



**ARMSTRONG STATE UNIVERSITY  
FOUNDATION, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULE**

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

*And Report of Independent Auditor*

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**

**TABLE OF CONTENTS**

---

**REPORT OF INDEPENDENT AUDITOR** ..... 1-2

**FINANCIAL STATEMENTS**

Statements of Financial Position .....3  
Statements of Activities..... 4-5  
Statements of Cash Flows .....6  
Notes to the Financial Statements ..... 7-16

**SUPPLEMENTAL SCHEDULE**

Schedule 1 – Management and General Expenses .....17

## **Report of Independent Auditor**

To the Board of Trustees  
Armstrong State University Foundation, Inc.  
Savannah, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Armstrong State University Foundation, Inc. (the "Foundation"), an affiliate of Armstrong State University (the "University"), which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armstrong State University Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of management and general expenses on page 17 which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Chung Bekant LLP". The signature is written in a cursive, flowing style.

Augusta, Georgia  
September 6, 2017

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2017 AND 2016*

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 2,942,915	\$ 849,620
Pledges receivable, net	1,780,924	236,427
Prepaid expenses	-	10,000
Investments	<u>9,744,056</u>	<u>9,294,745</u>
<b>Total Assets</b>	<b><u>\$ 14,467,895</u></b>	<b><u>\$ 10,390,792</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Net Assets:		
Unrestricted	\$ 412,689	\$ 272,200
Temporarily restricted	8,346,645	4,497,344
Permanently restricted	<u>5,708,561</u>	<u>5,621,248</u>
<b>Total Net Assets</b>	<b><u>14,467,895</u></b>	<b><u>10,390,792</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 14,467,895</u></b>	<b><u>\$ 10,390,792</u></b>

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>
Revenues:				
Contributions and support	\$ 85,793	\$ 4,321,687	\$ 119,813	\$ 4,527,293
In-kind contributions	<u>418,652</u>	<u>55,087</u>	<u>-</u>	<u>473,739</u>
Contributions and Support, net	504,445	4,376,774	119,813	5,001,032
Investment income	36,424	169,118	-	205,542
Net realized and unrealized gain on investments	125,470	536,838	-	662,308
Net assets released from restrictions	1,271,269	(1,271,269)	-	-
Transfers between restrictions	<u>(5,340)</u>	<u>37,840</u>	<u>(32,500)</u>	<u>-</u>
Total Revenues	<u>1,932,268</u>	<u>3,849,301</u>	<u>87,313</u>	<u>5,868,882</u>
Expenses:				
Program Expenses:				
Scholarships	679,906	-	-	679,906
Donor restricted program support	508,743	-	-	508,743
Support to the University	48,526	-	-	48,526
Fund-raising	243,688	-	-	243,688
Management and general	<u>310,916</u>	<u>-</u>	<u>-</u>	<u>310,916</u>
Total Expenses	<u>1,791,779</u>	<u>-</u>	<u>-</u>	<u>1,791,779</u>
Change in net assets	140,489	3,849,301	87,313	4,077,103
Net assets, beginning of year	<u>272,200</u>	<u>4,497,344</u>	<u>5,621,248</u>	<u>10,390,792</u>
Net assets, end of year	<u>\$ 412,689</u>	<u>\$ 8,346,645</u>	<u>\$ 5,708,561</u>	<u>\$ 14,467,895</u>

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

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Revenues:				
Contributions and support	\$ 83,243	\$ 1,086,575	\$ 243,659	\$ 1,413,477
In-kind contributions	<u>504,162</u>	<u>26,262</u>	<u>-</u>	<u>530,424</u>
Contributions and Support, net	587,405	1,112,837	243,659	1,943,901
Investment income	33,713	151,026	-	184,739
Net realized and unrealized gain on investments	43,133	313,385	-	356,518
Net assets released from restrictions	1,222,214	(1,222,214)	-	-
Transfers between restrictions	<u>3,741</u>	<u>(3,741)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,890,206</u>	<u>351,293</u>	<u>243,659</u>	<u>2,485,158</u>
Expenses:				
Program Expenses:				
Scholarships	701,465	-	-	701,465
Donor restricted program support	481,289	-	-	481,289
Support to the University	92,067	-	-	92,067
Fund-raising	362,156	-	-	362,156
Management and general	<u>348,015</u>	<u>-</u>	<u>-</u>	<u>348,015</u>
Total Expenses	<u>1,984,992</u>	<u>-</u>	<u>-</u>	<u>1,984,992</u>
Change in net assets	(94,786)	351,293	243,659	500,166
Net assets, beginning of year	<u>366,986</u>	<u>4,146,051</u>	<u>5,377,589</u>	<u>9,890,626</u>
Net assets, end of year	<u>\$ 272,200</u>	<u>\$ 4,497,344</u>	<u>\$ 5,621,248</u>	<u>\$ 10,390,792</u>

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

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 4,077,103	\$ 500,166
Adjustments to reconcile change in net assets to net cash from operating activities:		
Contributions restricted for permanent endowments	(119,813)	(243,659)
Investment income, reinvested	(202,118)	(183,024)
Net realized and unrealized gain on investments, reinvested	(662,308)	(356,518)
Changes in assets and liabilities:		
Increase in contributions receivable	(1,522,051)	(326)
Decrease in accounts receivable	-	1,000
(Increase) decrease in prepaid expenses	10,000	(10,000)
Net cash from operating activities	<u>1,580,813</u>	<u>(292,361)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(9,488)	(75,667)
Proceeds from sales of investments	<u>424,603</u>	<u>489,178</u>
Net cash from investing activities	<u>415,115</u>	<u>413,511</u>
<b>Cash flows from financing activities:</b>		
Receipts of contributions restricted for permanent endowments	<u>97,367</u>	<u>259,659</u>
Increase in cash and cash equivalents	2,093,295	380,809
Cash and cash equivalents, beginning of year	<u>849,620</u>	<u>468,811</u>
Cash and cash equivalents, end of year	<u>\$ 2,942,915</u>	<u>\$ 849,620</u>

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



# ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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### Note 1—Summary of significant accounting policies

*Nature of Operations* – Armstrong State University Foundation, Inc. (the “Foundation”) is a not-for-profit organization that was organized to receive and administer contributions to promote the cause of higher education for support of Armstrong State University (the “University”). The Foundation is an affiliate of the University, which is a unit of the University System of Georgia, which is an organizational unit of the state of Georgia. The Foundation is also a cooperative organization of the Board of Regents of the University System of Georgia (the “BOR”) according to BOR policies.

*Basis of Accounting* – The Foundation’s financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (“GAAP”).

*Cash and Cash Equivalents* – Cash and cash equivalents consist of deposits in deposit accounts at authorized financial institutions.

The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Foundation from time to time may have amounts on deposit in excess of the insured limits. The Foundation had \$2,706,149 as of June 30, 2017, which exceeded these amounts.

*Investments* – Investments are accounted for at fair value in the accompanying financial statements. Realized gains or losses on the sale of investments are determined based on the most recent date at which the investments were adjusted for unrealized appreciation and depreciation. Unrealized gains or losses resulting from changes in market values are included with realized gains or losses in the financial statements. The Foundation determines fair values of equity and debt instruments based on quoted market prices. Where quoted market prices are not available, quoted market prices of comparable instruments or discounted cash flow methods are used to estimate fair value.

*Fair Value of Financial Instruments* – The estimated fair values of the Foundation’s short-term financial instruments, including cash, cash equivalents, contributions receivable, and accrued liabilities arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of investments is based on quoted market rates.

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

*In-Kind Support* – The Foundation occupies facilities and is provided professional services and supplies by the University and others. Such services and supplies from the University totaled \$418,652 and \$504,162 during the years ended June 30, 2017 and 2016, respectively, and are recorded as in-kind contributions. The offsetting expense is split evenly between fund-raising and management and general expense. Other in-kind contributions of \$55,087 and \$26,262 during the years ended June 30, 2017 and 2016, and contributions of tangible assets were recorded at fair value when received, and are included in contributions. The corresponding expense is included in donor restricted program support.

# ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

*Support and Net Assets* – Support consists of contributions and other income provided for the benefit of the University. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unconditional promises to give are recognized as revenue when the underlying promises are received by the Foundation and are reported as unrestricted, temporarily restricted, or permanently restricted revenue based on any donor stipulations that limit the use of the donated asset. Grant revenue is recognized over the term of the grant in accordance with the terms of the agreement.

The Foundation's net assets are classified as follows:

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

*Temporarily Restricted Net Assets* – Temporarily restricted net assets include resources in which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties at the time of contribution. These specified purposes are consistent with the purpose of the Foundation.

*Permanently Restricted Net Assets* – Permanently restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Foundation may accumulate as much of the annual net income of an institutional fund as is prudent under the standard established by Georgia Code Title 44, Chapter 15, the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The Foundation's spending policy regarding endowed funds is to provide a stable and predictable revenue stream and ensure the value of the revenue stream over time while maintaining the real value of the asset.

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

GAAP provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. UPMIFA is a model act approved by the Uniform Law Commission ("ULC" - formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation.

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

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

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

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

*Income Taxes* – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal income tax on unrelated business income. The Foundation has evaluated the effect of GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Foundation continues to satisfy the requirements of a tax-exempt organization. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined that the Foundation had no uncertain income tax positions at June 30, 2017 and 2016.

*Future Pronouncements* – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks, and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard is effective for all fiscal years beginning after December 15, 2017.

**Note 2—Pledges receivable**

Unconditional promises to give are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. Pledges receivable with due dates extending beyond one year are discounted using treasury bill rates for similar term investments. The applicable rate at June 30, 2017 and 2016 was 1.89% and 1.01%, respectively. Contributions receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 616,199	\$ 216,259
Due in one to five years	1,258,650	31,010
Total contributions receivable	1,874,849	247,269
Less:		
Allowance for uncollectible pledges	(49,954)	(10,166)
Discount to net present value	(43,971)	(676)
Net contributions receivable	<u>\$ 1,780,924</u>	<u>\$ 236,427</u>

# ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 3—Investments

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

The carrying value of the Foundation's investments was \$9,744,056 and \$9,294,745 at June 30, 2017 and 2016, respectively, which is materially the same as fair value. At June 30, investments are comprised of the following:

	<b>2017</b>	<b>2016</b>
Cash, deposits, and money market funds	\$ 350,029	\$ 235,820
Mutual funds	35,070	159,787
Common stocks	6,923,485	6,260,982
Exchange traded funds	1,022,568	1,027,713
Corporate debt securities	1,352,768	1,398,324
Government debt securities	60,136	212,119
	<u>\$ 9,744,056</u>	<u>\$ 9,294,745</u>

### Note 4—Fair value measurements

The Foundation has adopted the provision of FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, which requires fair value measurement be classified and disclosed in one of the following three categories (Fair Value Hierarchy):

- Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level 1 include listed equity securities, mutual funds, and money market funds. As required by GAAP, the Foundation, to the extent that it holds such investments, does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.
- Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1; inputs include comparable market transactions, pricing of similar instruments, values reported by the administrator, and pricing expectations based on internal modeling. Fair value is determined through the use of models or other valuation methodologies. The types of investments which would generally be included in this category include publicly-traded securities with restrictions on disposition, corporate obligations, and United States Government and Agency Treasury Inflation Indices.
- Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments. The types of investments which would generally be included in this category include debt and equity securities issued by private entities and partnerships. The inputs into the determination of fair value require significant judgment or estimation. Inputs include recent transactions, earnings forecasts, market multiples, and future cash flows.

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 4—Fair value measurements (continued)**

The table below summarizes the valuation of the Foundation's financial assets measured at fair value on a recurring basis as of June 30, 2017, based on the level of input utilized to measure fair value:

**Measurement at Fair Value on a Recurring Basis**

	Fair Value Measurements at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
Common stocks - basic materials	\$ 415,900	\$ -	\$ -	\$ 415,900
Common stocks - conglomerates	459,695	-	-	459,695
Common stocks - consumer goods	842,459	-	-	842,459
Common stocks - financial	979,270	-	-	979,270
Common stocks - healthcare	681,598	-	-	681,598
Common stocks - industrial goods	756,816	-	-	756,816
Common stocks - services	924,558	-	-	924,558
Common stocks - technology	1,142,944	-	-	1,142,944
Common stocks - energy	550,245	-	-	550,245
Common stocks - other *	170,000	-	-	170,000
Exchange traded funds	78,340	-	-	78,340
Total Equities	7,001,825	-	-	7,001,825
Fixed Income:				
Corporate bonds - financial	-	1,136,748	-	1,136,748
Corporate bonds - other *	-	216,020	-	216,020
Government bonds	-	60,136	-	60,136
Mutual funds	35,070	-	-	35,070
Exchange traded funds	944,228	-	-	944,228
Total Fixed Income	979,298	1,412,904	-	2,392,202
Money markets	350,029	-	-	350,029
Total investments - recurring basis	\$ 8,331,152	\$ 1,412,904	\$ -	\$ 9,744,056

\* The individual industries included in common stocks – other represents less than 5% of total equity investments at June 30, 2017. The individual industries in corporate bonds – other represents less than 5% of total fixed income investments at June 30, 2017.

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 4—Fair value measurements (continued)**

The table below summarizes the valuation of the Foundation's financial assets measured at fair value on a recurring basis as of June 30, 2016, based on the level of input utilized to measure fair value:

**Measurement at Fair Value on a Recurring Basis**

	Fair Value Measurements at June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
Common stocks - basic materials	\$ 420,335	\$ -	\$ -	\$ 420,335
Common stocks - conglomerates	517,408	-	-	517,408
Common stocks - consumer goods	827,414	-	-	827,414
Common stocks - financial	558,536	-	-	558,536
Common stocks - healthcare	620,108	-	-	620,108
Common stocks - industrial goods	547,062	-	-	547,062
Common stocks - services	881,632	-	-	881,632
Common stocks - technology	1,011,101	-	-	1,011,101
Common stocks - energy	701,310	-	-	701,310
Common stocks - other *	176,076	-	-	176,076
Mutual funds	93,551	-	-	93,551
Exchange traded funds	311,684	-	-	311,684
Total Equities	6,666,217	-	-	6,666,217
Fixed Income:				
Corporate bonds - financial	-	1,398,324	-	1,398,324
Government bonds	-	212,119	-	212,119
Mutual funds	66,236	-	-	66,236
Exchange traded funds	716,029	-	-	716,029
Total Fixed Income	782,265	1,610,443	-	2,392,708
Money markets	235,820	-	-	235,820
Total Investments - recurring basis	\$ 7,684,302	\$ 1,610,443	\$ -	\$ 9,294,745

\* The individual industries included in common stocks – other represents less than 5% of total equity investments at June 30, 2016. The individual industries in corporate bonds – other represents less than 5% of total fixed income investments at June 30, 2016.

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

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 5—Endowment funds**

The Foundation's endowment fund consists of individual donor restricted endowment funds. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ 88,711	\$ 3,242,990	\$ 5,665,974	\$ 8,997,675
Total endowed net assets	<u>\$ 88,711</u>	<u>\$ 3,242,990</u>	<u>\$ 5,665,974</u>	<u>\$ 8,997,675</u>

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ 74,405	\$ 2,769,485	\$ 5,600,859	\$ 8,444,749
Total endowed net assets	<u>\$ 74,405</u>	<u>\$ 2,769,485</u>	<u>\$ 5,600,859</u>	<u>\$ 8,444,749</u>

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 5—Endowments funds (continued)**

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 74,405	\$ 2,769,485	\$ 5,600,859	\$ 8,444,749
Contributions	-	14,166	97,615	111,781
Investment return:				
Investment income	9,745	169,118	-	178,863
Net appreciation	30,943	536,838	-	567,781
Total investment return	40,688	705,956	-	746,644
Reclassifications based on donor intent	(250)	32,500	(32,500)	(250)
Appropriation of endowment assets for expenditure	(26,132)	(279,117)	-	(305,249)
Endowment net assets, June 30, 2017	<u>\$ 88,711</u>	<u>\$ 3,242,990</u>	<u>\$ 5,665,974</u>	<u>\$ 8,997,675</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 94,981	\$ 2,423,785	\$ 5,339,697	\$ 7,858,463
Contributions	10	64,995	261,162	326,167
Investment return:				
Investment income	8,792	151,026	-	159,818
Net appreciation	18,033	313,385	-	331,418
Total investment return	26,825	464,411	-	491,236
Reclassifications based on donor intent	1,031	5,052	-	6,083
Appropriation of endowment assets for expenditure	(48,442)	(188,758)	-	(237,200)
Endowment net assets, June 30, 2016	<u>\$ 74,405</u>	<u>\$ 2,769,485</u>	<u>\$ 5,600,859</u>	<u>\$ 8,444,749</u>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment fund deficits exist, they are classified as a reduction of unrestricted net assets. These deficits resulted from unfavorable market conditions which resulted in negative investment returns. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no deficits of this nature reported in unrestricted net assets as of June 30, 2017 and 2016, respectively.



# ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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### **Note 5—Endowments funds (continued)**

#### **Return Objectives and Risk Parameters**

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

#### **Relationship of Spending Policy to Investment Objectives**

The Foundation determines the method to be used to appropriate endowment funds for expenditure. The Foundation has a policy of appropriating for distribution each year, 4.5% and 5% for the years ended June 30, 2017 and 2016, respectively, of a trailing three-year average of the endowment's total asset value, with the understanding that this spending rate plus inflation will not normally exceed total return/appreciation. This average should be moved back six months from the time of current-year calculations for the purpose of spending, with the three year average being that of either calendar or fiscal year as required for the budgetary process.

### **Note 6—Related party transactions**

The Foundation transferred approximately \$1,548,000 and \$1,646,000 during the years ended June 30, 2017 and 2016, respectively, to the University for scholarships and other support.

The costs of services rendered by the Advancement Office of the University for fund-raising activities are primarily borne by the University. These costs are included in the Foundation's financial statements in in-kind contributions and fund-raising and management and general expenses and are approximately \$419,000 and \$504,000 for the years ended June 30, 2017 and 2016, respectively.

The Foundation received cash payments and pledges from the Board of Regents - University System of Georgia Foundation of approximately \$136,000 and \$138,000 during the years ended June 30, 2017 and 2016, respectively.

The Foundation received cash payments from Armstrong State University Educational Properties Foundation, Inc. of \$1,500,000 and \$0 during the years ended June 30, 2017 and 2016, respectively.

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

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**Note 7—Subsequent events**

On January 11, 2017, the Board of Regents of the University System of Georgia (the “USG”) directed the Chancellor of the USG to pursue consolidation of Georgia Southern University (“GSU”) and Armstrong State University (the “University”), pending the Southern Association of Colleges and Schools Commission on Colleges (the “SACSCOC”) approval. If approved by the accreditation agency and the Board of Regents, the consolidation will be effective on January 1, 2018 and the University will become part of GSU. The Board of Trustees of the Foundation is considering a change in its Articles of Incorporation and Bylaws which will allow it to support GSU's Savannah campus in a manner similar to its current support of the University.

The Foundation has evaluated subsequent events through September 6, 2017, which was the date which the financial statements were available to be issued.

## **SUPPLEMENTAL SCHEDULE**

**ARMSTRONG STATE UNIVERSITY FOUNDATION, INC.**  
**MANAGEMENT AND GENERAL EXPENSES**

Schedule 1

*YEARS ENDED JUNE 30, 2017 AND 2016*

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	<b>2017</b>	<b>2016</b>
Foundation operations - in-kind support	\$ 209,326	\$ 252,081
Professional fees	34,532	20,175
Office operations	11,548	31,495
Investment fees and expenses	47,105	33,562
Dues and membership fees	4,802	6,409
Insurance	3,603	4,293
Total Management and General Expenses	<u>\$ 310,916</u>	<u>\$ 348,015</u>