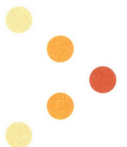


**The Community Foundation of Western  
North Carolina, Inc.**  
Asheville, North Carolina

Financial Statements  
Years Ended June 30, 2016 and 2015

and  
Independent Auditors' Report



**The Community Foundation of Western North Carolina, Inc.**  
Asheville, North Carolina

Board of Directors

June 30, 2016

James W. Stickney, IV, Chairperson  
A.C. Honeycutt, Jr., Vice-Chairperson  
G. Edward Towson, II, Treasurer  
Laurence Weiss, Secretary  
Elizabeth K. Brazas, President  
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Graham Kever, Assistant Treasurer  
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Stephanie Norris Kiser  
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Scott Shealy  
Anna S. (Candy) Shivers  
Sarah Sparboe Thornburg  
Stephen Watson

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## Independent Auditors' Report

To the Board of Directors  
The Community Foundation of Western North Carolina, Inc.  
Asheville, North Carolina

We have audited the accompanying financial statements of The Community Foundation of Western North Carolina, Inc. (a not-for-profit Foundation) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 The Community Foundation of Western North Carolina, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Johnson Price Sprinkle PA*

November 14, 2016

## The Community Foundation of Western North Carolina, Inc.

### Statements of Financial Position

June 30,	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 3,890,036	\$ 10,144,068
Accounts receivable	151,693	2,828,655
Prepaid expenses	27,424	11,069
Note receivable	1,000,000	1,000,000
Promises to give, net	41,400	111,900
Investments	124,016,519	119,153,019
Temporary investments	-	8,107,278
Property and equipment, net	2,459,340	2,537,563
Real estate	570,186	713,186
Investments, permanently restricted	121,790,958	115,504,943
<b>Total assets</b>	<b>\$ 253,947,556</b>	<b>\$ 260,111,681</b>
<b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Grants and scholarships payable	\$ 345,157	\$ 350,200
Accounts payable and accrued liabilities	5,601	3,766
Long-term debt	1,285,902	1,358,000
Liabilities under split-interest agreements	4,293,724	4,825,479
Funds held as agency endowments	53,166,675	56,524,923
<b>Total liabilities</b>	<b>59,097,059</b>	<b>63,062,368</b>
<b>Net assets:</b>		
Unrestricted	1,693,986	2,552,849
Temporarily restricted	71,365,553	78,991,521
Permanently restricted	121,790,958	115,504,943
<b>Total net assets</b>	<b>194,850,497</b>	<b>197,049,313</b>
<b>Total liabilities and net assets</b>	<b>\$ 253,947,556</b>	<b>\$ 260,111,681</b>

**The Community Foundation of Western North Carolina, Inc.**

Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support:</b>				
Contributions	\$ -	\$ 10,240,540	\$ 8,188,728	\$ 18,429,268
Investment income	84,951	2,094,937	52,050	2,231,938
Realized and unrealized gains (losses) - net	(595,504)	(5,241,369)	(4,232)	(5,841,105)
Change in value of split-interest agreements	-	(202,212)	(339,400)	(541,612)
Management fee income	382,958	-	-	382,958
Grant income	53,673	-	-	53,673
Other income	227,650	-	-	227,650
<b>Total revenues and gains</b>	<b>153,728</b>	<b>6,891,896</b>	<b>7,897,146</b>	<b>14,942,770</b>
Net assets released from restrictions	16,128,995	(16,128,995)	-	-
Reclassifications between net asset classes	-	1,611,131	(1,611,131)	-
<b>Total revenues, gains and other support</b>	<b>16,282,723</b>	<b>(7,625,968)</b>	<b>6,286,015</b>	<b>14,942,770</b>
<b>Expenses:</b>				
Grants and program services	15,706,312	-	-	15,706,312
Supporting services	1,435,274	-	-	1,435,274
<b>Total expenses</b>	<b>17,141,586</b>	<b>-</b>	<b>-</b>	<b>17,141,586</b>
<b>Change in net assets</b>	<b>(858,863)</b>	<b>(7,625,968)</b>	<b>6,286,015</b>	<b>(2,198,816)</b>
<b>Net assets, beginning of year</b>	<b>2,552,849</b>	<b>78,991,521</b>	<b>115,504,943</b>	<b>197,049,313</b>
<b>Net assets, end of year</b>	<b>\$ 1,693,986</b>	<b>\$ 71,365,553</b>	<b>\$ 121,790,958</b>	<b>\$ 194,850,497</b>

## The Community Foundation of Western North Carolina, Inc.

### Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support:</b>				
Contributions	\$ 20,855	\$ 9,435,067	\$ 23,060,864	\$ 32,516,786
Investment income	73,456	1,803,667	69,669	1,946,792
Realized and unrealized gains (losses) - net	(69,946)	801,124	(20,648)	710,530
Change in value of split-interest agreements	-	(141,133)	(14,950)	(156,083)
Management fee income	415,144	-	-	415,144
Grant income	143,463	-	-	143,463
Other income	259,015	-	-	259,015
<b>Total revenues and gains</b>	<b>841,987</b>	<b>11,898,725</b>	<b>23,094,935</b>	<b>35,835,647</b>
Net assets released from restrictions	15,336,626	(15,336,626)	-	-
Reclassifications between net asset classes	36,190	124,848	(161,038)	-
<b>Total revenues, gains and other support</b>	<b>16,214,803</b>	<b>(3,313,053)</b>	<b>22,933,897</b>	<b>35,835,647</b>
<b>Expenses:</b>				
Grants and program services	14,830,744	-	-	14,830,744
Supporting services	1,425,980	-	-	1,425,980
<b>Total expenses</b>	<b>16,256,724</b>	<b>-</b>	<b>-</b>	<b>16,256,724</b>
<b>Change in net assets</b>	<b>(41,921)</b>	<b>(3,313,053)</b>	<b>22,933,897</b>	<b>19,578,923</b>
<b>Net assets, beginning of year</b>	<b>2,594,770</b>	<b>82,304,574</b>	<b>92,571,046</b>	<b>177,470,390</b>
<b>Net assets, end of year</b>	<b>\$ 2,552,849</b>	<b>\$ 78,991,521</b>	<b>\$ 115,504,943</b>	<b>\$ 197,049,313</b>

The accompanying notes are an integral part of these financial statements.



**The Community Foundation of Western North Carolina, Inc.**

Statement of Functional Expenses

Year Ended June 30, 2016

	Supporting Services				
	Program Services	Management & General	Fundraising	Total Supporting Services	Total
Grants	\$ 14,067,735	\$ -	\$ -	\$ -	\$ 14,067,735
Salaries	751,105	426,422	211,204	637,626	1,388,731
Payroll taxes	53,882	30,590	15,151	45,741	99,623
Employee benefits	196,264	111,425	55,188	166,613	362,877
Total salaries and related expenses	1,001,251	568,437	281,543	849,980	1,851,231
Scholarship expense	3,245	1,842	913	2,755	6,000
Contract services	73,392	41,667	20,637	62,304	135,696
Dues and subscriptions	21,698	12,318	6,101	18,419	40,117
Insurance	8,239	4,677	2,317	6,994	15,233
Office expense	13,521	7,677	3,802	11,479	25,000
Postage	7,038	3,995	1,979	5,974	13,012
Telephone	4,511	2,561	1,269	3,830	8,341
Professional services	188,623	107,086	53,039	160,125	348,748
Public relations	-	-	44,262	44,262	44,262
Training and education	62,878	35,697	17,680	53,377	116,255
Travel and training	11,428	6,488	3,213	9,701	21,129
Printing and publications	16,311	9,260	4,586	13,846	30,157
Occupancy	40,568	23,031	11,407	34,438	75,006
Equipment maintenance/purchases	36,926	20,964	10,383	31,347	68,273
Meetings expense	43,603	24,754	12,261	37,015	80,618
Miscellaneous	19,830	11,258	5,576	16,834	36,664
	1,553,062	881,712	480,968	1,362,680	2,915,742
Interest expense	28,424	16,137	7,992	24,129	52,553
Depreciation	57,091	32,412	16,053	48,465	105,556
Total	\$ 15,706,312	\$ 930,261	\$ 505,013	\$ 1,435,274	\$ 17,141,586

The accompanying notes are an integral part of these financial statements.

**The Community Foundation of Western North Carolina, Inc.**

Statement of Functional Expenses

Year Ended June 30, 2015

	Supporting Services				
	Program Services	Management & General	Fundraising	Total Supporting Services	Total
Grants	\$ 13,206,682	\$ -	\$ -	\$ -	\$ 13,206,682
Salaries	721,733	411,527	204,245	615,772	1,337,505
Payroll taxes	51,532	29,383	14,583	43,966	95,498
Employee benefits	180,584	102,967	51,104	154,071	334,655
Total salaries and related expenses	953,849	543,877	269,932	813,809	1,767,658
Scholarship expense	3,108	1,772	880	2,652	5,760
Contract services	43,216	24,641	12,230	36,871	80,087
Dues and subscriptions	33,214	18,939	9,399	28,338	61,552
Insurance	14,421	8,223	4,081	12,304	26,725
Office expense	16,649	9,493	4,711	14,204	30,853
Postage	6,212	3,542	1,758	5,300	11,512
Telephone	4,389	2,503	1,242	3,745	8,134
Professional services	213,110	121,513	60,309	181,822	394,932
Public relations	-	-	40,356	40,356	40,356
Training and education	68,056	38,805	19,260	58,065	126,121
Travel and training	12,971	7,395	3,670	11,065	24,036
Printing and publications	16,604	9,468	4,699	14,167	30,771
Occupancy	34,215	19,509	9,682	29,191	63,406
Equipment maintenance/purchases	39,531	22,539	11,186	33,725	73,256
Meetings expense	38,600	22,010	10,924	32,934	71,534
Miscellaneous	37,550	21,413	10,627	32,040	69,590
	1,535,695	875,642	474,946	1,350,588	2,886,283
Interest expense	30,335	17,296	8,584	25,880	56,215
Depreciation	58,032	33,089	16,423	49,512	107,544
<b>Total</b>	<b>\$ 14,830,744</b>	<b>\$ 926,027</b>	<b>\$ 499,953</b>	<b>\$ 1,425,980</b>	<b>\$ 16,256,724</b>

The accompanying notes are an integral part of these financial statements.

## The Community Foundation of Western North Carolina, Inc.

### Statements of Cash Flows

Years Ended June 30,	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,198,816)	\$ 19,578,923
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	105,556	107,544
Contributions restricted for endowment	(8,188,728)	(23,060,864)
Net realized and unrealized (gains) losses on sale of investments	5,841,105	(710,530)
Realized loss on sale of real estate	4,670	-
Discount on promises to give	(6,500)	2,600
Change in assets and liabilities:		
Accounts receivable	2,676,962	(2,786,101)
Prepaid expenses	(16,355)	18,180
Promises to give	77,000	(27,259)
Grants and scholarships payable	(5,043)	54,500
Accounts payable and accrued liabilities	1,835	(49,377)
Liabilities under split-interest agreements	(531,755)	(575,160)
Funds held as agency endowments	(3,358,248)	2,205,557
<b>Net cash used in operating activities</b>	<b>(5,598,317)</b>	<b>(5,241,987)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	58,665,677	47,792,246
Proceeds from sale of real estate	138,330	-
Purchases of investments	(67,549,019)	(58,759,718)
Purchases of property and equipment	(27,333)	(13,312)
<b>Net cash used in investing activities</b>	<b>(8,772,345)</b>	<b>(10,980,784)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(72,098)	(101,000)
Contributions restricted for endowment	8,188,728	23,060,864
<b>Net cash provided by financing activities</b>	<b>8,116,630</b>	<b>22,959,864</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(6,254,032)</b>	<b>6,737,093</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>10,144,068</b>	<b>3,406,975</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,890,036</b>	<b>\$ 10,144,068</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash payments for interest</b>	<b>\$ 52,553</b>	<b>\$ 56,215</b>

The accompanying notes are an integral part of these financial statements.

## **The Community Foundation of Western North Carolina, Inc.**

Notes to Financial Statements

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies:**

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#### **Foundation and operations**

The Community Foundation of Western North Carolina, Inc. (the Foundation) is a permanent foundation. The Foundation receives gifts, grants, and bequests for the purpose of making charitable donations to approved organizations (as defined in its articles of incorporation and determined by the Board of Directors) and to perform all acts which may be deemed necessary or expedient to develop charitable capital for Western North Carolina.

#### **Income taxes**

The Foundation has been classified as a publicly-supported charitable foundation under the Internal Revenue Code Section 501(c)(3). As a publicly-supported charity, the Foundation is exempt from federal and state income taxes and federal excise taxes under Section 509(a)(1) of the Internal Revenue Code. 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, effect the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for tax years 2015 and 2014. Currently, the statute of limitations remains open subsequent to and including tax year 2012; however, no examinations are in process or anticipated. Any changes in the amount of a tax position will be recognized in the period the change occurs.

#### **Basis of accounting**

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

#### **Basis of presentation**

Financial statement presentation follows the recommendations of FASB ASC 958-205, *Presentation of Financial Statements*. Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

*Unrestricted:* Unrestricted net assets represent funds over which the Foundation's Board of Directors has discretionary control. The Board of Directors may designate unrestricted net assets for quasi-endowment or specific charitable needs.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

---

#### **Basis of presentation – continued**

*Temporarily restricted:* Temporarily restricted net assets represent funds contributed to the Foundation which are subject to specific time or purpose restrictions established by the donor. Such restrictions may be established outright, or implied under the terms of the underlying gift agreement. This category includes funds which are subject to a general variance power giving the Foundation's Board of Directors the ability to modify donor restrictions that are incapable of fulfillment or are inconsistent with the charitable needs of the community. However, such modifications are not administered in a manner that would significantly alter the original donor restrictions. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently restricted:* Permanently restricted net assets represent contributions by donors who have indicated an intention that the assets are to remain in perpetuity as permanent endowments and charitable gift annuities of the Foundation. Investment income and gains (losses) on these assets are classified as unrestricted, temporarily or permanently restricted based on the donor's stipulations.

FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of North Carolina adopted UPMIFA effective March 19, 2009. The Foundation has adopted UPMIFA and FASB ASC 958-205. The Board of Directors, on the advice of legal counsel, has determined that a substantial portion of the Foundation's net assets meet the definition of endowment funds under UPMIFA. Contributions received are subject to the terms of an underlying gift agreement.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Basis of presentation – continued**

Under UPMIFA, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. In accordance with UPMIFA, the Foundation considers the following factors on a fund by fund basis, before making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the institution 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 institution;
- The investment policy of the institution

The Foundation adheres to the concept of historic gift value in determining the portion of donor-restricted endowment gifts that will be allocated to permanently restricted net assets.

#### **Endowment spending policy**

The standard spending policy for endowment funds held at the Foundation allows for distributions to qualified charities at an annual amount that is determined by a total return methodology. For the years ended June 30, 2016 and 2015, funds available for distribution on an annual basis for each fiscal year (July 1 through June 30) are determined by calculating 4.5% of the average market value of the fund over a 16 quarter period. In the event that endowment funds have declined in value below the historic gift value of the fund, available spending will be determined by calculating 2% of the average market value of the fund over the 16 quarter period.

Additionally, undistributed “spendable income” may be rolled over into available income for successive fiscal years. The determination of available income is made as of March 31 of each year, and is communicated to fund advisors prior to July 1.

Some endowment funds may have alternative spending policies based on the charitable intent of the fund, consistent with the terms outlined in the fund agreement.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Cash and cash equivalents**

The Foundation considers all unrestricted, highly-liquid investments purchased with an initial maturity of three months or less to be cash equivalents, except for money market funds held in investment accounts.

#### **Property and equipment, net**

Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulation regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment purchased by the Foundation are recorded at historical cost. Generally, assets having a useful life of more than one year and costing over \$500 are capitalized. Depreciation is recorded on a straight-line basis over the estimated useful life of the underlying asset as follows:

Furniture and fixtures	5–10 years
Office equipment	3–5 years
Building	40 years

#### **Investments**

Investments in money market funds, marketable securities with readily determinable fair values, and all debt securities are carried at their fair values in the statements of financial position. Alternative investments are instruments which are not readily marketable and are carried at estimated fair value as provided by the investment managers. Realized and unrealized gains and losses are included in the change in net assets on the accompanying statements of activities.

The Foundation maintains master investment accounts for its donor-restricted and board-designated endowments. Earnings, realized and unrealized gains and losses in the master investment accounts are allocated monthly to the individual endowments based on a calculation of each fund's market share of the investment account.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Fair value measurement**

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, applies to report balances that are required or permitted to be measured at fair value, defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements.

The fair value hierarchy prioritizes the input to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

**Level 1** (the highest level) inputs are based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. For example, securities traded in an active market, such as the New York Stock Exchange, are valued using Level 1 inputs.

**Level 2** inputs are observable inputs other than quoted prices, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term.

**Level 3** inputs are unobservable inputs for the asset or liability, meaning the inputs reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability, including inputs related to risk, which have been developed based on the best information available in the circumstances.

#### **Real estate investments**

A small portion of the Foundation's assets, classified as real estate, are not held in custodial investment accounts with financial institutions. These assets are valued at the estimated fair market value at the date of the gift. Periodic fair value evaluation is considered as deemed necessary based on economic conditions and management discretion.



## **The Community Foundation of Western North Carolina, Inc.**

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

---

#### **Promises to give and contributions made for charitable purposes**

Unconditional promises to give are recognized as revenues and assets in the period received, at the estimated present values of future cash flows. As such, management has determined that an additional allowance for uncollectible promises to give is not considered necessary. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Foundation makes competitive and donor advised grants to other not-for-profit organizations for charitable purposes. Unconditional gifts for charitable purposes are recorded and recognized as liabilities when authorized by the Board of Directors, regardless of the year in which they are paid. Gifts that are subject to conditions are recorded when the conditions are substantially met.

#### **Split-interest agreements**

The Foundation holds assets under various charitable remainder trusts, and is responsible for trust administration. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. At the end of the trust's term, the remaining assets are available for the Foundation's use or for distribution to other not-for-profit organizations as specified in the related trust agreement. The portion of the trust attributable to the present value of future benefits to be received by the Foundation is recorded in the statements of activities as a contribution in the period the trust is established, subject to temporary or permanent restrictions outlined in the trust agreement.

A corresponding liability for the present value of estimated future benefits payable to the trust beneficiaries is also recorded. Net earnings and losses of trust assets and distributions to trust beneficiaries are recorded as changes in trust assets and the liability under split-interest agreements on the statements of financial position. On an annual basis, the Foundation revalues the distribution obligation based on actuarial assumptions and applicable mortality tables, recording the resulting change in the value of split-interest agreements on the statements of activities.

## **The Community Foundation of Western North Carolina, Inc.**

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Split-interest agreements – continued**

The Foundation also holds outright certain assets under charitable gift annuity agreements. The portion of the gift attributable to the present value of future benefits to be received by the Foundation is recorded in the statements of activities as a contribution in the period the charitable gift agreement is established, subject to temporary or permanent restrictions outlined by the donor. A corresponding liability for the present value of estimated future benefits payable to the beneficiaries is also recorded and required distributions are recorded as decreases in the liability account. However, as the assets of charitable gift annuities are not held in trust, the net earnings and losses attributable to these assets are included on the Foundation's statements of activities.

#### **Funds held as agency endowments**

The Foundation receives and distributes assets under certain agency and intermediary arrangements. FASB ASC 958-205 establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. FASB ASC 958-205 specifically requires that, if a not-for-profit foundation (NPO) establishes a fund at a community foundation with its own funds and specifies itself or its affiliates as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The liability has been established at the fair value of the funds, which is generally equivalent to the present value of the future payments expected to be made to the NPOs and is reflected under funds held as agency endowments on the accompanying statements of financial position. In addition, related amounts received, distributed, investment income or loss, and expenses are not presented in the accompanying statements of activities.

#### **Donated services**

Volunteers have donated a significant amount of time to the Foundation's operations and program services. Contributed services that create or enhance nonfinancial assets or require specialized skills and are provided by individuals possessing those skills will be recognized as support. No amounts have been reflected in the accompanying financial statements for contributed services since the requirements for recognition under FASB ASC 958-605 were not met. Donated materials are reflected as in-kind contributions in the accompanying financial statements at their estimated fair market value at date of receipt.

## **The Community Foundation of Western North Carolina, Inc.**

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note A – Organization and summary of significant accounting policies – continued:**

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#### **Administrative charges and fund accounting**

The Foundation retains as compensation for its services an administrative fee against the charitable funds under its management. The fee varies, depending upon the type of fund administered, and the level of services provided. The minimum fee charged is \$250 per year, and the maximum is 1.5% of the market value of the fund, per annum. The administrative fee is charged quarterly.

The Foundation accumulates historical activity data for each gift fund under the principle of fund accounting, maintaining a separate accounting for each fund. In accordance with FASB ASC 958-205, the concept of fund accounting is not utilized in financial reporting and fund balances are classified on the statements of financial position as unrestricted, temporarily restricted, or permanently restricted net assets, consistent with the concept of total-entity reporting. As a result, the administrative fee charged for management services is recorded as an allocation between funds, except for fees charged under trust and agency endowment arrangements.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of assets and contingent liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

#### **Advertising costs**

The Foundation expenses advertising costs as incurred.

#### **Subsequent events**

The Foundation has evaluated events that have occurred after June 30, 2016 and prior to November 14, 2016 (the date the financial statements were available to be issued) for potential recognition or disclosure in financial statements. All events have been appropriately recognized or disclosed in the financial statements.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note B – Investments:

Investments consist principally of pooled investment funds, common stocks, government bonds, certificates of deposit, and money market funds, and are carried at market value. The following tables illustrate the cost and market value of each investment category as of June 30, 2016 and 2015:

	2016		
	Cost	Market Value	Unrealized Gain
Equities	\$ 103,643,488	\$ 126,209,280	\$ 22,565,792
Fixed income	47,935,313	49,804,267	1,868,954
Hedge funds	46,800,000	47,207,200	407,200
Real asset funds	6,094,759	7,902,301	1,807,542
Cash equivalents	11,877,618	11,877,618	-
Private equity	581,460	2,618,996	2,037,536
Accrued income	187,815	187,815	-
	\$ 217,120,453	\$ 245,807,477	\$ 28,687,024

	2015		
	Cost	Market Value	Unrealized Gain
Equities	\$ 91,954,545	\$ 123,357,196	\$ 31,402,651
Fixed income	43,970,764	44,155,809	185,045
Hedge funds	41,567,492	47,858,777	6,291,285
Real asset funds	4,732,720	6,374,738	1,642,018
Cash equivalents	9,758,781	9,758,781	-
Private equity	1,255,851	3,001,640	1,745,789
Accrued income	151,021	151,021	-
	\$ 193,391,174	\$ 234,657,962	\$ 41,266,788

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### Note B – Investments – continued:

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Investments are presented on the accompanying statements of financial position as of June 30, as follows:

	2016	2015
Investments	\$ 124,016,519	\$ 119,153,019
Investments, permanently restricted	121,790,958	115,504,943
	<u>\$ 245,807,477</u>	<u>\$ 234,657,962</u>

Of the total investment balance, \$53,166,675 and \$56,524,923 as of June 30, 2016 and 2015, respectively, represent assets held under agency endowments. Also, \$6,178,740 and \$7,152,069 represent assets held under charitable remainder trust agreements as of June 30, 2016 and 2015, respectively.

The Foundation's investments are subject to market risk and managed under an overall investment objective to achieve a favorable total rate of return, consistent with prudent financial management. The goal is to meet charitable distribution and grant-making needs in Western North Carolina, while maintaining or increasing the real inflation adjusted value of the permanent funds for which the Foundation has been entrusted. The Board of Directors has appointed an Investment Committee to administer the Board's investment oversight function. Additionally, the Foundation employs professional investment consultants as part of the performance monitoring function. Investment consultant fees paid in the years ended June 30, 2016 and 2015 totaled \$65,000 each year.

Investment return is included on the statements of activities under the captions investment income and realized and unrealized gains (losses) - net. The investment income caption also includes interest earned on cash and cash equivalents.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note B – Investments – continued:

Components of investment return for the years ended June 30, are as follows:

	2016	2015
Net unrealized gains at end of year	\$ 28,687,024	\$ 41,266,788
Net unrealized gains at beginning of year	41,266,788	47,623,363
Current year unrealized depreciation	(12,579,764)	(6,356,575)
Realized gains – net	4,446,563	7,134,436
Investment income	3,438,267	3,043,498
Brokerage fees	(475,260)	(434,382)
	(5,170,194)	3,386,977
Adjustment for amount applicable to agency endowments	1,293,988	(656,542)
Adjustment for amount applicable to assets held under trust agreements	267,039	(73,113)
	\$ (3,609,167)	\$ 2,657,322

Investment return is presented on the accompanying statements of activities under the following captions for the year ended June 30:

	2016	2015
Investment income	\$ 2,231,938	\$ 1,946,792
Realized and unrealized gains (losses)– net	(5,841,105)	710,530
	\$ (3,609,167)	\$ 2,657,322

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note B – Investments – continued:

The table below sets forth by level, within the fair value hierarchy, the Foundation’s total investment portfolio.

	2016			
	Fair Value	Level 1	Level 2	Level 3
Publicly-traded equities	\$ 25,128,797	\$ 25,128,797	\$ -	\$ -
Equity mutual funds	78,556,166	78,556,166	-	-
Cash equivalents	12,065,433	12,065,433	-	-
Pooled equity funds	22,524,317	-	22,524,317	-
Individual fixed income securities	18,700,615	-	18,700,615	-
Fixed income mutual funds	23,812,499	-	23,812,499	-
Pooled fixed income funds	7,291,153	-	7,291,153	-
Real asset funds	7,902,301	-	-	7,902,301
Hedge funds	47,207,200	-	-	47,207,200
Private equity	2,618,996	-	-	2,618,996
<b>Total</b>	<b>\$ 245,807,477</b>	<b>\$ 115,750,396</b>	<b>\$ 72,328,584</b>	<b>\$ 57,728,497</b>

	2015			
	Fair Value	Level 1	Level 2	Level 3
Publicly-traded equities	\$ 24,442,905	\$ 24,442,905	\$ -	\$ -
Equity mutual funds	69,284,433	69,284,433	-	-
Cash equivalents	9,909,802	9,909,802	-	-
Pooled equity funds	29,629,859	-	29,629,859	-
Individual fixed income securities	12,559,539	-	12,559,539	-
Fixed income mutual funds	25,012,690	-	25,012,690	-
Pooled fixed income funds	6,583,579	-	6,583,579	-
Real asset funds	6,374,738	-	-	6,374,738
Hedge funds	47,858,777	-	-	47,858,777
Private equity	3,001,640	-	-	3,001,640
<b>Total</b>	<b>\$ 234,657,962</b>	<b>\$ 103,637,140</b>	<b>\$ 73,785,667</b>	<b>\$ 57,235,155</b>

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### **Note B – Investments – continued:**

As required by FASB ASC 820-10, the following table presents a reconciliation for the years ended June 30, 2016 and 2015 of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

	2016	2015
Balance, beginning of year	\$ 57,235,155	\$ 53,161,570
Realized gains	3,419,061	521,243
Unrealized gains (losses)	(5,426,814)	1,680,117
Purchases	21,763,648	5,209,568
Issuances	(19,262,553)	(3,337,343)
Balance, end of year	\$ 57,728,497	\$ 57,235,155

### **Temporary investments**

Temporary investments consisted of donated securities, received on June 30, 2015, which were liquidated and invested in the Foundation's portfolio in July 2015. The table below sets forth by level, within the fair value hierarchy, the holdings in the temporary investment portfolio as of June 30, 2015:

	Fair Value	Level 1	Level 2	Level 3
Publicly-traded equities	\$ 6,233	\$ 6,233	\$ -	\$ -
Equity mutual funds	8,101,045	8,101,045	-	-
Total	\$ 8,107,278	\$ 8,107,278	\$ -	\$ -

### **Real estate**

Real estate on the accompanying statements of financial position is comprised of property donated to the Foundation, including one property subject to a life estate. Donated real estate is valued at the estimated fair value of property at the date of donation, except for the property subject to the life estate which is valued at the estimated residual value to the Foundation. The recorded value of this real estate was \$570,186 and \$713,186 as of June 30, 2016 and 2015, respectively. Properties totaling \$26,000 and \$169,000 as of June 30, 2016 and 2015, respectively, are valued using level two inputs while the property subject to a life estate valued at \$544,186 is valued using a level three input.



## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note C – Accounts receivable:**

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Accounts receivable generally consist of miscellaneous contributions to the Foundation in transit at year end. Accounts receivable as of June 30, 2016 and 2015 are \$151,693 and \$2,828,655, respectively. The balance as of June 30, 2015 included the remaining assets that were received under a trust agreement in which the Foundation was residual beneficiary. All amounts are considered collectible and, accordingly, no allowance for doubtful accounts has been deemed necessary.

### **Note D – Note receivable:**

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The Foundation has a non-interest bearing, unsecured loan of \$1,000,000 to a not-for-profit organization recommended and funded by the donor of an existing donor advised fund. Repayment is scheduled as follows: \$600,000 in fiscal year 2017, \$200,000 in fiscal year 2018 and a final payment of \$200,000 due in fiscal year 2019.

### **Note E – Promises to give, net:**

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Unconditional promises to give are presented net of a discount to reflect the estimated present value of future cash flows as follows as of June 30:

	2016	2015
Due in less than one year	\$ 20,900	\$ 31,900
Due in one to five years	23,100	89,100
	44,000	121,000
Discount at 4%	(2,600)	(9,100)
	\$ 41,400	\$ 111,900

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## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### Note F – Property and equipment, net:

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The Foundation acquired the facility used in operations through a condominium project that resulted in the renovation and preservation of the Historic Biltmore School at Vanderbilt Park. Land and other common areas are owned and managed by a property owners' association, Historic Biltmore School at Vanderbilt Park Condominium, with resulting maintenance costs funded through annual dues assessments. The Foundation's assessment fees for the fiscal years ended June 30, 2016 and 2015 totaled \$64,036 and \$61,981, respectively.

Property and equipment consists of the following as of June 30:

	2016	2015
Furniture and fixtures	\$ 160,914	\$ 149,599
Office equipment	153,162	146,553
Building	2,594,273	2,594,273
	2,908,349	2,890,425
Accumulated depreciation	(449,009)	(352,862)
	\$ 2,459,340	\$ 2,537,563

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### Note G – Retirement benefits:

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The Foundation's employees are eligible to participate in an elective contribution 403(b) retirement plan. For each participant, the Foundation makes a matching contribution of up to 3% of the employee's elective deferrals. The Foundation made matching contributions of \$38,706 and \$37,123 during the years ended June 30, 2016 and 2015, respectively. The Foundation also made a discretionary contribution (currently at the level of 3% of the employee's base compensation) for each participant. The discretionary contribution for the years ended June 30, 2016 and 2015 was \$41,658 and \$40,125, respectively.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### Note H – Funds held as agency endowments:

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The Foundation serves as custodian for approximately 190 agency endowment funds. As such, transactions representing activity for the agency funds are not included on the Foundation's statements of activities. Transactions are summarized as follows for the years ended June 30:

	2016	2015
Beginning balance	\$ 56,524,923	\$ 54,319,366
Contributions	3,319,697	3,875,042
Investment income	650,258	578,794
Realized and unrealized gains (losses) – net	(1,944,246)	77,748
Grants	(5,008,976)	(2,066,136)
Management fees	(348,951)	(368,823)
Interfund transfers-net	20,450	123,395
Other	(46,480)	(14,463)
Ending balance	\$ 53,166,675	\$ 56,524,923

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### Note I – Long-term debt:

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The Foundation acquired a \$1,750,000 loan from a bank for the purchase and renovation of their office condominium. Interest only payments at 3.89% were required as funds were advanced during the renovation project, although discretionary principal payments were permitted. Monthly principal and interest payments of \$11,788 began March 2016, with a balloon payment due in February 2023. The balance outstanding totaled \$1,285,902 and \$1,358,000 as of June 30, 2016 and 2015, respectively. The note is secured by a deed of trust on real property held by the Foundation with a carrying value of \$2,372,679 as of June 30, 2016.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### Note I – Long-term debt – continued:

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Maturities of long-term debt as of June 30, 2016 are as follows:

Year ending June 30:

2017	\$	93,084
2018		96,771
2019		100,603
2020		104,587
2021		108,729
Thereafter		782,128
		<hr/>
	\$	1,285,902

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### Note J – Liabilities under split-interest agreements:

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As required by FASB ASC 820-10, the following table presents a reconciliation for the years ended June 30, 2016 and 2015 of the beginning and ending balances of liabilities under split-interest agreements, whose carrying value is based on fair value measurements using significant unobservable inputs (Level 3):

	2016	2015
Balance, beginning of year	\$ 4,825,479	\$ 5,400,639
Realized gains	239,314	585,260
Unrealized losses	(587,163)	(595,677)
Contributions	22,289	116,173
Issuances/settlements	(285,190)	(762,239)
Interest credited	78,995	81,323
		<hr/>
Balance, end of year	\$ 4,293,724	\$ 4,825,479

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## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note K – Net assets:

#### Net asset restrictions

Temporarily restricted net assets consist of funds earmarked by the donor for specific purposes.

The Foundation defines the permanently restricted portion of endowment funds as a function of historic gift value. Hybrid funds include funds that maintain a minimum fund balance under the terms of the fund agreement. The minimum fund balance of hybrid funds is also allocated to permanently restricted net assets. However, hybrid funds are not managed as endowment funds or subjected to spending policy restrictions.

Restrictions on net assets as of June 30, 2016 and 2015 are summarized by source as follows:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment funds (deficit)	\$ (685,922)	\$ 14,504,800	\$ 114,493,526
Hybrid funds (deficit)	(2,466)	49,379,279	3,410,916
Non-endowed funds	-	6,874,374	-
Trust funds, net of liability	-	607,100	3,068,702
Charitable gift annuities, net of liability	-	-	817,814
Operating funds	2,382,374	-	-
	\$ 1,693,986	\$ 71,365,553	\$ 121,790,958

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment funds (deficit)	\$ (72,240)	\$ 21,634,213	\$ 107,829,777
Hybrid funds (deficit)	(5,846)	49,555,564	3,283,516
Non-endowed funds	-	7,018,914	-
Trust funds, net of liability	-	782,830	3,394,118
Charitable gift annuities, net of liability	-	-	997,532
Operating funds	2,630,935	-	-
	\$ 2,552,849	\$ 78,991,521	\$ 115,504,943

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note K – Net assets – continued:

#### Reclassifications between net asset classes

Reclassifications between net asset classes occur in the normal course of activity, and are normally composed of changes in fund types and intra-fund gifts and grants, and expiration of split-interest agreements. For the year ended June 30, 2016, the reclassification between net asset classes includes an adjustment of approximately \$1.7 million, reclassifying a permanent endowment to a term endowment.

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit)				
– beginning of year	\$ (72,240)	\$ 21,634,213	\$ 107,829,777	\$ 129,391,750
Investment income	364	1,427,992	-	1,428,356
Investment losses – net	(394,929)	(3,305,658)	-	(3,700,587)
Contributions	-	72,854	8,170,653	8,243,507
Appropriated for expenditures	(149,974)	(3,955,454)	(79,716)	(4,185,144)
Reclassifications and transfers	(69,143)	(1,369,147)	(1,427,188)	(2,865,478)
Total endowment net assets (deficit) – end of year	\$ (685,922)	\$ 14,504,800	\$ 114,493,526	\$ 128,312,404

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note K – Net assets – continued:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit)				
– beginning of year	\$ (39,098)	\$ 24,346,139	\$ 83,771,661	\$ 108,078,702
Investment income	104	1,211,043	-	1,211,147
Investment gains (losses) – net	(8,528)	734,106	(50)	725,528
Contributions	-	78,518	23,436,099	23,514,617
Appropriated for expenditures	(9,258)	(3,713,221)	(333,116)	(4,055,595)
Reclassifications and transfers	(15,460)	(1,022,372)	955,183	(82,649)
Total endowment net assets (deficit) – end of year	\$ (72,240)	\$ 21,634,213	\$ 107,829,777	\$ 129,391,750

All endowment funds of the Foundation are classified as donor restricted endowment funds at June 30, 2016 and 2015.

## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### Note L – Charitable distributions:

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Charitable distributions, including those paid from agency endowments, were made for the following purposes during the year ended June 30:

	2016	2015
Advancing the arts	\$ 2,064,570	\$ 1,688,065
Assisting people in need	3,249,868	3,166,010
Building community and economic vitality	2,152,309	2,117,151
Enhancing our environment	1,616,427	1,886,411
Improving educational opportunities	3,332,778	2,309,567
Promoting access to quality healthcare	4,581,961	2,198,030
Religion	1,673,192	1,412,303
Scholarships	354,235	371,886
Agency endowment funding	51,371	123,395
	19,076,711	15,272,818
Amount paid from agency endowments	(5,008,976)	(2,066,136)
	\$ 14,067,735	\$ 13,206,682

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### Note M – Related party transactions:

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#### Related organization

The Western North Carolina Real Estate Foundation (WNCREF) was formed as a not-for-profit corporation as a Type I supporting Foundation. The entity exists solely to support The Community Foundation of Western North Carolina through the management of real property contributions to the Foundation.



## The Community Foundation of Western North Carolina, Inc.

Notes to Financial Statements – continued

June 30, 2016 and 2015

### Note M – Related party transactions – continued:

Following is summarized financial information regarding Western North Carolina Real Estate Foundation as of and for the year ended June 30:

	2016	2015
<u>Assets</u>		
Cash	\$ 33,410	\$ 549,613
Real estate	105,000	-
<b>Total assets</b>	<b>\$ 138,410</b>	<b>\$ 549,613</b>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ -	\$ -
Net assets:		
Unrestricted	138,410	549,613
<b>Total net assets</b>	<b>138,410</b>	<b>549,613</b>
<b>Total liabilities and net assets</b>	<b>\$ 138,410</b>	<b>\$ 549,613</b>
<b>Total support and revenues</b>	<b>\$ 166,125</b>	<b>\$ 159,894</b>
<b>Total expenses</b>	<b>\$ 577,328</b>	<b>\$ 3,674,361</b>

## **The Community Foundation of Western North Carolina, Inc.**

Notes to Financial Statements – continued

June 30, 2016 and 2015

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### **Note N – Concentration of credit risk:**

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The Foundation maintains its cash balances at institutions that are insured by the Federal Deposit Insurance Corporation (FDIC), up to the current FDIC limit of \$250,000 per depository. Amounts in excess of FDIC limits as of June 30, 2016 and 2015 were approximately \$3,500,000 and \$9,800,000, respectively.

### **Note O – Conditional promises to give:**

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#### **Contributions payable**

The Foundation awards certain grants with multi-year payment terms. These grants, amounting to approximately \$816,000 and \$697,000 as of June 30, 2016 and 2015, respectively, are not accrued as grants payable as of June 30, 2016 and 2015, because all terms and conditions of the awards are not satisfied.