

EAST TENNESSEE STATE UNIVERSITY FOUNDATION

Annual Financial Report

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Annual Financial Report
June 30, 2017 and 2016

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EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Board of Directors
June 30, 2017

Board of Directors

Mrs. Anita Bates	Director
Mrs. Sharon Boles	Director
Mrs. Claudia Byrd	Director
Mr. Jerry Caldwell	Director
Mr. Nic Clemmer	Director
Mr. Walter Lee Davis, Jr.	Director
Mrs. Janey Diehl	Director
Mrs. Heidi Dulebohn	Director
Mr. Joe Grandy	Director
Mr. Louis H. Gump	Director
Mrs. Valda Hicks-Jones	Director
Lt. Gen. (Ret.) Ronald V. Hite	Vice Chair of the Board
Mr. D. Roger Kennedy	Immediate Past Chair of the Board
Dr. B. J. King	Chief Financial Officer of the Foundation; Acting Chief Financial Officer for Business and Finance
Mr. M. Thomas Krieger	Chairman of the Board
Ms. Loretta B. Lyle	Director
Mr. Dan Mahoney	Secretary
Dr. Brian Noland	University President
Mr. Arthur S. Powers	Director
Mr. Donald R. Raber	Chair, Investment Committee
Mrs. Pam Ritter	President/CEO of the Foundation; Vice President for University Advancement
Mrs. Lottie F. Ryans	Director
Mr. Tom Seaton	Director
Mrs. Forooz Smalley	Director
Mr. Richard K. Storey	Treasurer

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Board of Directors (Continued)

Mr. R. T. (Rab) Summers	Director
Mr. Gerald Thomas	Director
Dr. May Votaw	Director
Mr. Guy B. Wilson	Director

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
East Tennessee State University Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of East Tennessee State University Foundation (the "Foundation") a component unit of East Tennessee State University, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The schedule of changes in current restricted funds on pages 27-55 and the schedule of changes in endowment and similar funds on pages 56-72 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in current restricted funds and the schedule of changes in endowment and similar funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of changes in current restricted funds and the schedule of changes in endowment and similar funds are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 21, 2017

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

This section of the East Tennessee State University Foundation's annual financial report presents a discussion and analysis of the financial performance of the Foundation during the fiscal year ended June 30, 2017 with comparative information presented for the fiscal years ended June 30, 2016 and 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, footnotes, and this discussion are the responsibility of management.

Overview of the Financial Statements

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the Foundation's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The Foundation's financial report includes the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

The Statements of Net Position

The Statements of Net Position are point in time financial statements. The Statements of Net Position present the financial position of the Foundation at the end of each fiscal year. To aid the reader in determining the Foundation's ability to meet immediate and future obligations, the statements include all assets, liabilities, deferred outflows/inflows, and net position of the Foundation and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The Statements of Net Position are prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statements are able to determine the assets available to continue the operations of the Foundation. They are also able to determine how much the Foundation owes vendors, lenders, and others. Net position represents the difference between the Foundation's assets and liabilities, along with the difference between deferred outflows and deferred inflows, and is one indicator of the Foundation's current financial condition.

The Statements of Net Position also indicate the availability of net position for expenditure by the Foundation. Net position is divided into three major categories. The first category, net investment in capital assets, represents the Foundation's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the Foundation but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the Foundation for any lawful purpose of the Foundation.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

The following table summarizes the Foundation's assets, liabilities, deferred outflows/inflows, and net position at June 30, 2017, June 30, 2016 and June 30, 2015.

Statements of Net Position
(in thousands of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 16,532	\$ 1,159	\$ 672
Capital assets, net	210	21	9
Investments	73,351	87,329	90,970
Other assets	<u>8,169</u>	<u>5,974</u>	<u>6,385</u>
Total Assets	<u>98,262</u>	<u>94,483</u>	<u>98,036</u>
Liabilities:			
Current liabilities	<u>45</u>	<u>271</u>	<u>87</u>
Total Net Position:	<u>\$ 98,217</u>	<u>\$ 94,212</u>	<u>\$ 97,949</u>
Net Position consists of:			
Net investment in capital assets	\$ 210	\$ 21	\$ 9
Restricted - nonexpendable	57,067	51,860	53,087
Restricted - expendable	37,398	39,445	41,656
Unrestricted	<u>3,542</u>	<u>2,886</u>	<u>3,197</u>
	<u>\$ 98,217</u>	<u>\$ 94,212</u>	<u>\$ 97,949</u>

Comparison of FY 2017 to FY 2016

- Current assets increased due to \$16 million in cash held by stockbroker following trades near 6/30/17.
- Capital assets increased due to athletic equipment purchase.
- Investments decreased due to a reallocation created by the stockbroker trades near 6/30/17.
- Other assets increased due to funds allocated to Local Government Investment Pool.
- Current liabilities decreased due to a reduction in accounts payable accruals at June 30.
- Net position increased due to realized and unrealized capital gains.

Comparison of FY 2016 to FY 2015

- Current assets increased due to cash held by stockbroker.
- Investments decreased due to unrealized market losses.
- Other assets decreased due to a reduction in pledges receivable.
- Current liabilities increased due to amount owed to ETSU at June 30.
- Net position decreased due to market conditions and losses.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

The Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position present the results of operations for each fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statements present the revenues received by the Foundation, both operating and non-operating, and the expenses paid by the Foundation, operating and non-operating, and any other revenues, expenses, gains, or losses received or spent by the Foundation.

Generally speaking, operating revenues are received as gifts and other revenues for which the payer received something tangible or a benefit or premium. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Foundation. Non-operating revenues are revenues received for which goods and services are not provided directly to the payer.

A summary of the Foundation's revenues, expenses, and changes in net position for the years ended June 30, 2017, June 30, 2016 and June 30, 2015, follows.

Statements of Revenues, Expenses and Changes in Net Position
(in thousands of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues and expenses:			
Operating revenues	\$ 6,616	\$ 5,080	\$ 9,513
Operating expenses	<u>13,796</u>	<u>7,655</u>	<u>9,331</u>
Operating income (loss)	<u>(7,180)</u>	<u>(2,575)</u>	<u>182</u>
Non-operating revenues and expenses:			
Investment income	4,775	2,006	4,268
Unrealized gain (loss)	3,820	(4,644)	(5,622)
Other revenues (expenses)	<u>-</u>	<u>-</u>	<u>17</u>
Total non-operating revenues and expenses	<u>8,595</u>	<u>(2,638)</u>	<u>(1,337)</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,415</u>	<u>(5,213)</u>	<u>(1,155)</u>
Other revenues, expenses, gains or losses			
Capital grants and gifts	-	12	-
Additions to permanent endowment	<u>2,590</u>	<u>1,464</u>	<u>1,775</u>
Total other revenues, expenses, gains or losses	<u>2,590</u>	<u>1,476</u>	<u>1,775</u>
Increase (decrease) in net position	<u>4,005</u>	<u>(3,737)</u>	<u>620</u>
Net Position, Beginning of Year	<u>94,212</u>	<u>97,949</u>	<u>97,329</u>
Net Position, End of Year	<u>\$ 98,217</u>	<u>\$ 94,212</u>	<u>\$ 97,949</u>

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

Comparison of FY 2017 to FY 2016

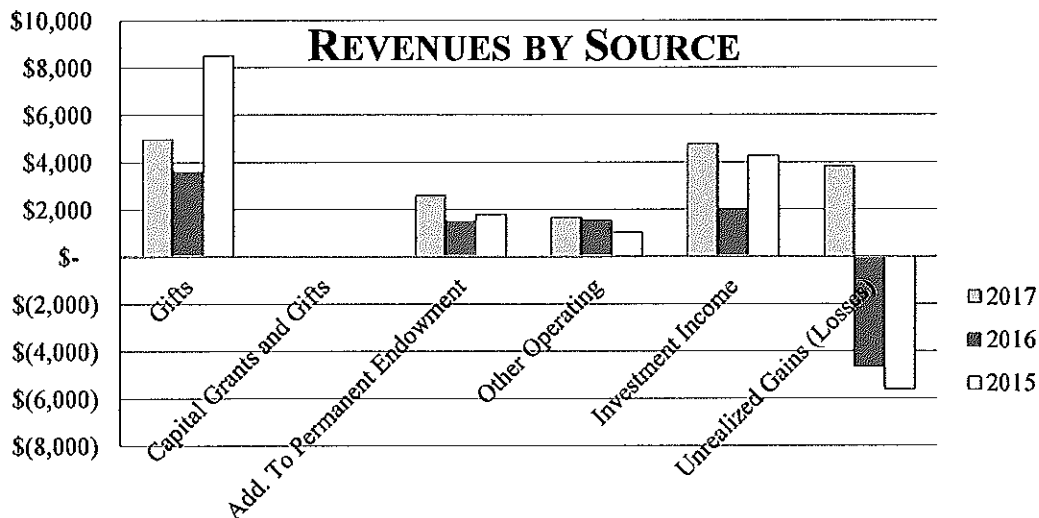
- Operating revenues increased due to increased giving to Athletics and WETS FM and additional gifts to the Arts Initiative and the Football Campaign.
- Operating expenses increased due to payments to ETSU and increased spending in the College of Business and Technology and Athletics.
- Investment income increased due to realized gains.
- Unrealized losses decreased due to improving market conditions.
- Capital grants and gifts decreased due to a gift-in-kind received in FY 2016.
- Additions to permanent endowment increased due to a large gift to the College of Arts and Sciences and a bequest for the College of Business and Technology.

Comparison of FY 2016 to FY 2015

- Operating revenues decreased due to a large gift received in FY 2015 for College of Education, a decrease in giving to College of Pharmacy and pledges receivable recorded in FY 2015.
- Operating expenses decreased due to decreased spending in College of Pharmacy and Capital Projects.
- Investment income decreased due to realized losses.
- Unrealized losses decreased due to improving market conditions.
- Capital grants and gifts increased due to a gift-in-kind.
- Additions to permanent endowment decreased due to large gifts received in FY 2015 for the College of Education.

Revenues

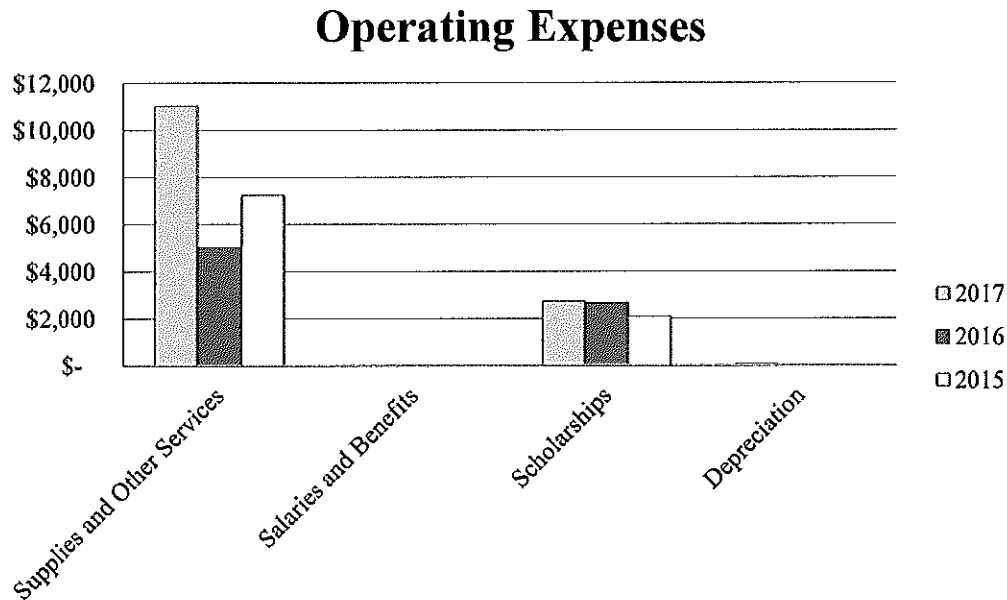
The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the Foundation's operating activities for the years ended June 30, 2017, 2016 and 2015 (amounts are presented in thousands of dollars).



EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

Operating Expenses

Operating expenses may be reported by nature or function. The Foundation has chosen to report the expenses in their natural classification on the statements of revenues, expenses, and changes in net position. The following summarizes the operating expenses by natural classifications for the last three fiscal years (amounts presented in thousands of dollars).



During FY 2017 and 2016 approximately 80% and 66% respectively of the Foundation operating expenses was for supplies and other services. The remainder of operating expenses is attributed to scholarships.

The Statements of Cash Flows

The Statements of Cash Flows provide information about cash receipts and cash payments during the year. These statements also assists users in assessing the Foundation's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

Statements of Cash Flows
(in thousands of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash provided (used) by:			
Operating activities	\$ (7,593)	\$ (1,671)	\$ (4,531)
Non-capital financing activities	2,590	1,464	1,775
Capital and related financing activities	(247)	-	-
Investing activities	<u>22,594</u>	<u>1,009</u>	<u>1,389</u>
Net increase (decrease) in cash	17,344	802	(1,367)
Cash, beginning of year	<u>2,470</u>	<u>1,668</u>	<u>3,035</u>
Cash, end of year	<u>\$ 19,814</u>	<u>\$ 2,470</u>	<u>\$ 1,668</u>

Material sources of cash include gifts and receipts from the Medical Education Assistance Corporation (MEAC). MEAC is a separate 501(c)(3) organization formed for the private practice of physicians working in the ETSU College of Medicine. According to MEAC Bylaws, excess funds generated by MEAC are to be used for educational purposes through the ETSU Foundation.

Material uses of cash were for investments and payments to suppliers.

The cash position of the Foundation increased by \$17,344,000 during FY 2017 due to investing activities and increased by \$802,000 during FY 2016 due to a decrease in operating expenses.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the Foundation had \$209,600 invested in capital assets, \$21,486 at June 30, 2016 and \$9,486 at June 30, 2015, net of accumulated depreciation. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation
(in thousands of dollars)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ -	\$ -	\$ -
Buildings	-	-	-
Construction in process	-	-	-
Other assets	<u>210</u>	<u>21</u>	<u>9</u>
	<u>\$ 210</u>	<u>\$ 21</u>	<u>\$ 9</u>

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Management's Discussion and Analysis (Continued)

It is the policy of the Foundation to sell or transfer capital assets to East Tennessee State University in most situations. In FY 2017, the ETSU Foundation purchased an LED video board for Men's Basketball, which the Foundation has retained ownership of.

Economic Factors That Will Affect the Future

Economic factors and conditions have an impact on the giving levels to the Foundation. Fundraising and alumni giving increased during fiscal year 2017 with a growth in volume of gifts designated for Athletics, the Arts Initiative, and WETS-FM public radio station as well as other campus areas. The Foundation completed the hiring of development officers who have been placed in the colleges and schools to focus on strategic donors and respond to the need of the colleges and schools. These fundraisers will also support major fund raising and capital campaigns in the future. It is anticipated that this reorganization and increased emphasis on fund raising will result in a significant growth in donations into the future.

During FY 2017, the market experienced swings in earnings throughout the year. Market drops in early 2017 were offset by gains later in the year resulting in a relatively flat market. The Foundation increased investment income through realized gains toward the end of the fiscal year. It is anticipated that the market will continue to show continued volatility for the next year. The Foundation is moving to active investment fund management with two investment firms which were selected by the Board of Directors.

The Foundation continues capital campaigns for the Arts Initiative and the Football Stadium into FY 2018. A new capital campaign for an addition to Lamb Hall has been initiated to reach the \$5.7 million required match for construction.

We are not aware of any other factors, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations during this fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Dr. B. J. King, Acting Chief Financial Officer for Business and Finance, P.O. Box 70601, Johnson City, TN 37614.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION

Statements of Net Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,151,644	\$ 1,128,837
Pledges receivable (net)	75	-
Other receivables	<u>380,455</u>	<u>29,824</u>
Total current assets	<u>16,532,174</u>	<u>1,158,661</u>
Noncurrent Assets		
Cash and cash equivalents	3,662,176	1,341,841
Pledges receivable (net)	4,494,530	4,619,889
Investments	73,350,816	87,329,194
Other assets	12,118	12,118
Capital assets (net)	<u>209,600</u>	<u>21,486</u>
Total noncurrent assets	<u>81,729,240</u>	<u>93,324,528</u>
Total assets	<u>\$ 98,261,414</u>	<u>\$ 94,483,189</u>
LIABILITIES		
Current Liabilities		
Accounts payable	<u>\$ 44,791</u>	<u>\$ 271,197</u>
NET POSITION		
Net investment in capital assets	209,600	21,486
Restricted for		
Nonexpendable:		
Scholarships and fellowships	45,198,158	40,854,816
Research	732,301	690,432
Instructional department uses	5,899,481	5,447,788
Other	5,237,240	4,866,463
Expendable:		
Scholarships and fellowships	14,482,756	13,453,244
Research	361,746	330,932
Instructional department uses	4,468,290	4,232,067
Capital projects	4,137,676	5,773,292
Other	13,947,659	15,655,257
Unrestricted	<u>3,541,716</u>	<u>2,886,215</u>
Total net position	<u>98,216,623</u>	<u>94,211,992</u>
Total liabilities and net position	<u>\$ 98,261,414</u>	<u>\$ 94,483,189</u>

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Gifts	\$ 4,966,467	\$ 3,567,399
Other operating revenues	<u>1,649,555</u>	<u>1,512,138</u>
Total operating revenues	<u>6,616,022</u>	<u>5,079,537</u>
Operating Expenses		
Benefits	3,630	1,210
Utilities, supplies, and other services	11,022,133	5,010,146
Scholarships and fellowships	2,721,072	2,643,291
Depreciation expense	<u>49,400</u>	<u>-</u>
Total operating expenses	<u>13,796,235</u>	<u>7,654,647</u>
Operating loss	<u>(7,180,213)</u>	<u>(2,575,110)</u>
Nonoperating Revenues		
Investment income (net of investment expense of \$160,002 for 2017 and \$146,615 for 2016)	4,774,514	2,006,468
Unrealized gains (losses)	<u>3,820,224</u>	<u>(4,644,010)</u>
Net nonoperating revenues (losses)	<u>8,594,738</u>	<u>(2,637,542)</u>
Income (loss) before other revenues, expenses gains, or losses	1,414,525	(5,212,652)
Other Revenues		
Capital gifts and grants	-	12,000
Additions to permanent endowment	<u>2,590,106</u>	<u>1,463,818</u>
Total other revenues	<u>2,590,106</u>	<u>1,475,818</u>
Increase (decrease) in net assets	4,004,631	(3,736,834)
Net position, beginning of year	<u>94,211,992</u>	<u>97,948,826</u>
Net position, end of year	<u>\$ 98,216,623</u>	<u>\$ 94,211,992</u>

EAST TENNESSEE STATE UNIVERSITY FOUNDATION

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Gifts	\$ 4,902,710	\$ 4,205,006
Payments to suppliers and vendors	(10,885,961)	(4,866,769)
Payments for benefits	(3,630)	(1,210)
Payments for scholarships and fellowships	(3,256,062)	(2,520,009)
Other receipts	<u>1,649,555</u>	<u>1,512,138</u>
Net cash flows from operating activities	<u>(7,593,388)</u>	<u>(1,670,844)</u>
Cash Flows from Non-capital Financing Activities		
Private gifts for endowment purposes	<u>2,590,106</u>	<u>1,463,818</u>
Cash Flows from Capital and Related Financing Activities		
Capital expenditures	<u>(247,000)</u>	<u>-</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	19,171,900	22,800,004
Income on investments	4,786,412	2,038,393
Purchase of investments	<u>(1,364,888)</u>	<u>(23,829,154)</u>
Net cash flows from investing activities	<u>22,593,424</u>	<u>1,009,243</u>
Net change in cash and cash equivalents	17,343,142	802,217
Cash and cash equivalents, beginning of year	<u>2,470,678</u>	<u>1,668,461</u>
Cash and cash equivalents, end of year	<u>\$ 19,813,820</u>	<u>\$ 2,470,678</u>
Reconciliation of operating loss to net cash flows from operating activities		
Operating loss	\$ (7,180,213)	\$ (2,575,110)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation expense	49,400	-
Change in assets and liabilities:		
Receivables, net	(361,453)	-
Pledges receivable, net	125,284	720,402
Accounts payable	<u>(226,406)</u>	<u>183,864</u>
Net cash flows from operating activities	<u>\$ (7,593,388)</u>	<u>\$ (1,670,844)</u>
Noncash transactions		
Gifts of capital assets	\$ -	\$ 12,000
Unrealized gains/(losses) on investments	\$ 3,820,225	\$ (4,644,010)
Disposal of capital assets	\$ 9,486	\$ -

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The East Tennessee State University Foundation (the "Foundation") is a nonprofit corporation rechartered in 1977. The Foundation's sole purpose is to solicit and receive gifts to East Tennessee State University for support of its educational purposes and to the University's students for pursuit of their collegiate training.

Fiscal Year End - The East Tennessee State University Foundation operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year end unless otherwise specified.

Basis of Presentation - The financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statement presentation provides a comprehensive, entity-wide perspective of the Foundation's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - For financial statement purposes, the Foundation follows pronouncements issued by GASB due to its relationships with East Tennessee State University and follows the same reporting principles as the University. The University is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Gifts and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Amounts reported as operating revenues include gifts and other sources of operating revenue. Operating expenses for the Foundation include: 1) salaries and wages, 2) employee benefits, 3) scholarships and fellowships, 4) depreciation, and 5) utilities, supplies, and other services. All other activity is non-operating in nature. This activity primarily includes investment income as well as all capital gains and losses generated by Foundation investments.

When both restricted and unrestricted resources are available for use, generally it is the Foundation's policy to use the restricted resources first.

Gifts and Other Revenues/Additions - The Foundation accounts for gifts in accordance with GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Under GASB No. 33, cash and other asset gifts are recognized as revenue when four eligibility requirements are met; 1) required characteristics of recipients, 2) time requirements, 3) reimbursements, and 4) contingencies. Unconditional pledges are recognized as receivables and revenue when the same four eligibility requirements are met. Gifts of assets other than cash are recorded at their estimated fair value. Gifts to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Accretion of discounts is recorded as additional gift revenue in accordance with donor imposed restrictions, if any, on the gifts. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of gift, and nature of fund raising activity. Other operating revenues are recorded for funds received for which the payer received something tangible or a benefit or premium. Additions can include both gifts and other revenues.

Capital Assets - Capital assets are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation on capital assets is recorded using the straight-line method. Donations and purchases of equipment to be used in the operations of East Tennessee State University are transferred to the University upon acquisition.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - Securities, which are comprised of mutual funds, common trust funds, and U.S. government securities are presented in the financial statements at aggregate fair value. Investments purchased are recorded at cost, and investments received by gift are recorded at fair value at the date of acquisition. Fair value is based on quoted market prices, if available, or is estimated using quoted market prices for similar securities. The calculation of realized gains or losses is independent of calculation of the net change in the fair value of investments. Realized gains or losses on investments held in more than one fiscal year and sold in the current year are included as a net change in the fair value of investments reported in prior years and the current year.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Fair value approximates cost for all such investments.

Pooled Investments - The Foundation pools the assets of the current and endowment and similar funds for investment purposes. Investment income and realized and unrealized capital gains and losses are allocated to the fund groups based on the relative investment in the total pool. The Foundation has adopted the total-return concept of accounting for the income of endowment funds. Under this concept, the governing board may, in a prudent and rational manner, make a portion of the realized net gains available for current use. In accordance with this policy, the governing board adopted the following standards concerning the distribution of investment income and realized capital gains and losses for the years ended June 30, 2017 and June 30, 2016:

Distribution Policy for FY 2017 and FY 2016

All investment income and realized capital gains and losses will be distributed in accordance with the East Tennessee State University Foundation *Statement of Investment Policy* dated March 31, 2014.

Investment Income is to be distributed as follows:

1. Investment income will be determined by the fair value method.
2. Each endowment operating account will receive an amount equal to a specified % of the average quarterly fair values for the three previous calendar years. The amount will be based on the reserve balance at June 30 as a percent of the average fair value to be determined as follows:

Reserve Balance as % of Average Fair Value	Spending Rate
6.0% and above	5%
3.0% to 5.99%	4%
0.0% to 2.99%	3%

For those accounts that have been open for less than three years, an average of the available quarterly balances will be used. For the first year after an endowment has been established, all earnings will be placed in reserve and no expenditures will be allowed.

3. Should investment income determined by the fair value method specified in #1 and realized capital gains as discussed in #1 below not be sufficient to meet the required payout, the reserve account may be used to meet this requirement. Should an account not have sufficient reserves, the account will receive only the total amount available. Should an operating account have a negative balance due to insufficient income, projected expenditures for the following year will be reduced by the projected negative balance.
4. Any remaining funds will be reserved for future distribution.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pooled Investments (Continued)

Realized Capital Gains are to be distributed as follows:

1. Should distribution of investment income by the fair value method not be sufficient to cover the requirement specified in #2 above, an amount sufficient to meet the requirements will be allocated.
2. Any additional capital gains will be distributed to the Reserve fund established for each endowment account. Should funds in the reserve at June 30 exceed 20% of permanent fund balance (total fund balance less reserves), such funds will be placed in the Board Approved Reserves.
3. Any capital losses will be distributed as a reduction to the endowment corpus if sufficient reserves are not available.

Support - Pledges are recognized when all eligibility and time requirements have been met.

Net Position - The Foundation's net position is classified as follows:

Net Investment in Capital Assets: This represents the Foundation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted for Nonexpendable: Nonexpendable restricted net position 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 be expendable or added to principal.

Restricted for Expendable: Restricted expendable net position includes resources in which the Foundation is legally or contractually obligated to spend resources in accordance with restrictions imposed by donors or other outside sources.

Unrestricted: Unrestricted net position represents resources that are available for transactions relating to the educational and general operations of the Foundation, and may be used at the discretion of the Foundation to meet current expenses for any purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Accordingly, actual results could differ from those estimates.

Date of Management's Review - Management has evaluated events and transactions occurring subsequent to the Statement of Net Position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 2 - CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2017, cash and cash equivalents consists of \$275,155 in bank accounts, \$3,441,345 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$16,097,320 in cash held by others. At June 30, 2016, cash and cash equivalents consists of \$218,052 in bank accounts, \$1,221,273 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$1,031,353 in cash held by others.

At June 30, 2017 and 2016, respectively, \$16,083,669 and \$1,017,702 of the cash held by others is held by a broker in a money market fund. The fund has not been rated by a nationally recognized rating agency.

The Local Government Investment Pool (LGIP) is part of the Pooled Investment Fund administered by the State Treasurer. The LGIP has not been rated by a nationally recognized rating agency and its required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury>.

NOTE 3 - INVESTMENTS

The Foundation is authorized to invest funds in accordance with its board of directors policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

As of June 30, 2017, the Foundation had the following fixed income investments and maturities.

Investment Maturities (In Years)						
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No Maturity Date</u>
Corporate bonds	\$ 2,414,069	\$ 1,342,118	\$ 1,071,951	\$ -	\$ -	\$ -
Mutual bond funds	<u>13,876,559</u>	<u>929,963</u>	<u>2,945,891</u>	<u>3,352,428</u>	<u>6,648,277</u>	<u>-</u>
Total	<u>\$ 16,290,628</u>	<u>\$ 2,272,081</u>	<u>\$ 4,017,842</u>	<u>\$ 3,352,428</u>	<u>\$ 6,648,277</u>	<u>\$ -</u>

As of June 30, 2016, the Foundation had the following fixed income investments and maturities.

Investment Maturities (In Years)						
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>	<u>No Maturity Date</u>
Corporate bonds	\$ 3,209,443	\$ 761,675	\$ 2,447,768	\$ -	\$ -	\$ -
Mutual bond funds	<u>14,555,312</u>	<u>31,105</u>	<u>2,737,964</u>	<u>3,759,308</u>	<u>8,026,935</u>	<u>-</u>
Total	<u>\$ 17,764,755</u>	<u>\$ 792,780</u>	<u>\$ 5,185,732</u>	<u>\$ 3,759,308</u>	<u>\$ 8,026,935</u>	<u>\$ -</u>

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (Continued)

Interest Rate Risk In order to reduce its exposure to interest rate risk, the Foundation will set limits regarding the weighted average maturity for each direct investment pool. In the case of federal securities, the weighted average of all investments should be less than three (3) years.

Credit Risk Securities are rated using Standard and Poor's, Moody's, and/or Fitch's and are presented below using the Standard and Poor's rating scale. The Foundation policy is to limit all direct investments to securities with an investment rating of no less than A as rated by Moody's and A as rated by Standard and Poor's.

As of June 30, 2017, the Foundation's fixed income investments were rated as follows:

Credit Quality Rating							
<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Baa</u>	<u><Baa</u>	<u>Unrated</u>
Local Government Investment Pool (LGIP)	\$ 3,441,345	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,441,345
Corporate bonds	2,414,069	-	-	1,844,349	-	-	569,720
Mutual bond funds	<u>13,876,559</u>	<u>9,722,851</u>	<u>266,515</u>	<u>1,064,352</u>	<u>1,264,665</u>	<u>1,558,176</u>	<u>-</u>
Total	<u>\$ 19,731,973</u>	<u>\$ 9,722,851</u>	<u>\$ 266,515</u>	<u>\$ 2,908,701</u>	<u>\$ 1,264,665</u>	<u>\$ 1,558,176</u>	<u>\$ 4,011,065</u>

As of June 30, 2016, the Foundation's fixed income investments were rated as follows:

Credit Quality Rating							
<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Baa</u>	<u><Baa</u>	<u>Unrated</u>
Local Government Investment Pool (LGIP)	\$ 1,221,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,221,273
Corporate bonds	3,209,443	-	-	211,823	1,585,465	-	1,412,155
Mutual bond funds	<u>14,555,312</u>	<u>9,619,501</u>	<u>301,795</u>	<u>1,140,974</u>	<u>1,527,929</u>	<u>1,965,113</u>	<u>-</u>
Total	<u>\$ 18,986,028</u>	<u>\$ 9,619,501</u>	<u>\$ 301,795</u>	<u>\$ 1,352,797</u>	<u>\$ 3,113,394</u>	<u>\$ 1,965,113</u>	<u>\$ 2,633,428</u>

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation does not have a deposit policy for custodial credit risk. At June 30, 2017 and 2016, the Foundation had \$69,806,555 and \$81,178,808, respectively, of uninsured and unregistered investments for which the securities are held by the counterparty.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments of endowment and similar funds are composed of the following:

	Carrying Value	
	June 30, 2017	June 30, 2016
Mutual funds	\$ 52,804,706	\$ 65,095,478
Corporate bonds	2,414,069	3,209,443
Deposits Held by Others	16,097,319	13,651
CD's	249,782	266,222
Land	-	69,900
Total	<u>\$ 71,565,876</u>	<u>\$ 68,654,694</u>

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit fair value at the beginning of the calendar quarter within which the transaction takes place. Of the total units at March 31, 2017, each having a fair value of \$1.1028820638, 62,035,683.13 units were owned by endowment, and 95,670.09 units were owned by quasi-endowment. Of the total units at March 31, 2016, each having a fair value of \$0.9926638089, 64,800,102.65 units were owned by endowment, and 127,422.78 units were owned by quasi-endowment.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

<u>FY 2017</u>	<u>Pooled Assets</u>		<u>Net Gains</u>	<u>Fair Value per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$72,970,340	\$68,617,732	\$ 4,352,608	1.1028820638
Beginning of year	86,979,508	86,447,124	532,384	0.9926638089
Unrealized net gains			3,820,224	
Realized net gains			3,508,597	
Total net gains			<u>\$ 7,328,821</u>	
<u>FY 2016</u>	<u>Pooled Assets</u>		<u>Net Gains (Losses)</u>	<u>Fair Value per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$86,979,508	\$86,447,124	\$ 532,384	0.9926638089
Beginning of year	90,452,238	85,275,845	5,176,393	1.1417575585
Unrealized net losses			(4,644,009)	
Realized net losses			(465,614)	
Total net losses			<u>\$ (5,109,623)</u>	

The average annual earnings per unit, exclusive of net gains, were \$.014 for the year ended June 30, 2017 and \$.029 for the year ended June 30, 2016.

Fair Value Measurement - The foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (Continued)

The Foundation has the following recurring and nonrecurring fair value measurements as of June 30, 2017:

		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Investments at Fair Value				
Debt Securities				
Corporate bonds	\$ 2,414,069	\$ 2,414,069	\$ -	\$ -
Mutual bond funds	13,876,558	13,876,558	-	-
Certificates of deposit	749,716	749,716	-	-
Total debt securities	<u>17,040,343</u>	<u>17,040,343</u>	<u>-</u>	<u>-</u>
Equity securities				
Mutual equity funds	<u>46,910,637</u>	<u>46,910,637</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>63,950,980</u>	<u>\$ 63,950,980</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at Net Asset Value				
Commingled equity funds				
Vontobel Asset Management, Inc	3,112,684			
Copper Rock Capital Partners LLC	2,894,584			
Thompson, Siegal, & Walmsley LLC	3,012,092			
Tennessee LGIP	<u>3,441,345</u>			
Total investments at net asset value	<u>12,460,705</u>			
Investments at Cash Surrender Value				
Cash value of life insurance	<u>380,476</u>			
Total investments	<u>\$ 76,792,161</u>			

Total investments consist of investments valued at \$73,350,816 and the LGIP valued at \$3,441,345 which is considered a cash and cash equivalent.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (Continued)

The Foundation has the following recurring and nonrecurring fair value measurements as of June 30, 2016:

		Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Investments at Fair Value				
Debt Securities				
Corporate bonds	\$ 3,209,443	\$ 3,209,443	\$ -	\$ -
Mutual bond funds	14,555,312	14,555,312	-	-
Certificates of deposit	<u>2,521,357</u>	<u>2,521,357</u>	-	-
Total debt securities	<u>20,286,112</u>	<u>20,286,112</u>	-	-
Equity securities				
Mutual equity funds	<u>58,818,976</u>	<u>58,818,976</u>	-	-
Other assets at fair value				
Real estate	<u>69,900</u>	-	-	<u>69,900</u>
Total investments at fair value	<u>79,174,988</u>	<u>\$ 79,105,088</u>	<u>\$ -</u>	<u>\$ 69,900</u>
Investments at Net Asset Value				
Commingled equity funds				
Vontobel Asset Management, Inc	2,699,124			
Copper Rock Capital Partners LLC	2,531,769			
Thompson, Siegal, & Walmsley LLC	2,492,584			
Real estate funds	81,043			
Tennessee LGIP	<u>1,221,273</u>			
Total investments at net asset value	<u>9,025,793</u>			
Investments at Cash Surrender Value				
Cash value of life insurance	<u>349,686</u>			
Total investments	<u>\$ 88,550,467</u>			

Total investments consist of investments valued at \$87,329,194 and the LGIP valued at \$1,221,273 which is considered a cash and cash equivalent.

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 3 of the fair value hierarchy are valued using realtor market analysis.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (Continued)

The valuation method for assets and liabilities measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Commingled equity funds				
Vontobel Asset Management, Inc	3,112,684	-	Monthly	15 Days
Copper Rock Capital Partners LLC	2,894,584	-	Monthly	10 Days
Thompson, Siegal, & Walmsley LLC	3,012,092	-	Monthly	30 Days
Tennessee LGIP	3,441,345	-	Daily	None

Commingled equity funds are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

LGIP is an external investment pool that measures all of its investments at amortized costs, which is its net asset value per share. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more.

Endowments - The ETSU Foundation's endowment consists of 543 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net position associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the ETSU Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as preservation of the historical dollar value of the original gift. As a result of this interpretation, the ETSU Foundation classifies as permanently restricted net position (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 position is classified as temporarily restricted net position 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:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the endowment fund
3. General economic conditions
4. The possible effect of inflation or 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

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 3 - INVESTMENTS (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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that over the long term, will achieve a total return equivalent to or greater than the Foundation's financial requirements over the time horizon. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending Policy and How the Investment Objectives Relate

The Foundation has a policy of appropriating for distribution each year 3%-5% of the average quarterly balance for the three preceding calendar years depending on the amount of reserve for each endowment. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

At June 30, 2017, net appreciation of \$10,178,438 is available to be spent, of which \$5,866,579 is included in restricted net position expendable for scholarships and fellowships, \$89,551 is included in restricted net position expendable for research, \$740,831 is included in restricted net position expendable for instructional departmental uses, and \$3,481,477 is included in restricted net position expendable for other purposes.

In September of 2017, the Foundation began moving their investments to new management companies. The effect of this change on credit risk classifications and its expected effect on future credit risk classifications is not yet known and has not been estimated.

NOTE 4 - INCOME TAX STATUS

The Internal Revenue Service has ruled (February 19, 1971) that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Foundation evaluates its uncertain income tax positions in accordance with applicable standards, has evaluated its tax positions, and believes that it has none that are uncertain. At the statement of net position date, the Foundation's Form 990s for the current and three preceeding years remained subject to examination by the Internal Revenue Service.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 5 - RELATED PARTY TRANSACTIONS

East Tennessee State University provides a portion of the facilities and equipment used by the Foundation at no cost. In addition, certain personnel of the University provide services to the Foundation without charge. The Foundation received funds in the amount of \$681,000 and \$414,000 during the years ended June 30, 2017 and 2016, respectively, from the Medical Education Assistance Corporation ("MEAC"), a nonprofit organization that is also affiliated with East Tennessee State University.

NOTE 6 - PLEDGES RECEIVABLE

Pledges receivable are summarized below:

	June 30, 2017	June 30, 2016
Current pledges	\$ 1,059,129	\$ 977,399
Pledges due in one to five years	3,050,305	3,124,995
Pledges due after five years	<u>756,720</u>	<u>870,220</u>
Subtotal	4,866,154	4,972,614
Less allowance for doubtful accounts	(11,817)	(85,479)
Less discounts to net present value	<u>(359,732)</u>	<u>(267,246)</u>
Total pledges receivable, net	<u>\$ 4,494,605</u>	<u>\$ 4,619,889</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets at cost:				
Buildings	\$ 59,000	\$ -	\$ -	\$ 59,000
Equipment	9,486	247,000	(9,486)	247,000
Other Assets	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Total assets at cost	80,486	247,000	(9,486)	318,000
Less accumulated depreciation:	<u>59,000</u>	<u>49,400</u>	<u>-</u>	<u>108,400</u>
Capital assets, net	<u>\$ 21,486</u>	<u>\$ 197,600</u>	<u>\$ (9,486)</u>	<u>\$ 209,600</u>

Additions consist of an LED video board display for Men's Basketball.

EAST TENNESSEE STATE UNIVERSITY FOUNDATION
Notes to Financial Statements (Continued)

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets at cost:				
Buildings	\$ 59,000	\$ -	\$ -	\$ 59,000
Equipment	9,486	-	-	9,486
Other Assets	-	12,000	-	12,000
Total assets at cost	68,486	12,000	-	80,486
Less accumulated depreciation:	59,000	-	-	59,000
Capital assets, net	<u>\$ 9,486</u>	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$ 21,486</u>

Additions consist of a Spinnaker Resort Timeshare at Hilton Head Island, SC.