

**MEDICAL COLLEGE OF GEORGIA  
FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

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**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 statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year 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 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial position of the Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
September 15, 2017

# MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION JUNE 30, 2017

### ASSETS

Cash and cash equivalents	\$	2,530,713
Student loans receivable		16,588
Pledges receivable, net allowance of \$170,167		1,138,809
Investments, at fair value		235,247,512
Investment properties, net		946,522
Property and equipment, net		5,487,039
Cash value of life insurance, net		285,999
Other assets		14,292
		<hr/>
Total assets	\$	<u>245,667,474</u>

### LIABILITIES AND NET ASSETS

#### LIABILITIES

Split interest agreements and gift annuities payable	\$	945,194
Note payable		2,309,104
Other payables		27,172
		<hr/>
Total liabilities		<u>3,281,470</u>

#### NET ASSETS

Unrestricted		
Undesignated		1,753,249
Designated by the Board		22,317,981
Designated by the Board for endowment		12,799,525
Total unrestricted		<hr/> 36,870,755
Temporarily restricted		77,800,657
Permanently restricted		127,714,592
		<hr/>
Total net assets		<u>242,386,004</u>
		<hr/>
Total liabilities and net assets	\$	<u>245,667,474</u>

See notes to consolidated financial statements.

# MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Private gifts and contributions	\$ 49,657	\$ 2,357,310	\$ 1,988,107	\$ 4,395,074
Investment income, net of fees	156,083	2,509,643	-	2,665,726
Net realized/unrealized gain on investments	1,380,808	23,136,510	-	24,517,318
Rental income	407,854	1,050,989	-	1,458,843
Other income	27,771	-	-	27,771
Change in value of trusts and annuities	-	(702)	-	(702)
Net assets released from restrictions	10,480,357	(10,480,357)	-	-
Total revenues	<u>12,502,530</u>	<u>18,573,393</u>	<u>1,988,107</u>	<u>33,064,030</u>
Expenses:				
Program services	8,158,920	-	-	8,158,920
General and administrative	1,561,162	-	-	1,561,162
Total expenses	<u>9,720,082</u>	<u>-</u>	<u>-</u>	<u>9,720,082</u>
Change in net assets	<u>2,782,448</u>	<u>18,573,393</u>	<u>1,988,107</u>	<u>23,343,948</u>
Net assets, beginning of year	<u>18,241,760</u>	<u>63,801,902</u>	<u>136,998,394</u>	<u>219,042,056</u>
Clarification/change of donor intent	15,846,547	(4,574,638)	(11,271,909)	-
Net assets, end of year	<u>\$ 36,870,755</u>	<u>\$ 77,800,657</u>	<u>\$ 127,714,592</u>	<u>\$ 242,386,004</u>

**See notes to consolidated financial statements.**

# MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2017

### OPERATING ACTIVITIES

Change in net assets	\$ 23,343,948
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation - property and equipment	19,968
Depreciation - investment properties	103,663
Net unrealized and realized (gains) on investments	(24,517,318)
Contributions restricted for long-term investment	(55,817)
Bad debt write-offs	170,167
Loss on disposal of investment property	964,844
(Increase) decrease in:	
Student loan receivable	914
Pledges receivable	(1,253,159)
Cash value of life insurance	12,688
Other assets	(2,822)
Increase in:	
Other payables	22,335
Split interest and gift annuities payable	702
	<hr/>
Net cash (used in) operating activities	(1,189,887)

### INVESTING ACTIVITIES

Proceeds from sale of investments	49,823,620
Purchases of investments	(48,106,599)
Purchases of property and equipment	(1,231,170)
Purchases of investment property	(37,859)
	<hr/>
Net cash provided by investing activities	447,992

### FINANCING ACTIVITIES

Note payable addition	95,906
	<hr/>
Net cash provided by financing activities	95,906

**NET (DECREASE) IN CASH** **(645,989)**

**CASH, BEGINNING OF YEAR** **3,176,702**

**CASH, END OF YEAR** **\$ 2,530,713**

**See Notes to Consolidated Financial Statements.**

# **MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **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;

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 Foundation's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of consolidated financial statements on in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual result could differ from those estimates.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies: (Continued)

##### Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. 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.

##### Contributions receivable:

Contributions receivable due in the next year are recorded at their net realizable value. Contributions receivable due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the contributions are to be received.

An allowance for uncollectible contributions receivable is provided based on management's evaluation of potential uncollectible contributions receivable at year-end.

##### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 statement of activities. 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, 2017, the Foundation has no plans or intentions to sell investments at amounts different from NAV.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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, 2017. 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 consolidated statement of activities, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 statement of activities.

##### 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).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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.

##### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies: (Continued)

#### Fair value of financial instruments: (Continued)

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:

*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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies: (Continued)

##### Fair value of financial instruments: (Continued)

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 year ended June 30, 2017, 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.

##### 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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant accounting policies: (Continued)

##### 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 2017. 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, 2017, student loans receivable consisted of the following:

Student loans, Augusta University bearing interest at 7%-9%, due on demand, unsecured	<b>\$ 16,588</b>
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 tables sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 212,349	\$ -	\$ -	\$ 212,349
Fixed income:				
Intermediate term bonds	18,518,714	-	-	18,518,714
High yield bonds	34,581	-	-	34,581
Emerging markets bonds	82,238	-	-	82,238
Non-traditional bonds	49,279	-	-	49,279
Bank loan	14,242	-	-	14,242
Inflation-protected bond	3,793,358	-	-	3,793,358
Total fixed income	22,492,411	-	-	22,492,411
Equity securities:				
Small cap equities	33,938	-	-	33,938
Mid cap equities	238,284	-	-	238,284
Large cap equities	52,143,974	-	-	52,143,974
International equities	17,790,066	-	-	17,790,066
Diversified emerging markets	11,453,174	-	-	11,453,174
Managed futures	47,083	-	-	47,083
Multialternative	33,197	-	-	33,197
Complementary strategies	141,889	-	-	141,889
Total equity securities	\$ 81,881,604	\$ -	\$ -	\$ 81,881,604

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. INVESTMENTS (Continued)

	Level 1	Level 2	Level 3	Total
Private equity:	-	-	107,685,947	107,685,947
Real assets:	-	-	20,379,901	20,379,901
Land held for sale:	-	-	689,000	689,000
Split-interest investments:				
Cash and cash equivalents	-	89,649	-	89,649
Equities	-	895,987	-	895,987
Fixed income	-	920,664	-	920,664
	-	1,906,300	-	1,906,300
Total investments at fair value	\$ 104,586,364	\$ 1,906,300	\$ 128,754,848	\$ 235,247,512

The Foundation has investments, as a limited partner, in 31 partnerships at June 30, 2017. 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 2017, 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, 2017 is reasonable.

As of June 30, 2017, the Foundation's direct investment in real estate consists of ownership of properties with a total net book value of \$946,522. Depreciation expense totaling \$103,611, related to investments in real estate, was recognized during the year ended June 30, 2017.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3. INVESTMENTS (Continued)

Rollforward of Level 3 investments for the year ended June 30, 2017 is as follows:

Level 3 rollforward	Private equities	Real assets	Land held for sale	Total
Beginning value as of July 1, 2016	\$ 89,674,491	\$ 23,233,761	\$ 689,000	\$ 113,597,252
Acquisitions	8,861,107	1,568,418	-	10,429,525
Dispositions/proceeds	(3,270,220)	(5,590,758)	-	(8,860,978)
Net realized and unrealized gains (losses)	12,420,569	1,168,480	-	13,589,049
Fair value at June 30, 2017	<u>\$ 107,685,947</u>	<u>\$ 20,379,901</u>	<u>\$ 689,000</u>	<u>\$ 128,754,848</u>
Net gains (losses) in Level 3 attributable to changes in net unrealized gains (losses) related to those investments still held at June 30, 2017	<u>\$ (3,775,932)</u>	<u>\$ 1,263,460</u>	<u>\$ 65,000</u>	<u>\$ (2,447,472)</u>

Quantitative Information about Level 3 Fair Value Measurements				
	Fair value at 6/30/17	Valuation technique(s)	Unobservable input	Range (weighted average)
Private equities	\$107,685,947	Discounted cash flow/market comparable companies	Constant prepayment rate EBITDA	3.5% - 5.5% 6% - 15%
Real assets	20,379,901	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

As of June 30, 2017, the Foundation's remaining outstanding commitments to private investments, which are projected to be paid over the succeeding 15 years, totaled \$10,249,070, in the following investment strategies:

Investment strategies are comprised of the following at June 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equities				
Private equity partnerships	\$ 107,685,947	\$ 8,072,705	Illiquid	N/A
Land held for sale	689,000	-	Illiquid	N/A
Real assets	<u>20,379,901</u>	<u>2,176,365</u>	Illiquid	N/A
Total	<u>\$ 128,754,848</u>	<u>\$ 10,249,070</u>		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 3. INVESTMENTS (Continued)

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 \$1,906,300 at June 30, 2017.

Investment returns are reported net of investment fees totaling \$2,281,442 for the year ended June 30, 2017.

The Foundation's cost of investments at June 30, 2017 was \$173,904,790.

### NOTE 4. INVESTMENT PROPERTIES

Investment properties leased under operating leases or land held for investment consist of the following at June 30, 2017:

Central Square Shopping Center	\$ 1,644,313
Land and improvements held for investment	<u>95,000</u>
	1,739,313
Less accumulated depreciation	<u>(792,791)</u>
Total property and equipment, net	<u>\$ 946,522</u>

Depreciation expense for investment properties totaled \$103,611 for the year ended June 30, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 4. INVESTMENT PROPERTIES (Continued)

At June 30, 2017, future minimum rents receivable under the operating lease agreements are as due as follows for the years ending:

2018	\$	78,105
2019		54,159
2020		27,414
	\$	<u>159,678</u>

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2017:

Resurgens land	\$	5,293,584
Furniture, fixtures and equipment		212,962
Building improvements		218,321
		<u>5,724,867</u>
Less accumulated depreciation		<u>(237,828)</u>
Total property and equipment, net	\$	<u>5,487,039</u>

Depreciation expense for property and equipment for the year ended June 30, 2017 was \$19,502.

### NOTE 7. NOTE 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 agreement was modified again on October 7, 2016 to change the interest rate from a fixed 3.25% to a fixed 3.50%. The note matures on October 7, 2018. The note is collateralized by various real property owned by Resurgens Properties, LLC funded by the draw note. The note balance was \$2,309,104 at June 30, 2017.

### 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, 2017:

Unappropriated appreciation on donor-restricted endowment	\$	66,310,059
Academic support		8,339,535
Scholarships and fellowships		351,450
Research		1,929,434
Facilities		763,650
Student loans		<u>106,529</u>
	\$	<u>77,800,657</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 8. TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets consist of the following at June 30, 2017:

Student loans receivable	\$	16,588
Pledges receivable		1,253,159
Cash		89,941
Investments, at fair value		<u>76,440,969</u>
	<u>\$</u>	<u>77,800,657</u>

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, 2017:

Academic support	\$	69,096,643
Scholarships and fellowships		56,967,270
Research		<u>1,650,679</u>
	<u>\$</u>	<u>127,714,592</u>

Permanently restricted net assets consist of the following at June 30, 2017:

Investments, at fair value	\$	126,969,775
Pledges receivable		55,817
Land held for sale		<u>689,000</u>
	<u>\$</u>	<u>127,714,592</u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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 during the year ended June 30, 2017:

<b>Purpose restrictions accomplished:</b>	
Academic support	\$ 4,695,447
Scholarships	1,914,133
Research	359,329
Facilities	186,042
Student loans	138,356
Appropriation of endowment assets for expenditure	3,187,050
	<u>\$ 10,480,357</u>

### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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. There were no funds with deficiencies at June 30, 2017.

#### **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, 2016, 2015, and 2014) 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11. ENDOWMENT (Continued)

The Endowment Net Asset Composition by type of Fund as of June 30, 2017 are:

Endowment Net Asset Composition by Type of Fund as of June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 66,310,059	\$ 127,714,592	\$ 194,024,651
Board-restricted endowment funds	<u>12,799,525</u>	-	-	<u>12,799,525</u>
<b>Total funds</b>	<u><b>\$ 12,799,525</b></u>	<u><b>\$ 66,310,059</b></u>	<u><b>\$ 127,714,592</b></u>	<u><b>\$ 206,824,176</b></u>

The Changes in Endowment Net Asset for the year ended June 30, 2017 are:

Changes in Endowment Net Asset for the Fiscal Year Ended June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,460,288	\$ 51,133,914	\$ 136,998,394	\$ 192,592,596
Investment return:				
Realized and unrealized gains (losses) below the permanent corpus balance	111,684	-	-	111,684
Net appreciation (realized and unrealized)	-	<u>26,361,654</u>	-	<u>26,361,654</u>
<b>Total investment return</b>	<u>111,684</u>	<u>26,361,654</u>	-	<u>26,473,338</u>
Contributions	-	-	1,988,107	1,988,107
Change in donor restriction	8,227,553	(7,998,459)	(11,271,909)	(11,042,815)
Appropriation of endowment assets for expenditure	-	<u>(3,187,050)</u>	-	<u>(3,187,050)</u>
<b>Endowment net assets, end of year</b>	<u><b>\$ 12,799,525</b></u>	<u><b>\$ 66,310,059</b></u>	<u><b>\$ 127,714,592</b></u>	<u><b>\$ 206,824,176</b></u>

#### Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) as of June 30, 2017

##### 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

\$ 127,714,592

Total endowment funds classified as permanently restricted net assets

\$ 127,714,592

##### Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA:

  With purpose restrictions

\$ 66,310,059

Total endowment funds classified as temporarily restricted net assets

\$ 66,310,059

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **NOTE 12. PUBLIC MATCHING FUNDS**

Since 1989, the Foundation has received approximately \$7,160,000 from the University of Georgia Board of Regents of the University System of Georgia. During the year ended June 30, 2017, the Foundation returned \$750,000 previously received from the Board of Regents of the University System of Georgia.

### **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 year ended June 30, 2017 were \$55,678.

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(b) deferred compensation plan for the chief executive officer, chief operating 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 September 15, 2017, the date on which the consolidated financial statements were available to be issued.

The Foundation purchased a hotel on August 31, 2017 for \$1,300,000.

The Foundation entered into a purchase agreement for new office space set to close on October 30, 2017 for \$1,025,000.