

**NORTH CAROLINA
TOBACCO FOUNDATION, INC.**

FINANCIAL REPORT

JUNE 30, 2018 and 2017

North Carolina Tobacco Foundation, Inc.

**Financial Report
For the Years Ended June 30, 2018 and 2017**

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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 statements of financial position as of June 30, 2018 and 2017, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018 and 2017, and the results of its operations and its cash flows for the years 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 basic financial statements as a whole. The supplemental information on pages 16 through 18 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 10, 2018

North Carolina Tobacco Foundation, Inc.

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents (Note 1)	\$ 1,705,947	\$ 1,452,721
Intermediate investments (Note 1)	2,029,890	2,072,554
Long-term investments (Notes 1 and 3)	6,983,875	6,157,055
Pledges receivable, net (Notes 1 and 6)	565,610	484,284
Accounts receivable (Note 1)	-	1,469
Total Assets	\$ 11,285,322	\$ 10,168,083
Liabilities and Net Assets		
Liabilities		
Accounts payable - North Carolina State University (Note 1)	\$ 4,614	\$ 31,712
Agency funds held in custody for others (Note 5)	404,112	379,399
Total Liabilities	\$ 408,726	\$ 411,111
Net Assets		
Unrestricted:		
Undesignated	\$ 295,335	\$ 392,769
Temporarily restricted (Note 8)	5,555,714	4,459,677
Permanently restricted (Note 9)	5,025,547	4,904,526
Total Net Assets	10,876,596	9,756,972
Total Liabilities and Net Assets	\$ 11,285,322	\$ 10,168,083

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 33,525	\$ 2,029,287	\$ 395,450	\$ 2,458,262
Changes in pledges receivable, net (Note 6)	-	355,755	(274,429)	81,326
Donated services, salaries, and facilities (Note 7)	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)	-	-
Total Revenues, Gains, and Other Income	2,113,884	1,101,244	121,021	3,336,149
Grants to Support the University Program:				
Scholarships and fellowships	290,021	-	-	290,021
Faculty support and professorships	1,085,282	-	-	1,085,282
Agricultural research support	77,033	-	-	77,033
Cooperative extension support	11,998	-	-	11,998
Departmental support	364,112	-	-	364,112
Other current services	269,128	-	-	269,128
Total Program Support	2,097,574	-	-	2,097,574
Administrative	28,800	-	-	28,800
Fundraising	90,151	-	-	90,151
Total Other Support	118,951	-	-	118,951
Total Support	2,216,525	-	-	2,216,525
(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support	(102,641)	1,101,244	121,021	1,119,624
Net Transfers				
Among funds (Note 11)	5,207	(5,207)	-	-
Total Net Transfers	5,207	(5,207)	-	-
Change in Net Assets	(97,434)	1,096,037	121,021	1,119,624
Net Assets				
Beginning of year	392,769	4,459,677	4,904,526	9,756,972
End of year	\$ 295,335	\$ 5,555,714	\$ 5,025,547	\$ 10,876,596

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Income				
Contributions (Note 1)	\$ 38,500	\$ 1,655,227	\$ 438,100	\$ 2,131,827
Changes in pledges receivable, net (Note 6)	-	(83,523)	(690,673)	(774,196)
Donated services, salaries, and facilities (Note 7)	40,000	-	-	40,000
Net asset reclassification - underwater endowments	30,334	(30,334)	-	-
Net investment income (loss)	(16,952)	614,357	-	597,405
Interest and dividends	45,086	8,893	-	53,979
Net assets released from restrictions (Note 10)	1,759,119	(1,759,119)	-	-
Total Revenues, Gains, and Other Income	1,896,087	405,501	(252,573)	2,049,015
Grants to Support the University				
Program:				
Scholarships and fellowships	314,895	-	-	314,895
Faculty support and professorships	894,357	-	-	894,357
Agricultural research support	93,048	-	-	93,048
Cooperative extension support	13,810	-	-	13,810
Departmental support	354,642	-	-	354,642
Other current services	247,079	-	-	247,079
Total Program Support	1,917,831	-	-	1,917,831
Administrative	34,500	-	-	34,500
Fundraising	61,820	-	-	61,820
Total Other Support	96,320	-	-	96,320
Total Support	2,014,151	-	-	2,014,151
(Deficit) Excess of Revenues, Gains, and Other Income Over Total Support	(118,064)	405,501	(252,573)	34,864
Net Transfers				
Among funds (Note 11)	(2,971)	(37,029)	40,000	-
Total Net Transfers	(2,971)	(37,029)	40,000	-
Change in Net Assets	(121,035)	368,472	(212,573)	34,864
Net Assets				
Beginning of year	513,804	4,091,205	5,117,099	9,722,108
End of year	\$ 392,769	\$ 4,459,677	\$ 4,904,526	\$ 9,756,972

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 1,119,624	\$ 34,864
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted for permanent endowment	(395,450)	(438,100)
Net investment income	(648,590)	(597,405)
(Increase) decrease in:		
Pledges receivable, net	(81,326)	774,196
Accounts receivable	1,469	(350)
(Decrease) increase in:		
Accounts payable - North Carolina State University	(27,098)	13,713
Agency funds held in custody for others	24,713	(33,042)
Net Cash Used in Operating Activities	<u>(6,658)</u>	<u>(246,124)</u>
Cash Flows From Investing Activities		
Net proceeds from sales of investments	394,796	114,461
Net purchases of investments	(530,362)	(464,122)
Net Cash Used in Investing Activities	<u>(135,566)</u>	<u>(349,661)</u>
Cash Flows From Financing Activities		
Contributions restricted for permanent endowment	395,450	438,100
Net Cash Provided by Investing Activities	<u>395,450</u>	<u>438,100</u>
Net Increase (Decrease) in Cash and Cash Equivalents	253,226	(157,685)
Cash and Cash Equivalents		
Beginning of year	1,452,721	1,610,406
End of year	<u>\$ 1,705,947</u>	<u>\$ 1,452,721</u>
Supplemental Disclosures of Noncash Activities:		
Donated services, salaries, and facilities	\$ 79,000	\$ 40,000
Transfers among funds	<u>\$ 5,207</u>	<u>\$ 40,000</u>

See notes to financial statements.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

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 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 Paragon Bank. 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 \$2,029,890 and \$2,072,554 at June 30, 2018 and 2017, respectively. The cost of these investments was \$2,171,421 and \$2,184,294 as of June 30, 2018 and 2017, 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, 2018 and 2017**

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. For the year ended June 30, 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. For the year ended June 30, 2017, a one-time fee of 5% was assessed, 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 approximately \$32,000 and \$26,000 for the years ended June 30, 2018 and 2017, 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 investment portfolio. For the year ended June 30, 2018, the annual fee was 1.25% with 0.65% designated for University Advancement and 0.60% designated to college-level fundraising efforts. For the year ended June 30, 2017, the annual fee was 0.50%, with 0.25% designated for University Advancement and 0.25% designated to college-level fundraising efforts. In addition, for the year ended June 30, 2017, an assessment of 0.25% was 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, 2018 and 2017

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 2018 and 2017. 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, 2018 and 2017, 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 2014.

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. 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 either spending of corpus in accordance to the gift agreement or unfavorable market fluctuations which produce unrealized losses to the fund. Deficiencies of this nature are reported in unrestricted net assets and were \$0 as of June 30, 2018 and 2017.

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, 2018 and 2017**

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 \$78,160 and \$212,615 for fiscal years 2018 and 2019, 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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 18,227	\$ 1,597,562	\$ 4,904,526	\$ 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)
Transfers	-	-	-	-
Endowment net assets, end of year	<u>\$ 20,029</u>	<u>\$ 2,027,130</u>	<u>\$ 5,025,547</u>	<u>\$ 7,072,706</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ 20,029	\$ 2,027,130	\$ 5,025,547	\$ 7,072,706
Total funds	<u>\$ 20,029</u>	<u>\$ 2,027,130</u>	<u>\$ 5,025,547</u>	<u>\$ 7,072,706</u>

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 2. Endowment (continued)

The following represents changes in endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (13,959)	\$ 1,137,562	\$ 5,117,099	\$ 6,240,702
Net asset reclassification - underwater endowments	30,334	(30,334)	-	-
Endowment net assets after reclassification	16,375	1,107,228	5,117,099	6,240,702
Total investment return	2,897	621,949	-	624,846
Contributions, including change in accrued pledges and other income	-	-	(252,573)	(252,573)
Appropriations of endowment assets for expenditure	(1,045)	(91,615)	-	(92,660)
Transfers	-	(40,000)	40,000	-
Endowment net assets, end of year	\$ 18,227	\$ 1,597,562	\$ 4,904,526	\$ 6,520,315

The following represents endowment net asset composition by type of fund, as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated endowment funds	\$ 18,227	\$ 1,597,562	\$ 4,904,526	\$ 6,520,315
Total funds	\$ 18,227	\$ 1,597,562	\$ 4,904,526	\$ 6,520,315

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:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
STIF	\$ 2,572	\$ 2,572	\$ 202,122	\$ 202,122
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	5,002,682	6,981,303	4,618,642	5,954,933
	<u>\$ 5,005,254</u>	<u>\$ 6,983,875</u>	<u>\$ 4,820,764</u>	<u>\$ 6,157,055</u>

As of June 30, 2018, approximately 87.4% of the LTIP was with the UNC Management Company, 9.2% in the LPP, 1.8% in other managers in private equity funds, and 1.6% in the STIF. The LTIP's net assets were valued at approximately \$1,008,370,000 and \$870,450,000 at June 30, 2018 and 2017, respectively. The Foundation's investment in the LTIP represents approximately 0.7% of the member equity of LTIP at June 30, 2018 and 2017.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

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 technique 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 at June 30:

	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
	\$ 2,572	\$ 2,029,890	\$ 6,981,303	\$ 9,013,765

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
STIF	\$ 202,122	\$ -	\$ -	\$ 202,122
commonfund Intermediate Term Fund	-	737,295	-	737,295
NC State Investment Fund, Inc. Intermediate Term Fund (ITF)	-	1,335,259	-	1,335,259
NC State Investment Fund, Inc. Long-Term Investment Pool (LTIP)	-	-	5,954,933	5,954,933
	\$ 202,122	\$ 2,072,554	\$ 5,954,933	\$ 8,229,609

North Carolina Tobacco Foundation, Inc.

Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

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 for the year ended June 30:

	<u>2018</u>	<u>2017</u>
	<u>NC State Investment Fund, Inc. LTIP</u>	<u>NC State Investment Fund, Inc. LTIP</u>
Beginning balance	\$ 5,954,933	\$ 4,784,747
Participant additions	695,000	638,000
Investment income	2,957	2,880
Realized gains	80,879	75,363
Unrealized appreciation	642,330	568,405
Participant withdrawals	(365,555)	(92,660)
Expenses	(29,241)	(21,802)
Ending balance	<u>\$ 6,981,303</u>	<u>\$ 5,954,933</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, 2018 and 2017, agency funds were \$404,112 and \$379,399, respectively.

North Carolina Tobacco Foundation, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 6. Pledges Receivable

Pledges receivable consisted of the following at June 30:

	2018	2017
Receivable in less than one year	\$ 292,376	\$ 381,000
Receivable in one to five years	336,000	137,500
Total pledges receivable, gross	628,376	518,500
Less allowance for uncollectible pledges	(32,000)	(26,000)
Less unamortized discount (discount rates of 2.33% to 2.65%)	(30,766)	(8,216)
Pledges receivable, net	\$ 565,610	\$ 484,284

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.

Two donors represent approximately \$531,000 of the total undiscounted pledges receivable at June 30, 2018. Three donors represent approximately \$450,000 of the total undiscounted pledges receivable at June 30, 2017.

Note 7. Donated Services, Salaries and Facilities

Donated services in the amount of \$8,000 and \$14,000 for the years ended June 30, 2018 and 2017, 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 \$71,000 and \$26,000 for the years ended June 30, 2018 and 2017, respectively, have been reflected in the accompanying financial statements.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Scholarships and fellowships	\$ 113,277	\$ 138,210
Faculty support and professorships	557,393	209,461
Research and related support	1,765,009	1,873,257
Pledges receivable, net	476,780	121,025
Endowment cumulative balance	2,027,130	1,597,562
Other	616,125	520,162
	\$ 5,555,714	\$ 4,459,677

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, 2018 and 2017**

Note 9. Permanently Restricted Net Assets

Permanently restricted net assets are restricted as follows at June 30:

	2018	2017
Scholarships and fellowships	\$ 840,258	\$ 788,628
Faculty support and professorships	6,084,075	5,312,697
Pledges receivable, net	88,830	363,260
Amounts reported as unrestricted or temporarily restricted net assets	(2,047,159)	(1,615,789)
Other	59,543	55,730
	\$ 5,025,547	\$ 4,904,526

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 at June 30:

	2018	2017
Scholarships and fellowships	\$ 290,021	\$ 314,895
Faculty support and professorships	1,085,282	894,357
Departmental support	334,112	294,642
Administrative and fundraising	495	8,146
Other	268,802	247,079
	\$ 1,978,712	\$ 1,759,119

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, 2018 and 2017, net endowment transfers among funds were \$0 and \$40,000, respectively.

Note 12. Subsequent Events

The Foundation has evaluated subsequent events through October 10, 2018, 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, 2018

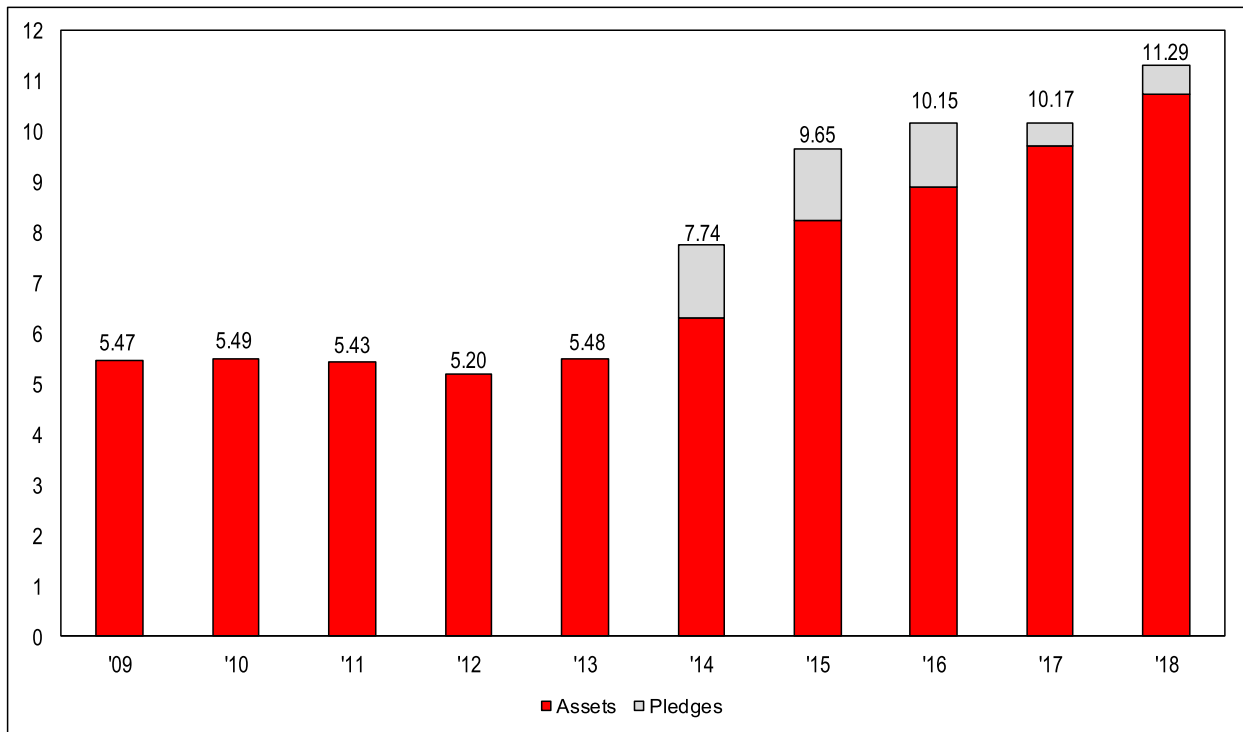
	Budget	Actual	(Under) Over Variance
Income			
Contributions	\$ 110,000	\$ 31,178	\$ (78,822)
Interest and dividends	33,000	34,114	1,114
Total Income	143,000	65,292	(77,708)
Support			
Program support	123,050	103,846	(19,204)
Foundation administration	49,975	39,951	(10,024)
Total Support	173,025	143,797	(29,228)
Income Less Support	(30,025)	(78,505)	(48,480)
General Fund Balance			
Beginning of year	453,460	453,460	-
End of year	\$ 423,435	\$ 374,955	\$ (48,480)

North Carolina Tobacco Foundation, Inc.

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

Total Assets*

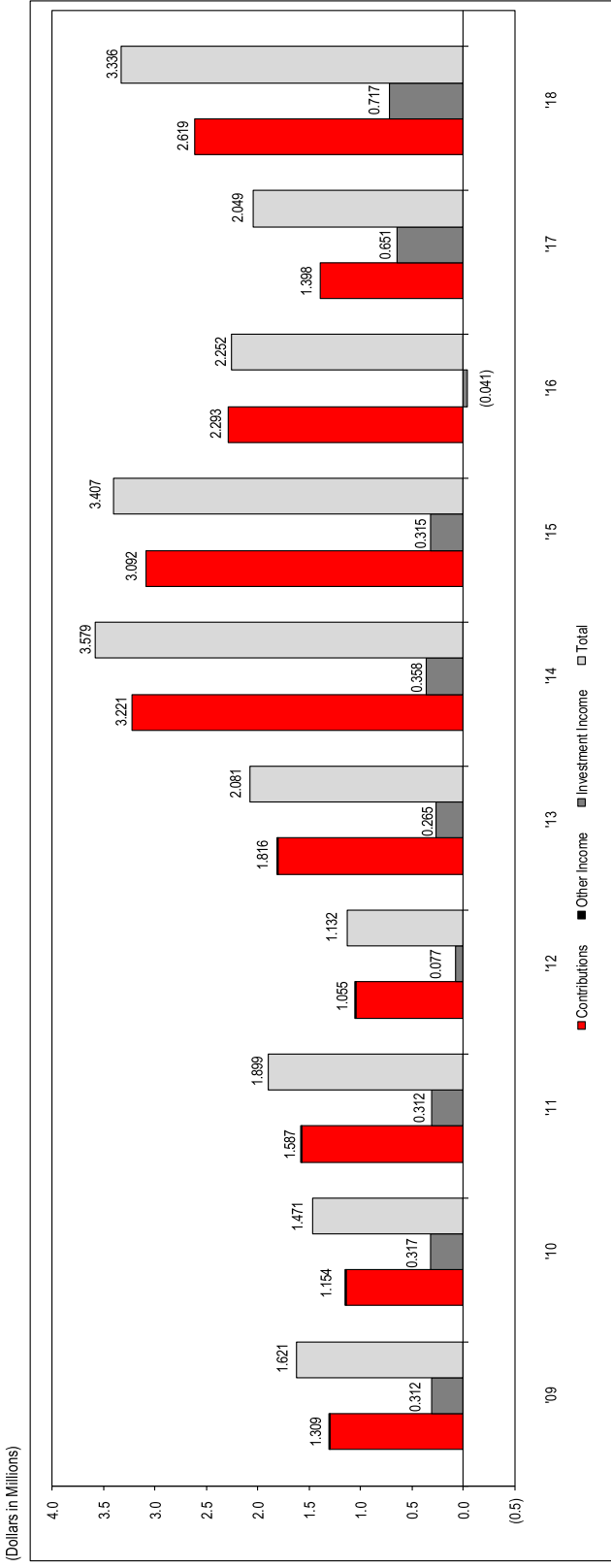
(Dollars in Millions)



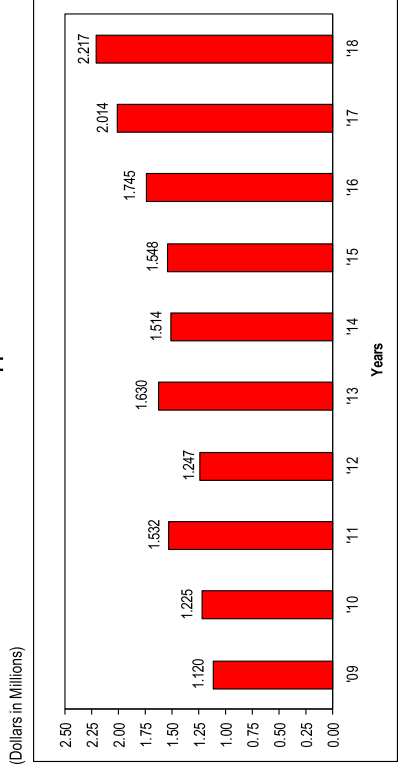
* Fiscal years 2014 - 2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.

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

Total Revenues, Gains, and Other Income*



Total Support*



* Fiscal years 2014-2018 are reported using accrual basis of accounting; preceding years are reported using modified cash basis.