The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Financial Statements and Other Report
Years Ended June 30, 2017 and 2016

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Contents

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Independent Auditor's Report

To the Board of Directors
The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.
Rocky Mount, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the "Foundation"), a component unit of the State of North Carolina, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Foundation, as of June 30, 2017 and 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundation's internal control over financial reporting and compliance.

BDO USA, LLP

September 29, 2017

Our discussion and analysis of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the "Foundation") provides an overview of the Foundation's financial position and activities for the fiscal year ended June 30, 2017, with comparative information for the fiscal year ended June 30, 2016. Please read it in conjunction with the Foundation's financial statements and accompanying notes to the financial statements.

Overview

In 1999, the North Carolina General Assembly created The Golden L.E.A.F., Inc. to administer one-half of North Carolina's (the "State") share of the Master Settlement Agreement ("MSA") with cigarette manufacturers. A nonprofit organization devoted to the economic well-being of North Carolinians, the Foundation endeavors to strengthen the State's economy through diverse grant making.

Financial Highlights

- The total assets of the Foundation increased by $122.5 million during 2017 from $919.9 million at June 30, 2016 to $1,042.4 million at June 30, 2017.

- The Foundation ended 2017 with investments and cash and cash equivalents totaling $1,038.6 million, an increase of $122.4 million from June 30, 2016.

- The total liabilities of the Foundation increased by $103.7 million during 2017 from $68.0 million at June 30, 2016 to $171.7 million at June 30, 2017. Almost all of this increase was in grants payable which increased from $67.8 million at June 30, 2016 to $171.5 million at June 30, 2017.

- In July 2013, the North Carolina General Assembly enacted legislation that purports to repeal those sections of Session Law 1999-2 in which the General Assembly approved the transfer and assignment to the Foundation of fifty percent (50%) of each annual payment of MSA funds. In September 2015, the North Carolina General Assembly enacted Session Law 2015-241, which provides for the appropriation of $10,000,000 of tobacco settlement funds to the Foundation each year. The Foundation received $10,000,000 of tobacco settlement funds in each of the fiscal years 2017 and 2016.

- The Foundation's investment portfolio generated income of $116.7 million in 2017 compared to a net loss of $4.2 million in 2016. The Foundation's investment assets returned 13.1% compared to (0.4%) in 2016. The increase in investment earnings reflects broader market performance and the Foundation's asset allocation. The S&P 500 Index (domestic equities) returned 17.9% in fiscal year 2017 compared with 4.0% in fiscal year 2016. The MSCI EAFE Index (international equities) returned 20.3% in fiscal year 2017 versus a return of (10.2%) in fiscal year 2016. Barclays Aggregate Index (fixed income) returned (0.3%) in fiscal year 2017 compared with 6.0% in fiscal year 2016 and the HFRI Index (hedge funds) returned 8.0% in fiscal year 2017 versus (2.0%) in fiscal year 2016.

- The Foundation awarded grants of $133.6 million in 2017, a nearly threefold increase from 2016 levels. In addition to $13.5 million in grants awarded through the Foundation's Open Grants Program, Economic Catalyst Cycle, scholarship and other programs, grants were awarded to support the following special initiatives:

  Plant Sciences Initiative - $45.0 million: Golden LEAF awarded grants to assist in the construction of North Carolina State University's Plant Sciences Initiative facility, which is designed to increase the quality and quantity of cutting-edge research to benefit North Carolina's diverse agricultural communities. Golden LEAF joined agriculture commodity groups and private donors and leveraged state support from the NC Connect Bond act to enable this bold vision.

  Disaster Recovery Initiative - $26.5 million: As a result of Hurricane Matthew, wildfires in western North Carolina, or Tropical Storms Julia and Hermine, more than 30,000 businesses suffered physical or economic damage affecting more than 400,000 employees. The Disaster Recovery Act of 2016 allocated $25 million of state-appropriated funds to Golden LEAF to administer grant programs to fund local government infrastructure and small business loans to help local economies recover as quickly as possible. As of June 30, 2017, $24,463,018 of the total had been awarded in grants, $500,000 had been designated by the Foundation's board for a future grant, and $36,982 remained available for future disaster recovery grants. The Foundation also awarded $2.0 million in grants from its own funds to eligible entities to make bridge loans to small businesses expected to receive future Small Business Administration loan capital.

  Major Site Development Initiative - $25.0 million: The Major Site Development Initiative was developed to help ready large sites to attract major employers to rural, tobacco dependent, and economically distressed areas of North Carolina. To be as competitive as possible, those sites must be served by public infrastructure, such as water and sewer, to reduce the time it will take for an employer to complete site development and begin operations. The Foundation awarded five grants to fund construction or improvement of public infrastructure that serves publicly owned or publicly controlled industrial sites that have the potential to attract employers that can create a large number of jobs and have a significant positive effect on the local, regional, and state economy.

  Community Based Grantsmaking Initiative - $22.2 million: Launched in the summer of 2014 as a continuation of the Foundation's community-based grantsmaking and as a response to completion and evaluation of the Community Assistance Initiative, this initiative is designed to identify projects supporting economic growth that are ready for implementation and have the potential to have a significant impact in the areas of agriculture, health care employment, infrastructure, economic development, workforce training and education. The Foundation invites all counties to apply to participate in the initiative by region, which is anticipated to take four years to complete. It is a competitive process, but eligible entities located in all counties within a designated region have an opportunity to apply to participate. The $17.3 million awarded in 2016 was to support projects in the Southeast and Western Prosperity Zones. The $22.2 million awarded in 2017 was to support projects in the Southwest and Piedmont Triad Prosperity Zones.

Broadband Initiative - $1.4 million: The Foundation awarded a grant to MCNC to expand the Golden LEAF Rural Broadband Initiative by extending middle-mile fiber from Guilford into Randolph, Montgomery, and Richmond counties.

The Foundation made grant payments of $28.0 million in 2017 compared to $30.7 million in fiscal year 2016.

- Administrative costs were $2.6 million in 2017, an increase of approximately $117,000 from 2016. Administrative costs represented 1.9% of grantsmaking in 2017.

Using This Annual Report

This annual report consists of two financial statements. The Statements of Net Position and Governmental Fund Balance Sheets present the assets, liabilities and fund balance/net position at June 30, 2017 and 2016. The Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance present the revenues, expenditures, and changes in fund balance/net position for the fiscal years ended June 30, 2017 and 2016. The Notes to Financial Statements contain additional information that is essential to a full understanding of the data in the financial statements.

Statements of Net Position and Governmental Fund Balance Sheets

Condensed Statements of Net Position and Governmental Fund Balance Sheets:

June 30,	**2017**	2016	2015
Assets			
Current assets	**$ 1,038,999,385**	$ 916,425,827	$ 941,156,934
Capital assets—nondepreciable	**903,906**	903,906	903,906
Capital assets—depreciable, net	**2,544,002**	2,608,620	2,679,726
Total Assets	**$ 1,042,447,293**	$ 919,938,353	$ 944,740,566
Total Liabilities	**$ 171,651,037**	$ 67,996,660	$ 69,494,824
Fund Balance/Net Position			
Net investment in capital assets	**3,447,908**	3,512,526	3,583,632
Restricted for broadband projects	**747,971**	1,726,018	513,851
Unassigned/unrestricted	**866,600,377**	846,703,149	871,148,259
Total Fund Balance/Net Position	**870,796,256**	851,941,693	875,245,742
Total Liabilities and Fund Balance/ Net Position	**$ 1,042,447,293**	$ 919,938,353	$ 944,740,566

2017

Total assets at June 30, 2017 were $1,042.4 million, an increase of approximately $122.5 million from June 30, 2016. The assets of the Foundation are comprised primarily of investments and cash and cash equivalents. The total of investments, cash and cash equivalents at June 30, 2017 was $1,038.6 million, compared to $916.2 million at June 30, 2016. This increase resulted primarily from investment income exceeding payments for grants and other expenditures. Net capital assets were $3.4 million at June 30, 2017, a decline of $65,000 from 2016 primarily due to depreciation.
The liabilities of the Foundation are comprised primarily of grants payable. Grants payable totaled $171.7 million at June 30, 2017, compared to $68.0 million at June 30, 2016. Current year grant awards of $133.6 million outpaced payment of current and prior year grant awards of $28.0 million. The Foundation also rescinded $1.9 million in grant awards in 2017.

The Fund Balance/Net Position section of the Statements of Net Position and Governmental Fund Balance Sheets presents the amount of the assets of the Foundation, less its liabilities. Restricted fund balance/net position represents resources that the Foundation is required to spend in accordance with restrictions provided by third parties.

2016

Total assets at June 30, 2016 were $919.9 million, a decrease of approximately $24.8 million from June 30, 2015. The assets of the Foundation are comprised primarily of investments and cash and cash equivalents. The total of investments, cash and cash equivalents at June 30, 2016 was $916.2 million, compared to $940.8 million at June 30, 2015. This decrease resulted primarily from payments for grants and other expenditures exceeding investment income. Net capital assets were $3.5 million at June 30, 2016, a decline of $71,106 from 2015 primarily due to depreciation.

The liabilities of the Foundation are comprised primarily of grants payable. Grants payable totaled $67.8 million at June 30, 2016, compared to $69.4 million at June 30, 2015. The decrease in grants payable resulted primarily from the rescission of $5.0 million in grant awards in 2016. In addition, current year grant awards of $34.2 million outpaced payment of current and prior year grant awards of $30.7 million.

The Fund Balance/Net Position section of the Statements of Net Position and Governmental Fund Balance Sheets presents the amount of the assets of the Foundation, less its liabilities. Restricted fund balance/net position represents resources that the Foundation is required to spend in accordance with restrictions provided by third parties.

Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

Condensed Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance:

Years ended June 30,	**2017**	2016	2015
Total Revenues	**$ 152,074,107**	$ 7,007,589	$ 21,682,569
Total Expenditures/Expenses	**133,219,544**	30,311,638	31,912,395
Change in Fund Balance/Net Position	**18,854,563**	(23,304,049)	(10,229,826)
Fund Balance/Net Position, beginning of year	**851,941,693**	875,245,742	885,475,568
Fund Balance/Net Position, end of year	**$ 870,796,256**	$ 851,941,693	$ 875,245,742

These statements show the revenues and the expenses of the Foundation for the years ended June 30, 2017, 2016 and 2015, and the corresponding effect on fund balance/net position.

2017

Total revenues were $152.1 million in 2017 and $7.0 million in 2016. In 2017, the primary source of revenue was investment income. The Foundation had investment income of $116.7 million in 2017 compared to a net loss of $4.2 million in 2016. In 2017, the Foundation received an allocation of $25 million of state appropriated funds to administer grant programs to fund local government infrastructure and small business loans for communities recovering from hurricanes, tropical storms and wildfires. The Foundation received no disaster recovery funds in 2016. The Foundation received $10.0 million of proceeds from tobacco settlement funds in 2017 and 2016. Grant revenue to support rural broadband projects was approximately $390,000 in 2017 compared to $1.2 million in 2016.

Total expenditures/expenses were $133.2 million in 2017 and $30.3 million in 2016. The largest expense of the Foundation in 2017 and 2016 was grant disbursements. Grant disbursements represent grants awarded net of grants rescinded and grant funds returned. Grants were awarded (excluding grants rescinded or returned) in the amount of $133.6 million during 2017 and $34.2 million in 2016. Administrative costs were $2.6 million in 2017, an increase of approximately $117,000 from 2016 primarily as the result of expenses to repair damage caused by Hurricane Matthew along with increased personnel costs and professional fees. Depreciation expense was approximately $100,000 in 2017 and approximately $98,000 in 2016.

2016

Total revenues were $7.0 million in 2016 and $21.7 million in 2015. The primary source of revenue in 2016 was $10.0 million of proceeds from tobacco settlement funds. The Foundation received no proceeds from tobacco settlement funds in 2015. In 2015, the primary source of revenue was investment income. The Foundation had a net investment loss of $4.2 million in 2016 compared to net investment income of $21.2 million in 2015. In 2016, the Foundation received approximately $1.2 million in grant revenue to support rural broadband projects compared to approximately $514,000 in 2015.

Total expenditures/expenses were $30.3 million in 2016 and $31.9 million in 2015. The largest expense of the Foundation in 2016 and 2015 was grant disbursements. Grant disbursements represent grants awarded net of grants rescinded and grant funds returned. Grants were awarded (excluding grants rescinded or returned) in the amount of $34.2 million during 2016 and $35.4 million in 2015. Administrative costs were $2.5 million in 2016, an increase of approximately $34,000 from 2015 primarily as the result of higher personnel costs. Depreciation expense was approximately $98,000 in 2016 and approximately $97,000 in 2015.

Notes to Financial Statements

The reader is referred to these notes for a more complete understanding of the financial statements of the Foundation. They contain a summary of the significant accounting policies as well as other information.

Requests for Information

This report is designed to provide a general overview of the Foundation's finances and to show the Foundation's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to The Golden L.E.A.F. Foundation, 301 N. Winstead Ave., Rocky Mount, NC 27804.

Financial Statements

The Golden L.E.A.F.
(Long-term Economic Advancement Foundation), Inc.

Statement of Net Position and Governmental Fund Balance Sheet

June 30, 2017	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Net Position
Assets			
Cash and cash equivalents	$ 1,286,773	$ -	$ 1,286,773
Sales tax refund and other receivables	94,418	-	94,418
Note receivable	228,640	-	228,640
Prepaid items	108,114	-	108,114
Investments	1,037,281,440	-	1,037,281,440
Capital assets—nondepreciable	-	903,906	903,906
Capital assets—depreciable, net	-	2,544,002	2,544,002
Total Assets	$ 1,038,999,385	$ 3,447,908	$ 1,042,447,293
Liabilities			
Accounts payable	$ 91,542	$ -	$ 91,542
Accrued liabilities	85,438	-	85,438
Grants payable	171,474,057	-	171,474,057
Total Liabilities	171,651,037	-	171,651,037
Fund Balance/Net Position			
Nonspendable prepaid items	108,114	(108,114)	-
Net investment in capital assets	-	3,447,908	3,447,908
Restricted for broadband projects	747,971	-	747,971
Restricted for disaster recovery projects	536,982	-	536,982
Unassigned/unrestricted	865,955,281	108,114	866,063,395
Total Fund Balance/Net Position	867,348,348	3,447,908	870,796,256
Total Liabilities and Fund Balance/ Net Position	$ 1,038,999,385	$ 3,447,908	$ 1,042,447,293

See accompanying notes to financial statements.

The Golden L.E.A.F.
(Long-term Economic Advancement Foundation), Inc.

Statement of Net Position and Governmental Fund Balance Sheet

June 30, 2016	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Net Position
Assets			
Cash and cash equivalents	$ 869,099	$ -	$ 869,099
Sales tax refund and other receivables	130	-	130
Note receivable	174,211	-	174,211
Prepaid items	99,548	-	99,548
Investments	915,282,839	-	915,282,839
Capital assets—nondepreciable	-	903,906	903,906
Capital assets—depreciable, net	-	2,608,620	2,608,620
Total Assets	$ 916,425,827	$ 3,512,526	$ 919,938,353
Liabilities			
Accounts payable	$ 98,570	$ -	$ 98,570
Accrued liabilities	60,737	-	60,737
Grants payable	67,837,353	-	67,837,353
Total Liabilities	67,996,660	-	67,996,660
Fund Balance/Net Position			
Nonspendable prepaid items	99,548	(99,548)	-
Net investment in capital assets	-	3,512,526	3,512,526
Restricted for broadband projects	1,726,018	-	1,726,018
Unassigned/unrestricted	846,603,601	99,548	846,703,149
Total Fund Balance/Net Position	848,429,167	3,512,526	851,941,693
Total Liabilities and Fund Balance/ Net Position	$ 916,425,827	$ 3,512,526	$ 919,938,353

See accompanying notes to financial statements.

The Golden L.E.A.F.
(Long-term Economic Advancement Foundation), Inc.

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

Year ended June 30, 2017	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Activities
Revenues			
State general fund appropriation	$ 25,000,000	$ -	$ 25,000,000
Proceeds from state settlement	10,000,000	-	10,000,000
Net investment income	116,679,666	-	116,679,666
Grant revenue	389,953	-	389,953
Other income	4,488	-	4,488
Total Revenues	152,074,107	-	152,074,107
Expenditures/Expenses			
Grant distributions	130,478,012	-	130,478,012
Administrative costs	2,569,678	-	2,569,678
Capital outlays	37,685	(37,685)	-
Loss on capital assets	-	2,110	2,110
Depreciation expense	-	100,193	100,193
Unrelated business income tax	69,551	-	69,551
Total Expenditures/Expenses	133,154,926	64,618	133,219,544
Excess Revenues Over (Under) Expenditures/Expenses	18,919,181	(64,618)	18,854,563
Change in Fund Balance/Net Position	18,919,181	(64,618)	18,854,563
Fund Balance/Net Position, beginning of year	848,429,167	3,512,526	851,941,693
Fund Balance/Net Position, end of year	$ 867,348,348	$ 3,447,908	$ 870,796,256

See accompanying notes to financial statements.

The Golden L.E.A.F.
(Long-term Economic Advancement Foundation), Inc.

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

Year ended June 30, 2016	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Activities
Revenues			
Proceeds from state settlement	$ 10,000,000	$ -	$ 10,000,000
Net investment loss	(4,207,910)	-	(4,207,910)
Grant revenue	1,212,167	-	1,212,167
Other income	3,332	-	3,332
Total Revenues	7,007,589	-	7,007,589
Expenditures/Expenses			
Grant distributions	27,739,556	-	27,739,556
Administrative costs	2,452,216	-	2,452,216
Capital outlays	28,807	(28,807)	-
Loss on capital assets	-	2,081	2,081
Depreciation expense	-	97,832	97,832
Unrelated business income tax	19,953	-	19,953
Total Expenditures/Expenses	30,240,532	71,106	30,311,638
Excess Revenues Under Expenditures/Expenses	(23,232,943)	(71,106)	(23,304,049)
Change in Fund Balance/Net Position	(23,232,943)	(71,106)	(23,304,049)
Fund Balance/Net Position, beginning of year	871,662,110	3,583,632	875,245,742
Fund Balance/Net Position, end of year	$ 848,429,167	$ 3,512,526	$ 851,941,693

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting principles and policies used in the preparation of these financial statements:

Reporting Entity

The Golden L.E.A.F. (Long-Term Economic Advancement Foundation), Inc. (the "Foundation") is a not-for-profit corporation ordered to be established by the consent Decree and Final Judgment in *the State of North Carolina vs. Philip Morris Incorporated, et al.*

The Foundation was established for the purpose of receipt and distribution of fifty percent of the funds allocated to the North Carolina State Specific Account, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. As discussed in Note 5, in 2013 the North Carolina General Assembly repealed the legislation that had approved the transfer of MSA funds to the Foundation. Subsequently, in September 2015, the North Carolina General Assembly enacted legislation which provides for the appropriation of $10,000,000 of tobacco settlement funds to the Foundation each year.

For financial reporting purposes, the Foundation is deemed to be a nonmajor component unit of the State of North Carolina, and is included as such in the State of North Carolina Comprehensive Annual Financial Report. The Foundation is governed by a 15-member board, all of whom are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. The Foundation provides grants to state agencies and component units, creating a financial benefit/burden relationship.

Basis of Presentation

These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Government Accounting Standards Board ("GASB").

General Fund

The general fund is used to account for all revenues and expenses applicable to the general operations of the Foundation that are not required either legally or by governmental accounting standards to be accounted for in another fund.

Measurement Focus and Basis of Accounting

The Foundation uses the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measureable and available to finance expenditures of the current period. Expenditures generally are recognized when the related liability is incurred.

However, the statement of net position and governmental fund balance and the statement of activities and governmental fund revenues, expenditures and changes in fund balance are reported using economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recorded when the liability is incurred, regardless of the timing of the cash flow.

Budgetary Requirement

The Foundation's enabling legislation requires that the Foundation's Board of Directors consult with the Joint Legislative Commission on Governmental Operations prior to adopting an annual operating budget. As of June 30, 2017, the Foundation's Board of Directors has adopted a preliminary budget only for the general fund on a basis consistent with generally accepted accounting principles, subject to finalization after the Foundation consults with the Joint Legislative Commission on Government Operations. Budgetary control is expected to be at the object of expense classification level (personal services, operating expenditures, capital outlay). Budgetary changes within expense classifications are expected to be made at the discretion of the Foundation.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, less accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use through legislation, legal responsibility or third-party requirement, which restrict the use of funds to a specific purpose. Funds received from the North Carolina State Specific Accounts are unrestricted, but are invested as directed by the Board of Directors, with the income from investment being used for operating expenses and to fund grants. Grant funds received for rural broadband projects are reported as restricted. When both restricted and unrestricted funds are available for expenditures, the Foundation's general policy is to first expend restricted resources then to expend unrestricted resources.

Fund Balance

Fund balance represents the difference between assets and liabilities in the governmental fund financial statements. The Foundation's fund balance is classified in the following categories:

- Nonspendable fund balance represents amounts that cannot be spent due to legal requirements or because it is not in spendable form. The Foundation reports nonspendable fund balance for prepaid items.

- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Grant funds received for rural broadband and disaster recovery projects are reported as restricted.

- Unassigned fund balance is the residual fund balance of the general fund.

Investments

Investments include obligations of governments, long-duration fixed income investments, listed securites such as common stocks, SEC-registered mutual funds, absolute return funds, private equity limited partnerships, real asset limited partnerships, real estate investment trusts, money market funds and certificates of deposit. Investments are accounted for at fair value. Fair value for investment assets with readily determinable market values are based on quoted market prices. For certain international equity funds, absolute return funds, private equity limited partnerships, and real asset limited partnerships without a readily determinable fair value, the investment is reported at estimated fair value as determined by the underlying asset's manager. The investment asset managers estimate current fair value of nonpublicly traded assets in their portfolios taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions and other pertinent information. The Foundation reviews the values provided by the asset managers as well as the assumptions used in determining fair value. These investment values may differ from the values that would have been used had a ready market for these investments existed and differences could be material. The financial statements of these investments are audited at least annually (typically at December 31) by independent auditors. At June 30, 2017 and 2016, fair value of investments based on other than quoted market prices was $715.7 million and $643.0 million, respectively.

Realized investment gains and losses are determined using the specific identification basis and are recorded as investment income in the accompanying Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. Changes in net unrealized gains and losses are also recognized as a component of investment income.

Capital Assets

Generally, capital assets are defined by the Foundation as assets with an initial value or cost greater than or equal to $500 and an estimated useful life of two or more years. Capital assets are stated at cost less accumulated depreciation. Estimated useful lives are five years for equipment, seven years for furniture and fixtures and ten to forty years for buildings.

Prepaid Items

The Foundation allocates the cost of insurance between the related accounting periods. Amounts paid for services not yet provided are recorded as prepaid and amortized over the service period.

Grants Payable

The Foundation records grants payable when the Board of Directors approves the grant. The Programs Committee (a subset of the Board of Directors) evaluates the grant applications and makes recommendations to the entire Board of Directors. Applicants that are chosen by the Board of Directors must fill out and sign a “Grantee Acknowledgement and Agreement” which stipulates guidelines and related requirements. Several requirements must be met by the grantees prior to the disbursement of funds.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

2. Fair Value Measurements

The Foundation’s investments are recorded at fair value at June 30, 2017 and 2016. GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the Foundation's investments within the fair value hierarchy at June 30, 2017 and 2016:

		Fair Value Measurements Using		
June 30, 2017	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
U.S. Treasuries	**$ 58,066,061**	**$ 58,066,061**	**$ -**	**$ -**
Fixed income funds	**51,873,818**	**51,074,082**	**799,736**	**-**
Domestic stocks and equity funds	**145,920,079**	**137,870,519**	**7,996,760**	**52,800**
Total investments by fair value level	**$ 255,859,958**	**$247,010,662**	**$8,796,496**	**$ 52,800**
Investments measured at net asset value (“NAV”):				
International equity funds	**$ 272,697,298**			
Absolute return funds	**248,817,696**			
Fixed income fund	**10,231,690**			
Private equity limited partnerships	**66,653,382**			
Real estate and other real asset funds	**117,269,109**			
Total investments measured at NAV	**715,669,175**			
Total investments measured at fair value	**$ 971,529,133**			

	Fair Value Measurements Using			
June 30, 2016	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
U.S. Treasuries	$ 69,777,296	$ 69,777,296	$ -	$ -
Fixed income funds	48,835,903	48,835,903	-	-
Domestic stocks and equity funds	122,920,655	117,957,878	4,962,777	-
Total investments by fair value level	$ 241,533,854	$ 236,571,077	$ 4,962,777	$ -
Investments measured at NAV:				
International equity funds	$ 230,922,436			
Absolute return funds	219,954,055			
Private equity limited partnerships	71,097,365			
Real estate and other real asset funds	121,015,385			
Total investments measured at NAV	642,989,241			
Total investments measured at fair value	$ 884,523,095			

The valuation of investments measured at NAV per share, or its equivalent, is presented on the following tables:

June 30, 2017	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (if Currently Available)**	**Redemption Notice Period**
International equity funds:(A)				
Commingled funds	**$ 242,430,662**	**$ -**	**Daily-monthly**	**5-30 days**
Hedge fund	**30,266,636**	**-**	**Quarterly**	**45 days**
Absolute return funds(B)	**248,817,696**	**-**	**Quarterly-biannually**	**30-90 days**
Fixed income fund(C)	**10,231,690**	**-**		
Private equity limited partnerships(D)	**66,653,382**	**22,462,808**		
Real estate and other real asset funds:(E)				
Commingled funds	**63,571,690**	**-**	**Monthly**	**30 days**
Limited partnerships	**53,697,419**	**35,975,780**		
Total investments measured at NAV	**$ 715,669,175**	**$ 58,438,588**		

A. International equity funds include investments in five commingled funds that hold approximately 71 percent of the funds' investments in publicly traded non-U.S. stocks and 29 percent in publicly traded U.S. stocks and cash. This type also includes an investment in a fund that invests in long/short hedge funds and whose underlying funds hold approximately 66 percent of the funds' investments outside of North America. The fair values of the investments in this type have been determined using the NAV per share of the investments.

B. Absolute return funds are comprised of 12 hedge funds, including two stub positions, that employ long/short equity, long/short credit, event-driven, distressed, special situations, relative value and macro strategies. The funds are valued monthly based on the NAV per share. Approximately 3 percent of the value of investments in this type is held in non-marketable securities and is illiquid. Investments representing approximately 33 percent of the value of the investments in this type cannot be redeemed because the investments do not allow for redemption in the first 36 months after acquisition or have rolling lock-up periods of 12 to 24 months. The remaining restriction period for these investments ranged from 1 to 21 months at June 30, 2017.

C. The fixed income fund in this type is a fund that provided lending for an economic development project in North Carolina. This investment can never be redeemed with the fund. Instead, the nature of the investment in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over a period of approximately 2 years.

D. Private equity limited partnerships are comprised of 17 private equity funds that utilize buyout, distressed, special situations, growth capital, mezzanine and venture capital strategies. The underlying companies within the limited partnerships span all the Global Industry Classification Standard ("GICS") economic sectors. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over a period of approximately 10 years.

E. Real estate and other real assets funds include two commingled funds and 19 private limited partnerships. One commingled fund invests in publicly traded real estate investment trusts ("REITs") and is a long only strategy. One commingled fund invests in publicly traded master limited partnerships ("MLPs") primarily in the energy sector and is a long only strategy. The fair values of the commingled funds in this type have been determined using the NAV per share of the investments. Nine of the private limited partnerships invest in real estate and ten invest in natural resources. These investments can never be redeemed with the funds. Instead, the nature of the private limited partnerships in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over a period of approximately 10 years.

June 30, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Available)	Redemption Notice Period
International equity funds:[A]				
Commingled funds	$ 203,963,280	$ -	Daily-monthly	5-30 days
Hedge fund	26,959,156	-	Quarterly	45 days
Absolute return funds[B]	219,954,055	-	Quarterly-biannually	30-90 days
Private equity limited partnerships[C]	71,097,365	8,408,587		
Real estate and other real asset funds:[D]				
Commingled funds	63,731,511	-	Monthly	30 days
Limited partnerships	57,283,874	33,780,275		
Total investments measured at NAV	$ 642,989,241	$ 42,188,862		

A. International equity funds include investments in five commingled funds that hold approximately 71 percent of the funds' investments in publicly traded non-U.S. stocks and 29 percent in publicly traded U.S. stocks. This type also includes an investment in a fund that invests in long/short hedge funds and whose underlying funds hold approximately 27 percent of the funds' investments outside of North America. The fair values of the investments in this type have been determined using the NAV per share of the investments.

B. Absolute return funds are comprised of 12 hedge funds, including two stub positions, that employ long/short equity, long/short credit, event-driven, distressed, special situations, relative value and macro strategies. The funds are valued monthly based on the NAV per share. Approximately 3 percent of the value of investments in this type is held in non-marketable securities and is illiquid. Investments representing approximately 26 percent of the value of the investments in this type cannot be redeemed because the investments do not allow for redemption in the first 36 months after acquisition or have rolling lock-up periods of 12 to 24 months. The remaining restriction period for these investments ranged from 6 to 33 months at June 30, 2016.

C. Private equity limited partnerships are comprised of 16 private equity funds that utilize buyout, distressed, special situations, growth capital, mezzanine and venture capital strategies. The underlying companies within the limited partnerships span all the GICS economic sectors. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over a period of approximately 10 years.

D. Real estate and other real assets funds include two commingled funds and 18 private limited partnerships. One commingled fund invests in publicly traded REITs and is a long only strategy. One commingled fund invests in publicly traded MLPs primarily in the energy sector and is a long only strategy. The fair values of the commingled funds in this type have been determined using the NAV per share of the investments. Nine of the private limited partnerships invest in real estate and nine invest in natural resources. These investments can never be redeemed with the funds. Instead, the nature of the private limited partnerships in this type is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is expected that the underlying assets of the fund would be liquidated over a period of approximately 10 years.

3. Cash and Investments

The Foundation considers highly liquid temporary cash investments with a maturity of three months or less when purchased to be cash equivalents. However, cash investments with a maturity of three months or less that were purchased with the intent to be maintained as an investment are classified as investments.

According to the Foundation's investment policy adopted by the Board of Directors, the Foundation may invest in any of the following broad asset classes: domestic equities; real estate; mutual funds; foreign equities; fixed income securities; cash equivalents; and alternatives.

The Foundation maintained no direct investments in derivatives at June 30, 2017 and 2016.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Foundation has no policy that contains requirements that would limit the exposure to custodial credit risk for deposits. At June 30, 2017, the carrying amount of the Foundation's deposits was $1,286,773 and the bank balance, excluding in-transit items, was $2,114,879. Of the bank balance, $673,899 was covered by Federal Depository Insurance and $1,440,980 was uninsured and uncollateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At June 30, 2017, the Foundation had investments in U.S. Treasuries with an average duration of 12.43 years and fair value of $58.6 million and investments in two fixed income security funds with an average duration of 2.61 years and fair value of $53.9 million. The Foundation also had an investment in a money market fund with a fair value of $65.7 million at June 30, 2017, and duration of 0.12 years.

Credit risk is the risk that an issuer of an investment will not fulfill its obligations. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation's investment policy has no specific limitations with respect to credit quality, but provides that approximately 50% of the fixed income allocation will be allocated to U.S. Treasury strategies. At June 30, 2017, the Foundation had investments in two unrated fixed income funds with a fair value of $53.9 million. At June 30, 2017, the Foundation had an investment in a money market fund rated AAA with a fair value of $65.7 million.

For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation has no written policy on custodial credit risk; however, based on the nature of the investments the Foundation currently holds, management does not consider custodial risk to be significant.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation's investment policy does not limit the amount invested in foreign currency-denominated investments.

The Foundation's investments are summarized below:

June 30,		**2017**	**%**		2016	%
U.S. Treasuries	**$**	**58,066,061**	**5.60**	$	69,777,296	7.62
Fixed income funds		**62,105,508**	**5.99**		48,835,903	5.34
Domestic stocks and equity funds		**145,920,079**	**14.07**		122,920,655	13.43
International equity funds		**272,697,298**	**26.29**		230,922,436	25.23
Absolute return funds		**248,817,696**	**23.99**		219,954,055	24.03
Private equity limited partnerships		**66,653,382**	**6.42**		71,097,365	7.77
Real estate and other real asset funds		**117,269,109**	**11.30**		121,015,385	13.22
Money market funds		**65,652,307**	**6.33**		30,659,744	3.35
Certificates of deposit		**100,000**	**0.01**		100,000	0.01
Total investments	**$**	**1,037,281,440**	**100.00**	$	915,282,839	100.00

The following summarizes the investment return and its classification in the accompanying Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance:

Year ended June 30,		**2017**		2016
Dividends and interest	**$**	**9,324,377**	$	8,964,605
Net realized gains		**42,528,169**		11,101,404
Net unrealized gains (losses)		**67,460,693**		(21,830,949)
Management fees		**(2,633,573)**		(2,442,970)
Net investment income (loss)	**$**	**116,679,666**	$	(4,207,910)

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

4. Capital Assets

A summary of the activity related to the capital assets for the years ended June 30, 2017 and 2016 is as follows:

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets—nondepreciable:				
Land	$ 900,256	**$ -**	**$ -**	**$ 900,256**
Land improvements	3,650	**-**	**-**	**3,650**
Total capital assets—nondepreciable	903,906	**-**	**-**	**903,906**
Capital assets—depreciable:				
Buildings	3,268,069	**25,363**	**(2,110)**	**3,291,322**
Equipment	109,653	**9,193**	**(1,211)**	**117,635**
Furniture and fixtures	121,543	**3,129**	**(521)**	**124,151**
Total capital assets—depreciable	3,499,265	**37,685**	**(3,842)**	**3,533,108**
Less accumulated depreciation for:				
Buildings	(712,648)	**(85,048)**	**-**	**(797,696)**
Equipment	(63,585)	**(13,766)**	**1,211**	**(76,140)**
Furniture and fixtures	(114,412)	**(1,379)**	**521**	**(115,270)**
Total accumulated depreciation	(890,645)	**(100,193)**	**1,732**	**(989,106)**
Total capital assets—depreciable, net	2,608,620	**(62,508)**	**(2,110)**	**2,544,002**
Total capital assets, net	$ 3,512,526	**$ (62,508)**	**$ (2,110)**	**$ 3,447,908**

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets—nondepreciable:				
Land	$ 900,256	$ -	$ -	$ 900,256
Land improvements	3,650	-	-	3,650
Total capital assets—nondepreciable	903,906	-	-	903,906
Capital assets—depreciable:				
Buildings	3,268,069	-	-	3,268,069
Equipment	109,900	21,198	(21,445)	109,653
Furniture and fixtures	113,934	7,609	-	121,543
Total capital assets—depreciable	3,491,903	28,807	(21,445)	3,499,265
Less accumulated depreciation for:				
Buildings	(628,764)	(83,884)	-	(712,648)
Equipment	(69,682)	(13,267)	19,364	(63,585)
Furniture and fixtures	(113,731)	(681)	-	(114,412)
Total accumulated depreciation	(812,177)	(97,832)	19,364	(890,645)
Total capital assets—depreciable, net	2,679,726	(69,025)	(2,081)	2,608,620
Total capital assets, net	$ 3,583,632	$ (69,025)	$ (2,081)	$ 3,512,526

5. Tobacco Settlement and State Appropriations

In November 1998, the Attorneys General of 46 states, five U.S. territories and the District of Columbia (the “States”) signed the MSA with the nation’s largest tobacco manufacturers. Under the MSA, the participating tobacco manufacturers must provide payment to the States. The base payments to the States are estimated to total $206 billion through 2025. The State of North Carolina’s share of the base payment is estimated to be $4.57 billion. The Foundation was created to receive and administer one-half of North Carolina’s share of payments under the MSA. The Foundation has received $1.13 billion since its inception.

While the State of North Carolina’s share of the base payments will not change over time, the amount of the annual payment is subject to a number of adjustments including, among others, inflation, and volume adjustments. These adjustments may increase or decrease the base payment. Therefore, the net effect of these adjustments is uncertain and the impact on the estimated future payments cannot be determined. In the event that the Foundation in the future receives a portion of North Carolina’s payments under the MSA calculated as a percentage, any changes in the base payments may affect the amount received by the Foundation.

In July 2013, the North Carolina General Assembly enacted Session Law 2014-360, “Current Operations and Capital Improvements Appropriations Act of 2014.” The legislation purports to repeal those sections of Session Law 1999-2 in which the General Assembly approved the transfer and assignment to the Foundation of fifty percent (50%) of each annual payment of MSA funds. In September 2015, the North Carolina General Assembly enacted Session Law 2015-241, “Current Operations and Capital Improvements Appropriations Act of 2015,” which provides for the appropriation of $10 million of tobacco settlement funds to the Foundation each year. The Foundation received $10 million in tobacco settlement funds in fiscal years 2017 and 2016. As a result of the uncertainty of payment and amount of these funds, no receivable has been recorded for the Foundation’s share of the State of North Carolina’s future payments under the MSA.

In December 2016, the North Carolina General Assembly enacted “The Disaster Recovery Act of 2016” to appropriate funds intended to assist areas in recovering from damage caused by Hurricane Matthew, the western North Carolina wildfires, and Tropical Storms Julia and Hermine. Of the total appropriation, $20 million was allocated to the Foundation to provide grants for local government infrastructure, and $5 million was allocated to the Foundation to provide grants to eligible entities capable of making loans to small businesses affected by the disasters. As of June 30, 2017, the Foundation had awarded grants totaling $24.4 million from these funds.

6. Explanations of Differences Between the Governmental Fund Balance Sheet and the Statement of Net Position

Total fund balances differ from net position of the Foundation reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus on the Foundation’s fund balance sheets. The provisions of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,* imposed the following difference:

(a) When capital assets (equipment, furniture and fixtures) that are to be used in Foundation activities are purchased, the costs of those assets are reported as expenditures in general funds. However, the Statement of Net Position includes those capital assets among the assets of the Foundation. The Foundation does not record depreciation so this expense is included as a reconciling item on the Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance.

7. Commitments

The Foundation has committed to invest in several private equity funds. See Note 2 to the financial statements for a summary of these commitments at June 30, 2017 and 2016.

8. Retirement Plans

The Foundation administers a 403(b) defined contribution plan that provides retirement benefits with options for payment to beneficiaries in the event of the participant’s death. All employees of the Foundation are eligible to participate in the plan. The plan requires the Foundation to contribute 10% of participants’ gross salary and permits participants to contribute a percentage of gross salary up to the maximum established by the Internal Revenue Code.

The Foundation contributed approximately $142,000 and $139,000 to the plan during the years ended June 30, 2017 and 2016, respectively. Participants contributed approximately $89,000 and $75,000 to the plan during the years ended June 30, 2017 and 2016, respectively.

Plan benefits are provided by means of contracts issued and administered by the privately operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund ("TIAA-CREF") or by means of contracts issued by Vanguard, an investment management company.

9. Deferred Compensation Plan

The Foundation administers The Golden L.E.A.F., Inc. 457(b) Plan as approved by the Board of Directors. The plan is a non-qualified deferred compensation plan for the benefit of highly compensated, key employees designated by the Board of Directors. The Plan allows for discretionary contributions by the Foundation as well as employee deferrals up to the maximum established by the Internal Revenue Code. The Foundation made no contributions to the Plan during the years ended June 30, 2017 and 2016.

10. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; illnesses or injuries to employees and natural disasters. The Foundation carries commercial insurance to cover these risks of loss. Claims on this coverage have historically not exceeded commercial premiums.

11. Subsequent Events

The Foundation has evaluated subsequent events from June 30, 2017 through September 29, 2017. During this period, no material recognizable subsequent events were identified.

Other Report

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.
Rocky Mount, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the "Foundation"), which comprise the statement of net position and governmental fund balance sheet as of June 30, 2017, and the related statement of activities and governmental fund revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, which collectively comprise The Foundation's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 *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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

September 29, 2017