

**THE HENRY W. GRADY HEALTH
SYSTEM FOUNDATION, INC.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Henry W. Grady Health System Foundation, Inc.

We have audited the accompanying financial statements of The Henry W. Grady Health System Foundation, Inc. (the Foundation), which are comprised of the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 The Henry W. Grady Health System Foundation, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Henry W. Grady Health System Foundation, Inc.'s, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

Atlanta, Georgia
March 29, 2017

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS		
	2016	2015
Cash and cash equivalents	\$ 36,877,705	\$ 42,728,419
Investments	2,909,823	2,819,061
Accounts receivable	2,085,579	94,460
Prepaid expenses	49,915	54,831
Unconditional promises to give	4,531,820	1,886,525
Property and equipment	4,509	10,821
TOTAL ASSETS	\$ 46,459,351	\$ 47,594,117
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 2,142,552	\$ 144,770
Deferred revenue	224,952	361,159
Total liabilities	2,367,504	505,929
NET ASSETS		
Unrestricted		
Designated	301,420	272,000
Undesignated	2,107,507	460,437
	2,408,927	732,437
Temporarily restricted	41,665,307	46,338,138
Permanently restricted	17,613	17,613
Total net assets	44,091,847	47,088,188
TOTAL LIABILITIES AND NET ASSETS	\$ 46,459,351	\$ 47,594,117

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(with comparative totals for 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public support and revenues					
Contributions	\$ 1,693,007	\$ 21,574,846	\$ -	\$ 23,267,853	\$ 11,150,974
Federal grants	-	-	-	-	299,539
Investment income – undesignated	2,256	-	-	2,256	1,449
Investment income – designated	129,665	-	-	129,665	39,867
Hospital support	1,824,361	-	-	1,824,361	1,399,568
Gifts in-kind	10,918	38,635	-	49,553	89,689
Special events	1,559,965	97,775	-	1,657,740	1,594,291
Other revenues – undesignated	327,607	-	-	327,607	127,554
Other revenues – designated	171,755	-	-	171,755	232,133
Net assets released from restrictions	26,384,087	(26,384,087)	-	-	-
Total public support and revenues	32,103,621	(4,672,831)	-	27,430,790	14,935,064
Expenses					
Program services					
Support to					
Grady Health System	1,230,364	-	-	1,230,364	1,206,111
Social services programs	133,309	-	-	133,309	131,312
Health and medical programs	26,346,222	-	-	26,346,222	4,363,141
Education and training programs	61,160	-	-	61,160	44,224
Other	63	-	-	63	36
Total program expenses	27,771,118	-	-	27,771,118	5,744,824
Support services					
Management and general	1,537,981	-	-	1,537,981	1,411,706
Fundraising	1,118,032	-	-	1,118,032	818,463
Total support services	2,656,013	-	-	2,656,013	2,230,169
Total expenses	30,427,131	-	-	30,427,131	7,974,993
Changes in net assets	1,676,490	(4,672,831)	-	(2,996,341)	6,960,071
Net assets at beginning of year	732,437	46,338,138	17,613	47,088,188	40,128,117
Net assets at end of year	\$ 2,408,927	\$ 41,665,307	\$ 17,613	\$ 44,091,847	\$ 47,088,188

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,996,341)	\$ 6,960,071
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	6,312	21,820
Unrealized (gain) loss on investments	(11,746)	39,289
Loss on sale of investments	-	15,334
(Increase) decrease in assets:		
Accounts receivable	(1,991,119)	(79,781)
Unconditional promises to give	(2,645,295)	(744,891)
Prepaid expenses	4,916	44,556
Increase (decrease) in liabilities:		
Accounts payable	1,997,782	(93,908)
Deferred revenue	(136,207)	36,599
Net cash (used in) provided by operating activities	(5,771,698)	6,199,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment purchases	-	(4,399)
Investments, net	(79,016)	(58,538)
Net cash used in investing activities	(79,016)	(62,937)
Net (decrease) increase in cash and cash equivalents	(5,850,714)	6,136,152
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	42,728,419	36,592,267
AT END OF YEAR	\$ 36,877,705	\$ 42,728,419

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF BUSINESS

The Henry W. Grady Health System Foundation, Inc. (the Foundation) was incorporated on May 13, 1993, as a not-for-profit organization for the purpose of promoting the developing quality health care for the Fulton DeKalb Hospital Authority (the Authority) doing business as Grady Health System. In May 2008 the hospital operations transferred to the Grady Memorial Hospital Corporation (GMHC or the Hospital) but the relationship with the hospital operations continued.

The major source of support for ongoing services is contributions from the general public. The major programs funded by the Foundation on a recurring basis are the health and medical programs of GMHC including Teen Services, the Grady Cancer Center and the Pharmacy Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Under accounting principles generally accepted in the United States of America (GAAP) net assets and revenues, expenses, gains and losses are accounted for and classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets include amounts that are not subject to donor-imposed stipulations which are used to account for resources available to carry out the general purposes of the Foundation in accordance with the limitations of its bylaws. The principal sources of unrestricted funds are contributions, Hospital support (see Note 6) and investment income. Designated net assets represent unrestricted amounts that are designated by the board of directors for program service use.

Temporarily restricted net assets are those resources available for use, but whose use by the Foundation is limited by donor-imposed stipulations that either expire through the passage of time or can be fulfilled through action by the Foundation. When a donor or grantor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent net assets resulting from contributions whose use by the Foundation is limited by donor-imposed stipulations that do not expire.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are received to discount the amounts. Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, the Foundation used a risk free discount rate for the years ended December 31, 2016 and 2015. An allowance for uncollectible promises to give is provided based on management's evaluation of potential uncollectible promises receivable at year end.

At December 31, 2016 100% of the unconditional promises to give balance was attributable to four donors. At December 31, 2015, 99% of the unconditional promises to give balance was attributable to two donors.

In Kind Contributions

Contributed goods and services are recognized if they create or enhance nonfinancial assets or if they require specialized skills and would typically be purchased if not provided by donation. Contributed goods and services for the years ended December 31, 2016 and 2015 amounted to approximately \$49,000 and \$89,000, respectively, for promotional services, training and development, other services and donated items.

Revenue Recognition

Revenue for meeting registration and seminars is recognized as services are performed. Grant revenue is recognized when grants are received.

Deferred Revenue

Deferred revenue at December 31, 2016 and 2015 represents special event sponsorships for an event in the subsequent year.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months at inception or origination. The carrying value of cash and cash equivalents approximates fair value.

Investments

Investments are carried at fair value in accordance with FASB ASC 958, *Investments – Debt and Equity Securities for Not-for-Profit Organizations* and FASB ASC 820, *Fair Value Measurements and Disclosures*. Under FASB ASC 820, fair value measurements are disclosed by level within the fair value hierarchy. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Level I: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level II: Valuations based on quoted prices in markets that are not active or based on valuation models for which all significant inputs are observable, either directly or indirectly.

Level III: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Level III investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

All of the Foundation's investments are Level I investments.

Accounts Receivable

Management evaluates the collectability of accounts receivable annually. In the opinion of management, as of December 31, 2016 and 2015 all accounts receivable were collectible and no allowance for uncollectible receivables was necessary.

Property and Equipment

Acquisitions of property and equipment in excess of \$500 are capitalized at cost. Donated assets are recorded at their fair value at the date of donation based on an attestation signed by the donor. Property and equipment are depreciated using the straight-line method over estimated useful lives. The estimated useful life for furniture, fixtures and computer equipment is five years. Artwork is not a depreciable asset.

Fair Value of Financial Instruments

Financial instruments, primarily cash, receivables and accounts payable are reported at values which the Foundation believes are not significantly different from fair values. Management believes no significant credit risk exists with respect to any of its financial instruments.

Uninsured Cash Balances

The Foundation maintains cash balances in various financial institutions. Deposit accounts at each of the institutions are insured up to \$250,000, by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2016 and 2015 the Foundation exceeded the FDIC insured limits at financial institutions by approximately \$36,000,000 and \$42,000,000, respectively, which is the amount of the Foundation's exposure to credit loss. The Foundation has not experienced any losses in such accounts and believes there is little or no exposure to any significant credit risk.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses

The costs of providing the Foundation's programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is classified as an organization which is not a private foundation under Section 509(a) of the U.S. Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction. Management does not believe there are any uncertain tax positions at December 31, 2016 as defined by FASB ASC 740, *Income Taxes*.

The Foundation could be subject to income tax examinations for its U.S. federal tax filings for the current tax year and previous filings for years 2015, 2014, and 2013 still open under the statute of limitations.

Comparative Information

The amounts shown for the year ended December 31, 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

Events Occurring After Report Date

Management has evaluated events and transactions that occurred between December 31, 2016 and March 29, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 2016 are as follows:

Year ending December 31,	
2017	\$ 1,650,000
2018	1,650,000
2019	650,000
2020	400,000
2021	<u>400,000</u>
Total	4,750,000
Less: Discount to net present value	(164,362)
Allowance for doubtful accounts	<u>(53,818)</u>
Net unconditional promises to give	<u><u>\$ 4,531,820</u></u>

Unconditional promises to give with due dates extending beyond one year are discounted using US Treasury security rates for similar term investments.

4. INVESTMENTS

The Foundation's investments at December 31, 2016 and 2015 are comprised of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
United States				
Money Market Funds	\$ 111,195	\$ 111,195	\$ 32,179	\$ 32,179
High Yield Mutual Funds	1,095,000	1,084,256	1,095,000	1,073,303
Common Collective Trust Funds	<u>1,752,432</u>	<u>1,714,372</u>	<u>1,752,432</u>	<u>1,713,579</u>
	<u><u>\$ 2,958,627</u></u>	<u><u>\$ 2,909,823</u></u>	<u><u>\$ 2,879,611</u></u>	<u><u>\$ 2,819,061</u></u>

Investment income for the years ended December 31, 2016 and 2015 is composed of:

	<u>2016</u>	<u>2015</u>
Interest income, net of fees	\$ 120,175	\$ 95,939
Unrealized gain (loss) on investments	11,746	(39,289)
Realized loss on investments	<u>-</u>	<u>(15,334)</u>
Net investment income	<u><u>\$ 131,921</u></u>	<u><u>\$ 41,316</u></u>

The Board has designated a portion of the income from investments to be used towards GMHC programs. See Note 7 for further explanation.

**THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 92,337	\$ 92,337
Furniture and fixtures	170,420	170,420
	<u>262,757</u>	<u>262,757</u>
Less accumulated depreciation	<u>(258,248)</u>	<u>(251,936)</u>
	<u>\$ 4,509</u>	<u>\$ 10,821</u>

6. RELATED PARTY TRANSACTIONS

Hospital Support

The Hospital provides staff assistance and certain other related services to the Foundation. Salaries, benefits, and other administrative expenses incurred by the Foundation and subsidized by the Hospital for the years ended December 31, 2016 and 2015 was \$1,824,361 and \$1,399,568, respectively. The Foundation has recognized these expenses as management and general expense and a corresponding amount has been recorded in the Statement of Activities as Hospital Support.

Receivable from Hospital

As of December 31, 2016 a receivable from the Hospital totaling \$2,000,000 was recorded which represents amounts due from the Hospital related to the Marcus Foundation advance that was received by the Foundation and disbursed to the Hospital during the year. See Note 9 for further information. As of December 31, 2015 a receivable from the Hospital totaling \$77,374 was recorded which represents amounts due from the Hospital related to administrative service agreements.

Support to the Hospital

As of December 31, 2016 and 2015 approximately \$14,000 and \$78,000, respectively, was due to the hospital related to program disbursements.

**THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. RESTRICTED AND DESIGNATED NET ASSETS

The components of the restricted net assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Temporarily Restricted Net Assets:		
Capital improvements for GMHC	\$ 31,668,608	\$ 40,899,923
Various programs for GMHC	<u>9,996,699</u>	<u>5,438,215</u>
	<u>\$ 41,665,307</u>	<u>\$ 46,338,138</u>
Permanently Restricted Net Assets:		
Endowment fund	<u>\$ 17,613</u>	<u>\$ 17,613</u>

Net assets restricted for capital improvements include \$3,781,820 in net assets that are also time restricted as follows:

2017	\$ 1,323,772
2018	1,323,772
2019	376,284
2020	378,996
2021	<u>378,996</u>
	<u>\$ 3,781,820</u>

Income from the endowment fund is designated by the Board to be used to fund GMHC programs.

Designated Net Assets

The Board has designated that any investment income that is generated on temporarily restricted funds should be used for program purposes that are in line with the underlying gift's restrictions. In addition, the Board has designated that revenue from seminars be used for the GMHC department that assisted with the seminar. Total board designated net assets as of December 31, 2016 and 2015 were \$301,420 and \$272,000, respectively.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

8. LEASE COMMITMENTS

The Foundation has obligations under various non-cancelable operating leases for office space and equipment. Future minimum lease payments are as follows:

Year ending December 31,		
2017	\$	138,001
2018		143,364
2019		147,275
2020		150,757
2021		<u>50,392</u>
Total	\$	<u>629,789</u>

Rental expense under operating leases for the years ended December 31, 2016 and 2015 was approximately \$155,000 and \$147,000, respectively. The lease for office space is subject to escalation based on increases in building operating expenses.

9. CONDITIONAL GRANTS

In February 2015 the Foundation was awarded two grants by The Marcus Foundation, Inc. totaling \$30,000,000. The first grant is for \$20,000,000 to support the expansion of the Marcus Trauma and Emergency Center to be used as the final funds for the project. The second grant is for \$10,000,000 to support the Marcus Stroke and Neuroscience Center Multidisciplinary Outpatient Center Expansion of which a \$2,000,000 advance will be released upon engagement of an architect. Both grants will be disbursed on a semiannual reimbursement basis. As of December 31, 2015, the Foundation had not requested reimbursement for either of the grants. As of December 31, 2016, the Foundation received the \$2,000,000 advance to support the Marcus Stroke and Neuroscience Center Multidisciplinary Outpatient Center Expansion. The Foundation disbursed the advance to the Hospital and recorded a \$2,000,000 receivable from the Hospital and a \$2,000,000 payable to the Marcus Foundation.

In August 2015 the Foundation was awarded a grant by the Home Depot Foundation, Inc. totaling \$800,000. Payment of \$250,000 was made to the Foundation upon receipt of the signed agreement. The remaining \$550,000 is to be received upon completion of fundraising for revitalization of the Women's and Infant's Center. As of December 31, 2015 the Foundation had not fulfilled the requirements to request the remaining \$550,000. In February 2016 the Foundation fulfilled the fundraising requirements and received payment of the remaining \$550,000.