

**NORTH CAROLINA  
TOBACCO FOUNDATION, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2019 and 2018**

North Carolina Tobacco Foundation, Inc.

Financial Report  
For the Years Ended June 30, 2019 and 2018

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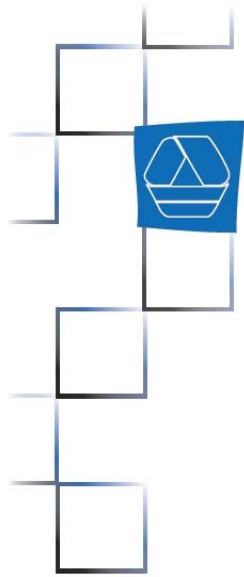
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## INDEPENDENT AUDITORS' REPORT

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

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, 2019, 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.

### ***Auditors' 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 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 financial position of North Carolina Tobacco Foundation, Inc., as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Disclaimer of Opinion on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19 through 21, 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 marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Prior Year Financial Statements***

The 2018 financial statements of the Foundation were audited by other auditors, whose report dated October 10, 2018 expressed an unmodified opinion on those statements.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
October 16, 2019

North Carolina Tobacco Foundation, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents (Note 1)	\$ 1,433,271	\$ 1,705,947
Intermediate investments (Note 1)	2,068,547	2,029,890
Long-term investments (Notes 1 and 3)	7,820,030	6,983,875
Pledges receivable, net (Notes 1 and 7)	282,368	565,610
<b>Total Assets</b>	<b>\$ 11,604,216</b>	<b>\$ 11,285,322</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable - North Carolina State University (Note 1)	\$ 23,700	\$ 4,614
Agency funds held in custody for others (Note 6)	377,049	404,112
<b>Total Liabilities</b>	<b>400,749</b>	<b>408,726</b>
<b>Net Assets</b>		
Without Donor Restrictions:		
Undesignated	284,930	295,335
With Donor Restrictions:		
Perpetual in nature (Note 9)	5,632,397	5,025,547
Purpose restricted (Note 9)	5,286,140	5,555,714
<b>Total Net Assets</b>	<b>11,203,467</b>	<b>10,876,596</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 11,604,216</b>	<b>\$ 11,285,322</b>

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, and Other Income</b>			
Contributions (Note 1)	\$ 7,300	\$ 1,533,238	\$ 1,540,538
Changes in pledges receivable, net (Note 7)	-	(283,242)	(283,242)
Donated services, salaries, and facilities (Note 8)	69,000	-	69,000
Net investment income	41,675	498,710	540,385
Interest and dividends	84,684	7,448	92,132
Other income	250	-	250
Net assets released from restrictions (Note 10)	1,420,339	(1,420,339)	-
<b>Total Revenues, Gains, and Other Income</b>	<b>1,623,248</b>	<b>335,815</b>	<b>1,959,063</b>
<b>Grants to Support the University Program:</b>			
Scholarships and fellowships	214,327	-	214,327
Faculty support and professorships	799,605	-	799,605
Agricultural research support	89,810	-	89,810
Cooperative extension support	11,626	-	11,626
Departmental support	404,689	-	404,689
<b>Total Program Support</b>	<b>1,520,057</b>	<b>-</b>	<b>1,520,057</b>
Administrative	30,150	-	30,150
Fundraising	81,985	-	81,985
<b>Total Other Support</b>	<b>112,135</b>	<b>-</b>	<b>112,135</b>
<b>Total Support (Note 11)</b>	<b>1,632,192</b>	<b>-</b>	<b>1,632,192</b>
<b>(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>(8,944)</b>	<b>335,815</b>	<b>326,871</b>
<b>Net Transfers</b>			
Among funds	(1,461)	1,461	-
<b>Total Net Transfers</b>	<b>(1,461)</b>	<b>1,461</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(10,405)</b>	<b>337,276</b>	<b>326,871</b>
<b>Net Assets</b>			
Beginning of year	295,335	10,581,261	10,876,596
End of year	\$ 284,930	\$ 10,918,537	\$ 11,203,467

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities  
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains, and Other Income</b>			
Contributions (Note 1)	\$ 33,525	\$ 2,424,737	\$ 2,458,262
Changes in pledges receivable, net (Note 7)	-	81,326	81,326
Donated services, salaries, and facilities (Note 8)	79,000	-	79,000
Net investment (loss) income	(26,778)	675,368	648,590
Interest and dividends	49,425	19,546	68,971
Net assets released from restrictions (Note 10)	1,978,712	(1,978,712)	-
<b>Total Revenues, Gains, and Other Income</b>	<b>2,113,884</b>	<b>1,222,265</b>	<b>3,336,149</b>
<b>Grants to Support the University</b>			
<b>Program:</b>			
Scholarships and fellowships	290,021	-	290,021
Faculty support and professorships	1,085,282	-	1,085,282
Agricultural research support	107,033	-	107,033
Cooperative extension support	11,998	-	11,998
Departmental support	603,240	-	603,240
<b>Total Program Support</b>	<b>2,097,574</b>	<b>-</b>	<b>2,097,574</b>
Administrative	28,800	-	28,800
Fundraising	90,151	-	90,151
<b>Total Other Support</b>	<b>118,951</b>	<b>-</b>	<b>118,951</b>
<b>Total Support (Note 11)</b>	<b>2,216,525</b>	<b>-</b>	<b>2,216,525</b>
<b>(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support</b>	<b>(102,641)</b>	<b>1,222,265</b>	<b>1,119,624</b>
<b>Net Transfers</b>			
Among funds	5,207	(5,207)	-
<b>Total Net Transfers</b>	<b>5,207</b>	<b>(5,207)</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>(97,434)</b>	<b>1,217,058</b>	<b>1,119,624</b>
<b>Net Assets</b>			
Beginning of year	392,769	9,364,203	9,756,972
End of year	\$ 295,335	\$ 10,581,261	\$ 10,876,596

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 326,871	\$ 1,119,624
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowment	(625,166)	(395,450)
Net investment income	(540,385)	(648,590)
(Increase) decrease in:		
Pledges receivable, net	283,242	(81,326)
Accounts receivable	-	1,469
(Decrease) increase in:		
Accounts payable - North Carolina State University	19,086	(27,098)
Agency funds held in custody for others	(27,063)	24,713
<b>Net Cash Used in Operating Activities</b>	<u>(563,415)</u>	<u>(6,658)</u>
<b>Cash Flows From Investing Activities</b>		
Net proceeds from sales of investments	632,640	394,796
Net purchases of investments	(967,067)	(530,362)
<b>Net Cash Used in Investing Activities</b>	<u>(334,427)</u>	<u>(135,566)</u>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for permanent endowment	625,166	395,450
<b>Net Cash Provided by Financing Activities</b>	<u>625,166</u>	<u>395,450</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<u>(272,676)</u>	<u>253,226</u>
<b>Cash and Cash Equivalents</b>		
Beginning of year	1,705,947	1,452,721
End of year	<u>\$ 1,433,271</u>	<u>\$ 1,705,947</u>
<b>Supplemental Disclosures of Noncash Activities:</b>		
Donated services, salaries, and facilities	<u>\$ 69,000</u>	<u>\$ 79,000</u>

See notes to financial statements.



North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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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 provide 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 or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that are either to be maintained permanently by the Foundation or will be released either by actions of the Foundation and/or by the passage of time. 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 TowneBank. 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 \$2,068,547 and \$2,029,890 at June 30, 2019 and 2018, respectively. The cost of these investments was \$2,170,462 and \$2,171,421 as of June 30, 2019 and 2018, 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”).

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.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions in the statements of activities.

The University has a gift assessment program that supports Central Development and college-level fundraising efforts. For the years ended June 30, 2019 and 2018, a one-time fee of 7% was assessed on gifts that support current operations and facilities, with 4% designated for Central Development and 3% designated to the fundraising entity receiving the gift.

Investment income: Investment income is allocated on the basis of average fund balances for net assets with and without donor restrictions. 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 net assets with or without donor restrictions, as appropriate. Earnings from investments are net of investment fees of approximately \$35,000 and \$32,000 for the years ended June 30, 2019 and 2018, respectively. Gains and losses on sales of investments are allocated on the unit value method. Investment income on investments owned individually by one fund is directly allocated to the owning fund.

As part of the University’s gift assessment program, an annual fee is assessed on the average twenty-quarter market value of assets held in the endowment investment portfolio. For the years ended June 30, 2019 and 2018, the annual fee was 1.25%, with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts.

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 2019 and 2018. 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 not 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, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to tax year 2015.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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

Reclassifications: Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation with no effect on previously reported net assets. Additional amounts have been reclassified to conform to the ASU 2016-14 presentation.

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets, as previously presented:			
Unrestricted:			
Undesignated	\$ 295,335	\$ -	\$ 295,335
Temporarily restricted	-	5,555,714	5,555,714
Permanently restricted	-	5,025,547	5,025,547
Total Net Assets	<u>\$ 295,335</u>	<u>\$ 10,581,261</u>	<u>\$ 10,876,596</u>

Note 2. Endowment

The Foundation's endowment consists of nine 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. The Foundation has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets perpetual in nature (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment that are required by the applicable donor gift instrument. The remaining portion of the donor-designated endowment funds that is not classified as net assets perpetual in nature is classified as purpose 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 (underwater endowments). These deficiencies generally result from either spending of corpus in accordance to the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. There were no such deficiencies as of June 30, 2019 and 2018.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

Note 2. Endowment (continued)

Investment return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. The endowment assets are invested through the 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.

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, endowments may not be able to fund spending at the 4.0% level. Unless the gift instrument specifies otherwise, it is the Foundation's policy to allow up to 15% of the corpus of an endowment to 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 endowments. Spending budgets were calculated at \$212,615 and \$235,960 for fiscal years 2019 and 2020, 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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 20,029	\$ 7,052,677	\$ 7,072,706
Total investment return	2,034	504,404	506,438
Contributions, including change in accrued pledges and other income	-	606,850	606,850
Appropriations of endowment assets for expenditure	(1,245)	(294,205)	(295,450)
Endowment net assets, end of year	\$ 20,818	\$ 7,869,726	\$ 7,890,544

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

Note 2. Endowment (continued)

The following represents endowment net asset composition by type of fund, as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-designated endowment funds:			
Corpus	\$ -	\$ 5,632,397	\$ 5,632,397
Appreciation	20,818	2,237,329	2,258,147
Total Funds	<u>\$ 20,818</u>	<u>\$ 7,869,726</u>	<u>\$ 7,890,544</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 18,227	\$ 6,502,088	\$ 6,520,315
Total investment return	2,992	693,933	696,925
Contributions, including change in accrued pledges and other income	-	121,021	121,021
Appropriations of endowment assets for expenditure	(1,190)	(264,365)	(265,555)
Endowment net assets, end of year	<u>\$ 20,029</u>	<u>\$ 7,052,677</u>	<u>\$ 7,072,706</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-designated endowment funds:			
Corpus	\$ -	\$ 5,025,547	\$ 5,025,547
Appreciation	20,029	2,027,130	2,047,159
Total Funds	<u>\$ 20,029</u>	<u>\$ 7,052,677</u>	<u>\$ 7,072,706</u>

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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Note 3. Long-Term Investments

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

Long-term investments consisted of the following at June 30:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 2,739	\$ 2,739	\$ 2,572	\$ 2,572
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	5,422,864	7,817,291	5,002,682	6,981,303
	<u>\$ 5,425,603</u>	<u>\$ 7,820,030</u>	<u>\$ 5,005,254</u>	<u>\$ 6,983,875</u>

Note 4. Fair Value Measurement

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

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

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

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

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

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

Note 4. Fair Value Measurement (continued)

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

	2019			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 2,739	\$ -	\$ -	\$ 2,739
commonfund Intermediate Term Fund	-	736,505	-	736,505
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	1,332,042	-	1,332,042
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	7,817,291	7,817,291
	<u>\$ 2,739</u>	<u>\$ 2,068,547</u>	<u>\$ 7,817,291</u>	<u>\$ 9,888,577</u>

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 2,572	\$ -	\$ -	\$ 2,572
commonfund Intermediate Term Fund	-	725,212	-	725,212
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	1,304,678	-	1,304,678
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	6,981,303	6,981,303
	<u>\$ 2,572</u>	<u>\$ 2,029,890</u>	<u>\$ 6,981,303</u>	<u>\$ 9,013,765</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 for the year ended June 30:

	2019	2018
	NC State Investment Fund, Inc. (LTIP)	NC State Investment Fund, Inc. (LTIP)
Beginning balance	\$ 6,981,303	\$ 5,954,933
Participant additions	625,000	695,000
Investment income	3,152	2,957
Realized gains	119,670	80,879
Unrealized appreciation	415,806	642,330
Participant withdrawals	(295,450)	(365,555)
Expenses	(32,190)	(29,241)
Ending balance	<u>\$ 7,817,291</u>	<u>\$ 6,981,303</u>

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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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 a Blackrock Liquid Policy Portfolio (“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.

You can find additional information regarding the LTIP and the ITF on the Foundations Accounting and Investments home page at <https://foundationsaccounting.ofa.ncsu.edu/>.

Note 5. Financial Assets and Liquidity Resources

The Foundation’s endowment funds consist of donor-designated endowments. Income from most donor-designated endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As part of the Foundation’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The LTIP is responsible for managing liquidity in a manner that balances the short-term liquidity needs with the Fund’s longer-term return objectives. However, donor-designated endowments contain investments with redemption provisions that could impact the availability of funds. In addition, the Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

As described in Note 1, 0.60% of the annual endowment assessment fee is designated to college-level fundraising efforts. \$28,555 of endowment assessments will be available within the next 12 months. As described in Note 1, 0.60% of the annual endowment assessment fee is designated to college-level fundraising efforts. Approximately \$29,000 of endowment assessments will be available within the next 12 months. As described in Note 2, endowments have a spending rate of 4%. Approximately \$1,000 of appropriations from the unrestricted donor-designated endowment will be available within the next 12 months.



North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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Note 5. Financial Assets and Liquidity Resources (continued)

As of June 30, 2019, financial assets available within one year for general expenditure, such as administrative and fundraising expenses, were as follows:

Total financial assets	\$	11,604,216
Less those unavailable for general expenditures within one year, due to:		
Donor imposed restrictions:		
Restricted by donor in perpetuity		(5,632,397)
Subject to appropriation and satisfaction of donor restrictions		(5,277,453)
Accrued liabilities		<u>(400,749)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>293,617</u>

Note 6. 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, 2019 and 2018, agency funds were \$377,049 and \$404,112, respectively.

Note 7. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2019	2018
Receivable in less than one year	\$ 109,188	\$ 292,376
Receivable in one to five years	200,000	336,000
Total pledges receivable, gross	<u>309,188</u>	<u>628,376</u>
Less allowance for uncollectible pledges	(16,000)	(32,000)
Less unamortized discount (discount rates of 1.78% to 2.00%)	(10,820)	(30,766)
Pledges receivable, net	<u>\$ 282,368</u>	<u>\$ 565,610</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.

Three donors represented approximately \$290,000 of the total undiscounted pledges receivable at June 30, 2019. Two donors represented approximately \$530,000 of the total undiscounted pledges receivable at June 30, 2018.

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

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Note 8. Donated Services, Salaries and Facilities

Donated services in the amount of \$9,000 and \$8,000 for the years ended June 30, 2019 and 2018, respectively, have been reflected in the financial statements for services provided by the University Finance Division. In addition, donated salaries and facilities provided by the University for college development in the amount of \$60,000 and \$71,000 for the years ended June 30, 2019 and 2018, respectively, have been reflected in the accompanying financial statements.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions were available for the following purposes at June 30:

	2019	2018
Subject to expenditure for specified purpose:		
Scholarships and fellowships	\$ 108,392	\$ 113,277
Faculty support and professorships	521,760	557,393
Research support	1,813,465	1,765,009
Pledges receivable, net	211,854	476,780
Other	393,340	616,125
	<u>3,048,811</u>	<u>3,528,584</u>
Endowments:		
Subject to Foundation endowment spending policy and appropriation:		
Scholarships and fellowships	866,049	840,258
Faculty support and professorships	6,892,775	6,084,075
Pledges receivable, net	70,514	88,830
Other	40,388	39,514
	<u>7,869,726</u>	<u>7,052,677</u>
Total Net Assets With Donor Restrictions	<u>\$ 10,918,537</u>	<u>\$ 10,581,261</u>

The "Other" grouping 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, 2019 and 2018

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 during the years ended June 30:

	2019	2018
Scholarships and fellowships	\$ 214,327	\$ 278,995
Faculty support and professorships	799,605	1,085,282
Agricultural research support	78,316	107,033
Cooperative extension support	11,626	11,998
Departmental support	315,850	494,909
Administrative and fundraising	615	495
	<u>\$ 1,420,339</u>	<u>\$ 1,978,712</u>

Note 11. Functional Expense

The Foundation's primary program is to provide financial support to the various colleges within the University. Expenses by functional classification for the year ended June 30, 2019 were as follows:

	Total Program Support	Supporting Activities		Total Support
		Management Support	Fundraising Support	
Grants	\$ 1,066,011	\$ -	\$ 7,380	\$ 1,073,391
Legal	-	-	2,015	2,015
Accounting	-	16,150	-	16,150
Office Expenses	7,124	-	272	7,396
Occupancy	5,500	-	644	6,144
Travel	59,762	-	7,411	67,173
Conferences and Meetings	8,427	-	942	9,369
Insurance	-	-	4,917	4,917
Departmental Equipment	8,807	-	-	8,807
Equip Rental and Maintenance	27,978	-	-	27,978
Contracted Services	16,947	-	-	16,947
Miscellaneous Services and Fees	233,882	14,000	57,105	304,987
Printing and Binding	9,335	-	-	9,335
Dues and Subscriptions	2,250	-	60	2,310
Supplies	74,034	-	1,239	75,273
Total	<u>\$ 1,520,057</u>	<u>\$ 30,150</u>	<u>\$ 81,985</u>	<u>\$ 1,632,192</u>

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements  
For the Years Ended June 30, 2019 and 2018

Note 11. Functional Expense (continued)

Expenses by functional classification for the year ended June 30, 2018 were as follows:

	Total Program Support	Supporting Activities		Total Support
		Management Support	Fundraising Support	
Grants	\$ 1,475,158	\$ -	\$ 6,946	\$ 1,482,104
Legal	-	-	2,590	2,590
Accounting	-	15,800	-	15,800
Advertising	375	-	-	375
Office Expenses	5,764	-	288	6,052
Occupancy	6,450	-	-	6,450
Travel	96,455	-	6,013	102,468
Conferences and Meetings	20,029	-	-	20,029
Insurance	-	-	3,589	3,589
Departmental Equipment	27,971	-	-	27,971
Equip Rental and Maintenance	35,097	-	519	35,616
Contracted Services	35,488	-	63	35,551
Miscellaneous Services and Fees	246,406	13,000	68,231	327,637
Printing and Binding	10,699	-	180	10,879
Dues and Subscriptions	1,783	-	60	1,843
Supplies	135,899	-	1,672	137,571
Total	<u>\$ 2,097,574</u>	<u>\$ 28,800</u>	<u>\$ 90,151</u>	<u>\$ 2,216,525</u>

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 16, 2019, 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  
Year Ended June 30, 2019

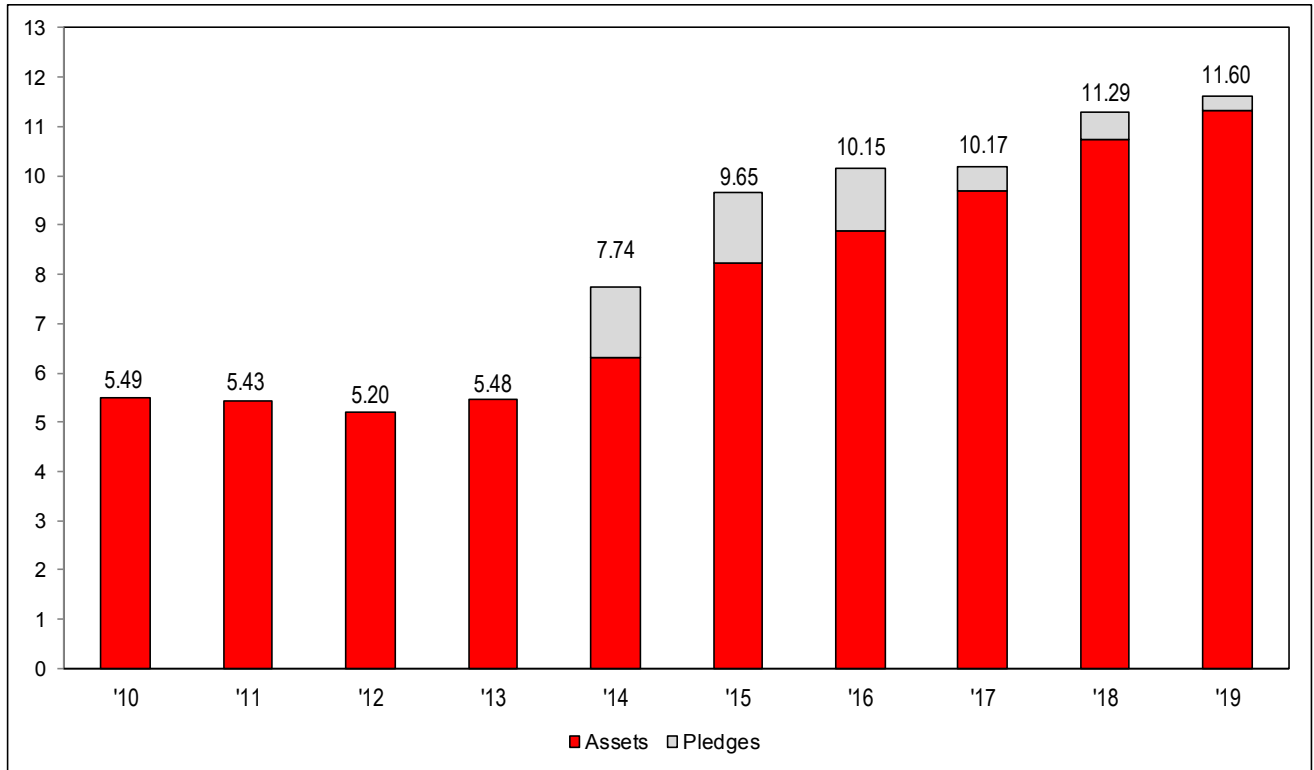
	Budget	Actual	(Under) Over Variance
<b>Income</b>			
Contributions	\$ 60,000	\$ 7,060	\$ (52,940)
Interest and dividends	40,000	44,074	4,074
<b>Total Income</b>	<b>100,000</b>	<b>51,134</b>	<b>(48,866)</b>
<b>Support</b>			
Program support	108,176	103,202	(4,974)
Foundation administration	48,325	43,135	(5,190)
<b>Total Support</b>	<b>156,501</b>	<b>146,337</b>	<b>(10,164)</b>
<b>Income Less Support</b>	<b>(56,501)</b>	<b>(95,203)</b>	<b>(38,702)</b>
<b>General Fund Balance</b>			
Beginning of year	374,955	374,955	-
<b>End of year</b>	<b>\$ 318,454</b>	<b>\$ 279,752</b>	<b>\$ (38,702)</b>

North Carolina Tobacco Foundation, Inc.

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

Total Assets

(Dollars in Millions)



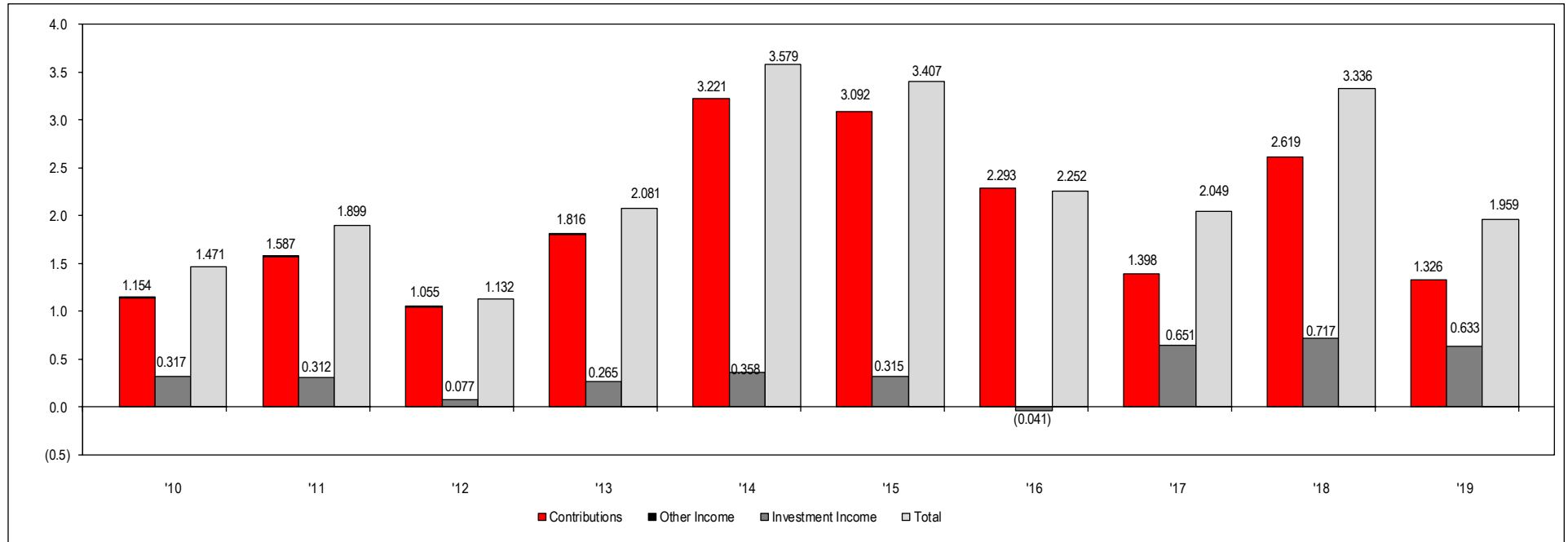
Fiscal years 2014 - 2019 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

North Carolina Tobacco Foundation, Inc.

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

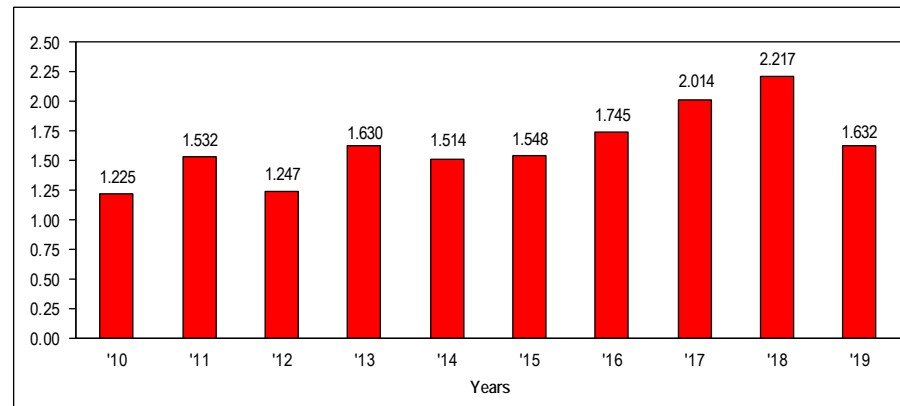
Total Revenues, Gains, and Other Income

(Dollars in Millions)



Total Support

(Dollars in Millions)



Fiscal years 2014 - 2019 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.