

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019, and the related statements of activities, functional expenses 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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

Atlanta, Georgia
April 9, 2020

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS		
	2019	2018
Cash and cash equivalents	\$ 34,947,570	\$ 42,167,242
Investments	3,259,432	3,003,734
Accounts receivable	103,556	126,011
Prepaid expenses	98,657	77,119
Unconditional promises to give	20,648,071	25,532,091
Property and equipment	244,102	27,773
TOTAL ASSETS	\$ 59,301,388	\$ 70,933,970
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 1,314,378	\$ 433,666
Deferred rent	318,807	-
Deferred revenue	22,500	252,297
TOTAL LIABILITIES	1,655,685	685,963
NET ASSETS		
Without donor restrictions		
Undesignated	3,385,205	1,875,330
Board designated	476,432	135,065
Total net assets without donor restrictions	3,861,637	2,010,395
With donor restrictions		
Restricted by purpose or time	53,766,453	68,219,999
Restricted in perpetuity	17,613	17,613
Total net assets with donor restrictions	53,784,066	68,237,612
TOTAL NET ASSETS	57,645,703	70,248,007
TOTAL LIABILITIES AND NET ASSETS	\$ 59,301,388	\$ 70,933,970

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
PUBLIC SUPPORT AND REVENUES				
Contributions	\$ 1,614,053	\$ 12,449,714	\$ 14,063,767	\$ 32,358,440
Investment income – undesignated	17,105	-	17,105	6,644
Investment income – designated	292,986	-	292,986	15,897
Hospital support	2,352,503	-	2,352,503	2,079,450
Gifts in-kind	41,014	5,779	46,793	350,430
Special events	2,301,149	52,650	2,353,799	2,167,085
Other revenues – undesignated	74,801	-	74,801	201,653
Other revenues – designated	183,446	-	183,446	119,170
Net assets released from restrictions	26,961,689	(26,961,689)	-	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>33,838,746</u>	<u>(14,453,546)</u>	<u>19,385,200</u>	<u>37,298,769</u>
EXPENSES				
Program services				
Support to Grady Health System	1,391,873	-	1,391,873	1,644,828
Health and medical programs	25,859,880	-	25,859,880	9,270,065
Other	502,689	-	502,689	211,921
Total program expenses	<u>27,754,442</u>	<u>-</u>	<u>27,754,442</u>	<u>11,126,814</u>
Support services				
Management and general	2,251,517	-	2,251,517	1,737,515
Fundraising	1,981,545	-	1,981,545	2,420,595
Total support services	<u>4,233,062</u>	<u>-</u>	<u>4,233,062</u>	<u>4,158,110</u>
TOTAL EXPENSES	<u>31,987,504</u>	<u>-</u>	<u>31,987,504</u>	<u>15,284,924</u>
CHANGES IN NET ASSETS	1,851,242	(14,453,546)	(12,602,304)	22,013,845
NET ASSETS AT:				
BEGINNING OF YEAR	<u>2,010,395</u>	<u>68,237,612</u>	<u>70,248,007</u>	<u>48,234,162</u>
END OF YEAR	<u>\$ 3,861,637</u>	<u>\$ 53,784,066</u>	<u>\$ 57,645,703</u>	<u>\$ 70,248,007</u>

See notes to the financial statements.

**THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative totals for 2018)**

	2019						Total	2018
	Support to Grady Health System	Health and Medical Programs	Other	Total Program Services	Management and General	Fundraising		
Grants to GMHC	\$ 1,246,711	\$ 22,815,126	\$ 2,500	\$ 24,064,337	\$ -	\$ -	\$ 24,064,337	\$ 8,010,509
Professional services	-	908,791	334,227	1,243,018	548,180	231,279	2,022,477	2,027,422
Personnel costs	-	1,204,361	-	1,204,361	497,883	1,407,170	3,109,414	2,625,718
Patient support	-	651,939	-	651,939	-	-	651,939	474,033
Event expense	-	-	-	-	-	341,855	341,855	697,647
Conferences, meetings and travel	-	72,692	16,839	89,531	317,411	-	406,942	365,326
Supplies	-	194,057	81,001	275,058	45,620	1,241	321,919	308,105
Occupancy	-	-	-	-	275,396	-	275,396	174,199
Technology	-	-	-	-	135,618	-	135,618	145,599
Depreciation and amortization	-	-	-	-	27,548	-	27,548	1,404
Miscellaneous	145,162	12,914	68,122	226,198	403,861	-	630,059	454,962
	<u>\$ 1,391,873</u>	<u>\$ 25,859,880</u>	<u>\$ 502,689</u>	<u>\$ 27,754,442</u>	<u>\$ 2,251,517</u>	<u>\$ 1,981,545</u>	<u>\$ 31,987,504</u>	<u>\$ 15,284,924</u>

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (12,602,304)	\$ 22,013,845
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	27,548	1,404
Unrealized (gain) loss on investments	(156,793)	110,515
Loss on sale of investments	-	-
Decrease (increase) in assets:		
Accounts receivable	22,455	1,935,778
Unconditional promises to give	4,884,020	(14,211,123)
Prepaid expenses	(21,538)	(2,360)
Increase (decrease) in liabilities:		
Accounts payable	880,712	(1,794,856)
Deferred rent	82,522	-
Deferred revenue	(229,797)	(380,542)
Net cash (used in) provided by operating activities	(7,113,175)	7,672,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment purchases	(7,592)	(25,083)
Investments, net	(98,905)	(82,439)
Net cash used in investing activities	(106,497)	(107,522)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,219,672)	7,565,139
CASH AND CASH EQUIVALENTS AT:		
BEGINNING OF YEAR	42,167,242	34,602,103
END OF YEAR	\$ 34,947,570	\$ 42,167,242
NONCASH INVESTING AND FINANCING ACTIVITIES		
Leasehold improvements financed through office lease agreement	\$ 236,285	\$ -

See notes to the financial statements.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

In 2017 Grady launched a \$164.7 million capital campaign to fund two critical capital projects. The campaign will fund the creation of a new Center for Advanced Surgical Services that will increase capacity and efficiency for essential surgical services and specialty clinics that have a tremendous impact on the quality of life of patients, as well as free up space in the hospital for much-needed inpatient beds. In addition, campaign funding will be used to expand and transform Grady's Ponce Center for treatment of HIV/AIDS so the hospital can serve more patients and conduct more groundbreaking research, allowing the community to more forcefully respond to and stem metro Atlanta's HIV/AIDS epidemic.

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 the Women and Infant Center, the Grady Cancer Center, Behavioral Health Services and Emergency Services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities at year-end. Net assets, revenues, expenses, gains and losses are recorded based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.

Board Designated – Assets designated by the Board of Directors (the Board) to be held for endowment or other specified purposes. The Board can elect to remove these designations in the future.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or passage of time. Additionally, net assets subject to donor-imposed stipulations that the Foundation maintain them permanently. Earnings from the Foundation's net assets held in perpetuity are restricted by donors to be used for GMHC programs.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounting for Contributions

The Foundation records contributions at the date of the gift. Donated investments are recorded at their fair value on the date donated. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated by the donor for specific purposes or for use in a future period are reported as an increase to net assets with donor restrictions.

Restrictions on contributions expire when a purpose or time restriction is accomplished. Upon satisfaction, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying statement of activities as net assets released from restrictions. Net assets with donor restrictions include the principal amount of contributions accepted with the stipulation from the donors that the principal be maintained in perpetuity.

Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in restricted support at the time of receipt and as net assets released from restrictions upon satisfaction of the donor restriction.

Unconditional Promises to Give

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, 2019 and 2018. 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, 2019 50% of the unconditional promises to give balance was attributable to two donors. At December 31, 2018, 69% 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, 2019 and 2018 amounted to approximately \$47,000 and \$349,000, 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 awarded.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Revenue

Deferred revenue at December 31, 2019 and 2018 represents special event sponsorships for two events in the subsequent year (White Coat Gala and VeloCity). In 2018 VeloCity, a premier cycling event benefitting Grady Health System, was the first event of its kind anchored in downtown Atlanta. Rides ranging from 100 miles to a short family-oriented course celebrated health and wellness, teamwork, and the critical relationship between Grady Health System and the people and region it serves.

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. 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:

- Level 1 – 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 2 – 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 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Level 3 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 1 investments.

Accounts Receivable

Management evaluates the collectability of accounts receivable annually. In the opinion of management, as of December 31, 2019 and 2018 all accounts receivable were collectible and no allowance for uncollectible receivables was necessary.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. Leasehold improvements are amortized over the life of the lease.

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, 2019 and 2018 the Foundation exceeded the FDIC insured limits at financial institutions by approximately \$34,000,000 and \$41,000,000, 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.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, personnel costs have been allocated among the program and supporting services benefited based on estimates of time and effort.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is classified as an organization which is not a private foundation under Section 509(a) of the IRC. The Foundation qualifies for the charitable contribution deduction.

Comparative Information

The amounts shown for the year ended December 31, 2018 in the accompanying financial statements are included to provide a basis for comparison with 2019 and present summarized totals only. Accordingly, the 2018 totals are not intended to present all information necessary for a fair presentation in conformity with GAAP. Such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2018, 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.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Events Occurring After Report Date

Management has evaluated events and transactions that occurred between December 31, 2019 and April 9, 2020, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Adoption of New Accounting Standards

On January 1, 2019 the Foundation adopted FASB Accounting Standards Update (ASU) 2014-09, the new revenue recognition accounting standard issued by the FASB and codified in ASC 606, *Revenue from Contracts with Customers*. The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, as satisfied. The standard also requires expanded disclosures regarding the Foundation's revenue recognition policies and significant judgment employed in the determination of revenue. The adoption of ASC 606 did not have a material impact on the financial statements and the Foundation does not expect it to have a material impact on the results of operations on a prospective basis.

Additionally, on January 1, 2019 the Foundation adopted FASB ASU 2018-08 *Not-for-Profit Entities (Topic 958-605)* clarifying the accounting guidance for contributions received and contributions made to assist entities in distinguishing between contributions (non-reciprocal) and exchange (reciprocal) transactions and to determine whether a contribution is conditional. The adoption of this ASU did not have a material impact on the financial statements and the Foundation does not expect it to have a material impact on the results of operations on a prospective basis.

Recently Issued Accounting Standards

In February 2016 the FASB issued ASU 2016-02, *Leases*, to increase transparency and improve comparability by requiring entities to recognize assets and liabilities on the statements of financial position for all leases, with certain exceptions. In addition, through improved disclosure requirements, the standard update will enable users of financial statements to further understand the amount, timing, and uncertainty of cash flows arising from leases. The new guidance will be effective for the Foundation for the fiscal year ending December 31, 2021; however, early adoption is permitted. Entities are allowed to apply the modified retrospective approach: (1) retrospectively to each prior reporting period presented in the financial statements with the cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented; or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. Management is currently evaluating the impact of adopting ASU 2016-02 on the Foundation's financial position, results of activities, cash flows and related disclosures.

**THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

3. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 2019 are as follows:

<u>For the Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 10,458,503
2021	6,544,643
2022	2,903,742
2023	1,755,000
2024	<u>160,000</u>
Total	21,821,888
Less: Discount to net present value	(737,380)
Allowance for doubtful accounts	<u>(436,437)</u>
Net unconditional promises to give	<u><u>\$ 20,648,071</u></u>

Unconditional promises to give with due dates extending beyond one year are discounted based on U.S. Treasury security rates for similar term investments.

4. INVESTMENTS

The Foundation's investments at December 31, 2019 and 2018 are comprised of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
United States				
Money Market Funds	\$ 154,283	\$ 154,283	\$ 130,868	\$ 130,868
High Yield Mutual Funds	1,302,150	1,319,287	1,226,750	1,180,380
Common Collective Trust Funds	<u>1,752,432</u>	<u>1,785,862</u>	<u>1,752,432</u>	<u>1,692,486</u>
	<u><u>\$ 3,208,865</u></u>	<u><u>\$ 3,259,432</u></u>	<u><u>\$ 3,110,050</u></u>	<u><u>\$ 3,003,734</u></u>

Investment income for the years ended December 31, 2019 and 2018 is composed of:

	<u>2019</u>	<u>2018</u>
Interest income, net of fees	\$ 153,208	\$ 133,236
Unrealized (loss) gain on investments	<u>156,883</u>	<u>(110,695)</u>
Net investment income	<u><u>\$ 310,091</u></u>	<u><u>\$ 22,541</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, 2019 AND 2018**

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 94,536	\$ 94,536
Furniture and fixtures	203,097	195,505
Leasehold improvements	<u>236,285</u>	<u>-</u>
	533,918	290,041
Less accumulated depreciation and amortization	<u>(289,816)</u>	<u>(262,268)</u>
	<u>\$ 244,102</u>	<u>\$ 27,773</u>

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to \$27,548 and \$1,404, respectively.

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, 2019 and 2018 amounted to \$2,352,503 and \$2,079,450, 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, 2019 and 2018 a receivable from the Hospital totaling \$103,556 and \$102,710, respectively, was recorded which represents amounts due from the Hospital related to the Marcus Foundation, Inc. advance that was received by the Foundation and disbursed to the Hospital during the year ended December 31, 2016. See Note 9 for further information.

Support to the Hospital

As of December 31, 2019 and 2018 approximately \$708,000 and \$187,000, 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, 2019 AND 2018**

7. RESTRICTED AND DESIGNATED NET ASSETS

The components of the restricted net assets as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Subject to Expenditures for Specific Purposes		
Capital improvements for GMHC	\$ 45,517,407	\$ 55,866,826
Various programs for GMHC	8,249,046	12,353,173
	<u>\$ 53,766,453</u>	<u>\$ 68,219,999</u>
Subject to Restriction in Perpetuity		
Endowment fund	<u>\$ 17,613</u>	<u>\$ 17,613</u>

Donor restricted net assets include \$20,398,071 in net assets that are also time restricted as follows:

<u>For the Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 9,999,332
2021	6,075,479
2022	2,556,300
2023	1,631,561
2024	135,399
	<u>\$ 20,398,071</u>

Net assets with donor restrictions released from restrictions during the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Capital improvements for GMHC	\$ 20,057,332	\$ 4,965,682
Various programs for GMHC	6,904,357	4,533,877
	<u>\$ 26,961,689</u>	<u>\$ 9,499,559</u>

Designated Net Assets

The Board has designated that any investment income that is generated on donor 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, 2019 and 2018 were \$476,732 and \$135,065, respectively.

THE HENRY W. GRADY HEALTH SYSTEM FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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:

<u>For the Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 182,118
2021	205,872
2022	236,497
2023	243,001
2024	249,684
Thereafter	<u>1,306,743</u>
Total	<u>\$ 2,423,915</u>

Rental expense under operating leases for the years ended December 31, 2019 and 2018 was approximately \$280,000 and \$180,000, respectively. During 2018 the office space lease was modified and amended to expand the lease space and extend the lease term to October 2029. The modified and amended lease provides for certain incentives including a construction allowance of \$236,285. In accordance with FASB ASC 840, *Operating Leases*, the total payments and incentives are recognized as rent expense on a straight-line basis over the life of the lease. The expanded space construction was not substantially complete as of December 31, 2018; therefore, deferred rent was not recognized as of December 31, 2018. Deferred rent amounted to \$318,807 at December 31, 2019.

9. CONDITIONAL GRANTS

In February 2015 the Foundation was awarded two grants by The Marcus Foundation, Inc. (Marcus) totaling \$30,000,000. Both grants provide for semiannual reimbursements.

The first grant was for \$20,000,000 to support the expansion of the Marcus Trauma and Emergency Center as the final donor funds for the project. As of December 31, 2017, the Foundation had received from Marcus and disbursed to the Hospital \$19,301,640 of the grant. During 2018 the Foundation received and disbursed the remaining \$698,360.

The second grant was for \$10,000,000 to support the Marcus Stroke and Neuroscience Center Multidisciplinary Outpatient Center Expansion of which a \$2,000,000 advance was released in 2016 upon engagement of an architect. The Foundation then remitted \$2,000,000 to the Hospital. The advance was recorded as a \$2,000,000 receivable from the Hospital and a \$2,000,000 payable to Marcus until 2018. During 2018 the Foundation submitted a reimbursement request from Marcus totaling \$1,897,290 to offset a portion of the \$2,000,000 advance. The receivable from the Hospital and the payable to The Marcus Foundation, Inc. was reduced to \$102,710 as of December 31, 2018 and 2019. As of December 31, 2018, the Foundation had received and disbursed \$7,170,146 of the grant. During 2019 the Foundation received and disbursed an additional \$1,222,491, leaving \$1,607,364 of grant funds available as of December 31, 2019.

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10. LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Foundation's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one-year, perpetual endowments and accumulated earnings net of appropriations within one year or because the governing board has set aside the funds for specific contingency reserves and projects or a long-term investment as Board designated endowments.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 34,947,570	\$ 42,167,242
Investments	3,259,432	3,003,734
Current portion of pledges receivable	10,458,503	13,595,217
Accounts receivable	<u>103,556</u>	<u>126,011</u>
Financial assets, at year end	<u>\$ 48,769,061</u>	<u>\$ 58,892,204</u>
	<u>2019</u>	<u>2018</u>
Financial assets, at year end	\$ 48,769,061	\$ 58,892,204
Less: Assets unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Purpose and time restrictions	53,766,453	68,219,999
Adjusted for: long-term contributions receivable	<u>(10,189,568)</u>	<u>(11,936,874)</u>
	43,576,885	56,283,125
Restricted in perpetuity	17,613	17,613
Board designations	<u>476,432</u>	<u>135,065</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,698,131</u>	<u>\$ 2,456,401</u>

The Foundation is substantially supported by contributions. As a result of its current capital campaign, the majority of its contributions are restricted. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to donors. Therefore, certain financial assets may not be available for general expenditures within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Foundation invests cash in excess of daily requirements in money market funds, fixed income securities and mutual funds.

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11. SUBSEQUENT EVENT

In early 2020 an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Foundation is not reasonably estimable at this time.