

North Carolina Tobacco Foundation, Inc.

2017 Audit Results

June 30, 2017



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October 31, 2017

The Board of Directors
North Carolina Tobacco Foundation, Inc.
Raleigh, North Carolina

We are pleased to present the results of our audit of the financial statements of North Carolina Tobacco Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2017. This report to the Board of Directors summarizes our audit, the scope of our engagement, and observations related to the Foundation's financial position and results of operations. We would like to highlight that, similar to our prior year audit, we received the full cooperation of management throughout the audit process, and we appreciate all their efforts in providing us the requested supporting documentation timely.

As you are aware, professional standards require us to communicate with you regarding matters related to the audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. The following documents various matters with respect to the completion phase of the annual financial statements of the Foundation as of and for the year ended June 30, 2017, including our required communications. Should you desire further information or clarification concerning these matters in advance of our meeting, please feel free to give Stathis T. Poulos, Engagement Partner at (919) 278-1925.

The following communication was prepared as part of our audits, has consequential limitations, and is intended solely for the information and use of those charged with governance and, if appropriate, management of the Foundation and is not intended and should not be used by anyone other than those specified parties.

Very truly yours,

BDO USA, LLP

STATUS OF ENGAGEMENTS

Status of Engagements

The following documents our status with respect to the audit of the annual financial statements of North Carolina Tobacco Foundation, Inc. as of and for the year ended June 30, 2017:

Procedures	Key
<p>We planned and performed our audits to obtain reasonable assurance about whether the financial statements were free of material misstatements, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America does not provide absolute assurance relative to or any guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, may not be detected.</p> <p>Note: Professional standards also require that we obtain a sufficient understanding of the Foundation’s internal control to plan the audit of the financial statements. However, such understanding was required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>	<p>We have issued an unmodified opinion on the financial statements of the Foundation for the year ended June 30, 2017.</p>
<p>Communicate to management and those charged with governance significant deficiencies and material weaknesses identified during our audits (if any).</p>	<p>No material weaknesses were identified during our audit procedures. Refer to Appendix A for the 2017 No Material Weakness Letter.</p>
<p>Ensure that those charged with governance are kept appropriately informed of the Foundation’s financial reporting matters and comply with professional standards as to communications with those charged with governance.</p>	<p>Results are being reported in the following pages of this presentation.</p>

RESULTS OF OUR AUDITS

Critical Audit Areas

We have reviewed the significant accounting practices of the Foundation, which include policies, estimates and financial statement disclosures. The critical areas included the following for fiscal year 2017:

- Cash and cash equivalents
- Intermediate investments
- Long-term investments
- Pledges receivable (including allowance for doubtful accounts)
- Agency funds held in custody for others
- Accounts payable - North Carolina State University
- Net assets
- Contributions
- Donated services , salaries, and facilities
- Donated property and land
- Investment income
- Interest and dividends
- Program expenses
- Administrative expenses
- Fundraising expenses
- Net transfers

Key audit procedures performed included (not all inclusive):

- Independent confirmations with third parties
- Testing of year end reconciliations
- Testing of rollforward schedules
- Independent assessment of key estimates
- Cut-off testing
- Analytical reviews
- Recalculations
- Journal entry testing
- Tests of completeness including a search for unrecorded liabilities
- Legal inquiries
- Review of net position classifications
- Vouching a sample of items to third party documentation as well as cash receipts and/or disbursements (where applicable)

We also reviewed the Foundation's financial statements to determine whether all elements and disclosures required by accounting principles generally accepted in the United States of America ("US GAAP") were made.

Internal Control Over Financial Reporting

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Foundation’s internal controls over financial reporting. The definitions of material weakness, significant deficiency and control deficiency are as follows:

Material Weakness	A deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the organization’s financial statements will not be prevented or detected on a timely basis.
Significant Deficiency	A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Control Deficiency	A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

We did not identify any deficiencies in internal control that we consider to be material weaknesses. Refer to [Appendix A](#) for the 2017 No Material Weakness Letter.

Required Communications

Professional standards require the auditor to communicate certain matters to the Board of Directors so that we may assist the Foundation’s Board of Directors in overseeing management’s financial reporting and disclosure. Below we summarize these communications as they apply to the Foundation:

Requirement	Comments
<p><i>Auditors’ Responsibilities Under Generally Accepted Auditing Standards</i></p> <p>The financial statements are the responsibility of management. Our audits were designed in accordance with auditing standards generally accepted in the United States to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.</p>	<p>We have issued an unmodified opinion on the financial statements of the Foundation as of and for the year ended June 30, 2017.</p>
<p><i>Critical accounting policies and practices</i></p> <p>We communicate all critical accounting policies and practices (including footnote disclosures) used by the Foundation during the preparation of the financial statements.</p>	<p>The Foundation’s critical accounting policies and practices are described in Note 1 to the financial statements.</p>
<p><i>Auditor’s judgment about the quality of the Foundation’s accounting policies, estimates and financial statement disclosures</i></p> <p>We communicate our judgments about the quality, not just the acceptability, of the accounting policies as applied in the Foundation’s financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.</p>	<p>The accounting principles adopted by management are appropriate for the Foundation and have been consistently applied.</p>
<p><i>Adoption of a change in accounting principle</i></p> <p>We communicate to the Board of Directors the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.</p>	<p>There were no material adoptions of a change in accounting principle for the year ended June 30, 2017.</p>

Required Communications (continued)

Requirement	Comments
<p><i>Material, adjustments brought to the attention of management by the auditor</i></p> <p>The Board of Directors is informed about adjustments arising from the audits that could, in our judgment, either individually or in the aggregate, have a significant effect on the Foundation's and its subsidiaries' financial statements.</p>	None identified.
<p><i>Uncorrected differences, other than those the auditor believes to be trivial</i></p> <p>The Board of Directors is informed about unrecorded differences accumulated by the auditors during the current year audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.</p>	None identified.
<p><i>Significant deficiencies and material weaknesses in internal control</i></p>	We did not identify any deficiencies in internal control that we consider to be material weaknesses. Refer to Appendix A for the 2017 No Material Weakness Letter.
<p><i>Fraud and Illegal acts</i></p> <p>We report fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.</p>	No such matters came to our attention.
<p><i>Disagreements with management</i></p>	None.
<p><i>Consultations with other accountants</i></p>	None identified.
<p><i>Major issues discussed with management prior to retention</i></p>	None identified.
<p><i>Significant difficulties encountered during the audit</i></p>	None identified.

Required Communications (continued)

Requirement	Comments
<p><i>Representations requested from management</i></p>	<p>We have obtained representations from management on the 2017 financial statements of the Foundation.</p>
<p><i>Material alternative accounting treatments discussed with management</i></p>	<p>There were no such discussions.</p>
<p><i>Independence</i></p> <p>We communicate, at least annually, to the Board of Directors of the Foundation any independence concerns or issues.</p>	<p>We are not aware of any relationships between BDO and the Foundation that may reasonably be thought to bear on our independence.</p>
<p><i>AICPA Ethics Ruling Regarding Third-Party Service Providers</i></p>	<p>As we indicated in our proposal to the Foundation, we utilized certain professionals of Williams Overman Pierce, LLP (a BDO USA Alliance member firm) in conducting the 2017 audit.</p>
<p><i>Other issues arising from the audits the auditor considers significant and relevant to those charged with governance</i></p>	<p>There were no other issues arising from the audits that we consider significant and relevant to those charged with governance.</p>

SIGNIFICANT ACCOUNTING AND REPORTING MATTERS

Significant Accounting and Reporting Matters

Professional standards require the auditor to communicate certain new significant accounting and reporting matters to the Foundation’s Board of Directors so that we may assist the Foundation’s Board of Directors in overseeing management’s financial reporting. Below we summarize these communications as they will apply to the Foundation:

<p>ASU 2016-02, LEASES</p>	<p>In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which will require lessees to recognize at the commencement date a lease liability measured on a discounted basis and a right-of-use asset for the lease term. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.</p> <p>ASU 2016-02 is effective for the organization in fiscal year ending June 30, 2021.</p>
<p>ASU 2016-14, PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES</p>	<p>In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14") in August 2016. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements to net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows.</p> <p>ASU 2016-14 is effective for the organization in fiscal year ending June 30, 2019.</p>

Significant Accounting and Reporting Matters (continued)

ASC 606, REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the FASB issued Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("ASC 606") with various amendments, clarifications, and technical corrections issued subsequently. ASC 606 changes revenue recognition (for all entities that follow FASB accounting, including nonprofit organizations) for exchange transactions with the exception of the following:

- a) Leases contracts;
- b) Insurance contracts;
- c) Financial instruments and other contractual rights or obligations;
- d) Guarantees (other than product or service warranties); and
- e) Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

ASC 606 requires organizations to follow a 5 step model to recognizing revenue:

- Step 1: Identify the contract
- Step 2: Identify separate performance obligations
- Step 3: Determine the transaction price
- Step 4: Allocate transaction price to performance obligations
- Step 5: Recognize revenue when or as each performance obligation is satisfied

In addition to impacting how revenue from exchange transaction is recognized, ASC 606 also requires many additional disclosures and in certain cases will also impact the presentation of the statement of financial position and statement of profit/loss.

ASC 606 is effective for the organization in fiscal year ending June 30, 2020.

BDO RESOURCES

BDO Resources

BDO is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including competence, honesty and integrity, professionalism, dedication, responsibility and accountability for 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

The firm serves clients through over 60 offices and more than 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,401 offices in 158 countries. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For further information, please refer to <http://www.bdo.com/about/>.

Below is a summary of just some of the many resources BDO makes available at no additional charge to our clients. To subscribe to BDO publications, please use our RSS (Really Simple Syndication) Feeds or complete registration at BDO's Subscription Center at <https://subscriptions.bdo.com/>.

BDO KNOWS FINANCIAL REPORTING LETTERS AND FLASH REPORTS

Our BDO Knows financial reporting newsletters address significant financial reporting developments, relating to both public and private businesses that occur throughout the year. In addition, our Flash reports are intended to highlight certain financial reporting developments in a timely and brief "flash" format.

TAX ALERTS AND NEWSLETTERS

BDO's National Tax Organization ("NTO") provides a multitude of alerts and newsletters spanning considerations involving expatriate, federal, state and local jurisdictions and includes such areas as compensation and benefits, and credits and incentives. NTO further provides Tax Seminars/Webinars on a variety of topics, whose archives are readily available to clients and contacts.

INDUSTRY PUBLICATIONS

BDO's industry publications are numerous and span the sectors of technology, finance, insurance, healthcare, retail and consumer products, not-for-profit and real estate, among many others.

For a complete listing of services, publications, archives of various webinars and events and other information regarding BDO, please visit: <http://www.bdo.com/> for further information.

Ac'sense Program

Ac'senseSM is a BDO program designed to assist those charged with governance of both public and private companies in keeping up-to-date on the latest corporate governance and financial reporting developments.

The program is multi-faceted and consists of complimentary CPE-worthy webinars and self-study courses covering both broad and specific topics of interest, publications, and links to various BDO and external resources. Visit <http://www.bdo.com/acsense>.

Ac'sense Webinars

Our webinar programs are presented by our firm technical experts and comprise both short-form and longer-form webinars on a variety of "hot" topics of interest, such as "Compensation Risk," "Fair Value Matters," "Business Combinations," "Applying New Revenue Recognition Rules," "Ethics and the Corporate Board," and many others. In addition, we host several series including our "Quarterly Technical Updates" and "International Financial Reporting Standards" on financial accounting and reporting matters as well as "Focus on Fraud." Our webinars are complimentary and are generally applicable for Audit Committees, board members, management, finance and compliance professionals of both public companies and private companies. In addition, most webinars and archives are worthy of Continuing Professional Education ("CPE") credit. Please visit our website <http://www.bdo.com/acsense> for further information on upcoming and archived webinars.

Effective Audit Committees in the Ever Changing Marketplace

The focus of Ac'sense is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the *Effective Audit Committees in the Ever Changing Marketplace* publication as a practical guide to forming and running an effective Audit Committee. Within this publication, we provide answers to certain frequently asked questions ("FAQs") centering on the WHYs, WHOs, WHATs, WHENs and HOWs of Audit Committees. More specifically, these FAQs summarize the common functions and responsibilities of Audit Committees and seek to provide insights and perspective as to how to optimize Audit Committee effectiveness. Our vision has been shaped by our own experiences with our clients and interpretations of the specific recommendations, guidelines, and rules of the SEC; the stock exchanges; the Public Company Accounting Oversight Board ("PCAOB"); the American Institute of Certified Public Accountants ("AICPA"); and the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, sponsored by the New York Stock Exchange and the National Association of Securities Dealers.

Throughout this publication, we focus on some of the more challenging aspects facing Audit Committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources. The guide and practices aids are available at: <http://www.bdo.com/acsense/effective.aspx>.

APPENDIX A

No Material Weakness Letter



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421 Fayetteville Street
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October 13, 2017

The Board of Directors
North Carolina Tobacco Foundation, Inc.
Raleigh, North Carolina

In planning and performing our audit of the financial statements of North Carolina Tobacco Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Foundation's financial statements.

Very truly yours,

BDO USA, LLP