

**THE BOTANICAL GARDEN
FOUNDATION, INC.**

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the
Year Ended June 30, 2015)



**BLACKMAN
& SLOOP**
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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Board of Directors
The Botanical Garden Foundation, Inc.
Chapel Hill, North Carolina

We have audited the accompanying financial statements of The Botanical Garden Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

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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 Botanical Garden Foundation, Inc., as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
December 16, 2016

THE BOTANICAL GARDEN FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 1,002,219	\$ 1,263,472
Promises to give, net	77,375	57,423
Other receivables	25,227	14,200
TOTAL CURRENT ASSETS	<u>1,104,821</u>	<u>1,335,095</u>
PROPERTY AND EQUIPMENT, NET	<u>165,524</u>	<u>171,489</u>
OTHER ASSETS:		
Investments	3,405,043	3,651,519
Real estate	917,925	917,925
Promises to give, net	132,864	89,032
Gifts of future interest	36,533	227,966
Cash value of life insurance	31,748	31,444
Donated books	26,825	26,825
Collections not capitalized (see Notes to Financial Statements)	-	-
TOTAL OTHER ASSETS	<u>4,550,938</u>	<u>4,944,711</u>
TOTAL ASSETS	<u>\$ 5,821,283</u>	<u>\$ 6,451,295</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 1,048	\$ 14,000
Agency cash deficit	246,492	872,520
TOTAL LIABILITIES	<u>247,540</u>	<u>886,520</u>
NET ASSETS:		
Unrestricted	(155,196)	(149,075)
Temporarily restricted	3,617,131	3,837,097
Permanently restricted	2,111,808	1,876,753
TOTAL NET ASSETS	<u>5,573,743</u>	<u>5,564,775</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,821,283</u>	<u>\$ 6,451,295</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE BOTANICAL GARDEN FOUNDATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
SUPPORT AND REVENUE:					
Gifts and contributions	\$ 478,739	\$ 239,606	\$ 235,055	\$ 953,400	\$ 1,099,414
Change in fair value of investments	(16,234)	(42,397)	-	(58,631)	280,560
Investment income	283	-	-	283	294
Change in value of gifts of future interest	-	(7,246)	-	(7,246)	15,169
Change in cash value of life insurance	304	-	-	304	320
Other income	68,277	-	-	68,277	116,851
Rental income	31,200	-	-	31,200	30,690
Donated services	189,108	-	-	189,108	208,871
	<u>751,677</u>	<u>189,963</u>	<u>235,055</u>	<u>1,176,695</u>	<u>1,752,169</u>
Net assets released from restrictions	409,929	(409,929)	-	-	-
TOTAL SUPPORT AND REVENUE	<u>1,161,606</u>	<u>(219,966)</u>	<u>235,055</u>	<u>1,176,695</u>	<u>1,752,169</u>
EXPENSES:					
Program services	593,975	-	-	593,975	850,629
Supporting services:					
Management and general	291,045	-	-	291,045	201,772
Fundraising	281,112	-	-	281,112	325,610
TOTAL FUNCTIONAL EXPENSES	<u>1,166,132</u>	<u>-</u>	<u>-</u>	<u>1,166,132</u>	<u>1,378,011</u>
Bad debt expense	1,595	-	-	1,595	-
TOTAL EXPENSES	<u>1,167,727</u>	<u>-</u>	<u>-</u>	<u>1,167,727</u>	<u>1,378,011</u>
CHANGES IN NET ASSETS	<u>(6,121)</u>	<u>(219,966)</u>	<u>235,055</u>	<u>8,968</u>	<u>374,158</u>
NET ASSETS - BEGINNING OF YEAR	<u>(149,075)</u>	<u>3,837,097</u>	<u>1,876,753</u>	<u>5,564,775</u>	<u>5,190,617</u>
NET ASSETS - END OF YEAR	<u>\$ (155,196)</u>	<u>\$ 3,617,131</u>	<u>\$ 2,111,808</u>	<u>\$ 5,573,743</u>	<u>\$ 5,564,775</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE BOTANICAL GARDEN FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

EXHIBIT C

For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
Grants to NCBG	\$ 418,720	\$ -	\$ -	\$ 418,720	\$ 480,776
Foundation salaries	23,126	126,108	229,171	378,405	341,638
Miscellaneous expense	40,913	23,783	2,101	66,797	74,515
Supplies	30,748	25,685	3,423	59,856	75,238
Contract services	47,254	3,971	4,588	55,813	188,729
Printing and publications	2,419	22,964	8,990	34,373	37,631
Professional services	-	33,040	-	33,040	21,025
Development assessment fees	-	-	31,309	31,309	23,368
Repairs and maintenance	8,230	17,012	-	25,242	74,550
Travel expenses	14,177	3,048	-	17,225	11,359
Property tax	-	10,196	-	10,196	10,701
Insurance	-	9,500	-	9,500	8,041
Meetings and programs	6,357	-	318	6,675	788
Postage	-	5,185	902	6,087	15,132
Depreciation	-	5,965	-	5,965	6,059
Dues, subscriptions, and books	245	3,884	310	4,439	4,912
Honorariums	1,786	-	-	1,786	-
Advertising	-	704	-	704	3,549
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses	593,975	291,045	281,112	1,166,132	1,378,011
Bad debt expense	-	1,595	-	1,595	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 593,975</u>	<u>\$ 292,640</u>	<u>\$ 281,112</u>	<u>\$ 1,167,727</u>	<u>\$ 1,378,011</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE BOTANICAL GARDEN FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

EXHIBIT D

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 8,968	\$ 374,158
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	5,965	6,059
Donated land	-	(41,000)
Permanently restricted contributions	(234,685)	(126,602)
Change in fair value of investments	58,631	(280,560)
New gifts of future interest included in contributions	(36,533)	-
Change in value of gifts of future interest	7,246	(15,169)
Change in cash value of life insurance	(304)	(320)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Other receivables	(11,027)	(14,200)
Promises to give, net	(63,784)	28,610
Receipt of gifts of future interest	220,720	-
Deposits	-	72
Accounts payable	(12,952)	(17,837)
Agency cash deficit	(626,028)	75,416
NET CASH USED BY OPERATING ACTIVITIES	<u>(683,783)</u>	<u>(11,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net additions and withdrawals in investments	<u>187,845</u>	<u>(502,726)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>187,845</u>	<u>(502,726)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	<u>234,685</u>	<u>126,602</u>
NET DECREASE IN CASH AND EQUIVALENTS	(261,253)	(387,497)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>1,263,472</u>	<u>1,650,969</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 1,002,219</u>	<u>\$ 1,263,472</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Non-cash transactions:		
Donated services	<u>\$ 189,108</u>	<u>\$ 208,871</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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NATURE OF ACTIVITIES

The Botanical Garden Foundation, Inc. (the “Foundation”) was incorporated in 1966 as a nonprofit corporation to receive funds and hold land for the support of the North Carolina Botanical Garden, a department of the University of North Carolina at Chapel Hill (the “University”), in carrying out its objectives of conservation, scientific investigation, teaching, public recreation, and the accumulation and dissemination of knowledge of the natural heritage of North Carolina and the southeastern United States.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting.

The Foundation’s financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which require the use of certain estimates made by the Foundation’s management. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

B. Cash and Equivalents.

Cash and equivalents include all highly liquid short-term investments with an original maturity of three months or less.

C. Investments.

Investments are stated at fair value. Donated securities are recorded at their fair value at the date of gift.

D. Accounts Receivable.

The Foundation records accounts receivable at net realizable value, and provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred during collection. The allowance is based on historical collection experience and a review of the current status of the existing receivables. As of June 30, 2016 and 2015, all receivables were deemed collectible by management.

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Promises to Give.

Unconditional promises to give are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for uncollectible promises is calculated based on management's estimate of collectability.

F. Property and Equipment.

The Foundation capitalizes acquisitions of property and equipment if the life expectancy is greater than one year and if the cost exceeds \$1,000. Purchased equipment is recorded at cost; donated equipment is recorded at fair market value on the date of the gift. Depreciation is computed over the assets' estimated useful lives using the straight-line method.

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

G. Real Estate.

Real estate gifts received without sale restrictions are reported at fair value at the date of gift. Real estate gifts restricted to conservation use that cannot be sold are not recorded.

H. Collections.

Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statement of activities.

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Net Assets.

Unrestricted - Resources of the Foundation that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily Restricted - Resources that carry a donor-imposed restriction that require the Foundation to use or expend the donated assets as specified by the donor. The restrictions are satisfied by the passage of time or by actions of the Foundation.

Permanently Restricted - Resources that carry a donor-imposed restriction that stipulate donated assets be maintained in perpetuity, but may permit the Foundation to use or expend part or all of the income derived from the donated assets.

J. Income Tax Status.

The Foundation is exempt from income tax as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue code and is classified as other than a private foundation under Section 509(a)(3) of the Internal Revenue Code. The Foundation reports interest and penalties related to unrecognized tax positions as interest expense under general and administrative expenses.

K. Estimates.

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

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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CASH AND EQUIVALENTS

The Foundation has money on deposit with the University's Temporary Investment Pool, which is a governmental external investment pool with funds available on demand. At June 30, 2016, approximately 70% of the Temporary Investment Pool is insured. Included in cash and equivalents is \$253,727 of permanently restricted gifts that will be transferred to investments in the next fiscal year.

INVESTMENTS

All investments are invested in The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. ("CHIF"). All investments of CHIF are comprised solely of shares in an external investment pool, UNC Investment Fund, LLC (the "Fund"). Within the Fund, the fair value of all debt and equity securities with readily determinable fair values are based on quoted market prices. Investments for which a readily determinable fair value does not exist may include investments in private equity, hedge funds, and limited partnerships. These investments are carried at estimated fair values as provided by the respective fund managers of these investments. UNC Management Company, Inc., the manager of the Fund, reviews and evaluates the fair values provided by the respective fund managers as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed. Such differences could be material.

A derivative is a financial instrument created from, or whose value is derived from, the value of one or more underlying assets, reference rates, indexes, or asset values. These instruments may include forwards, futures, options, and currency and interest rate swaps. The Fund utilizes various external investment managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. These managers and related funds are used to increase the yield and return on the investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. Certain of these investments expose the Fund to market risk by trading or holding direct and indirect derivative securities and by leveraging the securities in the Fund. This risk is mitigated by the Fund's Board's requirement that leveraged securities must be fully collateralized.

Indirect derivatives held by the Fund, (i.e. derivatives held by external investment managers) are primarily used to manage portfolio risk. The Fund's managers use indirect derivatives primarily to hedge underlying positions or to gain exposure to specific markets in an efficient, inexpensive, liquid, and diversified manner. By holding indirect derivatives, the Fund could be exposed to interest rate risk, credit risk, concentration of credit risk, and foreign currency risk. The Fund considers the risk associated with these holdings to be prudent and within acceptable bounds.

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS (CONTINUED)

Investments in CHIF at June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Fair market value	\$ 3,405,043	\$ 3,651,519
Cost	<u>2,890,755</u>	<u>2,408,469</u>
Accumulated net change in fair value	<u>\$ 514,288</u>	<u>\$ 1,243,050</u>

Accumulated net change in fair value of investments includes investment income, realized and unrealized gains, and is net of investment fees, the annual distribution (payout) and development assessment fees

At June 30, 2016 and 2015, the investment allocation of the Fund consisted of the following:

	<u>2016</u>	<u>2015</u>
Long Biased Equity	26.2%	29.1%
Long / Short Equity	19.3%	20.0%
Diversifying Strategies	8.0%	7.3%
Fixed Income	8.5%	7.9%
Private Equity	20.9%	19.4%
Real Estate	7.3%	6.7%
Energy and Natural Resources	5.8%	5.1%
Cash	3.7%	3.5%
Other	<u>0.3%</u>	<u>1.0%</u>
	<u>100.0%</u>	<u>100.0%</u>

FAIR VALUE OF ASSETS

U.S. GAAP defines fair value as the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets as of the reporting date.

Level 2 - Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets that are not active, or determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the asset. Fair value for these assets is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the asset was acquired, the nature of the asset, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the asset. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these assets existed.

There were no changes during the year ending June 30, 2016, to the Foundation's valuation techniques used to measure asset values on a recurring basis. All investments are classified as Level 3.

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

	<u>2016</u>	<u>2015</u>
Investments, FMV at beginning of year	\$ 3,651,519	\$ 2,868,233
Net principal additions/withdrawals	21,312	677,918
Annual distribution (Payout)	(177,848)	(151,824)
Development assessment fees	(31,309)	(23,368)
Change in fair value	<u>(58,631)</u>	<u>280,560</u>
Investments, FMV at end of year	<u>\$ 3,405,043</u>	<u>\$ 3,651,519</u>

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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GIFTS OF FUTURE INTEREST

The Foundation has been named the recipient of charitable gift annuities with market values at the date of gift totaling approximately \$71,000. The Foundation is not serving as trustee for these annuities. These annuities have been reflected in the financial statements at the net present value of \$36,533 as of June 30, 2016. At June 30, 2015, annuities were recorded at the net present value of \$227,966, all of which were collected during the current fiscal year. Net present value was computed using a rate of 1.8% and 2.0% for the years ended June 30, 2016 and 2015, respectively. The computation was based on the life expectancy of the beneficiaries and the required distribution under the terms of the agreements.

PROMISES TO GIVE

Promises to give are stated at present value and are as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Receivable within one year	\$ 78,375	\$ 58,423
Receivable in one to five years	109,864	93,032
Receivable in more than five years	<u>30,000</u>	<u>-</u>
	218,239	151,455
Less allowance for uncollectible amounts	(1,000)	(1,000)
Discount at 1.8% and 2.0%, respectively	<u>(7,000)</u>	<u>(4,000)</u>
Net present value of unconditional promises to give	<u>\$ 210,239</u>	<u>\$ 146,455</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 100,000	\$ 100,000
Building and improvements	175,878	175,878
Furniture and fixtures	9,388	9,388
Equipment	<u>1,806</u>	<u>1,806</u>
	287,072	287,072
Accumulated depreciation	<u>(121,548)</u>	<u>(115,583)</u>
Net property and equipment	<u>\$ 165,524</u>	<u>\$ 171,489</u>

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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DONATED MATERIALS AND SERVICES

The Foundation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The University provides support for accounting, fundraising, and general administrative support for the benefit of the Foundation. This support has been recognized in the accompanying financial statements as donated services and salary expense at their estimated value. The amount of support was \$189,108 and \$208,871, for the years ended June 30, 2016 and 2015, respectively. A significant amount of services not meeting the requirements for recognition in the financial statements, has been contributed by others toward administrative and program development and implementation.

UNRESTRICTED NET ASSETS

The Foundation's unrestricted net assets at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Designated by Board:		
Capital fund	\$ 135,112	\$ 135,112
Conservation fund	297,928	324,176
	<u>433,040</u>	<u>459,288</u>
Undesignated	<u>(588,236)</u>	<u>(608,363)</u>
Total unrestricted net assets	<u><u>\$ (155,196)</u></u>	<u><u>\$ (149,075)</u></u>

THE BOTANICAL GARDEN FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

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TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015, consist of:

	<u>2016</u>	<u>2015</u>
Mercer Reeves Endowment	\$ 409,255	\$ 448,520
Natural Areas Endowment	51,315	63,746
Mason Farm Endowment	5,075	13,499
Butler Endowment	17,843	18,454
Jenny Fitch Endowment	46,192	52,585
Coker Arboretum Endowment	100,857	176,425
Mary McKee Felton Internship Endowment	-	-
Battle Park Endowment	-	9,464
Forest Theatre Park Endowment	12,517	13,407
General Operating Endowment	6,367	6,944
Charles Mohr Internship Endowment	28,951	35,304
Martha DeBerry Internship Endowment	8,546	10,898
Janet M. Krakauer Endowment	-	-
Jim Todd Living Plant Endowment	14,239	23,590
UNC Herbarium General Endowment	11,385	12,623
J & Jerry Colvard Mountain Plant Endowment	12,488	21,223
Bell & Radford Endowment	13	-
Conservation Endowment	4	-
Sims Lecture Endowment	6	-
NCBG Horticulture Projects	18,322	-
Edward C. Swab Floristics Fund	16,564	-
NCBG Development Capacity Fund	20,079	-
Piedmont Nature Trail	2,000	-
Hunt Arboretum	745	-
Houk Internship Endowment	12,106	13,252
Master Plan Herbarium	1,636,164	1,685,832
Garden operations and other programs	1,074,371	1,096,078
Promises to give - time restricted	111,727	135,253
	<u> </u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 3,617,131</u>	<u>\$ 3,837,097</u>

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PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2016 and 2015, consist of:

	<u>2016</u>	<u>2015</u>
Mercer Reeves Endowment	\$ 153,659	\$ 153,559
Natural Areas Endowment	135,832	135,667
Mason Farm Endowment	93,095	89,480
Butler Endowment	10,200	10,200
Jenny Fitch Endowment	50,050	50,050
Coker Arboretum Endowment	720,893	700,777
Mary McKee Felton Internship Endowment	735	735
Battle Park Endowment	243,212	226,856
Forest Theatre Park Endowment	7,780	7,600
General Operating Endowment	20,985	20,430
Charles Mohr Internship Endowment	75,153	75,153
Martha DeBerry Internship Endowment	44,619	44,619
Janet M. Krakauer Endowment	99,692	94,692
Jim Todd Living Plant Endowment	80,240	80,190
UNC Herbarium General Endowment	50,662	50,377
J & Jerry Colvard Mountain Plant Endowment	99,594	99,594
Bell & Radford Endowment	107,000	-
Conservation Endowment	30,000	-
Sims Lecture Endowment	50,018	-
Houk Internship Endowment	38,389	36,774
	<u> </u>	<u> </u>
Total permanently restricted net assets	<u>\$ 2,111,808</u>	<u>\$ 1,876,753</u>

ENDOWMENTS

The Foundation's endowments were established for a variety of purposes and include donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) 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 SPMIFA. In accordance with SPMIFA, 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 fund
2. The purposes of the Foundation and the donor-restricted endowment fund
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
7. The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% in perpetuity. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation makes investments in CHIF.

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ENDOWMENTS (CONTINUED)*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that SPMIFA requires to retain as a fund of perpetual duration. As of June 30, 2016 and 2015, the endowment funds were below the required amounts by \$11,687 and \$1,774, respectively.

The changes in donor-restricted endowment net assets for the year ended June 30, 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, July 1, 2015	\$ (1,774)	\$ 919,934	\$ 1,876,603	\$ 2,794,763
Investment return:				
Income	-	423	-	423
Change in fair value	(9,913)	(29,764)	-	(39,677)
Total investment return	<u>(9,913)</u>	<u>(29,341)</u>	<u>-</u>	<u>(39,254)</u>
Contributions	-	-	234,855	234,855
Other income	-	-	-	-
Appropriation of endowment assets for expenditure	-	(153,433)	-	(153,433)
Endowment net assets, June 30, 2016	<u>\$ (11,687)</u>	<u>\$ 737,160</u>	<u>\$ 2,111,458</u>	<u>\$ 2,836,931</u>

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ENDOWMENTS (CONTINUED)

The changes in donor-restricted endowment net assets for the year ended June 30, 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, July 1, 2014	\$ (11,687)	\$ 742,396	\$ 1,750,001	\$ 2,480,710
Investment return:				
Income	-	1,198	-	1,198
Change in fair value	9,913	199,657	-	209,570
Total investment return	<u>9,913</u>	<u>200,855</u>	<u>-</u>	<u>210,768</u>
Contributions	-	-	126,602	126,602
Appropriation of endowment assets for expenditure	-	(23,317)	-	(23,317)
Endowment net assets, June 30, 2015	<u>\$ (1,774)</u>	<u>\$ 919,934</u>	<u>\$ 1,876,603</u>	<u>\$ 2,794,763</u>

COMPARATIVE AMOUNTS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements in order to conform to 2016 presentation. Such reclassification had no effect on net assets.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through December 16, 2016, which was the date that the financial statements were available to be issued, and determined there are no subsequent events that require disclosure.