

**NORTH CAROLINA  
TOBACCO FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2016 and 2015**

North Carolina Tobacco Foundation, Inc.

Financial Report  
For the Years Ended June 30, 2016 and 2015

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of North Carolina Tobacco Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Tobacco Foundation, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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*Emphasis of Matter*

As described in Note 12, the Foundation identified a pledge receivable that was previously recognized as a contribution revenue to have conditional terms. As generally accepted account principles require pledges to be unconditional to be recognized as contribution revenue, the Foundation restated its 2015 financial statements to exclude the conditional pledge. Our opinion on the 2016 financial statements is not modified with respect to this matter.

*Other Matters*

The financial statements of the Foundation for the year ended June 30, 2015, before restatement for the matter described in the Emphasis of Matter paragraph, were audited by other auditors, whose report dated October 21, 2015 expressed an unmodified opinion on those statements.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Foundation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

*Disclaimer of Opinion on Supplementary Information*

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

*BDO USA, LLP*

Raleigh, North Carolina  
October 14, 2016

North Carolina Tobacco Foundation, Inc.

Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015 (As Restated)
<b>Assets</b>		
Cash and cash equivalents (Note 1)	\$ 1,610,406	\$ 1,540,494
Intermediate investments (Note 1)	2,095,774	2,099,904
Long-term investments (Notes 1 and 3)	5,186,769	4,597,493
Pledges receivable, net (Notes 1 and 6)	1,258,480	1,409,836
Accounts receivable (Note 1)	1,119	676
<b>Total Assets</b>	<b>\$10,152,548</b>	<b>\$ 9,648,403</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Agency funds held in custody for others (Note 5)	\$ 412,441	\$ 418,262
Accounts payable - North Carolina State University (Note 1)	17,999	15,571
<b>Total Liabilities</b>	<b>430,440</b>	<b>433,833</b>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	544,138	580,468
Undesignated - underwater endowments (Note 2)	(30,334)	-
Temporarily restricted (Note 8)	4,091,205	4,146,635
Permanently restricted (Note 9)	5,117,099	4,487,467
<b>Total Net Assets</b>	<b>9,722,108</b>	<b>9,214,570</b>
<b>Total Liabilities and Net assets</b>	<b>\$10,152,548</b>	<b>\$ 9,648,403</b>

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other Income</b>				
Contributions (Note 1)	\$ 74,500	\$ 1,561,894	\$ 762,650	\$ 2,399,044
Changes in pledges receivable, net (Note 6)	-	11,662	(163,018)	(151,356)
Donated services, salaries, and facilities (Note 7)	45,000	-	-	45,000
Net asset reclassification - underwater endowments	(30,334)	30,334	-	-
Net investment income (loss)	11,827	(100,062)	-	(88,235)
Interest and dividends	25,836	22,051	-	47,887
Net assets released from restrictions (Note 10)	1,555,963	(1,555,963)	-	-
<b>Total Revenues, Gains, and Other Income</b>	<b>1,682,792</b>	<b>(30,084)</b>	<b>599,632</b>	<b>2,252,340</b>
<b>Grants to Support the University Program:</b>				
Scholarships and fellowships	251,062	-	-	251,062
Faculty support and professorships	786,526	-	-	786,526
Agricultural research support	90,447	-	-	90,447
Cooperative extension support	13,031	-	-	13,031
Departmental support	283,150	-	-	283,150
Other current services	231,865	-	-	231,865
<b>Total Program Support</b>	<b>1,656,081</b>	<b>-</b>	<b>-</b>	<b>1,656,081</b>
Administrative	37,500	-	-	37,500
Fundraising	51,250	-	-	51,250
<b>Total Other Support</b>	<b>88,750</b>	<b>-</b>	<b>-</b>	<b>88,750</b>
<b>Total Support</b>	<b>1,744,831</b>	<b>-</b>	<b>-</b>	<b>1,744,831</b>
<b>(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>(62,039)</b>	<b>(30,084)</b>	<b>599,632</b>	<b>507,509</b>
<b>Net Transfers</b>				
From other University-affiliated entities	-	29	-	29
Among funds (Note 11)	(4,625)	(25,375)	30,000	-
<b>Total Net Transfers</b>	<b>(4,625)</b>	<b>(25,346)</b>	<b>30,000</b>	<b>29</b>
<b>Change in net assets</b>	<b>(66,664)</b>	<b>(55,430)</b>	<b>629,632</b>	<b>507,538</b>
<b>Net Assets</b>				
Beginning of year	580,468	4,146,635	4,487,467	9,214,570
End of year	\$ 513,804	\$ 4,091,205	\$ 5,117,099	\$ 9,722,108

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities

Year Ended June 30, 2015 (As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains, and Other Income</b>				
Contributions (Note 1)	\$ 92,000	\$ 2,400,515	\$ 589,050	\$ 3,081,565
Changes in pledges receivable, net (Note 6)	-	(68,067)	34,919	(33,148)
Donated services, salaries, and facilities (Note 7)	44,000	-	-	44,000
Net investment (loss) income	(26,105)	289,423	-	263,318
Interest and dividends	47,471	3,758	-	51,229
Other income	-	250	-	250
Net assets released from restrictions (Note 10)	1,353,355	(1,353,355)	-	-
<b>Total Revenues, Gains, and Other Income</b>	<b>1,510,721</b>	<b>1,272,524</b>	<b>623,969</b>	<b>3,407,214</b>
<b>Grants to Support the University:</b>				
<b>Program:</b>				
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>(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>(37,180)</b>	<b>1,272,524</b>	<b>623,969</b>	<b>1,859,313</b>
<b>Net Transfers</b>				
Among funds (Note 11)	(4,100)	(1,331,218)	1,335,318	-
<b>Total Net Transfers</b>	<b>(4,100)</b>	<b>(1,331,218)</b>	<b>1,335,318</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(41,280)</b>	<b>(58,694)</b>	<b>1,959,287</b>	<b>1,859,313</b>
<b>Net Assets</b>				
Beginning of year	621,748	4,205,329	2,528,180	7,355,257
End of year	\$ 580,468	\$ 4,146,635	\$ 4,487,467	\$ 9,214,570

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	2016	2015 (As Restated)
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 507,538	\$ 1,859,313
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Contributions restricted for permanent endowment	(762,650)	(589,050)
Net investment loss (income)	88,235	(263,318)
(Increase) decrease in:		
Pledges receivable, net	151,356	33,148
Accounts receivable	(443)	50,403
Increase (decrease) in:		
Agency funds held in custody for others	(5,821)	46,710
Accounts payable - North Carolina State University	2,428	5,772
<b>Net Cash (Used in) Provided by Operating Activities</b>	<u>(19,357)</u>	<u>1,142,978</u>
<b>Cash Flows From Investing Activities</b>		
Net proceeds from sales of investments	249,144	183,127
Net purchases of investments	(922,525)	(3,403,767)
<b>Net Cash Used in Investing Activities</b>	<u>(673,381)</u>	<u>(3,220,640)</u>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for permanent endowment	762,650	589,050
<b>Net Cash Provided by Investing Activities</b>	<u>762,650</u>	<u>589,050</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	69,912	(1,488,612)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	1,540,494	3,029,106
End of year	<u>\$ 1,610,406</u>	<u>\$ 1,540,494</u>
<b>Supplemental Disclosures of Noncash Activities:</b>		
Donated services, salaries, and facilities	\$ 45,000	\$ 44,000
Transfers among funds	<u>\$ 30,000</u>	<u>\$ 1,335,318</u>

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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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 ("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 instruments with an original maturity date of 90 days or less to be cash equivalents. Cash designated or restricted for long-term purposes is included with long-term investments. At times the Foundation places deposits with a high quality financial institution that may be in excess of federal insurance limits.

Cash and cash equivalents consist of accounts with the State Treasurer's Short-Term Investment Fund ("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 common fund 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 \$2,095,774 and \$2,099,904 at June 30, 2016 and 2015, respectively. The cost of these investments was \$2,187,655 and \$2,204,037 as of June 30, 2016 and 2015, 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, 2016 and 2015

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

Pledges receivable: Unconditional pledges receivable are recognized as revenue 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 \$21,339 and \$14,868 for the years ended June 30, 2016 and 2015, 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.

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 2016 and 2015. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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

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, 2016, 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 2012.

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 are reported in unrestricted net assets and were (\$30,334) and \$0 as of June 30, 2016 and 2015, respectively.

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

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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 \$141,675 for fiscal years 2016 and 2017, 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 17,737	\$ 1,309,240	\$ 4,487,467	\$ 5,814,444
Net asset reclassification - underwater endowments	(30,334)	30,334	-	-
Endowment net assets after reclassification	(12,597)	1,339,574	4,487,467	5,814,444
Total investment return	(462)	(81,122)	-	(81,584)
Contributions, including change in accrued pledges and other income	-	40,000	599,632	639,632
Appropriations of endowment assets for expenditure	(900)	(160,890)	-	(161,790)
Transfers	-	-	30,000	30,000
Endowment net assets, end of year	\$ (13,959)	\$ 1,137,562	\$ 5,117,099	\$ 6,240,702

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated - underwater endowments	\$ (30,334)	\$ -	\$ -	\$ (30,334)
Donor-designated endowment funds	16,375	1,137,562	5,117,099	6,271,036
Total funds	<u>\$ (13,959)</u>	<u>\$ 1,137,562</u>	<u>\$ 5,117,099</u>	<u>\$ 6,240,702</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 16,511	\$ 1,099,929	\$ 2,528,180	\$ 3,644,620
Total investment return	2,121	292,066	-	294,187
Contributions, including change in accrued pledges and other income	-	-	623,969	623,969
Appropriations of endowment assets for expenditure	(895)	(82,755)		(83,650)
Transfers	-	-	1,335,318	1,335,318
Endowment net assets, end of year	<u>\$ 17,737</u>	<u>\$ 1,309,240</u>	<u>\$ 4,487,467</u>	<u>\$ 5,814,444</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ 17,737	\$ 1,309,240	\$ 4,487,467	\$ 5,814,444
Total funds	<u>\$ 17,737</u>	<u>\$ 1,309,240</u>	<u>\$ 4,487,467</u>	<u>\$ 5,814,444</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.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

Note 3. Long-Term Investments (continued)

Long-term investments at June 30, 2016 and 2015 consisted of:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 402,022	\$ 402,022	\$ 344,372	\$ 344,372
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	4,016,861	4,784,747	3,378,327	4,253,121
	<u>\$ 4,418,883</u>	<u>\$ 5,186,769</u>	<u>\$ 3,722,699</u>	<u>\$ 4,597,493</u>

Investments held by the LTIP at June 30, 2016 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, 2016, approximately 91.2% of these limited partnerships were with the UNC Management Company, 3.5% were committed to or in other private equity investments with JP Morgan, Blackrock, and SEI, 5.1% was invested in the LPP, and 0.2% was invested in the STIF. The LTIP’s net assets were valued at approximately \$683,380,000 and \$676,716,000 at June 30, 2016 and 2015, respectively. The Foundation’s investment in the LTIP represents approximately 0.7% and 0.6% of the member equity of LTIP at June 30, 2016 and 2015, respectively.

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)

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

Note 4. Fair Value Measurement (continued)

The Foundation's assets itemized below are measured at fair value on a recurring basis at June 30:

	2016			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 402,022	\$ -	\$ -	\$ 402,022
commonfund Intermediate Term Fund	-	748,031	-	748,031
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	1,347,743	-	1,347,743
NC State Investment Fund, Inc. Long Term Investment Pool (LTIP)	-	-	4,784,747	4,784,747
	<u>\$ 402,022</u>	<u>\$ 2,095,774</u>	<u>\$ 4,784,747</u>	<u>\$ 7,282,543</u>

	2015			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 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
	<u>\$ 344,372</u>	<u>\$ 2,099,904</u>	<u>\$ 4,253,121</u>	<u>\$ 6,697,397</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:

	2016	2015
	NC State Investment Fund, Inc. LTIP	NC State Investment Fund, Inc. LTIP
Beginning balance	\$ 4,253,121	\$ 2,462,585
Participant additions	775,000	1,580,000
Investment income	632	1,153
Realized gains	44,436	46,011
Unrealized (depreciation) appreciation	(106,909)	260,441
Participant withdrawals	(161,790)	(83,650)
Expenses	(19,743)	(13,419)
Ending balance	<u>\$ 4,784,747</u>	<u>\$ 4,253,121</u>

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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Note 4. Fair Value Measurement (continued)

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

STIF – 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, 2016 and 2015, agency funds were \$412,441 and \$418,262, respectively.

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	(As Restated)	
	2016	2015
Receivable in less than one year	\$ 675,658	\$ 559,887
Receivable in one to five years	666,500	954,358
Total pledges receivable, gross	1,342,158	1,514,245
Less allowance for uncollectible pledges	(68,000)	(76,000)
Less unamortized discount (discount rates of 0.55% to 0.86%)	(15,678)	(28,409)
Pledges receivable, net	<u>\$ 1,258,480</u>	<u>\$ 1,409,836</u>

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

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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Note 6. Pledges Receivable (continued)

Three donors represent approximately \$823,000 of the total undiscounted pledges receivable at June 30, 2016. 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 \$16,000 and \$15,000 for the years ended June 30, 2016 and 2015, 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 for the years ended June 30, 2016 and 2015, have been reflected in the accompanying financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	2016	2015
Scholarships	\$ 79,871	\$ 109,301
Fellowships	58,613	75,960
Professorships	223,446	237,363
Research and related support	1,807,169	1,736,687
Pledges receivable, net	204,547	192,886
Endowment cumulative balance	1,137,562	1,309,240
Other	579,997	485,198
	<u>\$ 4,091,205</u>	<u>\$ 4,146,635</u>

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, 2016 and 2015

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Note 9. Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to:

	(As Restated)	
	2016	2015
Scholarships	\$ 700,201	\$ 697,752
Fellowships	20,588	21,736
Professorships	4,414,165	3,823,309
Pledges receivable, net	1,053,932	1,216,950
Amounts reported as unrestricted or temporarily restricted net assets	(1,123,603)	(1,537,514)
Other	51,816	265,234
	<u>\$ 5,117,099</u>	<u>\$ 4,487,467</u>

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

Note 10. Net Assets Released From Donor Restrictions

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

	(As Restated)	
	2016	2015
Scholarships	\$ 54,380	\$ 48,750
Fellowships	61,208	38,025
Professorships	258,288	71,733
Research and related support	895,307	918,687
Other	286,780	276,160
	<u>\$ 1,555,963</u>	<u>\$ 1,353,355</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 years ended June 30, 2016 and 2015, net endowment transfers among funds were \$30,000 and \$1,335,318, respectively.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2016 and 2015

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Note 12. Prior Year Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation with no effect on previously reported total net assets.

During the year ended June 30, 2016, the Foundation identified a pledge receivable that was recorded as contribution revenue during the year ended June 30, 2014 to have conditional terms. As generally accepted account principles require pledges to be unconditional to be recognized as contribution revenue, the Foundation restated its 2015 financial statements to exclude the conditional pledge.

The cumulative adjustments to the previously issued statement of financial position at June 30, 2015 were as follows:

	As Previously Reported	Restatement Adjustments	As Restated
Pledges receivable, net	\$ 2,522,970	\$ (1,113,134)	\$ 1,409,836
Permanently restricted net assets	\$ 5,600,601	\$ (1,113,134)	\$ 4,487,467

The cumulative adjustments to the previously issued statement of activities for the year ended June 30, 2015 were as follows:

	As Previously Reported	Restatement Adjustments	As Restated
Change in pledges receivable, net - Permanently restricted	\$ (230,919)	\$ 265,838	\$ 34,919
Permanently restricted net assets - Beginning of year	\$ 3,907,152	\$ (1,378,972)	\$ 2,528,180
Permanently restricted net assets - End of year	\$ 5,600,601	\$ (1,113,134)	\$ 4,487,467

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through October 14, 2016, the date which the financial statements were available to be issued, and there were none to report.

North Carolina Tobacco Foundation, Inc.

General Fund Budget vs. Actual - Unaudited  
Year Ended June 30, 2016

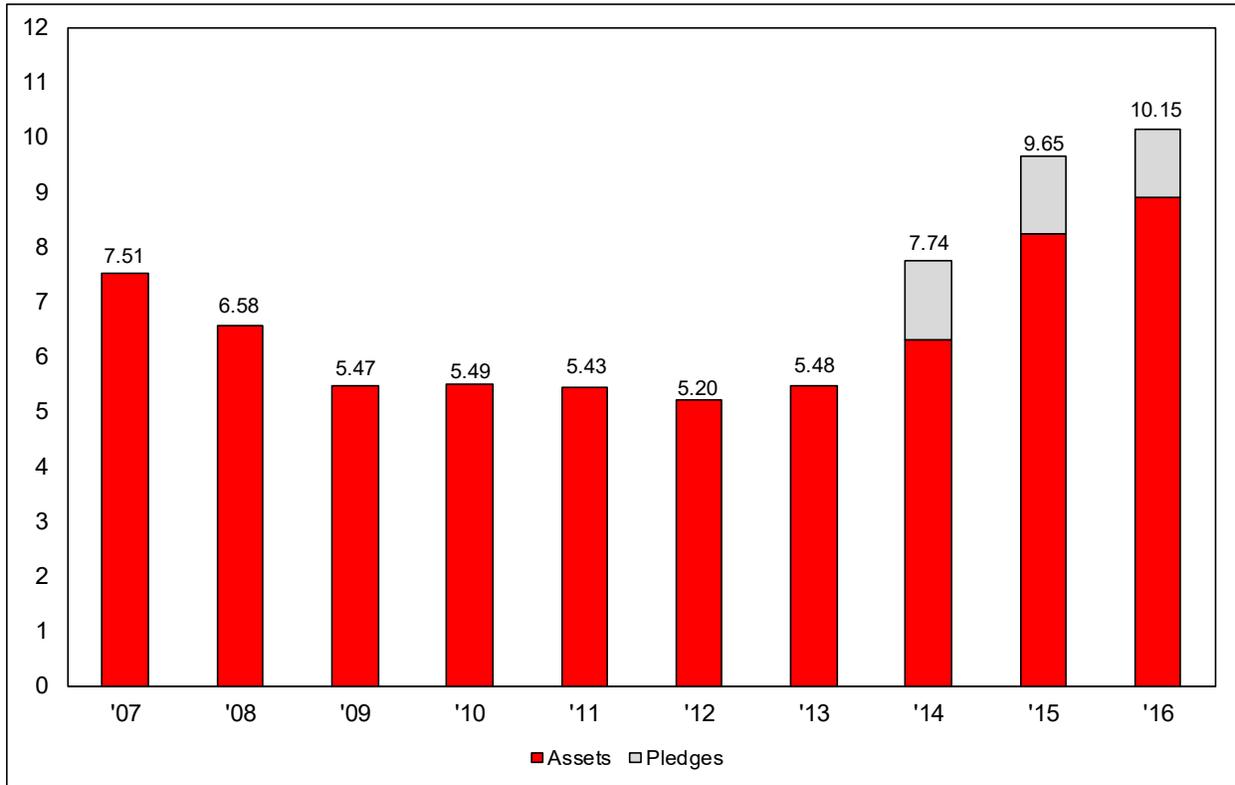
	Budget	Actual	Variance
<b>Income</b>			
Contributions	\$ 110,000	\$ 70,775	\$ (39,225)
Interest and dividends	29,000	33,146	4,146
Endowment assessment	2,605	2,605	-
<b>Total Income</b>	<b>141,605</b>	<b>106,526</b>	<b>(35,079)</b>
<b>Support</b>			
Program support	136,845	138,235	1,390
Endowment fee transferred to University Advancement	2,605	2,605	-
Foundation administration	43,250	41,145	(2,105)
<b>Total Support</b>	<b>182,700</b>	<b>181,985</b>	<b>(715)</b>
<b>Income Less Support</b>	<b>(41,095)</b>	<b>(75,459)</b>	<b>(34,364)</b>
<b>General Fund Balance:</b>			
Beginning of year	635,560	635,560	-
<b>End of year</b>	<b>\$ 594,465</b>	<b>\$ 560,101</b>	<b>\$ (34,364)</b>

North Carolina Tobacco Foundation, Inc.

Ten Year Summary of Asset Growth - Unaudited  
As of June 30

Total Assets

(Dollars in Millions)



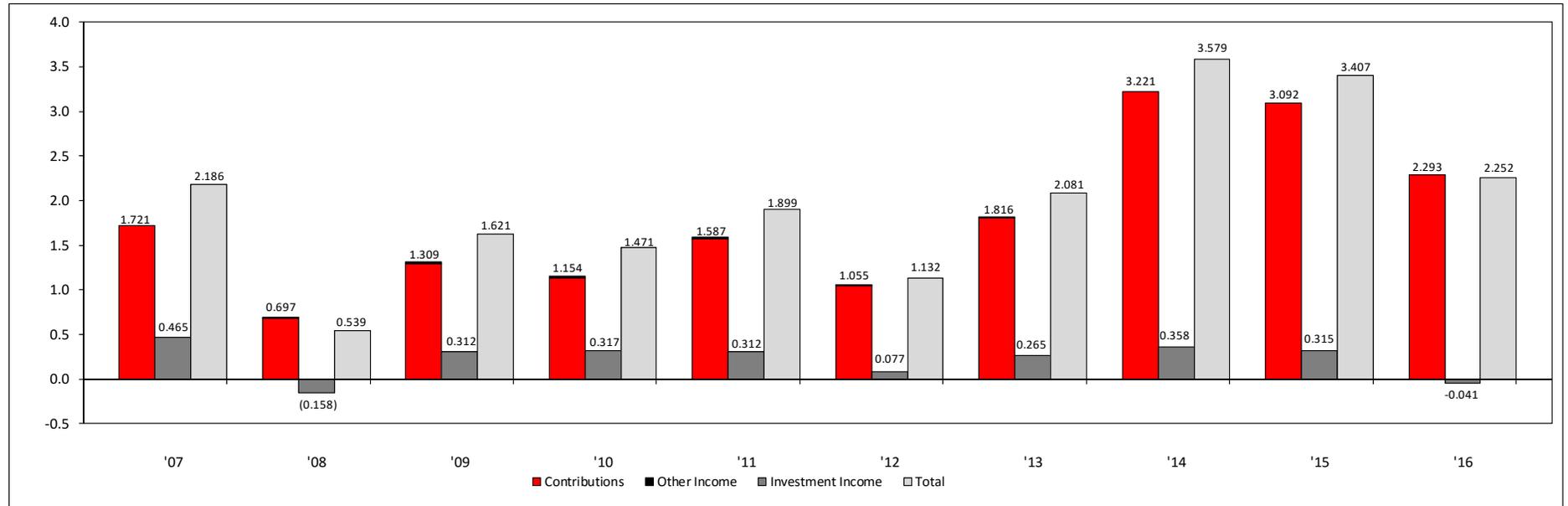
Fiscal years 2014 - 2016 are reported using accrual basis of accounting; preceeding years are reported using modified cash basis.

North Carolina Tobacco Foundation, Inc.

Ten Year Summary of Revenues and Support - Unaudited  
Fiscal Years Ended June 30, 2016

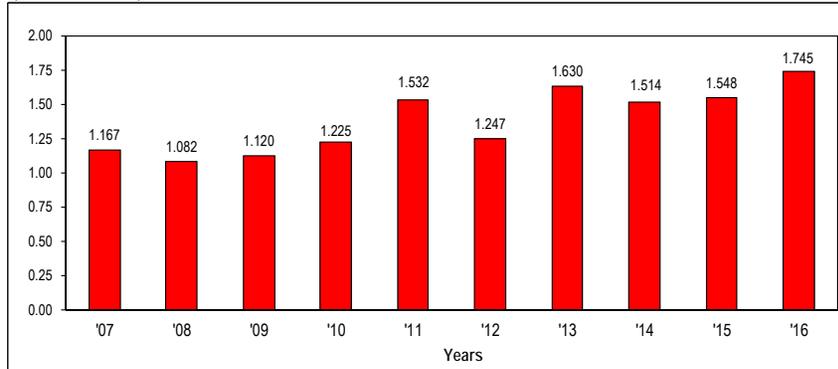
Total Revenues, Gains, and Other Income

(Dollars in Millions)



Total Support

(Dollars in Millions)



Fiscal years 2014 - 2016 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.