

**NORTH CAROLINA  
TOBACCO FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2015 and 2014**

**North Carolina Tobacco Foundation, Inc.**

**Financial Statements**

**For the years ended June 30, 2015 and 2014**

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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 financial position of the North Carolina Tobacco Foundation, Inc. (the "Foundation"), a nonprofit organization, as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Tobacco Foundation, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Change in Accounting Basis**

As described in Note 12, during the year ended June 30, 2015 the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements for the year ended June 30, 2014 have been retrospectively adjusted to reflect the accrual basis of accounting adopted in the year ended June 30, 2015.

## **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 18 through 20, 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 21, 2015

North Carolina Tobacco Foundation, Inc.

Statements of Financial Position  
June 30, 2015 and 2014 (As Restated)

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents (Note 1)	\$ 1,540,494	\$ 3,029,106
Intermediate investments (Note 1)	2,099,904	750,851
Long-term investments (Notes 1 and 3)	4,597,493	2,462,588
Pledges receivable (Notes 1 and 6)	2,522,970	2,821,956
Accounts receivable (Note 1)	676	51,079
<b>Total assets</b>	<b>\$10,761,537</b>	<b>\$ 9,115,580</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Agency funds held in custody for others (Note 5)	\$ 418,262	\$ 371,552
Accounts payable - North Carolina State University (Note 1)	15,571	9,799
<b>Total liabilities</b>	<b>433,833</b>	<b>381,351</b>
Net assets:		
Unrestricted	580,468	621,748
Temporarily restricted (Note 8)	4,146,635	4,205,329
Permanently restricted (Note 9)	5,600,601	3,907,152
<b>Total net assets</b>	<b>10,327,704</b>	<b>8,734,229</b>
<b>Total liabilities and net assets</b>	<b>\$10,761,537</b>	<b>\$ 9,115,580</b>

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 92,000	\$ 2,400,515	\$ 589,050	\$ 3,081,565
Changes in pledges receivable	-	(68,067)	(230,919)	(298,986)
Donated services, salaries, and facilities (Note 7)	44,000	-	-	44,000
Net investment income	21,366	293,181	-	314,547
Other income	-	250	-	250
Net assets released from restrictions (Note 10)	1,350,175	(1,350,175)	-	-
<b>Total revenues, gains, and other income</b>	<b>1,507,541</b>	<b>1,275,704</b>	<b>358,131</b>	<b>3,141,376</b>
Grants to support the University:				
Program:				
Scholarships and fellowships	229,262	-	-	229,262
Faculty support and professorships	639,898	-	-	639,898
Agricultural research support	91,548	-	-	91,548
Cooperative extension support	19,152	-	-	19,152
Departmental support	281,250	-	-	281,250
Other current services	201,219	-	-	201,219
<b>Total program support</b>	<b>1,462,329</b>	<b>-</b>	<b>-</b>	<b>1,462,329</b>
Administrative	34,250	-	-	34,250
Fundraising	51,322	-	-	51,322
<b>Total other support</b>	<b>85,572</b>	<b>-</b>	<b>-</b>	<b>85,572</b>
<b>Total support</b>	<b>1,547,901</b>	<b>-</b>	<b>-</b>	<b>1,547,901</b>
<b>Excess (deficit) of revenues, gains, and other income over total support</b>	<b>(40,360)</b>	<b>1,275,704</b>	<b>358,131</b>	<b>1,593,475</b>
Net transfers:				
Among funds (Note 11)	(920)	(1,334,398)	1,335,318	-
<b>Total net transfers</b>	<b>(920)</b>	<b>(1,334,398)</b>	<b>1,335,318</b>	<b>-</b>
<b>Change in net assets</b>	<b>(41,280)</b>	<b>(58,694)</b>	<b>1,693,449</b>	<b>1,593,475</b>
Net assets:				
Beginning	621,748	4,205,329	3,907,152	8,734,229
Ending	\$ 580,468	\$ 4,146,635	\$ 5,600,601	\$ 10,327,704

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities

Year Ended June 30, 2014 (As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other income:				
Contributions (Note 1)	\$ 105,600	\$ 2,005,348	\$ 500	\$ 2,111,448
Changes in pledges receivable	-	(104,342)	2,561,004	2,456,662
Donated services, salaries, and facilities (Note 7)	32,000	-	-	32,000
Net investment income	19,012	338,572	-	357,584
Net assets released from restrictions (Note 10)	1,385,548	(1,385,548)	-	-
<b>Total revenues, gains, and other income</b>	<b>1,542,160</b>	<b>854,030</b>	<b>2,561,504</b>	<b>4,957,694</b>
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	207,708	-	-	207,708
<b>Total program support</b>	<b>1,444,805</b>	<b>-</b>	<b>-</b>	<b>1,444,805</b>
Administrative	25,250	-	-	25,250
Fundraising	44,330	-	-	44,330
<b>Total other support</b>	<b>69,580</b>	<b>-</b>	<b>-</b>	<b>69,580</b>
<b>Total support</b>	<b>1,514,385</b>	<b>-</b>	<b>-</b>	<b>1,514,385</b>
<b>Excess of revenues, gains, and other income over total support</b>	<b>27,775</b>	<b>854,030</b>	<b>2,561,504</b>	<b>3,443,309</b>
Net transfers:				
From other University-affiliated entities	400	-	-	400
Among funds	(770)	770	-	-
<b>Total net transfers</b>	<b>(370)</b>	<b>770</b>	<b>-</b>	<b>400</b>
<b>Change in net assets</b>	<b>27,405</b>	<b>854,800</b>	<b>2,561,504</b>	<b>3,443,709</b>
Net assets:				
Beginning	594,343	3,350,529	1,345,648	5,290,520
Ending	\$ 621,748	\$ 4,205,329	\$ 3,907,152	\$ 8,734,229

See Notes to Financial Statements.

North Carolina Tobacco Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2015 and 2014 (As Restated)

	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,593,475	\$ 3,443,709
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net investment gains	(263,318)	(340,726)
(Increase) decrease in:		
Pledges receivable	298,986	(2,456,662)
Accounts receivable	50,403	(47,818)
Increase (decrease) in:		
Agency funds held in custody for others	46,710	(177,078)
Accounts payable - North Carolina State University	5,772	3,696
<b>Net cash provided by operating activities</b>	<b>1,732,028</b>	<b>425,121</b>
<b>Cash Flows From Investing Activities:</b>		
Net proceeds from sales of investments	183,127	110,437
Net purchases of investments	(3,403,767)	(31,228)
<b>Net cash (used in) provided by investing activities</b>	<b>(3,220,640)</b>	<b>79,209</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,488,612)</b>	<b>504,330</b>
<b>Cash and cash equivalents:</b>		
Beginning	3,029,106	2,524,776
Ending	\$ 1,540,494	\$ 3,029,106
<b>Supplemental Disclosures of Noncash Activities:</b>		
Donated services, salaries, and facilities	\$ 44,000	\$ 32,000
Transfers among funds	\$ 1,335,318	\$ 770

See Notes to Financial Statements.

## North Carolina Tobacco Foundation, Inc.

### Notes to Financial Statements

For the years ended June 30, 2015 and 2014 (As Restated)

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

Nature of activities: North Carolina Tobacco Foundation, Inc., (the "Foundation") is one of a group of foundations which provides financial support exclusively to one or more of the colleges at North Carolina State University (the "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 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 of 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.

Intermediate investments: Intermediate investments consist of the NC State Investment Fund, Inc. Intermediate Term Fund (the "ITF") and an account with the commonfund Intermediate Term Fund for funds that can be invested for longer periods, but which are available in the event of short-term needs. These investments are reported at readily determinable fair values of \$2,099,904 and \$750,851 at June 30, 2015 and 2014, respectively. The cost of these investments was \$2,204,037 and \$826,718 as of June 30, 2015 and 2014, respectively.

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

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements**

**For the years ended June 30, 2015 and 2014 (As Restated)**

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

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.

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

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.

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

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

Investment income: Investment income is allocated on the basis of average fund balances for unrestricted and temporarily restricted net assets. For endowments, investment income is allocated on the “unit value” method of valuing interest in an investment portfolio and the investment earnings are recorded as unrestricted, temporarily restricted, or permanently restricted, as appropriate. Earnings from investments are net of investment fees of \$14,868 and \$8,835 for the years ended June 30, 2015 and 2014, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University’s gift assessment program, an annual fee of 0.50% is assessed on the average twenty-quarter market value of assets held in the investment portfolio, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, an assessment of 0.25% is charged by the Foundation on the average twenty-quarter market value of assets held in the investment portfolio, for the support of University Advancement.

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

## North Carolina Tobacco Foundation, Inc.

### Notes to Financial Statements For the years ended June 30, 2015 and 2014 (As Restated)

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

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 2015 and 2014. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Management evaluates tax positions taken by the organization and recognizes 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, 2015, 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 2011.

#### Note 2. Endowment

The Foundation's endowment consists of eight 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.

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 would be reported in unrestricted net assets.

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

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements**

**For the years ended June 30, 2015 and 2014 (As Restated)**

**Note 2. Endowment (continued)**

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 \$75,820 and \$73,545 for fiscal years 2016 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 LTIP and to meet the spending needs of the University. To meet this investment objective, the LTIP invests in various asset classes to offer diversification. The purpose of diversification is to provide reasonable assurance that no single security or class of securities or manager will have a disproportionate impact on the performance of the total fund.

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

The following represents changes in endowment net assets for the fiscal year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, beginning of year</b>	\$ 16,511	\$ 1,099,929	\$ 3,907,152	\$ 5,023,592
Total investment return	2,121	292,066	-	294,187
Contributions, including change in accrued pledges and other income	-	-	358,131	358,131
Appropriations of endowment assets for expenditure	(895)	(82,755)	-	(83,650)
Transfers	-	-	1,335,318	1,335,318
<b>Endowment net assets, end of year</b>	<b>\$ 17,737</b>	<b>\$ 1,309,240</b>	<b>\$ 5,600,601</b>	<b>\$ 6,927,578</b>

The following represents endowment net asset composition by type of fund, as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 17,737	\$ 1,309,240	\$ 5,600,601	\$ 6,927,578
<b>Total funds</b>	<b>\$ 17,737</b>	<b>\$ 1,309,240</b>	<b>\$ 5,600,601</b>	<b>\$ 6,927,578</b>

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements  
For the years ended June 30, 2015 and 2014 (As Restated)**

**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	336,984	-	340,379
Contributions, including change in accrued pledges and other income	-	-	2,561,504	2,561,504
Appropriations of endowment assets for expenditure	(855)	(80,080)	-	(80,935)
Endowment net assets, end of year	<u>\$ 16,511</u>	<u>\$ 1,099,929</u>	<u>\$ 3,907,152</u>	<u>\$ 5,023,592</u>

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	\$ 3,907,152	\$ 5,023,592
Total funds	<u>\$ 16,511</u>	<u>\$ 1,099,929</u>	<u>\$ 3,907,152</u>	<u>\$ 5,023,592</u>

**Note 3. Long-Term Investments**

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

Long-term investments at June 30, 2015 and 2014 consisted of:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 344,372	\$ 344,372	\$ 3	\$ 3
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	3,378,327	4,253,121	1,848,231	2,462,585
	<u>\$ 3,722,699</u>	<u>\$ 4,597,493</u>	<u>\$ 1,848,234</u>	<u>\$ 2,462,588</u>

Investments held by the LTIP at June 30, 2015 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, 2015, approximately 89.4% of these limited partnerships were with the UNC Management Company, 4.1% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 6.2% was invested in the LPP, and 0.3% was invested in the STIF. The LTIP's net assets were valued at approximately \$676,716,000 and \$597,884,000 at June 30, 2015 and 2014, respectively. The Foundation's investment in the LTIP represents approximately 0.6% and 0.4% of the member equity of LTIP at June 30, 2015 and 2014, respectively.

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements  
For the years ended June 30, 2015 and 2014 (As Restated)**

**Note 4. Fair Value Measurement**

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

The 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.

	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
ST IF	\$ 344,372	\$ -	\$ -	\$ 344,372
Commonfund Intermediate Term Fund	-	746,139	-	746,139
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	1,353,765	-	1,353,765
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	4,253,121	4,253,121
	<b>\$ 344,372</b>	<b>\$ 2,099,904</b>	<b>\$ 4,253,121</b>	<b>\$ 6,697,397</b>

	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
ST IF	\$ 3	\$ -	\$ -	\$ 3
Commonfund Intermediate Term Fund	-	750,851	-	750,851
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	2,462,585	2,462,585
	<b>\$ 3</b>	<b>\$ 750,851</b>	<b>\$ 2,462,585</b>	<b>\$ 3,213,439</b>

## North Carolina Tobacco Foundation, Inc.

### Notes to Financial Statements

For the years ended June 30, 2015 and 2014 (As Restated)

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

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:

	2015	2014
	NC State Investment Fund, Inc. LTIP	NC State Investment Fund, Inc. LTIP
Beginning balance	\$ 2,462,585	\$ 2,194,255
Participant additions	1,580,000	8,889
Investment income	1,153	1,223
Realized gains	46,011	29,502
Unrealized appreciation	260,441	318,486
Participant withdrawals	(83,650)	(80,935)
Expenses	(13,419)	(8,835)
Ending balance	<u>\$ 4,253,121</u>	<u>\$ 2,462,585</u>

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. Intermediate Term Fund (“ITF”) – This investment is a combination of publicly traded mutual funds valued at quoted market prices.

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

#### 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, 2015 and 2014, agency funds were \$418,262 and \$371,552, respectively.

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements  
For the years ended June 30, 2015 and 2014 (As Restated)**

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**Note 6. Pledges Receivable**

Pledges receivable are stated at their present value, estimated by discounting the future cash flows using the Federal Reserve rates of return, ranging from .28% to 2.36% for June 2015, and are as follows:

	<b>2015</b>	<b>2014</b>
Receivable in less than one year	<b>\$ 859,887</b>	<b>\$ 837,388</b>
Receivable in one to five years	<b>1,854,358</b>	<b>2,237,687</b>
Total gross pledges receivable	<b>2,714,245</b>	<b>3,075,075</b>
Less allowance for uncollectible pledges	<b>(136,000)</b>	<b>(154,000)</b>
Less unamortized discount	<b>(55,275)</b>	<b>(99,119)</b>
Net pledges receivable	<b>\$ 2,522,970</b>	<b>\$ 2,821,956</b>

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.

Three donors represent approximately \$1.98 million of the total undiscounted pledges receivable at June 30, 2015.

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

Donated services in the amount of \$15,000 and \$7,000 for the years ended June 30, 2015 and 2014, 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 \$29,000 and \$25,000 for the years ended June 30, 2015 and 2014, respectively, have been reflected in the financial statements.

**Note 8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	<b>2015</b>	<b>2014</b>
Scholarships	<b>\$ 88,776</b>	<b>\$ 78,765</b>
Fellowships	<b>75,320</b>	<b>71,240</b>
Professorships	<b>118,688</b>	<b>389,803</b>
Research and related support	<b>1,736,687</b>	<b>1,603,232</b>
Pledges receivable	<b>192,886</b>	<b>260,952</b>
Endowment cumulative balance	<b>1,309,240</b>	<b>1,099,929</b>
Other	<b>625,038</b>	<b>701,408</b>
	<b>\$ 4,146,635</b>	<b>\$ 4,205,329</b>

Temporarily 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  
For the years ended June 30, 2015 and 2014 (As Restated)**

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**Note 9. Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2015 and 2014 are restricted to:

	<u>2015</u>	<u>2014</u>
Investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 697,752	\$ 665,000
Professorships	3,823,309	1,724,772
Pledges receivable	2,330,084	2,561,004
Amounts reported as unrestricted or temporarily restricted net assets	(1,326,977)	(1,116,440)
Other	76,433	72,816
	<u>\$ 5,600,601</u>	<u>\$ 3,907,152</u>

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

**Note 10. Net Assets Released From 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>2015</u>	<u>2014</u>
Scholarships	\$ 48,750	\$ 51,418
Fellowships	38,025	59,634
Professorships	71,733	73,585
Research and related support	918,687	908,276
Other	272,980	292,635
	<u>\$ 1,350,175</u>	<u>\$ 1,385,548</u>

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

**Note 11. Transfers Among Funds To Permanently Restricted**

The Foundation's policy requires a minimum gift amount to establish an endowment. Contributions received toward setting up an endowment which are less than the minimum amount are initially recorded as temporarily restricted net assets, as it is understood by the donor that if the endowment minimum is not reached, the corpus can be used for the intended purpose. When the endowment reaches the minimum endowment level, due to additional contributions, the endowment is transferred to permanently restricted net assets. For the year ended June 30, 2015 net endowment transfers among funds was \$1,335,318.

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements  
For the years ended June 30, 2015 and 2014 (As Restated)**

**Note 12. Prior Year Reclassifications and Restatement**

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation with no effect on previously reported total net assets.

In previous years, the Foundation prepared its financial statements using the modified cash basis of accounting. In fiscal year 2015, the Foundation adopted accounting principles generally accepted in the United States of America as the basis for its financial statements. The fiscal year 2014 comparative financial statements have been restated to conform with the new basis of accounting. Accordingly, as a result of the differences between accounting principles generally accepted in the United States of America and the modified cash basis of accounting, temporarily restricted net assets at the beginning of fiscal year 2014 are \$365,294 higher, and the change in temporarily restricted and permanently restricted net assets is \$113,594 lower and \$2,561,004 higher, respectively, than the amounts previously reported.

Statement of financial position at June 30, 2014 has been restated as follows:

	2014 as previously reported	Restatement	2014 as restated
<b>Assets:</b>			
Pledges receivable	\$ -	\$ 2,821,956	\$ 2,821,956
Total assets	<u>\$ -</u>	<u>\$ 2,821,956</u>	<u>\$ 2,821,956</u>
<b>Liabilities:</b>			
Accounts payable - North Carolina State University	\$ 547	\$ 9,252	\$ 9,799
Total liabilities	<u>\$ 547</u>	<u>\$ 9,252</u>	<u>\$ 9,799</u>
<b>Net Assets:</b>			
Unrestricted:	\$ 621,748	\$ -	\$ 621,748
Temporarily restricted	3,953,629	251,700	4,205,329
Permanently restricted	1,346,148	2,561,004	3,907,152
Total net assets	<u>\$ 5,921,525</u>	<u>\$ 2,812,704</u>	<u>\$ 8,734,229</u>

Statement of activities for the year ended June 30, 2014 has been restated as follows:

	2014 as previously reported	Restatement	2014 as restated
Changes in pledges receivable	\$ -	\$ 2,456,662	\$ 2,456,662
Other current services	198,456	9,252	207,708
Change in net assets	<u>\$ 198,456</u>	<u>\$ 2,465,914</u>	<u>\$ 2,664,370</u>

**North Carolina Tobacco Foundation, Inc.**

**Notes to Financial Statements  
For the years ended June 30, 2015 and 2014 (As Restated)**

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**Note 13. Subsequent Events**

The Foundation has evaluated subsequent events through October 21, 2015, the date which the financial statements were available to be issued, and there were none to report.

## **SUPPLEMENTARY INFORMATION**

North Carolina Tobacco Foundation, Inc.

General Fund Budget vs. Actual - Unaudited  
As of June 30, 2015

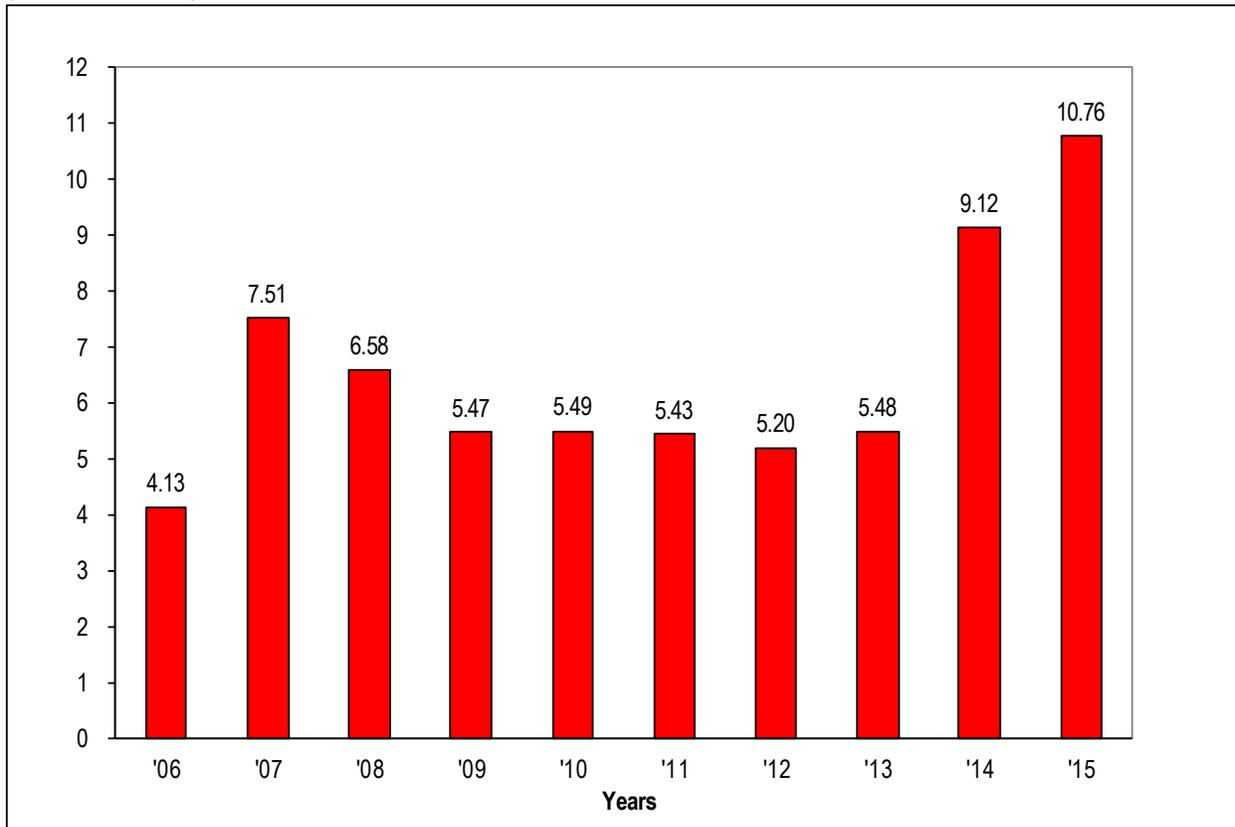
	Budget	Actual	Variance
Income:			
Contributions	\$ 130,000	\$ 87,400	\$ (42,600)
Interest and dividends	10,000	38,867	28,867
Endowment assessment	2,460	2,460	-
General Fund transfers	-	33,739	33,739
<b>Total income</b>	<b>142,460</b>	<b>162,466</b>	<b>20,006</b>
Support:			
Program support	108,276	109,738	1,462
Endowment fee transferred to University Advancement	2,460	2,460	-
Foundation administration	39,164	39,112	(52)
<b>Total support</b>	<b>149,900</b>	<b>151,310</b>	<b>1,410</b>
<b>Income less support</b>	<b>(7,440)</b>	<b>11,156</b>	<b>18,596</b>
General fund balance:			
Beginning	624,404	624,404	-
Ending	\$ 616,964	\$ 635,560	\$ 18,596

# North Carolina Tobacco Foundation, Inc.

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

### TOTAL ASSETS

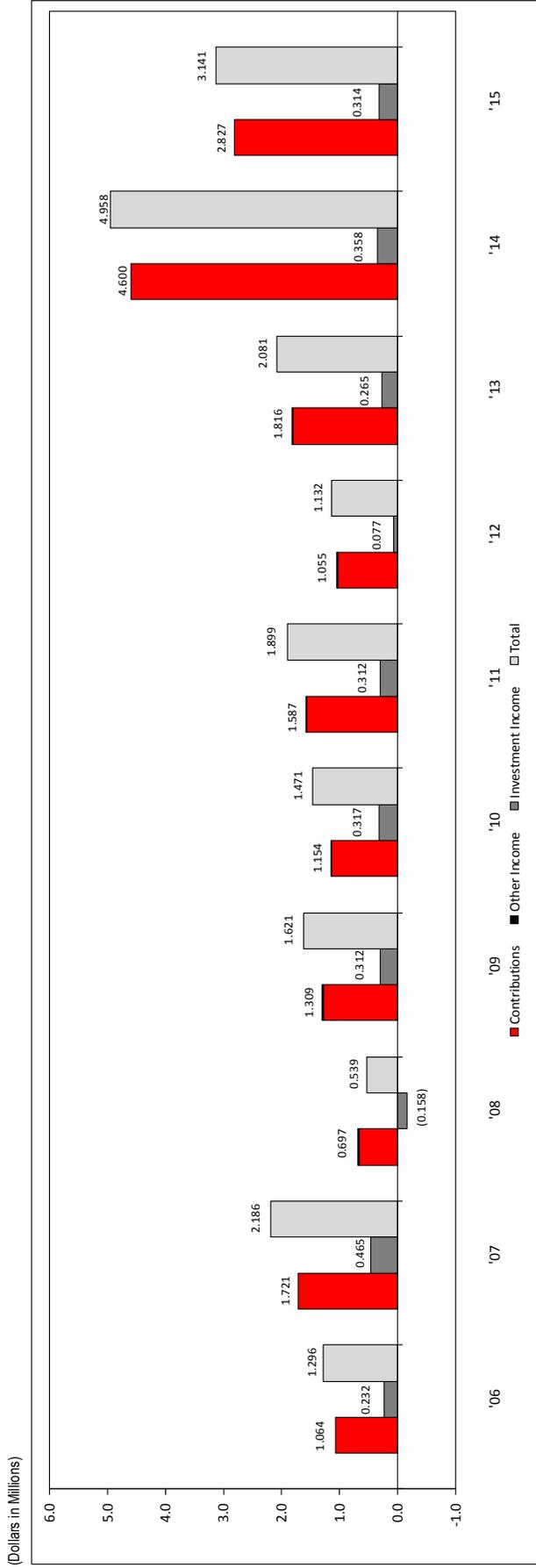
(Dollars in Millions)



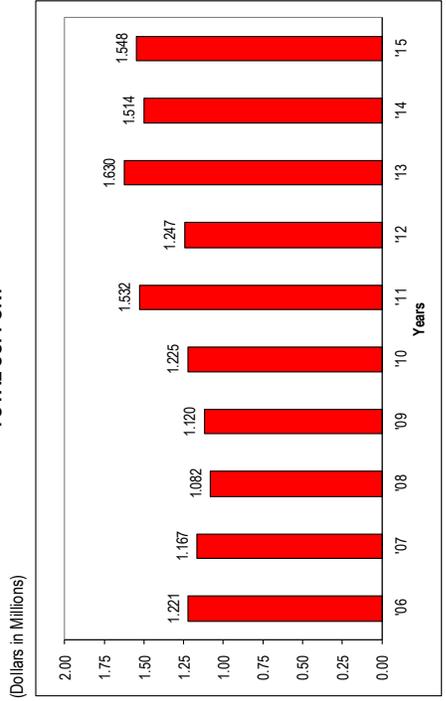
Fiscal years 2014 - 2015 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

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

**TOTAL REVENUES**



**TOTAL SUPPORT**



Fiscal years 2014 - 2015 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

## **OTHER INFORMATION**



**Williams Overman Pierce, LLP**  
Certified Public Accountants and Consultants

October 21, 2015

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

We have audited the financial statements of the North Carolina Tobacco Foundation, Inc. (the "Foundation"), a nonprofit organization, for the year ended June 30, 2015, and have issued our report thereon dated October 21, 2015. 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 9, 2015. 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. As described in Note 12, the Foundation adopted a policy of preparing its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America during the year ended June 30, 2015. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

**Difficulties Encountered in Performing the Audit**

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



### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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 21, 2015.

### **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 Information in Documents Containing Audited Financial Statements**

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*