# GEORGIA HEALTH SCIENCES FOUNDATION, INC.

FINANCIAL STATEMENTS

***As of and for the Years Ended June 30, 2017 and 2016***

***And Report of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

**GEORGIA HEALTH SCIENCES FOUNDATION, INC.**

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Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

To the Board of Trustees of
Georgia Health Sciences Foundation, Inc.
Augusta, Georgia

We have audited the accompanying financial statements of Georgia Health Sciences Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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 design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Augusta, Georgia
September 5, 2017

**GEORGIA HEALTH SCIENCES FOUNDATION, INC.**

STATEMENTS OF FINANCIAL POSITION

*JUNE 30, 2017 AND 2016*

| **ASSETS** | **2017** | **2016** |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 263,626 | $ 866,639 |
| Short-term investments | 10,070,598 | 9,659,214 |
| Short-term investments - board designated | 125,775 | 144,940 |
| Accounts receivable: | | |
| Margin allocation funds - AU Medical Center, Inc. | - | 278,305 |
| Due from AU Medical Center, Inc. | 500,000 | 71,529 |
| Pledges receivable, net | 4,270,347 | 5,252,837 |
| Prepaid expenses | 58,754 | 11,503 |
| Total Current Assets | 15,289,100 | 16,284,967 |
| Noncurrent Assets: | | |
| Investments | 4,721,537 | 4,051,167 |
| Investment in Jaguar Facilities Development, LLC | 522,500 | 761,804 |
| Pledges receivable, net | 1,780,440 | 4,402,897 |
| Real property | 2,330,775 | 2,330,775 |
| Total Noncurrent Assets | 9,355,252 | 11,546,643 |
| **Total Assets** | $ 24,644,352 | $ 27,831,610 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts payable | $ 103,501 | $ 70,981 |
| Due to Augusta University ("AU") | 84,708 | 31,607 |
| Due to AU Medical Center, Inc. | 9,195 | 401,726 |
| Annuity payment liabilities - current portion | 90,485 | 90,485 |
| Notes payable - current portion | 789,686 | - |
| Deferred grant revenue | 1,541,873 | 865,527 |
| Other current liabilities | 3,058 | 2,023 |
| Total Current Liabilities | 2,622,506 | 1,462,349 |
| Noncurrent Liabilities: | | |
| Annuity payment liabilities | 203,461 | 267,816 |
| Notes payable | - | 789,686 |
| Notes payable due to AU Medical Center, Inc. | - | 201,290 |
| Total Noncurrent Liabilities | 203,461 | 1,258,792 |
| **Total Liabilities** | 2,825,967 | 2,721,141 |
| **NET ASSETS** | | |
| Unrestricted | 4,059,196 | 3,640,698 |
| Temporarily restricted | 15,336,006 | 19,400,754 |
| Permanently restricted | 2,423,183 | 2,069,017 |
| **Total Net Assets** | 21,818,385 | 25,110,469 |
| **Total Liabilities and Net Assets** | $ 24,644,352 | $ 27,831,610 |

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

**GEORGIA HEALTH SCIENCES FOUNDATION, INC.**

STATEMENT OF ACTIVITIES

*YEAR ENDED JUNE 30, 2017*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2017 Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Gifts and contributions | $ 18,305 | $ 3,872,690 | $ 378,515 | $ 4,269,510 |
| Change in valuation allowance to discount pledges to net present value and provision for uncollectible pledges net of recoveries | (2,217) | (2,532,476) | (23,296) | (2,557,989) |
| Gifts and contributions, net | 16,088 | 1,340,214 | 355,219 | 1,711,521 |
| Contributed services | 1,595,639 | - | - | 1,595,639 |
| Grant revenue | - | 405,857 | - | 405,857 |
| Support from affiliates | 500,000 | 202,947 | - | 702,947 |
| Other support | 145 | 219,368 | - | 219,513 |
| Rent from AU | 12,300 | - | - | 12,300 |
| Investment income, net | 197,432 | 384,251 | - | 581,683 |
| Loss from Jaguar Facilities Development, LLC | (239,304) | - | - | (239,304) |
| Net assets released from restrictions | 6,620,357 | (6,620,357) | - | - |
| Transfers between classes of net assets | (1,919) | 2,972 | (1,053) | - |
| Total Revenues | 8,700,738 | (4,064,748) | 354,166 | 4,990,156 |
| Expenses: | | | | |
| Program Expenses: | | | | |
| Scholarships | 1,096,559 | - | - | 1,096,559 |
| Donor restricted program support | 5,316,827 | - | - | 5,316,827 |
| Support to AU | 3,654 | - | - | 3,654 |
| Fundraising Expenses: | | | | |
| University development | 1,430,922 | - | - | 1,430,922 |
| Supporting Services: | | | | |
| General operating expenses | 408,257 | - | - | 408,257 |
| Interest expense | 26,021 | - | - | 26,021 |
| Total Expenses | 8,282,240 | - | - | 8,282,240 |
| Change in net assets | 418,498 | (4,064,748) | 354,166 | (3,292,084) |
| Net assets, beginning of year | 3,640,698 | 19,400,754 | 2,069,017 | 25,110,469 |
| Net assets, end of year | $ 4,059,196 | $ 15,336,006 | $ 2,423,183 | $ 21,818,385 |

**GEORGIA HEALTH SCIENCES FOUNDATION, INC.**

STATEMENT OF ACTIVITIES (CONTINUED)

*YEAR ENDED JUNE 30, 2016*

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Gifts and contributions | $ 21,315 | $ 5,125,569 | $ 116,041 | $ 5,262,925 |
| Change in valuation allowance to discount pledges to net present value and provision for uncollectible pledges net of recoveries | (1,836) | (369,234) | (38,598) | (409,668) |
| Gifts and contributions, net | 19,479 | 4,756,335 | 77,443 | 4,853,257 |
| Contributed services | 1,650,694 | - | - | 1,650,694 |
| Grant revenue | - | 388,950 | - | 388,950 |
| Support from affiliates | 27,054 | 43,591 | - | 70,645 |
| Other support | - | 122,432 | - | 122,432 |
| Rent from AU | 12,300 | - | - | 12,300 |
| Margin allocation from AU Medical Center, Inc. | 278,305 | - | - | 278,305 |
| Investment income, net | 50,629 | 35,788 | - | 86,417 |
| Loss from Jaguar Facilities Development, LLC | (31,007) | - | - | (31,007) |
| Net assets released from restrictions | 8,830,442 | (8,830,442) | - | - |
| Transfers between classes of net assets | - | (30,558) | 30,558 | - |
| Total Revenues | 10,837,896 | (3,513,904) | 108,001 | 7,431,993 |
| Expenses: | | | | |
| Program Expenses: | | | | |
| Scholarships | 1,143,992 | - | - | 1,143,992 |
| Donor restricted program support | 7,484,911 | - | - | 7,484,911 |
| Support to AU | 46,923 | - | - | 46,923 |
| Fundraising Expenses: | | | | |
| University development | 1,538,615 | - | - | 1,538,615 |
| Supporting Services: | | | | |
| General operating expenses | 344,861 | - | - | 344,861 |
| Interest expense | 25,807 | - | - | 25,807 |
| Total Expenses | 10,585,109 | - | - | 10,585,109 |
| Change in net assets | 252,787 | (3,513,904) | 108,001 | (3,153,116) |
| Net assets, beginning of year | 3,387,911 | 22,914,658 | 1,961,016 | 28,263,585 |
| Net assets, end of year | $ 3,640,698 | $ 19,400,754 | $ 2,069,017 | $ 25,110,469 |

## GEORGIA HEALTH SCIENCES FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

*YEARS ENDED JUNE 30, 2017 AND 2016*

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Gifts and contributions | $ 5,316,468 | $ 6,821,361 |
| Grants | 1,082,203 | 548,331 |
| Cash received from affiliates | 274,476 | 43,591 |
| Sales and services | 219,513 | 99,749 |
| Cash received from AU Medical Center, Inc. - margin allocation | 278,305 | 80,506 |
| Payments to AU and Affiliates for program support | (5,747,480) | (7,033,086) |
| Payments to other suppliers of goods and services | (234,022) | (300,134) |
| Interest payments on notes payable | (26,021) | (25,807) |
| Payments for scholarships and fellowships | (1,096,559) | (1,143,992) |
| Other receipts - rent | 12,300 | 12,300 |
| Net cash from operating activities | 79,183 | (897,181) |
| **Cash flows from investing activities:** | | |
| Purchase of investments | (707,896) | (3,046,737) |
| Proceeds from sale of investments | 226,990 | 4,754,355 |
| Proceeds from sale of real property | - | 19,225 |
| Net cash from investing activities | (480,906) | 1,726,843 |
| **Cash flows from financing activities:** | | |
| Repayments of notes payable | - | (314) |
| Repayments of notes payable to AU Medical Center, Inc. | (201,290) | (193,748) |
| Net cash from financing activities | (201,290) | (194,062) |
| Net change in cash and cash equivalents | (603,013) | 635,600 |
| Cash and cash equivalents, beginning of year | 866,639 | 231,039 |
| Cash and cash equivalents, end of year | $ 263,626 | $ 866,639 |
| **Reconciliation of change in net assets to net cash from operating activities:** | | |
| Change in net assets | $ (3,292,084) | $ (3,153,116) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Net unrealized (gain) loss on investments | (384,389) | 49,761 |
| Investment income and realized gains reinvested, net of investment expense | (197,294) | (136,178) |
| Loss from Jaguar Facilities Development, LLC | 239,304 | 31,007 |
| Changes in: | | |
| Accounts receivable | (150,166) | (269,328) |
| Pledges receivable, net | 3,604,947 | 1,989,897 |
| Prepaid expenses | (47,251) | (11,503) |
| Accounts payable and other liabilities | (370,230) | 442,898 |
| Deferred grant revenue | 676,346 | 159,381 |
| Net cash from operating activities | $ 79,183 | $ (897,181) |

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

## Note 1—Summary of significant accounting policies

*Nature of Operations* - Georgia Health Sciences Foundation, Inc. (the "Foundation") was established to contribute to the long-term enhancement of Augusta University ("AU") and to provide assistance to AU and Augusta University Medical Center, Inc. ("AUMC") in their development and fund-raising activities. In addition, the Foundation provides broad advice, consultation, and support to the President of AU and AUMC. The Foundation is a cooperative organization of the Board of Regents of the University System of Georgia. Its mission is to advance the University System of Georgia, as a whole, consistent with the priorities determined by the Foundation's Board of Trustees.

*Basis of Accounting* - The Foundation's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP").

*Cash and Cash Equivalents* - Cash and cash equivalents consist of petty cash, demand deposits, and time deposits in authorized financial institutions, and cash management pools that have the general characteristics of demand deposit accounts. All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

*Investments* - Investments in common trust funds and securities with an established market value are carried at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of activities. The Board of Regents Short-Term Investment Pool and Diversified Fund are included under investments.

*Equity Method Investments* - The Foundation accounts for its investments in affiliated entities in which the Foundation has significant ownership by the equity method of accounting. The equity method of accounting is used when the Foundation has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted by the Foundation's share of undistributed earnings or losses of these entities. Dividends or distributions received from the affiliates are treated as a reduction of the investment account or as provided for in the operating agreement. In the period losses of an investment are determined to be other than a temporary decrease in value of the investment, the loss is recognized.

*Accounts Receivable* - Accounts receivable include amounts from AUMC, which is an organization affiliated with AU. Management believes the amounts due are fully collectible.

*Pledges Receivable* - Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable beyond one year are discounted to their present value using treasury rates consistent with the life of the pledge. An allowance for uncollectible contributions is necessary as, from time to time, the Foundation may be unable to collect an outstanding pledge recorded as contributions receivable. The allowance is management's estimate of the potential future write-offs of uncollectible contributions and is based on historical write-offs, overdue contributions, and other factors. At times, pledges receivable include amounts pledged from related or affiliated organizations.

*Grant Revenue and Receivable* - Revenue from grants is recognized as expenditures are made for approved activities. Grants receivable are recorded for amounts promised from grantors. Deferred revenue is recorded until amounts are expended for purposes authorized in the grant agreements.

## Note 1—Summary of significant accounting policies (continued)

*In-Kind Contributions and Contributed Services* - In-kind contributions are reflected as contributions at their fair value at the date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Foundation benefited from donated assets, which have been reported as contribution revenue and donor restricted program expense in the statements of activities. The Foundation also receives professional services and supplies from the AU Office of Advancement, which have been recorded as contributed services revenue and fundraising and general operating expenses in the statements of activities.

*Restricted Cash and Investments* - Cash and investments that are externally restricted and cannot be used to pay current liabilities are classified as noncurrent assets in the statements of financial position.

*Board Designated Assets* - Designated assets represent short-term investments that have been designated formally by Board action to support purposes as deemed necessary by the Board.

*Real Property* - Real property consists of land owned by the Foundation and is recorded at the property's realizable value which approximates fair market value. The Company evaluates real property for impairment at least annually or when events occur or circumstances change that would, more likely than not, reduce the fair value of the real property below its carrying value.

*Fixed Assets* - Fixed assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Foundation's capitalization policy includes all items with a unit cost of $5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that exceed $100,000 and/or significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 25 years for infrastructure and land improvements, and 3 to 20 years for equipment. Residual values will generally be 10% of historical costs for infrastructure, buildings and building improvements, and facilities and other improvements.

*Concentrations of Credit Risk* - The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts. The Foundation from time to time may have amounts on deposit in excess of these insured limits. As of June 30, 2017, the Foundation had $286,508 in excess of the insured amount. As of June 30, 2016, the Foundation had $994,080 in excess of the insured amount.

From time to time, the Foundation receives large pledges and contributions from a small number of donors that represent a significant portion of recorded pledges receivable and contributions.

## Note 1—Summary of significant accounting policies (continued)

*Contributions and Net Assets* - Unconditional promises to give are recognized as revenue when the underlying promises are received by the Foundation and are reported as unrestricted, temporarily restricted or permanently restricted revenue based on any donor stipulations that limit the use of the donated asset.

The Foundation's net assets are classified as follows:

*Unrestricted Net Assets:* Unrestricted net assets represent resources derived from gifts, operating and nonoperating income. These resources are used for transactions relating to the enhancement of AU, and may be used at the discretion of the governing board to meet current expenses for those purposes.

*Temporarily Restricted Net Assets:* Temporarily restricted net assets include resources in which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties at the time of contribution. These specified purposes are consistent with the purpose of the Foundation. When donor restrictions on cash and other assets reported as temporarily restricted net assets expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets:* Permanently restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Foundation may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Code Section 44-15-7 of Annotated Code of Georgia. The Foundation's spending policy regarding endowed funds is to provide a stable and predictable revenue stream and ensure the value of the revenue stream over time while maintaining the real value of the asset.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Foundation's policy is to first apply the expense towards restricted resources and then toward unrestricted resources.

GAAP 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"). UPMIFA is a model act approved by the Uniform Law Commission ("ULC"); formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation.

*Income Taxes* - The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is further classified as a public charity under Section 170(b)(1)(a)(iv). The Foundation is subject to federal income tax on unrelated business income. The Foundation has evaluated the effect of GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Foundation continues to satisfy the requirements of a tax-exempt organization. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined that the Foundation had no uncertain income tax positions at June 30, 2017 and 2016.

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

## Note 2—Investments at fair value

The Foundation maintains an investment policy which fosters sound and prudent judgment in the management of assets to ensure safety of capital consistent with the fiduciary responsibility the Foundation has to its donors. All investments are consistent with donor intent and applicable federal and state laws.

At June 30, 2017 and 2016, the carrying value of the Foundation's investments was $14,917,910 and $13,855,321 respectively, which approximates fair value. These investments were comprised entirely of funds invested in the Board of Regents Investment Pool as follows:

| | 2017 | 2016 |
|---|---|---|
| Investment pools at fair value: | | |
| Board of Regents: | | |
| Short-term fund (short-term investments) | $ 10,196,373 | $ 9,804,154 |
| Balanced income fund | 422,025 | 441,590 |
| Total return fund | 443,688 | 440,111 |
| Diversified fund (including endowment investments) | 3,855,824 | 3,169,466 |
| Total investments | $ 14,917,910 | $ 13,855,321 |

The Board of Regents Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The fair value of investments is determined daily. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. Participation in the Board of Regents Investment Pool is voluntary. The Board of Regents Investment Pool is not rated. Additional information on the Board of Regents Investment Pool is disclosed in the audited financial statements of the Board of Regents of the University System of Georgia – Administrative Central Office (oversight unit). This audit can be obtained from the Georgia Department of Audits – Education Audit Division or on their web site at http://www.audits.ga.gov.

The effective duration of the Short-Term Fund at June 30, 2017 and 2016, is 0.43 years and 0.47 years, respectively. At June 30, 2017 and 2016, the Foundation's total investment of $10,196,373 and $9,804,154, respectively, in the Short-Term Fund is invested in debt securities. The effective duration of the Diversified Fund at June 30, 2017 and 2016, is 5.24 years and 3.98 years respectively. At June 30, 2017, of the Foundation's total investment of $3,855,824 in the diversified fund, $647,316 is invested in debt securities. At June 30, 2016, of the Foundation's total investment of $3,169,466 in the diversified fund, $577,812 was invested in debt securities. During the year ended June 30, 2016, the Foundation invested in two additional funds in the Board of Regents Investment Pool: the Balanced Income Fund and the Total Return Fund. The effective duration of the Balanced Income Fund at June 30, 2017 and 2016, is 5.70 years and 4.78 years, respectively. At June 30, 2017, of the Foundation's total investment of $422,025 in the balanced income fund, $278,521 is invested in debt securities. At June 30, 2016, of the Foundation's total investment of $441,590 in the balanced income fund, $270,695 is invested in debt securities. The effective duration of the Total Return Fund at June 30, 2017 and 2016, is 5.58 years and 4.77 years, respectively. At June 30, 2017, of the Foundation's total investment of $443,688 in the total return fund, $135,325 is invested in debt securities. At June 30, 2016, of the Foundation's total investment of $440,111 in the total return fund, $139,516 is invested in debt securities.

## Note 2—Investments at fair value (continued)

The following schedule summarizes the investment return in the statement of activities:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividend income | $ 206,039 | $ 174,883 |
| Net realized and unrealized gains (losses) | 390,936 | (72,475) |
| Expenses | (15,292) | (15,991) |
| Investment income, net | $ 581,683 | $ 86,417 |

Investment revenues are reported net of related investment expenses in the statements of activities.

## Note 3—Equity method investment in Jaguar Facilities Development, LLC

During the year ended June 30, 2013, the Foundation entered into a joint venture with Augusta University Foundation, Inc. ("AU Foundation"), an affiliated foundation established for the benefit of AU. The Foundation and AU Foundation are the members of Jaguar Facilities Development, LLC ("JFD") with equal 50% rights and ownership. Accordingly, this joint venture is accounted for using the equity method.

The Foundation executed a note with a financial institution in the amount of $790,000. The proceeds of the note and other costs were contributed as capital to JFD for the purpose of purchasing real property to be held to benefit AU. The provisions of the JFD operating agreement set forth that JFD will pledge the real property as collateral to secure the Foundation's debt. Further, the operating agreement provides that the net rental income from the real property will be paid on the note on behalf of the Foundation. The operating agreement provides for the Foundation to receive 100% of the income allocation until such time when the related note is repaid. Based on current real estate market conditions, management determined there is an other than temporary loss related to property values of the real estate and recorded a loss of $229,029 during the year ended June 30, 2017.

The investment consists of the following at June 30, 2017 and 2016:

| | |
|---|---|
| Capital contribution to JFD | $ 793,868 |
| Distributions to the Foundation during the year ended June 30, 2016 | - |
| Equity in cumulative net earnings (losses), June 30, 2016 | (32,064) |
| Investment in Jaguar Facilities Development, LLC, at June 30, 2016 | 761,804 |
| Distributions to the Foundation during the year ended June 30, 2017 | - |
| Equity in current year net earnings (losses), June 30, 2017 | (10,275) |
| Other than temporary losses, June 30, 2017 | (229,029) |
| | $ 522,500 |

## Note 3—Equity method investment in Jaguar Facilities Development, LLC (continued)

Condensed financial information of Jaguar Facilities Development, LLC as of and for the years ended June 30, 2017 and 2016 is as follows:

**Summary of Balance Sheet**

| | 2017 | 2016 |
|---|---|---|
| Assets: | | |
| Current assets | $ 11,199 | $ 12,054 |
| Noncurrent assets | 1,553,693 | 1,560,271 |
| Total assets | $ 1,564,892 | $ 1,572,325 |
| Liabilities and Equity: | | |
| Current liabilities | $ 19,501 | $ 16,659 |
| Equity | 1,545,391 | 1,555,666 |
| Total liabilities and equity | $ 1,564,892 | $ 1,572,325 |

**Summary Statement of Operations**

| | 2017 | 2016 |
|---|---|---|
| Revenue | $ 59,732 | $ 57,098 |
| Expenses | 70,007 | 88,105 |
| Net loss | $ (10,275) | $ (31,007) |

## Note 4—Pledges receivable

Pledges receivable consisted of the following at June 30, 2017:

| | Due in Less Than 1 Year | Due in 1 - 5 Years | Due in More Than 5 Years | Total |
|---|---|---|---|---|
| Pledges receivable | $ 4,371,775 | $ 1,821,819 | $ - | $ 6,193,594 |
| Less: | | | | |
| Discount to net present value | - | (35,919) | - | (35,919) |
| Allowance for uncollectible pledges | (101,428) | (5,460) | - | (106,888) |
| Net pledges receivable | $ 4,270,347 | $ 1,780,440 | $ - | $ 6,050,787 |

## Note 4—Pledges receivable (continued)

Pledges receivable consisted of the following at June 30, 2016:

| | Due in Less Than 1 Year | Due in 1 - 5 Years | Due in More Than 5 Years | Total |
|---|---|---|---|---|
| Pledges receivable | $ 5,360,265 | $ 4,501,476 | $ - | $ 9,861,741 |
| Less: | | | | |
| Discount to net present value | - | (91,007) | - | (91,007) |
| Allowance for uncollectible pledges | (107,428) | (7,572) | - | (115,000) |
| Net pledges receivable | $ 5,252,837 | $ 4,402,897 | $ - | $ 9,655,734 |

Pledges with due dates extending beyond one year are discounted to their present value using U.S. treasury rates consistent with the life of the pledge, commensurate with the risks involved. The applicable rate at June 30, 2017 and 2016 was 1.01% and 2.00%, respectively.

## Note 5—In-kind contributions

The Foundation receives noncash donations which include equipment, materials, supplies, and other items for certain events and projects. The value of these donated items that are included in the revenue and the corresponding expenses for the years ended June 30, 2017 and 2016 are approximately $307,000 and $280,000, respectively. The Foundation also receives support and supplies from the AU Office of Advancement. Such support and supplies totaled $1,595,639 and $1,650,694 during the years ended June 30, 2017 and 2016, respectively, and are recorded as contributed services revenue and fundraising and general operating expenses in the statements of activities.

## Note 6—Annuity payment liabilities

Charitable gift annuities are arrangements between a donor and the Foundation in which the donor contributes assets to the Foundation in exchange for a promise from the Foundation to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability has been recognized at the present value of the future cash flows projected to be paid. Temporarily restricted contribution revenue is recognized as the difference between these two amounts as the donor has placed temporary restrictions on the Foundation's use of its portion of the assets. To calculate the present value of the charitable gift annuity, the 2012 life expectancy tables (published by the Centers for Disease Control and Prevention) and discount rates ranging from 2.76% to 4.38% (applicable U.S. treasury rates at the date of contribution) were used.

During the year ended June 30, 2016, the Foundation entered into a split-interest agreement. The donor made an irrevocable contribution of $250,000. The Foundation agreed to pay the donor an annual sum of $22,500 beginning on June 1, 2016 and continuing for the rest of his life. The annual annuity is paid in monthly installments of $1,875 at the beginning of each month. The Foundation’s obligation to pay the donor terminates with the monthly payment preceding the donor’s death.

## Note 6—Annuity payment liabilities (continued)

During the year ended June 30, 2016, the Foundation entered into a split-interest agreement. The donor made an irrevocable contribution of $250,000. The Foundation agreed to pay the donor an annual sum of $22,500 beginning on March 1, 2016 and continuing for the rest of his life. The annual annuity is paid in monthly installments of $1,875 at the beginning of each month. The Foundation's obligation to pay the donor terminates with the monthly payment preceding the donor's death.

During the year ended June 30, 2012, the Foundation entered into a split-interest agreement. The donor made an irrevocable contribution of $25,000. The Foundation agreed to pay the donor an annual sum of $1,625 beginning on March 31, 2012 and continuing for the rest of his life. The annual annuity is paid in quarterly installments of $406 at the end of each quarter. The Foundation's obligation to pay the donor terminates with the quarterly payment preceding the donor's death.

During the year ended June 30, 2011, the Foundation entered into a split-interest agreement. The donor made an irrevocable contribution of $510,000. The Foundation agreed to pay the donor an annual sum of $43,860 beginning on March 31, 2011 and continuing for the rest of his life. The annual annuity is paid in quarterly installments of $10,965 at the end of each quarter. The Foundation's obligation to pay the donor terminates with the quarterly payment preceding the donor's death.

At June 30, 2017 and 2016, long-term investments include $865,690 and $881,701, respectively, of assets related to the split-interest agreements. An annuity payment liability of $293,946 and $358,301, respectively, related to the split-interest agreements has been reported separately in the statements of financial position at June 30, 2017 and 2016. For the year ended June 30, 2017, gifts and contributions, net in the statements of activities included a decrease of $26,130 from the split-interest agreements. For the year ended June 30, 2016, gifts and contributions, net in the statements of activities included an increase of $225,682 from the split-interest agreements. The change in valuation of the split-interest agreements for the years ended June 30, 2017 and 2016 totaled $74,498 and $5,753, respectively, and is included in investment income, net in the statements of activities.

## Note 7—Notes payable

During the year ended June 30, 2013, the Foundation entered into a secured promissory note with a financial institution on which a Foundation's Board member is an employee, commencing on November 14, 2012. The principal amount borrowed equals $790,000 and the note bears interest at a rate of 3.25% per annum for the life of the note. The promissory note is secured by real estate owned by the Jaguar Facilities Development, LLC. Payments of interest only are due monthly with the entire principal balance due on October 14, 2015. On November 17, 2015, the Foundation renewed the note with similar terms scheduled to mature on November 14, 2017. Interest paid was $26,021 and $25,807 during the years ended June 30, 2017 and 2016, respectively.

During the year ended June 30, 2013, the Foundation entered into an unsecured, interest-free promissory note with AUMC, commencing on July 31, 2012. The principal amount borrowed equals $5,000,000 for partial funding of the Education Commons Building. Payments on principal in the amount of $201,290 and $193,748 were made during the years ended June 30, 2017 and 2016, respectively. The note was paid off in full during the year ended June 30, 2017.

## Note 8—Fair value measurements

The Foundation follows the provisions of the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 820 "*Fair Value Measurements and Disclosures*," which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. GAAP establishes a fair value hierarchy which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment, the characteristics specific to the investment, and the state of the marketplace (including the existence and transparency of transactions between market participants). Investments with readily-available actively quoted prices or for which fair value can be measured from actively-quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

> Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equity securities, mutual funds, and money market funds. As required by GAAP, the Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.
>
> Level II – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I; inputs include comparable market transactions, pricing of similar instruments, values reported by the administrator and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly-traded securities with restrictions on disposition, corporate obligations, and U.S. Government and Agency Treasury Inflation Indices.
>
> Level III – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows. For private equity real estate investments, inputs include projected cash flows over periods of time using rates of return deemed appropriate, information on the physical value of the property and the sales prices of comparable properties.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

### Note 8—Fair value measurements (continued)

The table below summarizes the levels of the GAAP fair value hierarchy into which the Foundation's investments fall as of June 30, 2017, based on the level of input utilized to measure fair value.

| | Fair Value Measurements at June 30, 2017 | | | |
|---|---|---|---|---|
| **Description** | **Level I** | **Level II** | **Level III** | **Total** |
| Board of Regents Investment Pool: | | | | |
| Short-term fund | $ - | $ 10,196,373 | $ - | $ 10,196,373 |
| Balanced fund income | 422,025 | - | - | 422,025 |
| Total return fund | 443,688 | - | - | 443,688 |
| Diversified fund | 3,855,824 | - | - | 3,855,824 |
| Total investments - recurring basis | $ 4,721,537 | $ 10,196,373 | $ - | $ 14,917,910 |

The table below summarizes the levels of the GAAP fair value hierarchy into which the Foundation's investments fall as of June 30, 2016, based on the level of input utilized to measure fair value.

| | Fair Value Measurements at June 30, 2016 | | | |
|---|---|---|---|---|
| **Description** | **Level I** | **Level II** | **Level III** | **Total** |
| Board of Regents Investment Pool: | | | | |
| Short-term fund | $ - | $ 9,804,154 | $ - | $ 9,804,154 |
| Balanced fund income | 441,590 | - | - | 441,590 |
| Total return fund | 440,111 | - | - | 440,111 |
| Diversified fund | 3,169,466 | - | - | 3,169,466 |
| Total investments - recurring basis | $ 4,051,167 | $ 9,804,154 | $ - | $ 13,855,321 |

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

## Note 9—Endowment funds

The Foundation's endowment fund consists of individual donor restricted endowment funds and funds designated by the Board of Trustees ("Board") to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the state of Georgia's enacted version of the UPMIFA as imposing a duty on the Foundation to use good faith and prudent care in adopting investment and spending policies to preserve endowment assets while providing income and appreciation to meet the donors' intention in perpetuity. As a result of this interpretation, the Foundation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation made a decision to allow spending from endowment funds based on the current spending policy and limited the spending, where applicable, to available cash balances and investment return. In accordance with UPMIFA, the Foundation considered the following factors in making their determination to appropriate or accumulate 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 appreciation of investments
6) Other resources of the Foundation
7) The investment policies of the Foundation

Where the Board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets.

The following tables present the Foundation's endowment composition, changes, and net asset classifications as of and for the indicated years.

Endowment net asset composition by type of fund as of June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 724,960 | $ 2,422,510 | $ 3,147,470 |
| Total funds | $ - | $ 724,960 | $ 2,422,510 | $ 3,147,470 |

### Note 9—Endowment funds (continued)

Endowment net asset composition by type of fund as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (445) | $ 508,010 | $ 2,042,248 | $ 2,549,813 |
| Total funds | $ (445) | $ 508,010 | $ 2,042,248 | $ 2,549,813 |

Reconciliation of endowment net assets to the statements of financial position:

| | 2017 | 2016 |
|---|---|---|
| Endowment net assets included in: | | |
| Short-term investments | $ 143,006 | $ 138,046 |
| Long-term investment endowment | 3,004,464 | 2,411,767 |
| Total endowment net assets | $ 3,147,470 | $ 2,549,813 |

Changes in endowment net assets for the year ended June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2016 | $ (445) | $ 508,010 | $ 2,042,248 | $ 2,549,813 |
| Contributions | - | 24,565 | 370,462 | 395,027 |
| Investment return: | | | | |
| Investment income | - | 47,283 | - | 47,283 |
| Net appreciation | 445 | 260,959 | - | 261,404 |
| Total investment return | 445 | 308,242 | - | 308,687 |
| Net additions (deletions) to endowments from donor designation changes | - | (2,716) | 9,800 | 7,084 |
| Appropriation of endowment assets for expenditure | - | (113,141) | - | (113,141) |
| Endowment net assets, June 30, 2017 | $ - | $ 724,960 | $ 2,422,510 | $ 3,147,470 |

### Note 9—Endowment funds (continued)

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2015 | $ (530) | $ 750,409 | $ 1,899,868 | $ 2,649,747 |
| Contributions | - | 21,457 | 111,822 | 133,279 |
| Investment return: | | | | |
| Investment income | - | 40,945 | - | 40,945 |
| Net appreciation (depreciation) | 85 | (22,317) | - | (22,232) |
| Total investment return | 85 | 18,628 | - | 18,713 |
| Net additions (deletions) to endowments from donor designation changes | - | (34,883) | 30,558 | (4,325) |
| Appropriation of endowment assets for expenditure | - | (247,601) | - | (247,601) |
| Endowment net assets, June 30, 2016 | $ (445) | $ 508,010 | $ 2,042,248 | $ 2,549,813 |

<u>Strategies employed for achieving investment objectives</u>

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)**

| | 2017 | 2016 |
|---|---|---|
| Permanently restricted net assets: | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA | $ 2,422,510 | $ 2,042,248 |
| Temporarily restricted net assets: | | |
| The portion of perpetual endowments subject to a time restriction under UPMIFA | $ 724,960 | $ 508,010 |

*Endowment Funds with Deficiencies* - From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment fund deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $0 as of June 30, 2017 and $445 as of June 30, 2016. These deficits resulted from unfavorable market conditions which resulted in negative investment returns.

## Note 9—Endowment funds (continued)

*Return Objectives and Risk Parameters* - The Foundation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period and which are currently invested under a long-term strategy. The goal of the long-term investment program is to provide a real total return from assets invested that will preserve the purchasing power of capital, while generating an income stream to support the activities of the funds held by the Foundation. Achievement of the real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. For the long-term, the primary investment objective is to earn a total return (net of investment and custodial fees) within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of capital.

*Relationship of Spending Policy to Investment Objectives* - The Foundation determines the method to be used to appropriate endowment funds for expenditure. The appropriation amount is determined as of the calendar year, six months prior to when it becomes available for expenditure. The rolling average of the preceding five years' December 31st market value shall be the basis upon which the spending rate is applied. The target spending rate shall be 4% of the rolling average market value. There will be a cap on annual spending for each fund equal to a fixed percentage of average annual total return. Real returns shall be calculated, and defined, as the trailing average rate of return on the endowment funds for the first five years prior, adjusted by the Consumer Price Index ("CPI"). The investment committee annually shall establish a percentage payout of no more than 5% of any endowment fund. All endowed funds shall be subject to an administrative fee equal to 1% of the rolling average of the preceding five years' December 31st market value, which fee shall be deducted before calculating the annual payout. Normally, this would prevent any invasion of the original principal. The annual payout will be that such payment would not violate the terms of the gift agreement or applicable law.

## Note 10—Board designated (unrestricted) net assets

Board designated unrestricted net assets consist of funds which are available to support the following purposes at June 30, 2017 and 2016, respectively:

| | 2017 | 2016 |
|---|---|---|
| Short-term investments - Board designated for: | | |
| Presidential Scholarship fund | $ - | $ 19,165 |
| AU Confucius Institute fund | 124,394 | 124,394 |
| Georgia Regents Leadership Academy fund | 1,381 | 1,381 |
| Total short-term investments - Board designated | $ 125,775 | $ 144,940 |

## Note 11—Related party transactions

During the year ended June 30, 2016, the Foundation received certain general and administrative services from and paid AUMC $60,565 for accounting services. The Foundation did not receive accounting services from AUMC during the year ended June 30, 2017.

In previous years, the Foundation prepared an operating budget for the year which called for certain budgeted expenditures to be shared by the Foundation and AUMC as has been documented in a separate agreement between the two entities. This agreement was terminated during the year ended June 30, 2017. A budgeted amount was paid by AUMC toward these expenditures with any under or over expenditures considered in future year budgets. During the year ended June 30, 2016, $71,529 had been billed by the Foundation to AUMC and is included in revenues as support from affiliates. At June 30, 2016, $71,529 remained as a receivable from AUMC.

Also, the agreement with AUMC calls for the Foundation to pay one half of year-end balances from the operating budget revenues to AUMC for its share of unexpended balances. This agreement was terminated during the year ended June 30, 2017. During the year ended June 30, 2017 and 2016, $44,724 and $1,635, respectively, was paid by the Foundation to AUMC, related to this agreement. At June 30, 2016, $44,724 was due to AUMC related to the agreement, and was recorded as due to other related parties in the statements of financial position.

A personnel agreement between the University System of Georgia Board of Regents and AUMC which called for the annual transfer of 3% of AUMC's surplus to the Foundation as a source of unrestricted revenue was terminated during the year ended June 30, 2017. This amount is referred to as Margin Allocation Funds and was recorded by the Foundation as an increase in unrestricted net assets of $278,305 for the year ended June 30, 2016. A related receivable of $278,305 was recorded in the accompanying statements of financial position at June 30, 2016.

In July 2016, a memorandum of understanding was entered into by the Foundation, the University System of Georgia Board of Regents, and AUMC, whereby AUMC shall pay the Foundation $500,000 annually. The amount shall be applied toward the operating cost of the Foundation's budget. At June 30, 2017, $500,000 had been billed by the Foundation to AUMC and is included in support from affiliates. At June 30, 2017, $500,000 remained as a receivable from AUMC.

Temporarily restricted support from affiliates for the years ended June 30, 2017 and 2016 include $202,947 and $43,591, respectively, from MCG Foundation, Inc., an affiliated organization of AU, representing gifts and payments on pledges for the support of the Education Commons building which was applied in total against the Foundation's outstanding loan balance for the project.

During the year ended June 30, 2013, the Foundation obtained a loan of $5,000,000 from AUMC. This loan is for partial funding of the Education Commons building. Payments on principal in the amount of $201,290 and $193,748 were made during the years ended June 30, 2017 and 2016, respectively. The terms of this note are described in Note 7.

In January 2010, a memorandum of understanding was entered into by the Foundation and AUMC whereby AUMC will provide up to $15,000 to support a local and state advocacy program managed by the Foundation. The Foundation received no support from this agreement during fiscal year 2017 or 2016.

## Note 11—Related party transactions (continued)

Effective February 1, 2010, the Foundation entered into an agreement with AU to license the vacant land owned by the Foundation to AU for its use as additional parking. This agreement calls for monthly payments on an annual license fee of $10,000. In June 2011, the Foundation renewed the agreement increasing the monthly fee. This is being recognized on a monthly basis as rental income. Rental income of $12,300 was recognized for the years ended June 30, 2017 and 2016.

The costs of services rendered by the AU Office of Advancement for fund-raising activities are primarily borne by AU and AUMC. These costs approximated $1,596,000 and $1,651,000 for the years ended June 30, 2017 and 2016, respectively, and are included in contributed services and fundraising and general operating expenses in the statements of activities.

AU has a contract with Georgia Southwestern University and Macon State University which allows nursing students to attend those schools and in exchange AU pays certain related faculty expenses. The faculty related costs are included in the Foundation's financial statements. During the years ended June 30, 2017 and 2016, no amounts were paid to AU related to this contractual agreement.

At June 30, 2017 and 2016, the Foundation had a promissory note with an outstanding balance totaling $789,686 with a bank on which a Foundation's Board member is an employee.

## Note 12—Commitments

During the year ended June 30, 2015, the Foundation pledged $2,000,000 to a not-for-profit organization for support of a youth camp development. The commitment will be fulfilled over five years in increments of $400,000. The outstanding commitment to be fulfilled at June 30, 2017 was $1,200,000.

## Note 13—Subsequent events

The investment in Jaguar Facilities Development, LLC is expected to liquidate in Fiscal 2018 due to Jaguar Facilities Development, LLC entering into a contract on July 26, 2017, to sell the Wrightsboro Plaza Shopping Center for $1,100,000. The anticipated closing date is October 25, 2017.

The Foundation has evaluated subsequent events through September 5. 2017, which was the date the financial statements were available to be issued.