

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

Consolidated Financial Statements

June 30, 2018 and 2017

TABLE OF CONTENTS

Independent Auditors' Report.....2

Consolidated Statements of Financial Position3

Consolidated Statements of Activities 4 - 5

Consolidated Statements of Cash Flows6

Notes to Consolidated Financial Statements..... 7 - 19

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, 2018 and 2017, 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, 2018 and 2017, 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.

Butler & Burke LLP

Winston-Salem, North Carolina
September 28, 2018

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,739,991	\$ 3,304,095
Restricted cash	4,922,148	4,591,792
Certificates of deposit	503,578	253,578
Receivables	108,698	101,129
Prepaid expenses	8,526	8,526
Lease obligation receivable, net (Note D)	34,188,751	35,418,645
Pledges receivable, net (Note E)	1,733,339	860,742
Investment securities (Note F)	16,520,823	14,799,739
Property and equipment, net (Note G)	<u>1,233,958</u>	<u>1,235,187</u>
<u>TOTAL ASSETS</u>	<u>\$ 61,959,812</u>	<u>\$ 60,573,433</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and other accruals	\$ 692,763	\$ 772,615
Bonds payable, net (Note I)	<u>39,503,253</u>	<u>41,043,473</u>
<u>Total Liabilities</u>	<u>40,196,016</u>	<u>41,816,088</u>
Net Assets		
Unrestricted		
Undesignated	210,432	(223,384)
Board designated for endowment (Note K)	<u>814,080</u>	<u>732,611</u>
	1,024,512	509,227
Temporarily restricted (Note J)	11,973,237	10,118,981
Permanently restricted (Notes J and K)	<u>8,766,047</u>	<u>8,129,137</u>
<u>Total Net Assets</u>	<u>21,763,796</u>	<u>18,757,345</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 61,959,812</u>	<u>\$ 60,573,433</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Gifts and grants	\$ 361,004	\$ 2,104,651	\$ 636,910	\$ 3,102,565
Investment income	144,934	-	-	144,934
Realized and unrealized gains on investments	53,706	1,381,746	-	1,435,452
Administrative fees	210,818	-	-	210,818
Program income	2,358	307,167	-	309,525
Lease income	2,218,389	-	-	2,218,389
Amortization of bond premium, net	202,910	-	-	202,910
Other	<u>7,482</u>	<u>-</u>	<u>-</u>	<u>7,482</u>
	<u>3,201,601</u>	<u>3,793,564</u>	<u>636,910</u>	<u>7,632,075</u>
 Net assets released from restrictions	 <u>1,939,308</u>	 <u>(1,939,308)</u>	 <u>-</u>	 <u>-</u>
 Total Support and Revenue	 <u>5,140,909</u>	 <u>1,854,256</u>	 <u>636,910</u>	 <u>7,632,075</u>
 Expenses and Losses				
Scholarships	947,348	-	-	947,348
Special programs	1,309,794	-	-	1,309,794
Management and general	529,351	-	-	529,351
Depreciation	1,229	-	-	1,229
Amortization of debt issuance costs	32,690	-	-	32,690
Interest	1,785,992	-	-	1,785,992
Fundraising expense	<u>19,220</u>	<u>-</u>	<u>-</u>	<u>19,220</u>
 Total Expenses	 <u>4,625,624</u>	 <u>-</u>	 <u>-</u>	 <u>4,625,624</u>
 Change in Net Assets	 515,285	 1,854,256	 636,910	 3,006,451
 Net Assets, Beginning	 <u>509,227</u>	 <u>10,118,981</u>	 <u>8,129,137</u>	 <u>18,757,345</u>
 Net Assets, Ending	 <u>\$ 1,024,512</u>	 <u>\$ 11,973,237</u>	 <u>\$ 8,766,047</u>	 <u>\$ 21,763,796</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Gifts and grants	\$ 307,518	\$ 1,940,000	\$ 446,692	\$ 2,694,210
Investment income	56,858	-	-	56,858
Realized and unrealized gains on investments	54,771	1,237,690	-	1,292,461
Administrative fees	176,930	-	-	176,930
Program income	1,931	304,169	-	306,100
Lease income	2,079,825	-	-	2,079,825
Amortization of bond premium, net	194,435	-	-	194,435
Other	3,453	-	-	3,453
	<u>2,875,721</u>	<u>3,481,859</u>	<u>446,692</u>	<u>6,804,272</u>
 Net assets released from restrictions	 <u>2,556,605</u>	 <u>(2,556,605)</u>	 <u>-</u>	 <u>-</u>
 Total Support and Revenue	 <u>5,432,326</u>	 <u>925,254</u>	 <u>446,692</u>	 <u>6,804,272</u>
 Expenses and Losses				
Scholarships	1,230,257	-	-	1,230,257
Special programs	1,323,847	-	-	1,323,847
Management and general	555,738	-	-	555,738
Depreciation	932	-	-	932
Amortization of debt issuance costs	39,321	-	-	39,321
Interest	1,839,288	-	-	1,839,288
Fundraising expense	19,875	-	-	19,875
Uncollectible University receivable	428,081	-	-	428,081
Loss on extinguishment of debt	697,644	-	-	697,644
	<u>6,134,983</u>	<u>-</u>	<u>-</u>	<u>6,134,983</u>
 Change in Net Assets	 (702,657)	 925,254	 446,692	 669,289
 Net Assets, Beginning	 <u>1,211,884</u>	 <u>9,193,727</u>	 <u>7,682,445</u>	 <u>18,088,056</u>
 Net Assets, Ending	 <u>\$ 509,227</u>	 <u>\$ 10,118,981</u>	 <u>\$ 8,129,137</u>	 <u>\$ 18,757,345</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,006,451	\$ 669,289
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,229	932
Amortization of interest income on lease obligation receivable	(140,106)	(140,108)
Amortization of discount on pledges receivable	(2,000)	-
Amortization of debt issuance costs	32,690	39,321
Amortization of bond premium, net	(202,910)	(194,435)
Loss on extinguishment of bonds	-	697,644
Realized and unrealized gains on investments	(1,435,452)	(1,292,461)
Provision for uncollectible pledges	168,084	188,035
Uncollectible University receivable	-	428,081
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(7,569)	1,421,209
Prepaid expenses	-	(6,622)
Lease obligation receivable	1,370,000	1,525,000
Pledges receivable	(1,038,681)	245,761
Increase (decrease) in:		
Accounts payable and other accruals	(79,852)	205,065
Contributions restricted for long-term purposes	(636,910)	(446,692)
<u>Net Cash Provided by Operating Activities</u>	<u>1,034,974</u>	<u>3,340,019</u>
INVESTING ACTIVITIES		
Change in restricted cash	(330,356)	(135,178)
Sales of investment securities	3,491,946	796,478
Purchases of investment securities	(3,777,578)	(1,042,870)
Purchase of certificate of deposit	(250,000)	-
<u>Net Cash Used in Investing Activities</u>	<u>(865,988)</u>	<u>(381,570)</u>
FINANCING ACTIVITIES		
Principal payments on debt	(1,370,000)	(1,525,000)
Change in line of credit	-	(1,429,947)
Contributions restricted for long-term purposes	636,910	446,692
<u>Net Cash Used in Financing Activities</u>	<u>(733,090)</u>	<u>(2,508,255)</u>
Increase (Decrease) in Cash and Cash Equivalents	(564,104)	450,194
Cash and Cash Equivalents, Beginning	<u>3,304,095</u>	<u>2,853,901</u>
Cash and Cash Equivalents, Ending	<u>\$ 2,739,991</u>	<u>\$ 3,304,095</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 \$168,084 and \$151,035 at June 30, 2018 and 2017, 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 \$503,578 and \$253,578 at June 30, 2018 and 2017, respectively. These certificates bear interest rates ranging from .05% to 1.75% 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 L 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, 2018 or 2017.

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.

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, 2018) 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.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations.

The following are the most significant changes to the standards:

- Only two classes of net assets are reported in the statement of financial position—net assets with donor restrictions and net assets without donor restrictions.
- All nonprofit organizations, not just voluntary health and welfare organizations, are required to present an analysis of expenses by both nature and function in one location.
- Nonprofit organizations are required to describe the methods used to allocate costs among the program and support functions.
- Nonprofit organizations are still permitted to report cash flows from operating activities using either the direct or the indirect methods. However, a reconciliation to the indirect method is no longer required when the direct method is used.
- Investment return is reported net of external and direct internal investment expenses on the statement of activities in the net asset category in which the net investment return is reported.
- The release of restrictions on donor-restricted gifts of cash or assets to be used to acquire or construct capital assets is recognized when the assets are placed in service, unless the donor places a time restriction on the use of the asset.
- Nonprofit organizations are required to provide more information about liquidity of its financial assets and how the availability of the financial assets is limited by donor-imposed restrictions, legal restrictions, and governing board designations.
- Disclosures about designations of net assets made by the governing board are required.
- ASU 2016-14 defines the term *underwater endowment* and changes the net asset classification of the deficit when the fair value of the assets of an endowment is less than the original gift (or other amount that the organization must maintain in perpetuity).

The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

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, 2018 and 2017, as follows:

	<u>2018</u>	<u>2017</u>
Gross lease obligation receivable	\$ 36,605,000	\$ 37,975,000
Less unamortized interest income	<u>(2,416,249)</u>	<u>(2,556,355)</u>
	<u>\$ 34,188,751</u>	<u>\$ 35,418,645</u>

Unearned interest income is amortized over the lives of the related bond issues. Amortization of income amounted to \$140,106 and \$140,108 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 are presented in the accompanying consolidated financial statements at their net realizable value, as follows:

Due within one year	\$ 1,792,423
Due within two to five years	<u>110,000</u>
	1,902,423
Less allowance for uncollectible pledges	(168,084)
Less discount to present value at 1.05%	<u>(1,000)</u>
	<u>\$ 1,733,339</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 \$50,118 and \$55,149 at June 30, 2018 and 2017, respectively.

NOTE F: INVESTMENT SECURITIES

Investment securities at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
UNC Investment Fund, LLC	\$ 13,601,815	\$ 11,944,602
Stocks, including exchange-traded funds	77,626	83,154
Mutual funds	2,720,561	2,481,574
Money market funds	<u>120,821</u>	<u>290,409</u>
	<u>\$ 16,520,823</u>	<u>\$ 14,799,739</u>

NOTE G: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</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>(82,388)</u>	<u>(81,159)</u>
	<u>\$ 1,233,958</u>	<u>\$ 1,235,187</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$1,229 and \$932, respectively.

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

NOTE H: LINE OF CREDIT

The Foundation had an available \$2,000,000 line of credit with a bank bearing interest at the bank's prime rate (4.25% at June 30, 2017) paid monthly and matured on July 31, 2017. The line of credit was secured by the Foundation's investments held by the bank. There was no outstanding balance at June 30, 2017. This line of credit was obtained to finance soft costs for another student housing project for the University. The line of credit was paid in full during the year ended June 30, 2017.

During 2018, the Foundation obtained a new available \$100,000 line of credit with a bank bearing interest at the bank's prime rate (5.00% at June 30, 2018) paid monthly and maturing on July 31, 2019. The line of credit is secured by the Foundation's investments held by the bank. There was no outstanding balance at June 30, 2018.

NOTE I: BONDS PAYABLE

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

In August 2014, \$27,990,000 of Series 2014 bonds were issued. The proceeds of this issuance were used to retire the Series 2004 bonds, and 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. These bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 2% to 5%.

In September 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. These bonds mature at various intervals through 2036, and bear interest at fixed rates ranging from 2% to 5%.

As a result of the Series 2016 refunding, the Foundation incurred a loss on extinguishment of debt of \$697,644 for the year ended June 30, 2017. The loss was incurred due to the write off of the remaining bond issuance costs associated with the Series 2006 bonds.

Bonds payable are as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Series 2014 bonds	\$ 24,415,000	\$ 25,355,000
Series 2016 bonds	<u>12,190,000</u>	<u>12,620,000</u>
Gross bonds payable	36,605,000	37,975,000
Unamortized bond premium	3,485,288	3,688,198
Unamortized debt issuance costs	<u>(587,035)</u>	<u>(619,725)</u>
	<u>\$ 39,503,253</u>	<u>\$ 41,043,473</u>

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

NOTE I: BONDS PAYABLE (CONTINUED)

Scheduled maturities of the bonds are as follows:

2019	\$ 1,415,000	
2020	1,475,000	
2021	1,545,000	
2022	1,625,000	
2023	1,700,000	
Thereafter (2024 – 2036)		<u>28,845,000</u>
	<u>\$ 36,605,000</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 \$202,910 and \$194,435 for the years ended June 30, 2018 and 2017, respectively.

In connection with the financing arrangements for the construction of the student housing facilities, the LLC paid certain fees and expenses. These debt issuance costs, including insurance premiums and other 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 debt issuance costs was \$32,690 and \$39,321 for the years ended June 30, 2018 and 2017, respectively. Accumulated amortization amounted to \$75,209 and \$42,519 at June 30, 2018 and 2017, respectively.

NOTE J: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 8,716,464	\$ 7,080,409
Special projects and student activities	<u>3,256,773</u>	<u>3,038,572</u>
	<u>\$ 11,973,237</u>	<u>\$ 10,118,981</u>

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

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

NOTE K: ENDOWMENT

Endowment net asset composition by type as of June 30, 2018 and 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2018</u>				
Board designated endowment funds				
Cash and cash equivalents	\$ 54,034	\$ -	\$ -	\$ 54,034
UNC Investment Fund, LLC	760,046	-	-	760,046
Donor-restricted endowment funds				
Cash and cash equivalents	-	265,000	63,728	328,728
Pledges receivable, net	-	-	252,125	252,125
UNC Investment Fund, LLC	-	4,391,575	8,450,194	12,841,769
	<u>\$ 814,080</u>	<u>\$ 4,656,575</u>	<u>\$ 8,766,047</u>	<u>\$ 14,236,702</u>
<u>2017</u>				
Board designated endowment funds				
Cash and cash equivalents	\$ 73,273	\$ -	\$ -	\$ 73,273
UNC Investment Fund, LLC	659,338	-	-	659,338
Donor-restricted endowment funds				
Cash and cash equivalents	-	112,752	365,458	478,210
Pledges receivable, net	-	-	53,389	53,389
UNC Investment Fund, LLC	-	3,574,974	7,710,290	11,285,264
	<u>\$ 732,611</u>	<u>\$ 3,687,726</u>	<u>\$ 8,129,137</u>	<u>\$ 12,549,474</u>

Changes in endowment net assets during the years ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2018</u>				
Endowment net assets, beginning of year	\$ 732,611	\$ 3,687,726	\$ 8,129,137	\$ 12,549,474
Contributions	-	-	636,910	636,910
Realized and unrealized gains, net	95,318	1,381,746	-	1,477,064
Amounts appropriated for expenditure	(13,849)	(412,897)	-	(426,746)
Endowment net assets, end of year	<u>\$ 814,080</u>	<u>\$ 4,656,575</u>	<u>\$ 8,766,047</u>	<u>\$ 14,236,702</u>
<u>2017</u>				
Endowment net assets, beginning of year	\$ 648,782	\$ 2,625,580	\$ 7,682,445	\$ 10,956,807
Contributions	-	-	446,692	446,692
Realized and unrealized gains, net	87,987	1,237,690	-	1,325,677
Amounts appropriated for expenditure	(4,158)	(175,544)	-	(179,702)
Endowment net assets, end of year	<u>\$ 732,611</u>	<u>\$ 3,687,726</u>	<u>\$ 8,129,137</u>	<u>\$ 12,549,474</u>

WINSTON-SALEM STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L: 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.

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.

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

NOTE L: FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Investments				
UNC Investment Fund, LLC	\$ -	\$ -	\$ 13,601,815	\$ 13,601,815
Stocks				
Exchange-traded funds	36,170	-	-	36,170
Other	41,456	-	-	41,456
Mutual funds				
Foreign Large Blend	296,878	-	-	296,878
Foreign Small/Mid Growth	94,466	-	-	94,466
Intermediate Term Bond	1,357,338	-	-	1,357,338
Large Growth	638,526	-	-	638,526
Mid-Cap Growth	140,368	-	-	140,368
Small Growth	87,654	-	-	87,654
World Allocation	105,331	-	-	105,331
Money market funds	120,821	-	-	120,821
Total assets at fair value	<u>\$ 2,919,008</u>	<u>\$ -</u>	<u>\$ 13,601,815</u>	<u>\$ 16,520,823</u>
<u>2017</u>				
Investments				
UNC Investment Fund, LLC	\$ -	\$ -	\$ 11,944,602	\$ 11,944,602
Stocks				
Exchange-traded funds	52,628	-	-	52,628
Other	30,526	-	-	30,526
Mutual funds				
Short-term bond	2,233,719	-	-	2,233,719
Bank loan	247,856	-	-	247,856
Money market funds	290,408	-	-	290,408
Total assets at fair value	<u>\$ 2,855,137</u>	<u>\$ -</u>	<u>\$ 11,944,602</u>	<u>\$ 14,799,739</u>

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 11,944,602	\$ 10,183,110
Purchases	689,386	838,663
Redemptions	(430,627)	(316,645)
Unrealized and realized gains	1,462,733	1,296,384
Investment advisory fees	(64,279)	(56,910)
	<u>\$ 13,601,815</u>	<u>\$ 11,944,602</u>

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

NOTE M: STUDENT HOUSING PROJECT UNCOLLECTIBLE UNIVERSITY RECEIVABLE

In 2011, the University asked the Foundation to incur debt to build a new student housing project on the campus. In July 2012, under a contract agreement between the Foundation and the University, the Foundation began construction of the project named the Martin-Schexnider Residence Hall. Under the terms of the agreement, the Foundation assumed the responsibility, and associated risks, for financing and constructing the building.

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 was included in receivables at June 30, 2016 in the consolidated statement of financial position.

During the year ended June 30, 2017, the Foundation attempted to collect the management fee, including several meetings with University leadership, conducting a comprehensive review of the project legal documents, securing outside legal counsel to facilitate negotiations with the University and consulting with UNC General Administration audit staff. During that extensive process, the Foundation was advised that the University was not authorized to enter into this type of arrangement as it relates to the fee. Therefore, the receivable balance of \$428,081 was determined to be uncollectible and was written off.

NOTE N: SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION

	<u>2018</u>	<u>2017</u>
Cash Paid During the Year:		
Interest, including \$44,613 capitalized during the year ended June 30, 2017	\$ <u>1,785,992</u>	\$ <u>1,883,901</u>
Non-Cash Investing and Financing Activities:		
Bond Refunding		
Extinguishment of Series 2006 bonds	\$ -	\$ (15,345,000)
Issuance of Series 2016 bonds	-	13,235,000
Change in restricted cash	-	(176,281)
New bond premium	-	2,624,156
New debt issuance costs	-	(337,875)