

THE FOUNDATION OF THE
UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 2015)

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**

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Independent Auditor's Report

To the Board of Directors
The Foundation of the University of North Carolina at Wilmington, Inc.
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The Foundation of the University of North Carolina at Wilmington, Inc. (the "Foundation") (a North Carolina nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Association'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 Association'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 The Foundation of the University of North Carolina at Wilmington, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Foundation of the University of North Carolina at Wilmington, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 10, 2016

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Statement of Financial Position
June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Assets					
Current Assets:					
Cash and cash equivalents	\$ 63,387	\$ 106,922	\$ -	\$ 170,309	\$ 84,239
Investments	619,587	1,366,856	-	1,986,443	2,345,279
Prepays	-	1,963	-	1,963	-
Contributions receivable, net	1,045	-	-	1,045	2,014
Total current assets	684,019	1,475,741	-	2,159,760	2,431,532
Non-current Assets:					
Cash and cash equivalents	-	-	404,640	404,640	323,061
Investments	-	-	2,672,121	2,672,121	2,695,323
Cash surrender value of life insurance	88,303	274,614	-	362,917	319,025
Investments in real estate	14,400	594,117	-	608,517	550,000
Total non-current assets	102,703	868,731	3,076,761	4,048,195	3,887,409
Total assets	\$ 786,722	\$2,344,472	\$3,076,761	\$6,207,955	\$6,318,941
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable	\$ -	\$ 400	\$ -	\$ 400	\$ -
Current portion of liability under annuity	-	13,156	-	13,156	12,450
Total current liabilities	-	13,556	-	13,556	12,450
Non-Current Liabilities:					
Liability under annuity, net of current portion	-	97,024	-	97,024	92,457
Total liabilities	-	110,580	-	110,580	104,907
Net Assets:					
Unrestricted	786,722	-	-	786,722	874,725
Temporarily restricted	-	2,233,892	-	2,233,892	2,320,336
Permanently restricted	-	-	3,076,761	3,076,761	3,018,973
Total net assets	786,722	2,233,892	3,076,761	6,097,375	6,214,034
Total liabilities and net assets	\$ 786,722	\$2,344,472	\$3,076,761	\$6,207,955	\$6,318,941

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

(With Comparative Totals for Year Ended June 30, 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 36,756	\$ 107,479	\$ 56,697	\$ 200,932
Income (loss) on cash and investments - net of expenses	(77,239)	7,918	1,091	(68,230)
Income on life insurance policies	8,364	5,685	-	14,049
Loss on split interest liabilities	-	(9,571)	-	(9,571)
Donated services	52,102	-	-	52,102
Private exchange grant	-	-	-	-
Miscellaneous	-	10,250	-	10,250
Net assets released from restrictions	208,205	(208,205)	-	-
Total support and revenue	<u>228,188</u>	<u>(86,444)</u>	<u>57,788</u>	<u>199,532</u>
Expenses:				
Program:				
Contributions	156,448	-	-	156,448
Real Estate	3,564	-	-	3,564
Other gifted assets	29,855	-	-	29,855
Grant sub-agreement with UNCW	-	-	-	-
Fundraising	31,009	-	-	31,009
Management and general	95,315	-	-	95,315
Total expenses	<u>316,191</u>	<u>-</u>	<u>-</u>	<u>316,191</u>
Change in net assets	(88,003)	(86,444)	57,788	(116,659)
Net assets, beginning	<u>874,725</u>	<u>2,320,336</u>	<u>3,018,973</u>	<u>6,214,034</u>
Net assets, ending	<u>\$ 786,722</u>	<u>\$ 2,233,892</u>	<u>\$ 3,076,761</u>	<u>\$ 6,097,375</u>

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**

Statement of Cash Flows

Year Ended June 30, 2016

(With Comparative Totals for Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (116,659)	\$ 149,898
Adjustments to reconcile change in net assets to net cash used in operating activities		
Increase in cash surrender value	(43,892)	(20,435)
Net unrealized loss on split interest agreements	9,571	8,775
Net unrealized and realized (gains) losses on investments	90,661	(360,715)
Contribution of real estate	(58,517)	-
(Increase) decrease in:		
Contributions receivable	969	5,330
Prepaid expenses	(1,963)	-
Increase (decrease) in:		
Accounts payable	400	-
Liability under annuity	8,858	-
Net cash used in operating activities	<u>(110,572)</u>	<u>(217,147)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	920,492	1,588,324
Purchase of investments	<u>(629,115)</u>	<u>(1,535,060)</u>
Net cash provided by investing activities	<u>291,377</u>	<u>53,264</u>
Cash flows from financing activities:		
Payments for annuity/unitrust agreements	<u>(13,156)</u>	<u>(12,450)</u>
Net cash used in financing activities	<u>(13,156)</u>	<u>(12,450)</u>
Increase (decrease) in cash and cash equivalents	167,649	(176,333)
Cash and cash equivalents, beginning	<u>407,300</u>	<u>583,633</u>
Cash and cash equivalents, ending	<u>\$ 574,949</u>	<u>\$ 407,300</u>
Supplemental disclosure of cash flow information:		
Donated services	<u>\$ 52,102</u>	<u>\$ 50,884</u>

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.
Notes to Financial Statements**

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation of The University of North Carolina at Wilmington, Inc. (the "Foundation") was organized as a North Carolina nonprofit corporation on February 9, 1962 (originally Wilmington College Foundation, Inc.) to solicit funds in order to promote the educational purpose of The University of North Carolina at Wilmington (the "University"). The University is the Association's sole beneficiary.

A summary of the Association's significant accounting policies follows:

Basis of Accounting

The Foundation uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in Accounting Standards Codification (ASC) Topic 958-205, *Not-for-profit Entities - Presentation of Financial Statements*. Under ASC Topic 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are defined as follows:

Unrestricted net assets - are net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - are net assets subject to donor-imposed stipulations that require actions of the Foundation or the passage of time. When a restriction expires as a result of the lapse of a time requirement or achievement of the specific operating purpose stipulated, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets are available to be used primarily for contributions to the University for endowments, scholarships, and various other programs.

Permanently restricted net assets - are net assets subject to donor-imposed stipulations or interpretation of applicable law that they be maintained permanently by the Foundation. Generally, the donors of these assets or applicable law permit the Foundation to use the income earned on any related investments for specific purposes.

Support and Revenue and Expenses

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as support and revenue when cash or ownership of donated assets is unconditionally promised to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.
Notes to Financial Statements**

**NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Support and Revenue and Expenses (Continued)

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, with original maturities at time of purchase of less than ninety days. Any cash and cash equivalents held for long-term purposes are segregated from cash and cash equivalents available for operations and reported as non-current assets.

Investments

The Foundation's investments are held by brokers in an external investment pool and are reported at fair value. The fair values of the investments are measured as disclosed in Note 3. Endowment investments are excluded from current assets as they are not available for operations.

Investments in the external investment pool include debt and equity securities, certain commingled funds and limited partnerships. The fair values of debt and equity securities are determined in the same manner as noted above. Investments in certain commingled funds and limited partnerships are carried at estimated fair values as provided by the respective fund managers of those investments and supplied to the external investment pool management company. The management company reviews and evaluates these values and the estimated fair values may differ significantly from the values that would have been used had a readily determinable market for them existed. Multiple temporarily and permanently restricted funds are combined with unrestricted funds in the external investment pool. On a monthly basis, the interest, dividends, realized and unrealized gains and losses, and investment fees are allocated to the funds based on the funds' respective percentage of ownership interest in the pool of investments.

Income and realized and unrealized net gains on investments of endowment and similar funds are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift or the Foundation's interpretation of relevant state law require they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income; or
- As increases in unrestricted net assets in all other cases.

Donated investments are stated at fair value at the date of the gift.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment in Real Estate

The Foundation's investment in real estate includes donated properties held until such time as they may be marketed and sold. Purchased investments are carried at cost. Donated investments are recorded at their estimated fair value at the date of the gift. The carrying value is adjusted if there has been an impairment of value that is not considered by management to be temporary.

Income Tax Status

The Foundation is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 107(b)(1)(A)(iv).

It is the Foundation's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for the year.

Component Unit

The financial statements include the activities of Seahawk Investment Strategies, LLC. This blended component unit, although a legally separate entity, is in substance part of the Foundation's operations and therefore is reported as if it was part of the Foundation.

The Foundation exists solely to support the University. Because Seahawk Investment Strategies, LLC manages a portfolio of the Foundation's investments, the proceeds of which are restricted to the support of the University, its financial statements have been blended with those of the Foundation.

Donated Property

Donated property that is received but not sold during the fiscal year is reflected as support in the statement of activities and changes in net assets at its fair value at the date of receipt. The fair value is obtained from University faculty, staff, and others who have expertise in the field of the property being donated. All donated property is subsequently transferred to the University for use in its operations or is sold to bidders with the proceeds remaining within the Foundation. Any donated property received and sold during the fiscal year is recorded as contributions at the value received for the sold property. There was no donated property received during the year.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 2 - INVESTMENTS AND INVESTMENTS IN REAL ESTATE

Investments were as follows:

<u>Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Securities	\$ 1,338,390	\$ 1,399,976	\$ 61,586
External investment pool	1,957,880	3,258,588	1,300,708
Total investments	<u>\$ 3,296,270</u>	<u>\$ 4,658,564</u>	<u>\$ 1,362,294</u>

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

The income from cash and investments is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 2,825	\$ 35,359	\$ 1,091	\$ 39,275
Net realized gains:				
Cash and pooled investments	87,627	21,908	-	109,535
Securities	-	12,895	-	12,895
Net realized gains	<u>87,627</u>	<u>34,803</u>	<u>-</u>	<u>122,430</u>
Net unrealized losses:				
Cash and pooled investments	(150,847)	(18,173)	-	(169,020)
Securities	-	(44,071)	-	(44,071)
Net unrealized losses	<u>(150,847)</u>	<u>(62,244)</u>	<u>-</u>	<u>(213,091)</u>
Investment expenses	<u>(16,844)</u>	<u>-</u>	<u>-</u>	<u>(16,844)</u>
Total income (loss) on cash and investments	<u>\$ (77,239)</u>	<u>\$ 7,918</u>	<u>\$ 1,091</u>	<u>\$ (68,230)</u>

Investments in real estate were as follows:

<u>Unrestricted</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Land lot adjacent to Section 10A at 210 Wiregrass Rd.	\$ 58,000	\$ 14,400	\$ (43,600)
<u>Temporarily restricted</u>			
Land - vacant lot on Gillespi Rd.	1,234,000	290,000	(944,000)
Land lot adjacent to Section 10B Long Leaf Acres	150,000	45,600	(104,400)
Land tracts 1, 2, 3 and 4, A.J. Tyson Properties	545,000	200,000	(345,000)
Remainder interest in personal property	58,517	58,517	-
	<u>1,987,517</u>	<u>594,117</u>	<u>(1,393,400)</u>
	<u>\$ 2,045,517</u>	<u>\$ 608,517</u>	<u>\$(1,437,000)</u>

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 3 - FAIR VALUE MEASUREMENTS

Investments are recorded at fair value as required by FASB ASC 820-10, *Fair Value Measurements and Disclosures*. ASC 820-10 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 Quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820-10.

In determining fair value, the Foundation uses various valuation approaches within the FASB ASC 820-10 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Equities: Equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

External investment pool: Ownership interest in the external investment pool is typically valued using the net asset valuation provided by the pool. Investment in the external investment pool is included in Level 3 of the valuation hierarchy. Upon at least 30 days' prior written notice, a redemption may be made of all or a portion of the investment as of the last business day of any calendar month up to a cumulative amount of \$10 million during any given fiscal quarter.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value:

Type	Total Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Common stocks	\$1,399,976	\$1,399,976	\$ -	\$ -
External investment pool	3,258,588	-	-	3,258,588
Total	<u>\$4,658,564</u>	<u>\$1,399,976</u>	<u>\$ -</u>	<u>\$ 3,258,588</u>

The following table reconciles the beginning and ending balances of financial and nonfinancial assets and liabilities at fair value on a recurring basis using significant unobservable (Level 3) inputs:

Beginning balance	\$ 3,584,969
Realized and unrealized losses	(59,536)
Withdrawals and other distributions	(266,845)
Ending balance	<u>\$ 3,258,588</u>

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 4 - CASH AND CASH EQUIVALENTS

The Foundation had the following cash and cash equivalents balances available for operations:

Cash in money market funds	\$ 64,002
Cash on deposit with State Treasurer	510,947
Total cash and cash equivalents	<u>\$ 574,949</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in the State Treasurer's short-term investment fund. These monies are invested in accordance with G.S. 147-69.1 and, as required by law, are "readily convertible into cash". All deposits are held either by the Department of State Treasurer or its agent in the State's name. Any cash not invested by the fund is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized to secure all deposits in excess of the federal depository insurance coverage. Money market funds held by brokerage firms are secured by the Federal Deposit Insurance Corporation ("FDIC").

NOTE 5 - CASH SURRENDER VALUE OF LIFE INSURANCE

The Foundation maintains life insurance policies on the lives of several of its contributors. In exchange for paying the premiums on the policies, the Foundation receives a cash surrender value if the policy is terminated, and upon the death of the insured receives all death benefits. Premiums paid by the Foundation for the year were \$19,431.

NOTE 6 - DONATED SERVICES

When donated services that create or enhance nonfinancial assets or require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations, the amounts are reflected in the financial statements as revenue and assets or expense. The amount of donated services recorded in the accompanying financial statements is \$52,102. Additionally, a substantial number of volunteers donated significant amounts of their time to the Foundation's program services which was not recorded because they did not meet the criteria noted above.

NOTE 7 - SPLIT INTEREST AGREEMENTS

The Foundation has entered into agreements whereby donors receive payments for the term of their life with any remainder at death reverting to the Foundation and/or other beneficiaries. The current agreements managed by the Foundation are:

One testamentary trust established on January 12, 1992, and the Foundation must pay out all net earnings quarterly. Assets are recorded at fair value.

Six charitable gift annuity agreements established between August 3, 2005 and February 18, 2016, and the Foundation must make either monthly or quarterly payments to the donors in amounts ranging from \$337.50 to \$778.03, so long as the donor is living. Assets are recorded at fair value. The present value of the liabilities are calculated by using a discount rate ranging from 5.4% to 7.6% and the life expectancy of each individual from a standard mortality table.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
 AT WILMINGTON, INC.
 Notes to Financial Statements**

NOTE 7 - SPLIT INTEREST AGREEMENTS (Continued)

The Foundation's agreements had the following balances in the statement of financial position as part of the temporarily restricted net assets:

Assets		Total Assets	Liabilities	Total Net Assets
Cash	Investment Pool			
\$ 51,590	\$ 310,785	\$ 362,375	\$ 110,180	\$ 252,195

NOTE 8 - ENDOWMENT FUND

The Foundation's endowment consists of 10 individual funds established primarily to fund scholarships. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor restrictions.

The Foundation's Board of Directors has interpreted the North Carolina enacted version of UPMIFA ("NCUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted 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, and (b) the original value of subsequent gifts to the permanent endowment. 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 NCUPMIFA.

In accordance with NCUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

Appropriations from the endowment fund are approved by the Foundation's Board.

The Foundation's investment policy establishes reasonable expectations, objectives, and guidelines in the investment of the portfolio's assets, creates the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns, and defines the responsibilities of the Foundation and any advisor that may be engaged by the Foundation from time to time. To achieve a well-diversified asset mix, the Foundation must assume a moderate level of risk with a considerable exposure in equity securities. Investment returns are achieved through both capital appreciation (realized and unrealized) and current income (dividends and interest).

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 8 - ENDOWMENT FUND (Continued)

From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the level that the donor or NCUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature.

The endowment net assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning	\$ -	\$ 1,300,240	\$ 3,018,973	\$ 4,319,213
Contributions	-	-	56,697	56,697
Investment income, net of fees	-	25,934	1,091	27,025
Realized and unrealized gains	-	(79,480)	-	(79,480)
Released from restrictions	182,921	(182,921)	-	-
Appropriations of endowment assets for expenditure	(182,921)	-	-	(182,921)
Endowment net assets, ending	<u>\$ -</u>	<u>\$ 1,063,773</u>	<u>\$ 3,076,761</u>	<u>\$ 4,140,534</u>

The following table summarizes the composition of endowment net assets by fund type:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Scholarships	\$ -	\$ 599,796	\$ 2,076,761	\$ 2,676,557
Academic programs	-	463,977	1,000,000	1,463,977
	<u>\$ -</u>	<u>\$ 1,063,773</u>	<u>\$ 3,076,761</u>	<u>\$ 4,140,534</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Gifts to UNCW Endowment	\$ 2,007,751
Gifts to UNCW programs	86,341
Scholarships	139,800
	<u>\$ 2,233,892</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

As described in Note 1, the Foundation's purpose is to solicit funds in order to promote the educational purpose of the University of North Carolina at Wilmington ("UNCW"). Contributions to UNCW totaled \$156,448.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.**
Notes to Financial Statements

NOTE 11 - FUNCTIONAL EXPENSES

Expenses and their functional classifications are as follows:

	Program		Other Gifted Assets	Fund-Raising	Management and General	Total
	Contributions to UNCW	Real Estate				
Endowed scholarships	\$ 101,190	\$ -	\$ -	\$ -	\$ -	\$ 101,190
Endowed programmatic support	55,258	-	-	-	-	55,258
Insurance premiums	-	-	15,774	-	1,967	17,741
Property taxes	-	3,564	-	-	-	3,564
Testamentary trust distributions	-	-	14,081	-	-	14,081
Donated services	-	-	-	-	52,102	52,102
Accounting/audit fees	-	-	-	-	7,500	7,500
Administrative fees	-	-	-	28,340	-	28,340
Supplies and materials	-	-	-	182	-	182
Annual filing fee	-	-	-	-	33,746	33,746
Food services	-	-	-	2,487	-	2,487
	<u>\$ 156,448</u>	<u>\$ 3,564</u>	<u>\$ 29,855</u>	<u>\$ 31,009</u>	<u>\$ 95,315</u>	<u>\$ 316,191</u>

NOTE 12 - ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities*. This update is effective for fiscal periods beginning after December 15, 2017. Under the new standard, there will be two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) instead of the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted). The new standard requires all not-for-profit entities to provide expenses and an analysis of expenses by both nature and function, and disclosure of the methods used to allocate those expenses among the various functions. ASU 2016-14 requires qualitative disclosure about how liquidity is managed including dates to meet the cash needs for the upcoming year. The update allows underwater endowment funds to be reflected in the net assets without donor restrictions. Investment returns will be presented net of all related external and direct internal expenses and the existing disclosure of the netted amounts is no longer required. The standard continues to allow not-for-profit entities to present the net amount of operating cash flows using either the direct or indirect method of reporting, while no longer requiring the indirect reconciliation if the direct method is used.

NOTE 13 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events (events occurring after the year ended) through October 10, 2016, which is the date the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

**THE FOUNDATION OF THE UNIVERSITY OF NORTH CAROLINA
AT WILMINGTON, INC.
Time and Costs for the Audit
Year Ended June 30, 2016**

The Foundation of the University of North Carolina at Wilmington, Inc.'s audit was conducted in approximately 60 hours at a total cost of \$7,750.