

**WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC.
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2016 and 2015

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To the Board of Directors
Winston-Salem State University Foundation, Inc.
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Winston-Salem State University Foundation, Inc. (a nonprofit organization) and subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Winston-Salem State University Foundation, Inc. and subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Winston-Salem, North Carolina
September 26, 2016



WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 2,853,901	\$ 4,351,899
Restricted cash	4,280,333	4,015,495
Certificates of deposit	515,439	513,875
Receivables	1,950,419	1,766,458
Prepaid expenses	1,904	33,873
Lease obligation receivable, net (Note D)	36,803,537	37,922,930
Pledges receivable, net (Note E)	1,294,538	1,844,013
Investment securities (Note F)	12,999,025	12,851,404
Property and equipment, net (Note G)	1,236,119	1,237,251
Property held for resale (Note G)	-	14,546,028
Deferred financing costs, net	<u>1,018,815</u>	<u>1,061,041</u>
<u>TOTAL ASSETS</u>	<u>\$ 62,954,030</u>	<u>\$ 80,144,267</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accruals	\$ 567,550	\$ 516,408
Line of credit (Note H)	1,429,947	1,292,237
Construction note payable (Note I)	-	14,500,000
Bonds payable, net (Note J)	<u>42,868,477</u>	<u>44,264,172</u>
<u>Total Liabilities</u>	<u>44,865,974</u>	<u>60,572,817</u>
Net Assets		
Unrestricted		
Undesignated	563,102	70,588
Board designated for endowment (Note L)	<u>648,782</u>	<u>621,134</u>
	1,211,884	691,722
Temporarily restricted (Note K)	9,193,727	11,603,010
Permanently restricted (Notes K and L)	<u>7,682,445</u>	<u>7,276,718</u>
<u>Total Net Assets</u>	<u>18,088,056</u>	<u>19,571,450</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 62,954,030</u>	<u>\$ 80,144,267</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Gifts and grants	\$ 333,858	\$ 1,211,225	\$ 405,727	\$ 1,950,810
Investment income	47,388	-	-	47,388
Realized and unrealized losses on investments	(26,816)	(175,516)	-	(202,332)
Administrative fees	179,519	-	-	179,519
Program income	270,640	242,544	-	513,184
Lease income	2,415,993	-	-	2,415,993
Other	7,750	-	-	7,750
	<u>3,228,332</u>	<u>1,278,253</u>	<u>405,727</u>	<u>4,912,312</u>
 Net assets released from restrictions	 <u>3,687,536</u>	 <u>(3,687,536)</u>	 <u>-</u>	 <u>-</u>
 Total Support and Revenue	 <u>6,915,868</u>	 <u>(2,409,283)</u>	 <u>405,727</u>	 <u>4,912,312</u>
 Expenses				
Scholarships	799,924	-	-	799,924
Special programs	2,868,634	-	-	2,868,634
Management and general	792,589	-	-	792,589
Depreciation and amortization	12,663	-	-	12,663
Interest	1,903,694	-	-	1,903,694
Fundraising expense	18,202	-	-	18,202
	<u>6,395,706</u>	<u>-</u>	<u>-</u>	<u>6,395,706</u>
 Change in Net Assets	 520,162	 (2,409,283)	 405,727	 (1,483,394)
 Net Assets, Beginning	 <u>691,722</u>	 <u>11,603,010</u>	 <u>7,276,718</u>	 <u>19,571,450</u>
 Net Assets, Ending	 <u>\$ 1,211,884</u>	 <u>\$ 9,193,727</u>	 <u>\$ 7,682,445</u>	 <u>\$ 18,088,056</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Gifts and grants	\$ 364,291	\$ 1,866,978	\$ 343,210	\$ 2,574,479
Investment income	53,440	-	-	53,440
Realized and unrealized gains (losses) on investments	(42,936)	898,375	-	855,439
Administrative fees	164,785	-	-	164,785
Program income	20,168	286,199	-	306,367
Passport income	9,260	-	-	9,260
Lease income	2,466,905	-	-	2,466,905
Other	20,087	-	-	20,087
	<u>3,056,000</u>	<u>3,051,552</u>	<u>343,210</u>	<u>6,450,762</u>
 Net assets released from restrictions	 <u>1,781,544</u>	 <u>(1,781,544)</u>	 <u>-</u>	 <u>-</u>
 Total Support and Revenue	 <u>4,837,544</u>	 <u>1,270,008</u>	 <u>343,210</u>	 <u>6,450,762</u>
 Expenses				
Scholarships	669,708	-	-	669,708
Special programs	1,187,509	-	-	1,187,509
Management and general	502,229	-	-	502,229
Depreciation and amortization	35,029	-	-	35,029
Interest	2,121,189	-	-	2,121,189
Fundraising expense	25,288	-	-	25,288
Housing expense	171,836	-	-	171,836
	<u>4,712,788</u>	<u>-</u>	<u>-</u>	<u>4,712,788</u>
 Change in Net Assets Before Transfers and Losses	 124,756	 1,270,008	 343,210	 1,737,974
Transfers	(2,274)	(10,570)	12,844	-
Loss on Extinguishment of Debt	<u>(952,625)</u>	<u>-</u>	<u>-</u>	<u>(952,625)</u>
 Change in Net Assets	 (830,143)	 1,259,438	 356,054	 785,349
Net Assets, Beginning	<u>1,521,865</u>	<u>10,343,572</u>	<u>6,920,664</u>	<u>18,786,101</u>
Net Assets, Ending	<u>\$ 691,722</u>	<u>\$ 11,603,010</u>	<u>\$ 7,276,718</u>	<u>\$ 19,571,450</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (1,483,394)	\$ 785,349
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,132	1,132
Amortization of interest income on lease obligation receivable	(245,607)	(245,607)
Amortization of discount on pledges receivable	(11,000)	4,000
Amortization of deferred financing costs	42,226	41,741
Amortization of bond premiums and discounts	(30,695)	(7,844)
Loss on extinguishment of bonds	-	952,625
Realized and unrealized (gains) losses on investments	202,332	(855,439)
Bad debt expense	151,497	129,694
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(137,933)	(752,143)
Prepaid expenses	31,969	(26,430)
Lease obligation receivable	1,365,000	1,320,000
Pledges receivable	408,978	(52,065)
Increase (decrease) in:		
Accounts payable and other accruals	51,142	(318,984)
Contributions restricted for long-term purposes	(405,727)	(343,210)
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>(60,080)</u>	<u>632,819</u>
INVESTING ACTIVITIES		
Change in restricted cash	(264,838)	78,167
Sales of investments	204,642	366,568
Purchases of investments	(556,159)	(344,225)
Capital expenditures	-	(161,102)
<u>Net Cash Used in Investing Activities</u>	<u>(616,355)</u>	<u>(60,592)</u>
FINANCING ACTIVITIES		
Principal payments on debt	(1,365,000)	(1,320,000)
Proceeds from line of credit	137,710	1,381,248
Repayment on line of credit	-	(186,013)
Contributions restricted for long-term purposes	405,727	343,210
<u>Net Cash Provided by (Used in) Financing Activities</u>	<u>(821,563)</u>	<u>218,445</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,497,998)	790,672
Cash and Cash Equivalents, Beginning	<u>4,351,899</u>	<u>3,561,227</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,853,901</u>	<u>\$ 4,351,899</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A: ORGANIZATION AND NATURE OF ACTIVITIES

The Winston-Salem State University Foundation, Incorporated, (the "Foundation") a non-profit corporation, solicits and collects contributions to provide scholarships and aid to the students and faculty of Winston-Salem State University (the "University") and financial support for the educational programs of the University. The University is considered to be a related party.

The Foundation, through a wholly owned subsidiary, Winston-Salem State University Housing Foundation, LLC (the "LLC"), operates three student housing facilities. The first, RAMS Commons, is a 446 bed facility situated on approximately 7.7 acres adjacent to the University campus. It includes four residential buildings, one community center, and off-site parking. The second student housing facility is Gleason-Hairston Terrace, situated on approximately 8.3 acres. The 405 bed facility is located on the southwest side of the University campus. Gleason-Hairston opened for student occupancy in August 2005. Foundation Heights, the third privatized student housing project sponsored by the Foundation was funded through an additional bond issue. This four story apartment community, situated on approximately six acres on the southwest side of the campus, includes one residential building containing 72 units and a total of 316 beds. Foundation Heights opened for student occupancy in 2007. RAMS Commons, Gleason-Hairston Terrace and Foundation Heights are leased to Winston-Salem State University by the LLC.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Consolidation

The consolidated financial statements of the Foundation have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of the Winston-Salem State University Housing Foundation, LLC. The Foundation is the sole member of the limited liability company. All significant intercompany transactions have been eliminated.

Basis of Presentation

The Foundation presents its net assets and its support and revenue based upon the absence or existence of donor-imposed restrictions as follows:

Unrestricted net assets – net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

Temporarily restricted net assets – net assets that contain donor-imposed time or purpose restrictions that have not currently been met.

Permanently restricted net assets – net assets that contain donor-imposed restrictions stipulating that amounts be maintained in perpetuity. Part or all of the income earned may be expended according to donor stipulations.

Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or purpose was satisfied) are reported as net assets released from restrictions.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period committed. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation determines an allowance for uncollectible pledges based upon management's judgment about such factors as prior collections history, type of contribution, and nature of fundraising activity. The allowance for uncollectible pledges was \$151,497 and \$129,694 at June 30, 2016 and 2015, respectively.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers deposits with initial maturities of three months or less to be cash equivalents. Cash consists solely of cash on deposit with banks.

Restricted Cash

Restricted cash consists of amounts reserved for construction costs, a debt service reserve fund, required operating and maintenance fund, and other restricted funds as required by the loan agreement executed in connection with financing for the student housing facilities. Restricted cash is held in separate accounts at a financial institution.

Certificates of Deposit

The Foundation has certificates of deposit totaling \$515,439 and \$513,875 at June 30, 2016 and 2015, respectively. These certificates bear interest rates ranging from .05% to .40% and have maturities ranging from 6 months to 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the consolidated statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Net unrealized gains and losses on investments, whose income is unrestricted or temporarily restricted as to use, is reported as unrestricted or temporarily restricted net assets unless such net unrealized activity is permanently restricted by donor or by law. Expenses relating to investment income, including custodial fees and investment advisory fees, have been netted against investment income in the consolidated financial statements.

Fair Value Measurements

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note M for assets of the Foundation measured at fair value on a recurring basis.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at historical cost. Repairs and maintenance of fixed assets are charged to operations. Major improvements that extend the life of assets are capitalized and depreciated over the remaining useful life of the assets. Furniture, fixtures, and equipment are being depreciated over 5 to 10 years, using the straight-line method.

Endowment

The Foundation's endowment consists of donor-restricted and board designated funds which are invested in one fund. As required by GAAP, net assets associated with donor-restricted endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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 in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Funds with Deficiencies: From time to time, the fair value of the assets associated with the donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as funds of perpetual duration. In accordance with GAAP, deficiencies of this nature are first offset by any accumulated temporarily restricted net assets from the funds, with any remaining deficiency offsetting unrestricted net assets. There were no endowment deficiencies at June 30, 2016 or 2015.

Investment Return Objectives, Risk Parameters and Strategies: The Foundation has adopted investment and spending policies, approved by the Executive Committee, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve a rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment (Continued)

Spending Policy: The Foundation has a policy of appropriating for distribution each year between 4.5% and 5.0% of its endowment fund's average fair value of the prior three years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a rate consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional growth through investment return.

Deferred Financing Costs

In connection with the financing arrangements for the construction of the student housing facilities, the LLC paid certain fees and expenses. These deferred financing costs, including insurance premiums and issuance costs, are being amortized over the terms of the bonds using the interest method. Any unamortized cost would be charged to earnings upon repayment of or in connection with a material change in the terms of the underlying debt agreement. Amortization of deferred financing costs was \$42,226 and \$41,741 for the years ended June 30, 2016 and 2015, respectively. Accumulated amortization amounted to \$342,683 and \$300,457 at June 30, 2016 and 2015, respectively.

Income Tax Status

The Foundation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose. The LLC is considered to be a disregarded entity directly controlled by the Foundation.

The Foundation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Foundation has no uncertain tax positions that would be subject to change upon examination.

The Foundation, inclusive of the LLC, is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Foundation is also required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000. The Foundation's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Foundation has evaluated its subsequent events (events occurring after June 30, 2016) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the consolidated financial statements.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C: CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash, cash equivalents, and investments. The Foundation maintains most of its deposited cash balances in various financial institutions located in Winston-Salem, North Carolina. Cash equivalents are maintained at local financial institutions and brokerage firms. Cash balances may at times exceed federally insured limits. The Foundation has not experienced any losses on its cash and cash equivalents. The Foundation's investments are primarily held by a local bank trust department and UNC Investment Fund, LLC. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

NOTE D: LEASE OBLIGATION RECEIVABLE

The WSSU Housing Foundation LLC constructed three student housing facilities, RAMS Commons, Gleason-Hairston Terrace and Foundation Heights. The LLC has leased these facilities to the University. The lease agreements provide for lease payments to be made to the LLC equal to the debt service requirements on the bonds issued to finance the construction of the facilities. The leases have been accounted for as direct financing leases. Accordingly, the accompanying financial statements reflect a lease obligation receivable from the University at June 30, 2016 and 2015, as follows:

	<u>2016</u>	<u>2015</u>
Gross lease obligation receivable	\$ 42,975,000	\$ 42,975,000
Less unamortized interest income	<u>(6,171,463)</u>	<u>(5,052,070)</u>
	<u>\$ 36,803,537</u>	<u>\$ 37,922,930</u>

Unearned interest income is amortized over the lives of the related bond issues. Amortization of income amounted to \$245,607 for each of the years ended June 30, 2016 and 2015.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E: PLEDGES RECEIVABLE

The Foundation, on behalf of the University, is conducting a campaign to raise funds for endowed scholarships, endowed professorships, facility improvements, and other strategic initiatives. Pledges to the campaign are recorded in the period in which the pledge is received. Pledges receivable as of June 30, 2016 are presented in the accompanying consolidated financial statements at their net realizable value, as follows:

Due within one year	\$ 1,075,568
Due within two to five years	<u>373,467</u>
	1,449,035
Less allowance for uncollectible pledges	(151,497)
Less discount to present value at 1.05%	<u>(3,000)</u>
	<u>\$ 1,294,538</u>

During the year ended June 30, 2013, the Foundation received a \$75,000 conditional promise to give as part of their Student Success Center Campaign. This promise is conditioned on the Foundation meeting campaign goals in subsequent years. The balance of the conditional promise to give was \$60,227 at June 30, 2016 and 2015.

NOTE F: INVESTMENT SECURITIES

Investment securities at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
UNC Investment Fund, LLC	\$ 10,183,110	\$ 10,065,240
Stocks, including exchange-traded funds	115,753	117,340
Mutual funds	2,429,129	2,453,103
Money market funds	<u>271,033</u>	<u>215,721</u>
	<u>\$ 12,999,025</u>	<u>\$ 12,851,404</u>

NOTE G: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land acquired for University expansion	\$ 1,233,234	\$ 1,233,234
Furniture and equipment	<u>83,112</u>	<u>83,112</u>
	1,316,346	1,316,346
Less accumulated depreciation	<u>(80,227)</u>	<u>(79,095)</u>
	<u>\$ 1,236,119</u>	<u>\$ 1,237,251</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$1,132, respectively.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G: PROPERTY AND EQUIPMENT (CONTINUED)

Property Held for Resale – Student Housing Project

Under an agreement between the Foundation and the University, the Foundation began construction in July 2012 of a Student housing project named the Martin-Schexnider Residence Hall. Under the terms of the agreement, the Foundation assumed responsibility for financing and constructing the building. After construction was completed and prior to the maturity of the construction note payable, the University paid off the related note (See Note I). Upon repayment in June 2016, the University assumed ownership of the building. At June 30, 2016, the property was no longer considered held for resale.

Additionally, as part of the agreement, the University agreed to pay the Foundation a project management fee based on a predetermined formula. The project management fee amounted to \$428,081. This fee is included in receivables at June 30, 2016 in the consolidated statement of financial position.

NOTE H: LINE OF CREDIT

The Foundation has an available \$2,000,000 line of credit with a bank bearing interest at the bank's prime rate (3.50% and 3.25% at June 30, 2016 and 2015, respectively) paid monthly and maturing on July 31, 2017. The line of credit is secured by the Foundation's investments held by the bank. The outstanding balance was \$1,429,947 and \$1,292,237 at June 30, 2016 and 2015, respectively. Although there is no formal agreement between the Foundation and the University, this line of credit was obtained to finance soft costs for another student housing project for the University. A corresponding amount due from the University is included in receivables in the consolidated statements of financial position at June 30, 2016 and 2015, respectively.

NOTE I: CONSTRUCTION NOTE PAYABLE

In October 2012, the LLC obtained a construction note payable with a bank with quarterly interest only payments of \$93,525 (fixed rate of 2.58%) for 12 quarters and principal plus any unpaid accrued interest due on October 31, 2015. However, the University has been paying the quarterly interest payments on behalf of the Foundation since October 2013. In November 2015, the due date of the note was extended to June 30, 2016. The interest rate for the period from November 1, 2015 through June 30, 2016 was also adjusted to a rate of one-month LIBOR (0.47% at June 30, 2016) plus 2%. In June 2016, the University paid off the principal balance of the note on behalf of the Foundation (See Note G).

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J: BONDS PAYABLE

Three student housing facilities have been financed through the issuance of bonds.

In October 2006, \$18,835,000 of Series 2006 bonds were issued. The proceeds of this issuance were used to finance the construction of Foundation Heights. The bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 3% to 5%.

In August 2014, the Foundation issued \$27,990,000 in Series 2014 Student Housing Project Limited Obligation refunding bonds with interest rates ranging from 2% to 5%. These bonds mature at various intervals through 2036. The bonds were issued for a current refunding of \$29,075,000 of outstanding Series 2004 Winston-Salem State University Housing Project Certificates of Participation with an average interest rate of 4.8%. The refunding was undertaken to reduce total debt service payments by \$2,787,745 over the next 22 years and resulted in an economic gain of \$1,579,809. The original purpose of this debt was to construct two student residence halls for which the University leases (capital) from the Foundation.

As a result of the Series 2014 refunding, the Foundation incurred a loss on extinguishment of debt of \$952,625 for the year ended June 30, 2015. The loss was incurred due to the write off of the remaining unamortized bond discount of \$148,919 and bond issuance costs of \$803,706 associated with the Series 2004 bonds.

Bonds payable are as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Series 2006 bonds	\$ 15,345,000	\$ 15,835,000
Series 2014 bonds	<u>26,265,000</u>	<u>27,140,000</u>
Gross bonds payable	41,610,000	42,975,000
Unamortized bond premium	<u>1,258,477</u>	<u>1,289,172</u>
	<u>\$ 42,868,477</u>	<u>\$ 44,264,172</u>

Scheduled maturities of the bonds are as follows:

2017	\$ 1,420,000
2018	1,470,000
2019	1,525,000
2020	1,590,000
2021	1,660,000
Thereafter (2022 – 2036)	<u>33,945,000</u>
	<u>\$ 41,610,000</u>

Unamortized bond premium is amortized over the lives of the related bond issues using the interest method. Amortization of the bond premium amounted to \$30,695 and \$8,755 for the years ended June 30, 2016 and 2015, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K: RESTRICTIONS ON NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 6,514,960	\$ 7,175,971
Special projects and student activities	<u>2,678,767</u>	<u>4,427,039</u>
	<u>\$ 9,193,727</u>	<u>\$ 11,603,010</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable for student scholarships and other donor designations.

NOTE L: ENDOWMENT

Endowment net asset composition by type as of June 30, 2016 and 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2016				
Board designated endowment funds				
Cash and cash equivalents	\$ 40,598	\$ -	\$ -	\$ 40,598
UNC Investment Fund, LLC	608,184	-	-	608,184
Donor-restricted endowment funds				
Cash and cash equivalents	-	45,212	553,513	598,725
Pledges receivable, net	-	-	134,374	134,374
UNC Investment Fund, LLC	-	<u>2,580,368</u>	<u>6,994,558</u>	<u>9,574,926</u>
	<u>\$ 648,782</u>	<u>\$ 2,625,580</u>	<u>\$ 7,682,445</u>	<u>\$ 10,956,807</u>
2015				
Board designated endowment funds				
Cash and cash equivalents	\$ 5,246	\$ -	\$ -	\$ 5,246
UNC Investment Fund, LLC	615,888	-	-	615,888
Donor-restricted endowment funds				
Cash and cash equivalents	-	221,560	363,486	585,046
Pledges receivable, net	-	-	145,292	145,292
UNC Investment Fund, LLC	-	<u>2,681,412</u>	<u>6,767,940</u>	<u>9,449,352</u>
	<u>\$ 621,134</u>	<u>\$ 2,902,972</u>	<u>\$ 7,276,718</u>	<u>\$ 10,800,824</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L: ENDOWMENT (CONTINUED)

Changes in endowment net assets during the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2016				
Endowment net assets, beginning of year	\$ 621,134	\$ 2,902,972	\$ 7,276,718	\$ 10,800,824
Contributions	-	-	405,727	405,727
Board designations	41,666	-	-	41,666
Realized and unrealized losses, net	(14,018)	(175,516)	-	(189,534)
Amounts appropriated for expenditure	-	(101,876)	-	(101,876)
Endowment net assets, end of year	<u>\$ 648,782</u>	<u>\$ 2,625,580</u>	<u>\$ 7,682,445</u>	<u>\$ 10,956,807</u>
2015				
Endowment net assets, beginning of year	\$ 583,726	\$ 2,155,995	\$ 6,920,664	\$ 9,660,385
Contributions	-	-	343,210	343,210
Realized and unrealized gains, net	3,599	893,468	-	897,067
Transfers	33,809	(46,653)	12,844	-
Amounts appropriated for expenditure	-	(99,838)	-	(99,838)
Endowment net assets, end of year	<u>\$ 621,134</u>	<u>\$ 2,902,972</u>	<u>\$ 7,276,718</u>	<u>\$ 10,800,824</u>

NOTE M: FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M: FAIR VALUE MEASUREMENTS (CONTINUED)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value:

- *UNC Investment Fund, LLC*: Recorded at the amount that represents the Foundation's equity position in the UNC Investment Fund, LLC. This pooled investment fund determines ownership on a market unit valuation basis each month. The fund is a broadly diversified portfolio of assets including domestic and international equities, private equities, real estate, commodities and fixed income securities. Due to the significance of alternative investments in the fund which have limited or no observable market data necessary to determine fair value, the entire fund is considered to fall within level 3 measurements in the fair value hierarchy under GAAP.
- *Stocks, Mutual Funds, and Money Market Funds*: Valued at the closing price reported on the active markets on which individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Level 1	Level 2	Level 3	Total
<u>2016</u>				
Investments				
UNC Investment Fund, LLC	\$ -	\$ -	\$ 10,183,110	\$ 10,183,110
Stocks				
Exchange-traded funds	68,231	-	-	68,231
Other	47,522	-	-	47,522
Mutual funds				
Short-term bond	2,190,408	-	-	2,190,408
Bank loan	238,722	-	-	238,722
Money market funds	271,032	-	-	271,032
Total assets at fair value	<u>\$ 2,815,915</u>	<u>\$ -</u>	<u>\$ 10,183,110</u>	<u>\$ 12,999,025</u>
<u>2015</u>				
Investments				
UNC Investment Fund, LLC	\$ -	\$ -	\$ 10,065,240	\$ 10,065,240
Stocks				
Exchange-traded funds	84,034	-	-	84,034
Other	33,306	-	-	33,306
Mutual funds				
Short-term bond	2,207,462	-	-	2,207,462
Bank loan	245,641	-	-	245,641
Money market funds	215,721	-	-	215,721
Total assets at fair value	<u>\$ 2,786,164</u>	<u>\$ -</u>	<u>\$ 10,065,240</u>	<u>\$ 12,851,404</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M: FAIR VALUE MEASUREMENTS (CONTINUED)

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 10,065,240	\$ 9,246,808
Purchases	354,658	252,097
Redemptions	-	(278,972)
Unrealized and realized gains (losses)	(186,480)	894,683
Investment advisory fees	<u>(50,308)</u>	<u>(49,376)</u>
	<u>\$ 10,183,110</u>	<u>\$ 10,065,240</u>

NOTE N: SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION

	<u>2016</u>	<u>2015</u>
Cash Paid During the Year:		
Interest including \$49,103 and \$31,966 capitalized during the years ended June 30, 2016 and 2015, respectively	<u>\$ 1,956,516</u>	<u>\$ 1,994,210</u>
Non-Cash Investing and Financing Activities:		
Bond Refunding		
Extinguishment of Series 2004 bonds	\$ -	\$ (29,075,000)
Issuance of Series 2014 bonds	-	27,990,000
Change in restricted cash	-	111,442
New bond premium	-	1,297,927
New debt issuance costs	-	(324,369)
Payoff of construction note payable by the University by transfer of property held for resale from the Foundation to the University (See Note G and Note I)	<u>\$ 14,500,000</u>	<u>\$ -</u>

NOTE O: SUBSEQUENT EVENT

On September 8, 2016, the Foundation issued \$13,235,000 in Series 2016 Refunding Limited Obligation (Winston-Salem State University Student Housing Project) refunding bonds. The bonds were issued for a current refunding of \$15,345,000 of outstanding Series 2006 Winston-Salem State University Housing Project Certificates of Participation. The refunding was undertaken to reduce total debt service payments. The original purpose of this debt was to construct Foundation Heights, a student residence hall, for which the University leases (capital) from the Foundation.