MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

CONSOLIDATED FINANCIAL REPORT
MODIFIED CASH BASIS

JUNE 30, 2016

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MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Medical College of Georgia Foundation, Inc.
Augusta, Georgia

We have audited the accompanying consolidated financial statements of **Medical College of Georgia Foundation, Inc.** (a nonprofit organization) (the "Foundation"), which comprise the consolidated statements of assets, liabilities, and net assets—modified cash basis as of June 30, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net assets—modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Foundation as of June 30, 2016 and 2015, and its revenues, expenses, and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Mauldin & Jenkins, LLC

Atlanta, Georgia
August 31, 2016

MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS JUNE 30, 2016 AND 2015

ASSETS	2016	2015
Cash and cash equivalents	**$ 3,176,702**	$ 3,417,262
Student loans receivable	**17,502**	20,366
Investments, at fair value	**212,447,215**	217,303,804
Investment properties, net	**1,977,170**	1,965,352
Property and equipment, net	**4,275,837**	4,223,955
Cash value of life insurance, net	**298,687**	302,932
Other assets	**6,633**	31,133
Total assets	**$ 222,199,746**	$ 227,264,804
LIABILITIES AND NET ASSETS		
LIABILITIES		
Split interest agreements and gift annuities payable	**$ 944,492**	$ 834,695
Deferred compensation liability	**-**	116,081
Note payable	**2,213,198**	2,213,206
Total liabilities	**3,157,690**	3,163,982
NET ASSETS		
Unrestricted		
Undesignated	**1,753,249**	2,423,713
Designated by the Board	**11,894,900**	13,021,331
Designated by the Board for endowment	**4,593,611**	4,593,611
Total unrestricted	**18,241,760**	20,038,655
Temporarily restricted	**63,801,902**	69,120,698
Permanently restricted	**136,998,394**	134,941,469
Total net assets	**219,042,056**	224,100,822
Total liabilities and net assets	**$ 222,199,746**	$ 227,264,804

See notes to consolidated financial statements.

MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Private gifts and contributions	$ 123,269	$ 1,109,664	$ 2,056,925	$ 3,289,858
Investment income, net of fees	129,479	2,432,107	-	2,561,586
Net realized/unrealized loss on investments	(386,006)	(3,863,757)	-	(4,249,763)
Rental income	445,899	136,760	-	582,659
Other income	23,780	499,714	-	523,494
Change in value of trusts and annuities	-	(109,797)	-	(109,797)
Net assets released from restrictions	5,523,487	(5,523,487)	-	-
Total revenues	5,859,908	(5,318,796)	2,056,925	2,598,037
Expenses:				
Program services	5,843,055	-	-	5,843,055
General and administrative	1,813,748	-	-	1,813,748
Total expenses	7,656,803	-	-	7,656,803
Change in net assets	(1,796,895)	(5,318,796)	2,056,925	(5,058,766)
Net assets, beginning of year	20,038,655	69,120,698	134,941,469	224,100,822
Net assets, end of year	$ 18,241,760	$ 63,801,902	$ 136,998,394	$ 219,042,056

See notes to consolidated financial statements.

MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Private gifts and contributions	$ 1,091,601	$ 1,675,938	$ 1,255,326	$ 4,022,865
Investment income, net of fees	122,744	2,644,848	-	2,767,592
Net realized/unrealized loss on investments	(56,816)	(572,000)	-	(628,816)
Rental income	512,980	83,884	-	596,864
Other income	68,333	-	-	68,333
Change in value of trusts and annuities	-	(50,462)	-	(50,462)
Net assets released from restrictions	5,539,212	(5,539,212)	-	-
Total revenues	7,278,054	(1,757,004)	1,255,326	6,776,376
Expenses:				
Program services	5,630,421	-	-	5,630,421
General and administrative	2,505,534	-	-	2,505,534
Total expenses	8,135,955	-	-	8,135,955
Change in net assets	(857,901)	(1,757,004)	1,255,326	(1,359,579)
Net assets, beginning of year	20,896,556	70,877,702	133,686,143	225,460,401
Net assets, end of year	$ 20,038,655	$ 69,120,698	$ 134,941,469	$ 224,100,822

See notes to consolidated financial statements.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization:

Medical College of Georgia Foundation, Inc. (the “Foundation”) is a nonprofit corporation incorporated under the laws of the State of Georgia in 1954. The Foundation serves the needs and interests of the Medical College of Georgia, the Augusta University Health Sciences campus and the Augusta University Health System. The Foundation receives and administers funds for the support and enhancement of the Medical College of Georgia, the Augusta University Health Sciences campus and the Augusta University Health System, and manages investments and distributed funds in accordance with donor instructions and board of director’s intentions for gifts. The Foundation provides support for faculty chairs, research in the health sciences fields, scholarships to qualified students and other institutional programs. The Foundation is a 501(c)(3) and 509(a)(1) public charity and functions as an independent corporation governed by its articles of incorporation, by-laws and its Board of Directors.

Wholly owned subsidiaries:

The following organizations are all wholly owned subsidiaries of the Foundation and are included in the consolidated financial statements of the Foundation with all material intercompany accounts and transactions eliminated in consolidation:

Central Square, LLC, was formed as a single member limited liability corporation in 1997 to serve as the holder of the land and building for the Central Square Shopping Center;

MCG Foundation Center, LLC, was formed as a single member limited liability corporation in 2004 to hold title to real estate and similar property donated to the Foundation; and

Resurgens Properties, LLC, was formed as a single member limited liability corporation in 2007 to hold title to real estate and similar property purchased by the Foundation.

Significant accounting policies:

Basis of presentation:

The consolidated financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. That basis differs from generally accepted accounting principles in that:

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Basis of presentation: (Continued)

- Contributions are recognized when received instead of when the Foundation is notified it is the recipient of an unconditional promise to give;
- Revenues from rents, investment performances, and other sources are recognized when received instead of when earned;
- Payments to vendors and employees are recognized when paid instead of when goods or services are received; and

Notwithstanding the above, the Foundation has elected to modify the cash basis of accounting to report long-lived assets and depreciation, investments at fair value, student loan receivables, retirement obligations, liabilities for split-interest agreements, and notes payable.

Contributions:

Contributions are recognized as unrestricted revenues in the period received by the Foundation. The Foundation reports gifts of cash, investments, and other assets as either temporarily or permanently restricted revenue if they are received with donor-imposed restrictions that limit the use of the donated assets. Contributions of assets other than cash are recorded at their estimated fair value at date of donations. Unrestricted net assets resulting from certain large contributions may be designated by the Foundation's Board of Directors for capital or long-term investment. Contributions of property, plant and equipment without donor-imposed stipulations restricting the use of such long-lived assets are reported as unrestricted support. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as increases of temporarily restricted net assets. Restrictions are considered to be satisfied at the time of acquisition of such long-lived assets.

Cash and cash equivalents:

Cash and cash equivalents are comprised of highly liquid financial instruments with original maturities of three months or less, including short-term financial instruments included in the Foundation's investment accounts.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Concentrations of credit risk:

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. The Foundation maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. To minimize risk, the Foundation's cash accounts are placed with high credit quality financial institutions and the Foundation's investment portfolio is diversified among a variety of asset categories, which are held by several investment managers. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. The Foundation regularly evaluates its depository arrangements and investment strategies.

Investments:

Investments consist primarily of cash and cash equivalents, marketable securities, privately held limited partnerships, hedge funds, real assets, and real estate. Investments in equity securities with readily determinable fair values are reported at fair value.

Investments in traditional equity securities and fixed-income funds, and marketable real assets with readily determinable fair values and all investment in debt securities are reported at fair value with the realized and unrealized gains and losses, net of investment fees, included in the consolidated statements of revenue, expenses and changes in net assets – modified cash basis. Publicly traded equity securities, fixed income funds, and marketable real assets are valued using quoted market prices (Level 1) and exchange rates, if applicable.

Investments in marketable or non-marketable alternative securities (“alternative investments”) consisting of private equity funds and hedge funds are reported at estimated fair value. The Foundation uses the net asset value (NAV) per share or its equivalent reported by the investment managers as a practical expedient to estimate fair value for certain investments (Level 2), although NAV in many instances may not equal realizable value. The NAV per share or its equivalent was applied to certain investments that do not have readily determinable fair values, including private equities, private limited partnership interest, real assets, and natural resources, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2016 and 2015, the Foundation has no plans or intentions to sell investments at amounts different from NAV.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Investments: (Continued)

Non-marketable alternatives consist of private real estate and real assets, and private equity funds. Real estate and real assets are valued based on appraisals of properties and assets held and are conducted by third-party appraisers retained by the funds' managers. Fund managers typically value privately held companies at cost as adjusted based on recent arms' length transactions. Real assets are physical or identifiable assets such as commodities (oil, precious metals, agriculture, etc.) and real estate. Also, the equity of corporations in the energy or natural resources sectors are included in this category since they are closely tied to the underlying real asset markets. For hedge fund-of-funds, valuations provided by the underlying fund managers are evaluated by the fund-of-funds investment managers who believe such values are reasonable at June 30, 2016 and 2015. The values assigned to alternative investments are based on current information and do not represent amounts which might ultimately be realized (Level 3). Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been realized had a ready market for the investments existed and those differences could be material. The change in net assets related to marketable alternative strategies is presented as realized and unrealized gain and loss based on the estimated fair value of each fund manager.

Investments are recorded at fair value. Donated investments are recorded at fair value on the date received. Realized and unrealized gains and losses on the portfolio are recognized as income or loss.

Investment income, including interest and dividends and realized and unrealized gains and losses are presented in the accompanying consolidated statements of revenue, expenses and changes in net assets – modified cash basis net of investment fees. Pooled investment earnings and related expenses are allocated on a quarterly basis based on the percentage of ownership interest of each fund in the investment pool.

Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the accompanying consolidated financial statements.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Split interest agreements:

The Foundation is the beneficiary of several split interest agreements that are charitable remainder annuity trusts and charitable remainder unitrusts. Under certain agreements, the Foundation has been named trustee for the trusts. For trusts where the Foundation is the trustee, a liability has been recorded at the estimated present value of the life interest amount payable to the beneficiary. The estimated present value of amounts due to beneficiaries is determined by the Foundation using certain actuarial assumptions and the Internal Revenue Service discount rate in place at the date of the donation. Changes in the recorded assets due to changes in life expectancy, present value actuarial assumptions, or the market value are reflected as changes in the split interest agreements in the accompanying consolidated statements of revenue, expenses and changes in net assets – modified cash basis.

Life insurance contracts:

Life insurance contracts owned by the Foundation are recorded at their cash surrender values as the Foundation has the full rights to the cash value of the policies. Some policies are funded with contributions from donors and others are funded by the existing cash value in the policy. The Foundation will collect on the face values of the policies when the insured deceases and will apply the proceeds to the restricted or unrestricted purposes intended by the donor. The Foundation netted the cash values of life insurance with related policy loans as the loans are to be liquidated by deduction of the proceeds of the policy upon maturity or cancellation.

Net assets:

The Foundation classifies net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The three classes of net assets are unrestricted, temporarily restricted, and permanently restricted. The Foundation also recognizes the expiration of donor-imposed restrictions in the period in which the restrictions expire. The Foundation classifies donor-restricted contributions as temporarily restricted even if restrictions are satisfied in the same reporting period in which the contributions are received. The definition of the above net asset categories is as follows:

Unrestricted net assets:

These net assets are not subject to donor-imposed restrictions, and therefore are expendable for operating purposes. Unrestricted net assets may be designated for specific purposes by the Foundation's Board of Directors (Note 11).

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Net assets: (Continued)

Temporarily restricted net assets:

These net assets are subject to donor-imposed restrictions that will be satisfied either by actions of the Foundation or the passage of time (Notes 8 and 11).

Permanently restricted net assets:

These net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation (Notes 9 and 11). Donors of these assets generally permit the use of all or part of investment earnings for operating or specific purposes, such as scholarships, chairs and education and research programs.

Temporarily restricted accounting:

Endowment and other income along with private gifts which have donor stipulations that limit their use are recorded as revenue under temporarily restricted net assets and released from restrictions when a stipulated time restriction ends or purpose restriction expires. The related expenses are presented as changes in unrestricted net assets.

Endowment accounting:

Permanent endowment funds are subject to the restrictions of the gift instruments which require that the principal be invested in perpetuity. The accumulated realized and unrealized gains of the permanent endowment funds have been classified as temporarily restricted net assets if the income distributed from these funds is restricted. Realized and unrealized gains are classified as unrestricted if the income distributed from these funds is unrestricted. See Note 11 for discussion on endowment accounting.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Property and equipment:

Property and equipment are stated at historical cost, or if donated, at fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives ranging from 5 to 40 years.

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

The Foundation capitalizes the acquisition of property and equipment assets in excess of $1,000 having an estimated useful life which extends substantially beyond the year of acquisition. Property and equipment assets that are not capitalized are expensed when acquired. Maintenance and repairs items are charged to operations and major improvements are capitalized.

Use of estimates:

The preparation of consolidated financial statements on a modified cash basis of accounting 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the depreciation, fair value of certain investments, and the assumptions made in recording liabilities for split interest agreements.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Fair value of financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents - The carrying amount approximates fair value because of the short-term maturity of these instruments.

Investments - Investments are carried at fair value based on quoted market prices for those or similar investments.

Other receivables and payables - The carrying amount approximates fair value because of the short-term maturity of these instruments. The derivative financial instruments are valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the agreements.

The Foundation follows FASB's fair value measurements and disclosure guidance, which provides a framework for measuring fair value. This guidance applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in the FASB issued guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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 assets 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 and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Fair value of financial instruments: (Continued)

Level 1 **–** Valuations for assets and liabilities traded in active markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions.

Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of these instruments.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. The types of investments that would generally be included in this category include debt and equity securities issued by private entities and partnerships.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For the years ended June 30, 2016 and 2015, respectively, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant accounting policies: (Continued)

Functional allocation of expenses:

The Foundation considers all program expenses to be in the functional category of education, research, and patient care and administration for the support of Augusta University. Management and general expenses consist of the costs of administering the Foundation. Expenses are charged to program and management and general based on the nature of the cost and the function benefited. When an expense benefits more than one function, the cost is allocated based on estimates by management.

Income taxes:

The Foundation qualifies as a tax-exempt organization as described in Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as other than a private Foundation. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In the opinion of management, the Foundation had no significant unrelated business taxable income during 2016 or 2015, respectively. Accordingly, no provision or benefit for federal and state income taxes has been recorded in the accompanying consolidated financial statements. The Foundation believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the consolidated financial statements.

NOTE 2. STUDENT LOANS RECEIVABLE AND DUE FROM AUGUSTA UNIVERSITY

At June 30, 2016, student loans receivable consisted of the following:

Student loans, Augusta University bearing interest at 7%-9%, due on demand, unsecured	**$**	**17,502**

At June 30, 2015, student loans receivable consisted of the following:

Student loans, Augusta University bearing interest at 7%-9%, due on demand, unsecured	$	17,893
Student loans bearing interest at 7-9%, with various due dates, unsecured		2,473
	$	20,366

NOTE 3. INVESTMENTS

In certain cases, the inputs used to measure fair value may fall into multiple 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 the particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Foundation investments for which NAV is used as a practical expedient to estimate fair value are classified as either Level 2 or Level 3 in the fair value hierarchy, depending on the classifications of the underlying fund assets and the Foundation's ability to redeem its interest in the fund at or near the balance sheet date. If the underlying fund assets are available for redemption at NAV at or near the balance sheet date (generally within 90 days), then the Foundation's interest in the fund may be classified as Level 2 investment. The classification of assets and liabilities in the fair value hierarchy is not necessarily an indication of the risks or liquidity, but is based on the observability of the valuation inputs.

The following table sets forth by level, within the fair value hierarchy, the Foundation’s investments at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,863,823	$ -	$ -	$ 1,863,823
Fixed income:				
Intermediate term bonds	18,585,019	-	-	18,585,019
High yield bonds	57,387	-	-	57,387
Emerging markets bonds	67,124	-	-	67,124
Non-traditional bonds	15,337	-	-	15,337
Bank loan	23,391	-	-	23,391
Inflation-protected bond	3,815,067	-	-	3,815,067
Total fixed income	22,563,325	-	-	22,563,325
Equity securities:				
Small cap equities	46,112	-	-	46,112
Mid cap equities	256,869	-	-	256,869
Large cap equities	50,972,910	-	-	50,972,910
International equities	11,360,934	-	-	11,360,934
Diversified emerging markets	9,759,472	-	-	9,759,472
Managed futures	16,195	-	-	16,195
Commodities broad basket	35,376	-	-	35,376
Multialternative	26,359	-	-	26,359
Complementary strategies	95,905	-	-	95,905
Total equity securities	72,570,132	-	-	72,570,132

NOTE 3. INVESTMENTS (Continued)

	Level 1	Level 2	Level 3	Total
Private equity:	-	-	89,674,491	89,674,491
Real assets:	-	-	23,233,761	23,233,761
Land held for sale:	-	-	689,000	689,000
Split-interest investments:				
Cash and cash equivalents	-	100,098	-	100,098
Equities	-	158,110	-	158,110
Mutual funds	-	705,801	-	705,801
Fixed income	-	888,674	-	888,674
	-	1,852,683	-	1,852,683
Total investments at fair value	$ 96,997,280	$ 1,852,683	$ 113,597,252	$ 212,447,215

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,887,737	$ -	$ -	$ 1,887,737
Fixed income:				
Intermediate term bonds	7,553,978	-	-	7,553,978
High yield bonds	61,511	-	-	61,511
Short term bonds	76,819	-	-	76,819
Emerging markets bonds	70,506	-	-	70,506
World bonds	3,105,754	-	-	3,105,754
Bank loan	26,134	-	-	26,134
Inflation-protected bond	3,637,348	-	-	3,637,348
Total fixed income	14,532,050	-	-	14,532,050

NOTE 3. INVESTMENTS (Continued)

Equity securities:				
Small cap equities	67,807	-	-	67,807
Mid cap equities	188,110	-	-	188,110
Large cap equities	47,163,105	-	-	47,163,105
International equities	10,983,575	-	-	10,983,575
Diversified emerging markets	9,054,633	-	-	9,054,633
Managed futures	33,508	-	-	33,508
Commodities broad basket	69,712	-	-	69,712
Multialternative	51,603	-	-	51,603
Complementary strategies	78,288	-	-	78,288
Total equity securities	67,690,341	-	-	67,690,341
Private equity:	-	3,246,340	96,500,693	99,747,033
Real assets:	-	-	21,426,899	21,426,899
Land held for sale:	-	-	9,124,212	9,124,212
Split-interest investments:				
Cash and cash equivalents	-	99,678	-	99,678
Equites	-	1,158,530	-	1,158,530
Mutual funds	-	830,351	-	830,351
Fixed income	-	806,973	-	806,973
	-	2,895,532	-	2,895,532
Total investments at fair value	$ 84,110,128	$ 6,141,872	$127,051,804	$ 217,303,804

The Foundation has investments, as a limited partner, in 28 partnerships at June 30, 2016, and 28 partnerships at June 30, 2015. These partnerships invest in a wide variety of assets including domestic and international equities, real estate, fixed income, and diversifying strategies. The Foundation's ownership interest in any individual partnership does not exceed 6.0% of that partnership's assets in either 2016 or 2015, no individual partnership investment exceeds 10.00% of the Foundation's assets, and no manager controls partnerships having more than 10.00% of the Foundation's assets. The values of the Foundation's partnership investments as furnished by the general partners are reviewed by Foundation management, and management believes the values shown at June 30, 2016 and 2015 are reasonable.

As of June 30, 2016 and 2015, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of $1,977,170 and $1,965,352 respectively. Depreciation expense totaling $101,318 and $98,944, related to investments in real estate, was recognized during the years ended June 30, 2016 and 2015, respectively.

NOTE 3. INVESTMENTS (Continued)

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that were classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

Rollforward of Level 3 investments for the year ended June 30, 2016 is as follows:

Level 3 rollforward	Private equities	Real assets	Land held for sale	Total
Beginning value as of July 1, 2015	$ 96,500,693	$ 21,426,899	$ 9,124,212	$ 127,051,804
Acquisitions	5,690,965	3,057,655	114,000	8,862,620
Dispositions/proceeds	(6,584,238)	(2,514,253)	(10,475,000)	(19,573,491)
Net realized and unrealized gains (losses)	(5,932,929)	1,263,460	1,925,788	(2,743,681)
Fair value at June 30, 2016	$ 89,674,491	$ 23,233,761	$ 689,000	$ 113,597,252
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) related to those investments still held at June 30, 2016	$ (3,775,932)	$ 1,263,460	$ 65,000	$ (2,447,471)

Quantitative Information about Level 3 Fair Value Measurements

	Fair value at 6/30/16	Valuation technique(s)	Unobservable input	Range (weighted average)
Private equities	$ 89,674,491	Discounted cash flow/market comparable companies	Constant prepayment rate EBITDA	3.5% - 5.5% 6% - 15%
Real assets	23,233,761	Discounted cash flow/market comparable companies	Constant prepayment rate EBTDA	3.5% - 5.5% 6% - 15%
Land held for sale	689,000	Original purchase price, appraisal valuation	Real market rate	N/A

NOTE 3. INVESTMENTS (Continued)

Rollforward of Level 3 investments for the year ended June 30, 2015 is as follows:

Level 3 rollforward	Private equities	Real assets	Land held for sale	Total
Beginning value as of July 1, 2014	$ 67,148,739	$ 21,878,873	$ 9,124,212	$ 98,151,824
Acquisitions	32,660,408	315,500	-	32,975,908
Dispositions/proceeds	(2,747,369)	(950,843)	-	(3,698,212)
Net realized and unrealized gains (losses)	(561,085)	183,369	-	(377,716)
Fair value at June 30, 2015	$ 96,500,693	$ 21,426,899	$ 9,124,212	$ 127,051,804
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) related to those investments still held at June 30, 2015	$ (722,061)	$ 91,353	$ -	$ (630,708)

Quantitative Information about Level 3 Fair Value Measurements

	Fair value at 6/30/15	Valuation technique(s)	Unobservable input	Range (weighted average)
Private equities	$ 96,500,693	Discounted cash flow/market comparable companies	Constant prepayment rate EBITDA	3.5% - 5.5% 6% - 15%
Real assets	21,426,899	Discounted cash flow/market comparable companies	Constant prepayment rate EBTDA	3.5% - 5.5% 6% - 15%
Land held for sale	9,124,212	Original purchase price, appraisal valuation	Real market rate	N/A

As of June 30, 2016 and 2015, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding 15 years, totaled $9,651,330 and $6,240,525, respectively in the following investment strategies:

Investment strategies are comprised of the following at June 30, 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equities				
Private equity partnerships	**$ 89,674,491**	**$ 5,738,327**	**Illiquid**	**N/A**
Land held for sale	**689,000**	**-**	**Illiquid**	**N/A**
Real assets	**23,233,761**	**3,913,003**	**Illiquid**	**N/A**
Total	**$ 113,597,252**	**$ 9,651,330**		

NOTE 3. INVESTMENTS (Continued)

Investment strategies are comprised of the following at June 30, 2015:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity				
Fund of funds	$ 3,246,340	$ -	Monthly	6-15 days
Private equity partnerships	96,500,693	5,250,825	Illiquid	N/A
Land held for sale	9,124,212	-	Illiquid	N/A
Real assets	21,426,899	989,700	Illiquid	N/A
Total	$ 130,298,144	$ 6,240,525		

Investments in private equity and real estate funds are generally made through limited partnerships. Under the terms of these partnership agreements, the Foundation is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the general partner. However, depending on market conditions, the inability to execute the fund's strategy, or other factors, the general partner may extend the terms or request and extension of terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events. As a result, the timing of future capital calls or distributions in any particular year are not certain.

Investments held under split-interest agreements in which the Foundation is the trustee were $1,852,683 and $2,895,532 at June 30, 2016 and 2015, respectively.

Investment returns are reported net of investment fees totaling $1,694,824 and $1,747,936 for the years ended June 30, 2016 and 2015, respectively.

The Foundation’s cost of investments at June 30, 2016 and 2015 was $171,651,662 and $169,338,712, respectively.

NOTE 4. INVESTMENT PROPERTIES

Investment properties leased under operating leases or land held for investment consist of the following at June 30, 2016 and 2015:

	2016	2015
Central Square Shopping Center	**$ 3,477,532**	$ 3,609,613
Land and improvements held for investment	**95,000**	-
	3,572,532	3,609,613
Less accumulated depreciation	**(1,595,362)**	(1,644,261)
Total property and equipment, net	**$ 1,977,170**	$ 1,965,352

Depreciation expense for investment properties totaled $101,318 and $98,944 for the years ended June 30, 2016 and 2015, respectively.

Approximately 69%, as of June 30, 2016 and 2015, respectively, of Central Square Shopping Center is leased to a regional food supermarket. The supermarket currently leases for 6 months with 6 month renewals as agreed to by both parties.

At June 30, 2016, future minimum rents receivable under the operating lease agreements are as due as follows for the years ending:

2017	$ 263,145
2018	113,001
2019	114,559
2020	86,996
2021	9,774
	$ 587,475

Due to the future development of land held for investment, the future minimum rents receivable may not reflect future rents to be received due to potential early termination of lease agreements.

The Foundation also holds for investment or future development approximately land in Richmond and Houston counties in Georgia.

NOTE 5. SPLIT-INTEREST AGREEMENTS

The Foundation is the beneficiary under several split-interest agreements, primarily charitable remainder annuity trusts and charitable remainder unitrusts. Under these agreements, the Foundation will receive the assets of the trusts upon their expirations, normally the death of a life income beneficiary. Until that time, the life income beneficiary receives the income from the trust. Assets in the charitable remainder trusts are recorded at their fair values upon the establishment of the trusts. The Foundation recognizes contribution revenue in an amount equal to the present value of the remainder interest at that time.

Due to the indirect nature of these investments, and based on the underlying assets, the Foundation classifies all such investment assets as Level 2.

Split-interest gifts are recorded at fair market value and the gifts are discounted to net present value based on the life expectancy of the donor.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2016	2015
MCG Foundation Center land	$ -	$ 1,203,747
Resurgens land	4,070,983	2,792,243
Furniture, fixtures and equipment	204,859	322,035
Building improvements	218,321	216,836
	4,494,163	4,534,861
Less accumulated depreciation	(218,326)	(310,906)
Total property and equipment, net	$ 4,275,837	$ 4,223,955

Depreciation expense for property and equipment for the years ended June 30, 2016 and 2015 was $27,113 and $33,668, respectively.

NOTE 7. NOTES PAYABLE

During the year ended June 30, 2013, the Foundation entered into a non-revolving secured draw loan not to exceed $3,000,000 with a financial institution to provide financing to obtain land located around Augusta University. The agreement was modified on October 7, 2014 to raise the not to exceed amount to $5,000,000. The draw note bears interest at a fixed 3.25%, and matures in October 2016. The note is collateralized by various real property owned by Resurgens Properties, LLC funded by the draw note. The note balance was $2,213,198 at June 30, 2016 and $2,213,206 at June 30, 2015.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for aid to specific Augusta University and Foundation departments and programs.

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

	2016	2015
Unappropriated appreciation on donor-restricted endowment	**$ 52,468,152**	$ 59,273,030
Academic support	**8,718,972**	7,561,552
Scholarships and fellowships	**752,142**	583,001
Research	**869,329**	839,576
Facilities	**748,442**	618,644
Student loans	**244,865**	244,895
	$ 63,801,902	$ 69,120,698

Temporarily restricted net assets consist of the following at June 30, 2016:

	2016	2015
Student loans receivable	**$ 17,502**	$ 20,366
Cash	**227,363**	224,529
Investments, at fair value	**63,287,037**	68,605,803
Investment properties, net	**270,000**	270,000
	$ 63,801,902	$ 69,120,698

Gifts and accumulated earnings on donor-restricted endowment funds, which are restricted for certain purposes as specified by the donor, include restrictions for support of scholarship programs, academic support, and facilities.

NOTE 9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment funds, the income from which is available to fund scholarships and for aid to specific departments and programs.

Permanently restricted net assets are available for the following purposes at June 30, 2016:

		2016		2015
Academic support	**$**	**46,844,388**	$	45,308,025
Scholarships and fellowships		**74,091,758**		74,381,323
Research		**16,062,248**		15,252,121
	$	**136,998,394**	$	134,941,469

Permanently restricted net assets consist of the following at June 30, 2016:

		2016		2015
Investments, at fair value	**$**	**136,309,394**	$	126,301,469
Land held for sale		**689,000**		8,640,000
	$	**136,998,394**	$	134,941,469

NOTE 10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Purpose restrictions accomplished:

		2016		2015
Academic support	**$**	**3,156,021**	$	2,969,662
Scholarships		**1,845,941**		908,488
Research		**475,762**		1,169,149
Facilities		**45,763**		491,913
	$	**5,523,487**	$	5,539,212

NOTE 11. ENDOWMENT

Interpretation of Relevant Law

In approving endowment, spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Directors of the Foundation, as authorized by the UPMIFA, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and the duly appointed officers of the Foundation and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor directions to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Foundation classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any 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 portion of the donor-restricted endowment fund that is not classified as 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 the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Foundation and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and appreciation of investments, other resources of the Foundation, and the investment policies of the Foundation.

NOTE 11. ENDOWMENT (Continued)

Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. Due to unfavorable market conditions in recent years, deficiencies totaled $133,323 and $21,639 at June 30, 2016 and 2015, respectively.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historic dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Investment Committee of the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of benchmark indexes of similar assets classes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Foundation uses a broadly diversified portfolio established by its investment committee, in consultation with a professional advisory firm. The Foundation portfolio is designed to achieve a total net return on investments which exceed the rate of inflation (Consumer Price Index) plus 5% over the long term, long-term on investments, net of expenses, that is equal to or exceed selected appropriate investment benchmarks for each class of investments, maintenance of sufficient liquidity to fund current programs and preservation of principal of the assets over the long term with minimal risk appropriate for this objective. The expected return is sufficient to support the Foundation's spending policy below.

Spending Policy and How the Investment Objectives Related to Spending Policy

The Foundation's Investment Committee of the Board of Directors (the "Committee") determines the method to be used to appropriate endowment funds for expenditure. The Foundation has a spending policy whereby a certain percentage (generally not to exceed 3.5% of a rolling average of endowment net assets using the prior three calendar years ended December 31, 2015, 2014, and 2013) may be distributed for purposes of supporting unrestricted and temporarily restricted activities. In addition, the Foundation charges a 1% administration fee based on the prior year endowment pool balance. The Foundation's Investment Committee of the Board of Directors review spending policies annually and approved distributions they deem to be prudent.

NOTE 11. ENDOWMENT (Continued)

The Endowment Net Asset Composition by type of Fund as of June 30, 2016 are:

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (133,323)	$ 51,133,914	$ 136,998,394	$ 187,998,985
Board-restricted endowment funds	4,593,611	-	-	4,593,611
Total funds	$ 4,460,288	$ 51,133,914	$ 136,998,394	$ 192,592,596

The Changes in Endowment Net Asset for the year ended June 30, 2016 are:

Changes in Endowment Net Asset for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,571,972	$ 57,597,646	$ 134,941,469	$ 197,111,087
Investment return:				
Realized and unrealized gains (losses) below the permanent corpus balance	(111,684)	-	-	(111,684)
Net deprecation (realized and unrealized)	-	(1,174,783)	-	(1,174,783)
Total investment return	(111,684)	(1,174,783)	-	(1,286,467)
Contributions	-	-	2,056,925	2,056,925
Appropriation of endowment assets for expenditure	-	(5,288,949)	-	(5,288,949)
Endowment net assets, end of year	$ 4,460,288	$ 51,133,914	$ 136,998,394	$ 192,592,596

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) as of June 30, 2016

Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA	$ 136,998,394
Total endowment funds classified as permanently restricted net assets	$ 136,998,394
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
With purpose restrictions	$ 51,133,914
Total endowment funds classified as temporarily restricted net assets	$ 51,133,914

NOTE 11. ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (21,639)	$ 57,597,646	$ 134,941,469	$ 192,517,476
Board-restricted endowment funds	4,593,611	-	-	4,593,611
Total funds	$ 4,571,972	$ 57,597,646	$ 134,941,469	$ 197,111,087

The Changes in Endowment Net Asset for the year ended June 30, 2015 are:

Changes in Endowment Net Asset for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,580,771	$ 61,323,664	$ 133,686,143	$ 199,590,578
Investment return:				
Realized and unrealized gains (losses) below the permanent corpus balance	(8,799)	-	-	(8,799)
Net appreciation (realized and unrealized)	-	1,764,386	-	1,764,386
Total investment return	(8,799)	1,764,386	-	1,755,587
Contributions	-	-	1,255,326	1,255,326
Appropriation of endowment assets for expenditure	-	(5,490,404)	-	(5,490,404)
Endowment net assets, end of year	$ 4,571,972	$ 57,597,646	$ 134,941,469	$ 197,111,087

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) as of June 30, 2015

Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulations or by UPMIFA	$ 134,941,469
Total endowment funds classified as permanently restricted net assets	$ 134,941,469
Temporarily Restricted Net Assets	
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:	
With purpose restrictions	$ 57,597,646
Total endowment funds classified as temporarily restricted net assets	$ 57,597,646

NOTE 12. PUBLIC MATCHING FUNDS

Since 1989, the Foundation has received approximately $7,160,000 from the University of Georgia Board of Regents.

NOTE 13. EMPLOYEE BENEFIT PLANS

The Foundation has a 401(a) defined contribution plan covering Foundation employees in which the Foundation contributes up to 10% of an employee's compensation to the plan. Employees are immediately vested. The service-grades are as follows: less than one year, 3% of the qualifying participant's compensation for the plan year; one year but less than three years, 3% of the qualifying participant's compensation for the plan year; three years but less than five years, 6% of the qualifying participant's compensation for the plan year; and over 5 years, 10% of the qualifying participants compensation. Total contributions for the years ended June 30, 2016 and 2015 were $82,796 and $63,389, respectively.

The Foundation also provides a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code and Foundation employees may make contributions to the 403(b) plan up to the maximum amount allowed by the Internal Revenue Code.

The Foundation has a 457(f) supplemental retirement plan. Plan contributions were $15,000 for each of the years ended June 30, 2016 and 2015.

The Foundation has a 457(b) deferred compensation plan for the chief executive officer and the controller. The participants may elect to make deferrals to the plan up to the maximum permitted by law.

NOTE 14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events occurring through August 31, 2016, the date on which the consolidated financial statements were available to be issued.