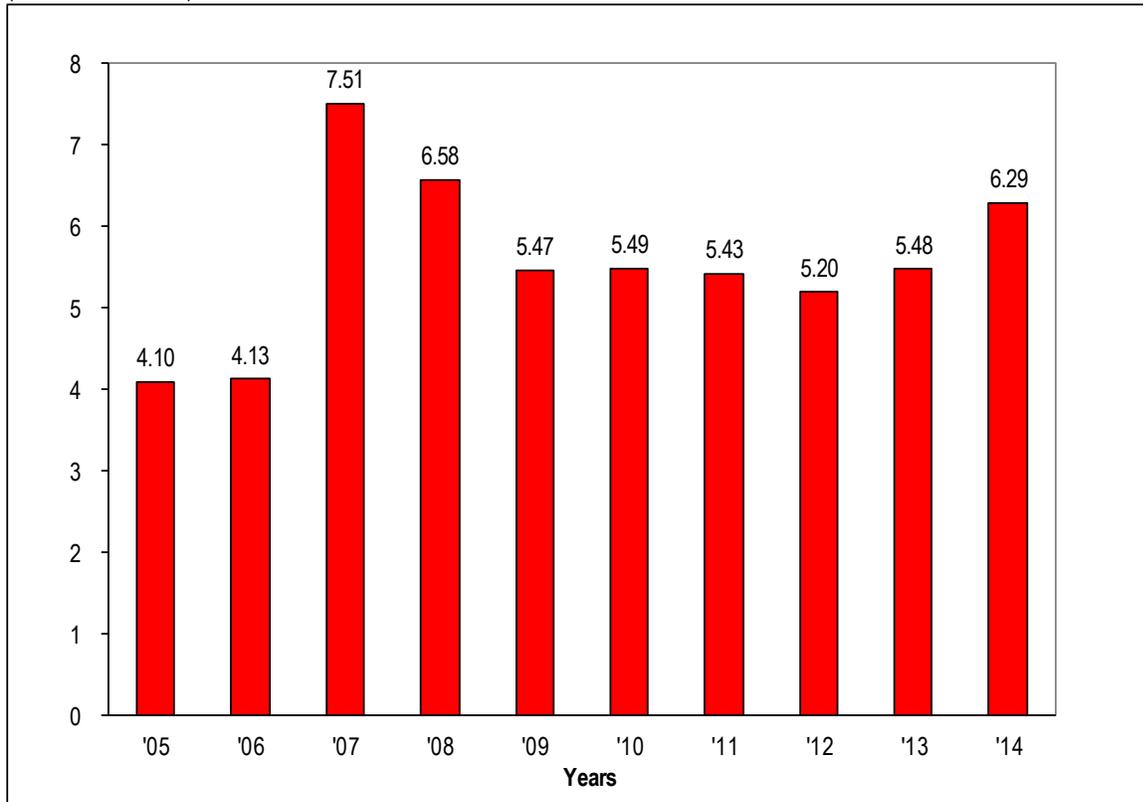
	Budget	Actual	Variance
Income:			
Contributions	\$ 130,000	\$ 100,323	\$ (29,677)
Interest and dividends	12,000	15,067	3,067
Endowment assessment	2,380	2,380	-
Grant administration fee	5,000	400	(4,600)
Total income	149,380	118,170	(31,210)
Support:			
Program support	117,327	114,996	(2,331)
Endowment fee transferred to University Advancement	2,380	2,380	-
Foundation administration	38,700	35,355	(3,345)
Total support	158,407	152,731	(5,676)
Income less support	(9,027)	(34,561)	(25,534)
General fund balance:			
Beginning	658,811	658,811	-
Ending	\$ 649,784	\$ 624,250	\$ (25,534)

North Carolina Tobacco Foundation, Inc.

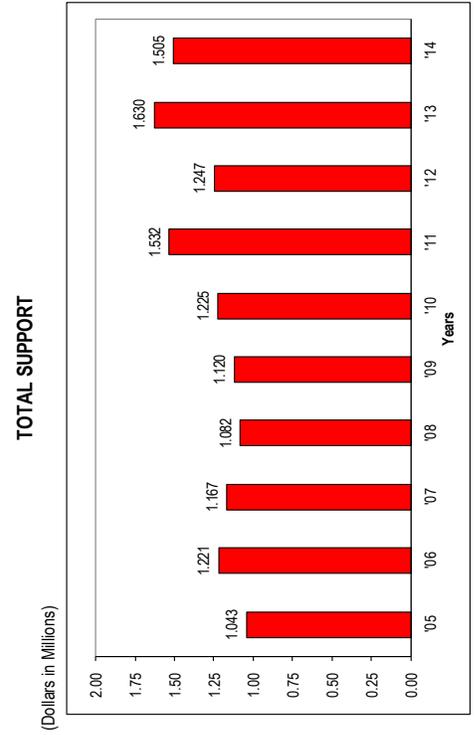
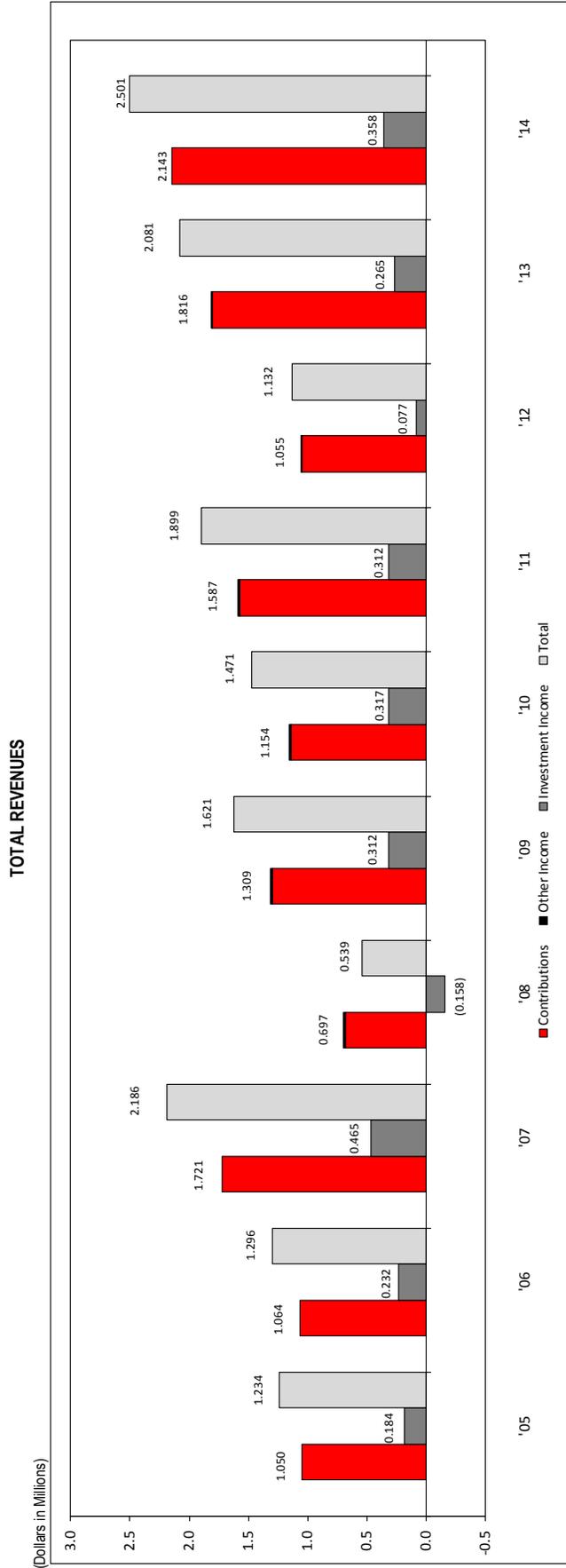
Ten Year Summary of Assets - Unaudited Fiscal Years Ended June 30

TOTAL ASSETS

(Dollars in Millions)



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



OTHER INFORMATION



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

October 23, 2014

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

We have audited the financial statements of North Carolina Tobacco Foundation, Inc. ("Foundation"), a nonprofit organization, for the year ended June 30, 2014, and have issued our report thereon dated October 23, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Carolina Tobacco 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 2014. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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



Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

Closing

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

Williams Dverman Pierce, LLP