

**THE WOODROW WILSON NATIONAL
FELLOWSHIP FOUNDATION**

FINANCIAL STATEMENTS

June 30, 2016

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees of
The Woodrow Wilson National Fellowship Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Woodrow Wilson National Fellowship Foundation (the "Foundation") which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

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 Foundation 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses and schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"), are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, for the year ended June 30, 2016, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Mercadieu, P.C.

Certified Public Accountants

October 20, 2016

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,590,019	\$ -	\$ -	\$ 2,590,019
Unconditional promises to give, current portion	1,900,920	5,639,212	-	7,540,132
Prepaid expenses and other current assets	<u>120,914</u>	<u>-</u>	<u>-</u>	<u>120,914</u>
Total current assets	4,611,853	5,639,212	-	10,251,065
Investments				
Unconditional promises to give, noncurrent portion	5,116,446	22,753,892	1,629,695	29,500,033
Property and equipment, at cost, net of accumulated depreciation	-	1,850,547	-	1,850,547
Security deposits	<u>65,066</u>	<u>-</u>	<u>-</u>	<u>65,066</u>
Security deposits	<u>26,303</u>	<u>-</u>	<u>-</u>	<u>26,303</u>
Total Assets	<u>\$ 9,819,668</u>	<u>\$ 30,243,651</u>	<u>\$ 1,629,695</u>	<u>\$ 41,693,014</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 266,381	\$ -	\$ -	\$ 266,381
Fellowships payable	6,262,000	-	-	6,262,000
Capital leases payable, current portion	8,223	-	-	8,223
Accrued vacation	<u>225,479</u>	<u>-</u>	<u>-</u>	<u>225,479</u>
Total current liabilities	6,762,083	-	-	6,762,083
Noncurrent liabilities				
Capital leases payable, noncurrent portion	<u>13,574</u>	<u>-</u>	<u>-</u>	<u>13,574</u>
Total Liabilities	6,775,657	-	-	6,775,657
Net Assets				
Net Assets	<u>3,044,011</u>	<u>30,243,651</u>	<u>1,629,695</u>	<u>34,917,357</u>
Total Liabilities and Net Assets	<u>\$ 9,819,668</u>	<u>\$ 30,243,651</u>	<u>\$ 1,629,695</u>	<u>\$ 41,693,014</u>

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Other Revenue				
Public Support				
Government	\$ 6,606,703	\$ 488,500	\$ -	\$ 7,095,203
Foundations	-	8,295,702	-	8,295,702
Individuals	2,686,342	1,025,354	-	3,711,696
Net assets released from restrictions	<u>18,028,198</u>	<u>(18,028,198)</u>	-	-
Total Public Support	27,321,243	(8,218,642)	-	19,102,601
Other Revenue				
Investment income	<u>237,152</u>	<u>41,091</u>	-	<u>278,243</u>
Total Public Support and Other Revenue	<u>27,558,395</u>	<u>(8,177,551)</u>	-	<u>19,380,844</u>
Expenses				
Program Services				
Higher Education	5,675,479	-	-	5,675,479
Teaching and Leadership	<u>19,206,282</u>	-	-	<u>19,206,282</u>
Total Program Services	<u>24,881,761</u>	-	-	<u>24,881,761</u>
Supporting Services				
Management and general	1,124,413	-	-	1,124,413
Fundraising	<u>813,551</u>	-	-	<u>813,551</u>
Total Supporting Services	<u>1,937,964</u>	-	-	<u>1,937,964</u>
Total Expenses	<u>26,819,725</u>	-	-	<u>26,819,725</u>
Change in net assets	738,670	(8,177,551)	-	(7,438,881)
Net assets, beginning of year	<u>2,305,341</u>	<u>38,421,202</u>	<u>1,629,695</u>	<u>42,356,238</u>
Net assets, end of year	<u>\$ 3,044,011</u>	<u>\$ 30,243,651</u>	<u>\$ 1,629,695</u>	<u>\$ 34,917,357</u>

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

Cash Flows from Operating Activities	
Change in net assets	\$ (7,438,881)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	16,919
Realized loss on sale of investments	77,149
Unrealized gain on investments	(114,324)
Amortization of U.S. Treasuries discount	(61,491)
Donated securities	(1,560,254)
Increase (decrease) in cash from:	
Unconditional promises to give	7,931,290
Prepaid expenses and other current assets	(64,737)
Accounts payable and accrued expenses	(8,802)
Fellowships payable	1,087,000
Accrued vacation	<u>52,216</u>
Net cash from operating activities	<u>(83,915)</u>
Cash Flows from Investing Activities	
Purchase of furniture and equipment	(7,820)
Purchases of investments	(23,381,353)
Proceeds from sales of investments	<u>23,494,266</u>
Net cash from investing activities	<u>105,093</u>
Cash Flows from Financing Activities	
Principal payments on capital leases payable	<u>(11,272)</u>
Net cash from financing activities	<u>(11,272)</u>
Net change in cash and cash equivalents	9,906
Cash and cash equivalents, beginning of year	<u>2,580,113</u>
Cash and cash equivalents, end of year	<u>\$ 2,590,019</u>
Supplemental Disclosure of Cash Flow Information	
Interest paid on capital leases	<u>\$ 100</u>
Supplemental Disclosure of Non-cash Investing and Financing Activities	
Equipment purchased under capital leases	<u>\$ 25,200</u>
Donated securities	<u>\$ 1,560,254</u>

See notes to financial statements.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

The Woodrow Wilson National Fellowship Foundation (the "Foundation") is a not-for-profit charitable organization located in Princeton, New Jersey. The primary mission of the Foundation is to identify and develop leaders and institutions to meet the nation's critical challenges, working through education.

As a fellowship organization, the Foundation focuses primarily on Higher Education Fellowships and Teaching and Leadership Fellowships.

The Higher Education Fellowships include a suite of fellowships that support the development of future leaders at a variety of career stages in several critical fields. These programs strengthen the representation of diverse groups in the professoriate, support the work of emerging scholars and young faculty in the social sciences and humanities, and prepare experts for the United States Foreign Service.

The Teaching and Leadership Fellowships represent a major effort to recruit, prepare and mentor school leaders as well as candidates for teaching in high-need subjects like mathematics and the sciences, transform their clinical preparation for teaching, and support their commitment to long-term careers in high-need urban and rural schools.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The Foundation presents its financial statements according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met by the actions of the Foundation or the passage of time. Unrestricted net assets are not subject to donor-imposed stipulations on when or how they can be spent.

Cash Equivalents

Cash equivalents include time deposits with original maturities of ninety days or less, and exclude money market funds included in the investment portfolio.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at fair value in the statement of financial position. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the investment in an orderly transaction between market participants on the measurement date. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The Foundation does not have any Level 3 investments.

Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Interest and dividend income is recognized when earned. Amortization of the discount on treasury strips is recorded using the straight-line method.

Contributions and Promises to Give

Contributions and foundation grants are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as non-current promises to give and are recorded at the present value of their net realizable value, using risk-free prevailing interest rates applicable to the years in which the promises are received to discount the amounts.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Promises to Give (Continued)

In estimating the fair value of unconditional promises to give, management considers promises of \$5,000 or more individually. The relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness are considered and incorporated into a fair value measurement computed using present value techniques. Unconditional promises to give less than \$5,000 are measured in the aggregate using present value techniques, and management considers historical trends of collection, the type of donor (individual, corporation/foundation), general economic conditions in the geographical area in which the majority of the donors live, the Foundation's policies concerning enforcement of promises to give, and market interest rate assumptions. The change in amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contribution revenue.

Contributions of donated noncash assets are recorded at fair value in the period received.

Grant revenue from cost-reimbursement grants or contracts is recognized when the program expenditures have been incurred.

Property and Equipment

Property and equipment acquired are recorded at cost. It is the Foundation's policy to capitalize expenditures for individual items costing in excess of \$5,000. Lesser amounts are expensed. Property and equipment are depreciated over the useful lives of the related assets using the straight-line method, with a half year depreciation recognized in the years of acquisition and disposal. Repairs and maintenance that do not extend the useful lives of the related assets are expensed as incurred.

Fellowships and Grants

Fellowships are recorded as expenses at the time the individual accepts the award and are generally payable within one year. Tuition assistance and room and board are recorded when the expense has been incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Income generated by activities that would be considered unrelated to the Foundation's mission would be subject to tax, which, if incurred, would be recognized as a current expense. No such tax has been recognized as of June 30, 2016.

Functional Expense Allocation

The costs of providing program services and support services of the Foundation have been summarized on a functional basis in the statement of activities. Accordingly, certain operating costs have been allocated among the functional categories according to the reasonable benefit that the programs derived from these expenses.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The updated standard will be effective for the Foundation for the year ending June 30, 2020. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring an entity (lessee) that leases assets for a term exceeding a one year period to recognize a right-of-use asset and corresponding lease liability on the statement of financial position. ASU 2016-02 will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. ASU 2016-02 introduces limited changes to the lessor accounting model, none of which rise to the same level of significance as the changes made to the lessee accounting model. ASU 2016-02 also requires entities to disclose in the footnotes to their financial statements information about the amount, timing and uncertainty for the payments they make for lease agreements. Early adoption is permitted. ASU 2016-02 will be effective for the Foundation for the year ending June 30, 2021. The Foundation is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which now requires net assets to be presented in two classes, instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources. ASU 2016-14 requires the entity to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date, including disclosure of the availability of financial assets at the statement of financial position date, affected by 1) its nature, 2) external limits imposed by donors, grantors, laws and contracts with others, and 3) internal limits imposed by governing board decisions. ASU 2016-14 requires reporting of expenses by both their natural and functional classification. ASU 2016-14 also requires reporting of investment returns net of external and direct internal investment expenses and removes the requirement to disclose the netting of such investment expenses. ASU 2016-14 requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments. Early adoption is permitted. ASU 2016-14 will be effective for the Foundation for the year ending June 30, 2019. The Foundation is currently evaluating the effect that the new standard will have on its financial statements and related disclosures.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

C. ENDOWMENT POLICY

The Foundation's endowment consists of six individual funds established for a variety of purposes. 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.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to require standard care that is reasonable and prudent over its endowed funds. The Foundation currently classifies permanently restricted net assets at the original historic dollar value of gifts donated to the permanent endowment. The remaining portion of the endowment funds is classified as temporarily restricted until appropriated for expenditure.

Current spending from the endowment equals interest and investment income net of fees, and net realized and unrealized gains. Funds from earnings on permanently restricted net assets appropriated for expenditure are expended according to donor restrictions and are classified as net assets released from restrictions on the accompanying statement of activities.

The Board of Trustees has adopted the investment objective of preserving the endowment's principal by investing in high quality instruments. The return on endowment funds includes dividends, interest and capital gains less any capital losses and expenses. The holdings must adhere to asset allocation ranges in the Foundation's Investment Policy Statement and the securities held must be appropriate for the portfolio objectives, asset class and investment style of the funds selected under the Foundation's investment management process.

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Invested endowment balance, June 30, 2015	\$ -	\$ -	\$ 1,629,695	\$ 1,629,695
Interest and investment income	16,462	8,679	-	25,141
Investment fees	(1,520)	(967)	-	(2,487)
Net appreciation (realized and unrealized)	8,666	4,585	-	13,251
Net investment return	23,608	12,297	-	35,905
Appropriated for expenditure	(23,608)	(12,297)	-	(35,905)
Subtotal	-	-	1,629,695	1,629,695
Invested endowment balance, June 30, 2016	\$ -	\$ -	\$ 1,629,695	\$ 1,629,695

D. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2016:

Teaching and Leadership Fellowships	\$ 26,791,871
Higher Education Fellowships	3,347,946
Other awards and prizes	103,834
Total temporarily restricted net assets	<u>\$ 30,243,651</u>

Net assets totaling \$18,028,198 were released from donor restrictions for the year ended June 30, 2016, and represent expenses incurred to satisfy donor restrictions.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

D. RESTRICTIONS ON NET ASSETS (CONTINUED)

Permanently restricted net assets consist of the following endowment funds as of June 30, 2016:

Humanities Initiatives Fund	\$ 603,609
Richard W. Couper Humanities Initiative Funds	400,000
Taplin Endowment	379,825
Goheen Endowment	120,375
Rosenhaupt Endowment	33,092
General Endowment	<u>92,794</u>
Total permanently restricted net assets	<u>\$ 1,629,695</u>

The earnings on the endowments are to be used for the various program initiatives as stipulated by the donors.

E. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances in a financial institution with a branch located in Plainsboro, New Jersey. Certain balances are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Foundation maintains its investment balances in several financial institutions. The balances are insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000 per customer. The SIPC does not protect investors from market risks.

As of June 30, 2016, approximately 59% of the Foundation's gross unconditional promises to give were from four entities.

F. INVESTMENTS

Investments consist of the following as of June 30, 2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
Cash equivalents	\$ 1,555,184	\$ 1,555,184	\$ -
U.S. government treasuries	12,191,444	12,202,608	11,164
U.S. government treasury strips, net*	10,174,590	10,395,251	220,661
Mutual funds	1,504,751	1,803,251	298,500
Certificate of deposits	3,440,000	3,443,359	3,359
Corporate bonds	101,191	100,380	(811)
Total	<u>\$ 28,967,160</u>	<u>\$ 29,500,033</u>	<u>\$ 532,873</u>

* U.S. government treasury strips cost basis is presented net of the unamortized discount of \$231,428 for the year ended June 30, 2016.

Investment income consists of the following for the year ended June 30, 2016:

Interest and dividend income	\$ 179,577
Amortization of U.S. treasury strips discount	61,491
Realized loss on sale of investments	(77,149)
Unrealized gain on investments	<u>114,324</u>
Total investment income	<u>\$ 278,243</u>

Bank and investment management fees were \$37,848 for the year ended June 30, 2016.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

G. FAIR VALUE MEASUREMENT

Fair values of assets measured on a recurring basis at June 30, 2016, are as follows:

	June 30, 2016			Fair Value Total
	Level 1	Level 2	Level 3	
Investments				
Cash equivalents	\$ 1,555,184	\$ -	\$ -	\$ 1,555,184
U.S. government treasuries	12,202,608	-	-	12,202,608
U.S. government treasury strips	-	10,395,251	-	10,395,251
Mutual funds	1,803,251	-	-	1,803,251
Certificate of deposits	-	3,443,359	-	3,443,359
Corporate bonds	100,380	-	-	100,380
Total Investments	<u>\$ 15,661,423</u>	<u>\$ 13,838,610</u>	<u>\$ -</u>	<u>\$ 29,500,033</u>

U.S. government treasury strips (Level 2) will be held to maturity. Certificate of deposits (Level 2) are short-term maturities.

H. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30, 2016:

Teaching and Leadership Fellowships	\$ 6,614,591
Higher Education Fellowships	2,447,014
Annual Fund	357,170
President's Venture Fund	<u>503,000</u>
Total unconditional promises to give	9,921,775
Less discount to net present value	(31,096)
Less allowance for uncollectable promises	<u>(500,000)</u>
Net unconditional promises to give	<u>\$ 9,390,679</u>

Unconditional promises to give in the amount of \$1,879,000 due after June 30, 2017, are discounted at varying short term treasury rates.

I. PROPERTY AND EQUIPMENT

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

	<u>Life/Years</u>	
Furniture and equipment	3-5	\$ 214,129
Equipment held under capital leases	3-5	<u>50,524</u>
Subtotal property and equipment		264,653
Less: accumulated depreciation		<u>199,587</u>
Net property and equipment		<u>\$ 65,066</u>

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

J. CAPITAL LEASE OBLIGATIONS

The Foundation leases certain equipment under capital leases. The assets and liabilities are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. This amortization is included in depreciation expense.

The future lease payments under capital leases are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 8,223
2018	8,306
2019	5,268
	<u>\$ 21,797</u>

K. COMMITMENTS AND CONTINGENCIES

Government supported programs are subject to audit by the granting agency.

The Foundation leases office space under a non-cancelable operating lease that provides for minimum annual rental payments through the year ending June 30, 2020.

Under its various programs, the Foundation has committed grants to individuals and organizations. The payments are contingent on successful completion of the current year obligation before any future payments will be made. The total future commitments as of June 30, 2016, were \$1,497,043.

The Foundation has entered into contracts with the United States Department of State to administer the Thomas R. Pickering Foreign Affairs Fellowship Programs. The available funds remaining on these contracts as of June 30, 2016, were \$4,599,264. Revenue under these contracts will be recognized in future years as the Foundation incurs expenditures per the terms and conditions of the contracts.

L. RETIREMENT PLAN

The Foundation has a contributory defined contribution retirement plan under Internal Revenue Service Section 403(b). Employees that meet certain eligibility criteria are eligible to participate. Employees are fully vested in the plan when they become eligible to participate. The Foundation matches employee contributions up to 10% of the employee's salary, provided the employee contributes a minimum of 5% of their salary to the plan. The Foundation's contribution to the plan for the year ended June 30, 2016, was \$429,992. The plan is administered by TIAA-CREF.

M. RELATED PARTIES

Total gifts and pledges from various board members were \$3,319,968 for the year ended June 30, 2016. Of the total gifts and pledges, including those made in prior years, there was \$1,053,000 outstanding at June 30, 2016. The Foundation believes that all remaining gifts and pledges from related parties are collectible.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

N. SUBSEQUENT EVENTS

Management has evaluated events for potential recognition and disclosure that occurred after June 30, 2016, and through October 20, 2016, the date the financial statements were available to be issued. Management determined that the following event required disclosure:

The Foundation is finalizing a lease commitment in Cambridge, Massachusetts. At this time, the lease would be in effect from January 1, 2017 through December 31, 2023. It would provide the Foundation with approximately 3,250 square feet of space at a base annual rate of \$31 per square foot. The final lease agreement is not expected to vary materially from the current draft lease commitment.

SUPPLEMENTARY INFORMATION

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

	Program Services			Supporting Services			Total Expenses
	Higher Education	Teaching and Leadership	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Grants and fellowships to individuals and organizations	\$ 4,404,656	\$ 13,031,881	\$ 17,436,537	\$ -	\$ -	\$ -	\$ 17,436,537
Salary, fringe benefits and payroll taxes	918,116	3,807,264	4,725,380	751,215	506,882	1,258,097	5,983,477
Service and professional fees	105,079	1,674,775	1,779,854	33,286	130,713	163,999	1,943,853
Travel and accommodations	169,837	442,247	612,084	75,493	77,043	152,536	764,620
Printing, postage, delivery, copying and other office expenses	14,214	13,989	28,203	56,491	33,939	90,430	118,633
Bank and investment fees	2,045	4,029	6,074	28,641	3,133	31,774	37,848
Other office and business expenses	<u>61,532</u>	<u>232,097</u>	<u>293,629</u>	<u>162,368</u>	<u>61,841</u>	<u>224,209</u>	<u>517,838</u>
Total expenses before depreciation	5,675,479	19,206,282	24,881,761	1,107,494	813,551	1,921,045	26,802,806
Depreciation	-	-	-	<u>16,919</u>	-	<u>16,919</u>	<u>16,919</u>
Total Expenses	<u>\$ 5,675,479</u>	<u>\$ 19,206,282</u>	<u>\$ 24,881,761</u>	<u>\$ 1,124,413</u>	<u>\$ 813,551</u>	<u>\$ 1,937,964</u>	<u>\$ 26,819,725</u>

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract Number	Grant Period	Total Federal Expenditures	Cumulative Federal Expenditures
United States Department of State - Thomas R. Pickering Foreign Affairs Fellowship Program	19.013	S-LMAQM-11-GR-002	03/31/2011 - 09/30/2015	\$ 881	\$ 4,271,991
United States Department of State - Thomas R. Pickering Undergraduate and Graduate Foreign Affairs Fellowship Programs	19.013	S-LMAQM-12-OA-1010	01/05/2012 - 09/30/2016	14,457	4,128,143
United States Department of State - Thomas R. Pickering Undergraduate and Graduate Foreign Affairs Fellowship Programs	19.013	S-LMAQM-13-CA-1008	11/15/2012 - 09/30/2017	219,169	4,042,335
United States Department of State - Thomas R. Pickering Undergraduate and Graduate Foreign Affairs Fellowship Program	19.013	S-LMAQM-13-CA-1276	09/23/2013-09/30/2017	1,877,501	3,812,022
United States Department of State - Thomas R. Pickering Undergraduate and Graduate Foreign Affairs Fellowship Program	19.013	S-LMAQM-15-CA-1012	02/10/2015-09/30/2017	<u>1,337,476</u>	<u>1,585,000</u>
				3,449,484	17,839,491
United States Department of Education, Urban Education Excellence: "STEM" Teacher Residency with Dual Licensure in Special Education	84.336B	IUPUIS PO # 990948	08/25/2011 - completion	<u>16,920</u>	<u>30,000</u>
Total Expenditures of Federal Awards				<u>\$ 3,466,404</u>	<u>\$ 17,869,491</u>

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Foundation under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

THE WOODROW WILSON NATIONAL FELLOWSHIP FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: ***Unmodified***

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported

Type of auditors' report issued on compliance for major federal programs: ***Unmodified***

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number

Name of Federal Program

19.013

United States Department of State - Thomas R. Pickering Undergraduate and Graduate Foreign Affairs Fellowship Programs

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.

Prior Year Audit Findings

No matters were reported.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To The Board of Trustees of
The Woodrow Wilson National Fellowship Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Woodrow Wilson National Fellowship Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS (CONTINUED)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercedien, P.C.
Certified Public Accountants

October 20, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To The Board of Trustees of
The Woodrow Wilson National Fellowship Foundation

Report on Compliance for The Major Federal Program

We have audited the The Woodrow Wilson National Fellowship Foundation's (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2016. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE (CONTINUED)

Opinion on The Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mercedien, P.C.
Certified Public Accountants

October 20, 2016