

**EARTH UNIVERSITY FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**with
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of EARTH University Foundation, Inc.

We have audited the accompanying financial statements of EARTH University Foundation, Inc. (a nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Foundation'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 Foundation'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 EARTH University Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with GAAP.

Smith + Howard

March 8, 2019

EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents (Note C)	\$ 2,332,991	\$ 2,709,145
Prepaid expenses, deposits and other receivables	43,248	37,107
Receivable from EARTH (Note K)	129,151	113,049
Pledges receivable, net (Note D)	3,232,537	4,900,022
Endowment pledges receivable, net (Note D)	1,410,517	1,111,151
Endowment and other investments (Note B)	65,796,979	69,039,835
Cash surrender value of life insurance (Note E)	419,941	389,885
Property and equipment, net (Note F)	13,657	27,044
	<u>\$ 73,379,021</u>	<u>\$ 78,327,238</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 71,478	\$ 59,660
Advance from EARTH (Note K)	100,000	100,000
Scholarships payable to EARTH (Notes G and K)	129,788	125,965
Payable to EARTH Trust (Note K)	13,554	21,894
	<u>314,820</u>	<u>307,519</u>

Net Assets

Without Donor Restrictions	1,040,117	866,835
With Donor Restrictions	72,024,084	77,152,884
	<u>73,064,201</u>	<u>78,019,719</u>
	<u>\$ 73,379,021</u>	<u>\$ 78,327,238</u>

The accompanying notes are an integral part of these financial statements.

EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support:			
Funding from EARTH (Note K)	\$ 1,494,953	\$ -	\$ 1,494,953
Funding from EARTH Trust (Note K)	8,340	-	8,340
Contributions and pledges	638,179	6,601,909	7,240,088
Government grants	-	178,295	178,295
Change in cash surrender value	30,056	-	30,056
Investment return, net	-	(4,884,222)	(4,884,222)
Net assets released from restrictions (Note I)	<u>7,024,782</u>	<u>(7,024,782)</u>	<u>-</u>
 Total revenues, gains and support	 <u>9,196,310</u>	 <u>(5,128,800)</u>	 <u>4,067,510</u>
Expenses:			
Scholarships and grants	7,944,675	-	7,944,675
Administrative	539,352	-	539,352
Fundraising	<u>539,001</u>	<u>-</u>	<u>539,001</u>
 Total expenses	 <u>9,023,028</u>	 <u>-</u>	 <u>9,023,028</u>
 Change in net assets	 173,282	 (5,128,800)	 (4,955,518)
Net assets beginning of year	<u>866,835</u>	<u>77,152,884</u>	<u>78,019,719</u>
Net assets end of year	<u>\$ 1,040,117</u>	<u>\$ 72,024,084</u>	<u>\$ 73,064,201</u>

The accompanying notes are an integral part of these financial statements.

EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and support:			
Funding from EARTH (Note K)	\$ 1,651,831	\$ -	\$ 1,651,831
Funding from EARTH Trust (Note K)	5,333	-	5,333
Contributions and pledges	316,825	13,065,047	13,381,872
Government grants	-	173,376	173,376
Change in cash surrender value	30,068	-	30,068
Investment return, net	-	8,730,299	8,730,299
Net assets released from restrictions (Note I)	<u>5,056,896</u>	<u>(5,056,896)</u>	<u>-</u>
 Total revenues, gains and support	 <u>7,060,953</u>	 <u>16,911,826</u>	 <u>23,972,779</u>
Expenses:			
Scholarships and grants	6,287,919	-	6,287,919
Administrative	521,409	-	521,409
Fundraising	<u>581,642</u>	<u>-</u>	<u>581,642</u>
 Total expenses	 <u>7,390,970</u>	 <u>-</u>	 <u>7,390,970</u>
 Change in net assets	 (330,017)	 16,911,826	 16,581,809
Net assets beginning of year	2,596,015	58,841,895	61,437,910
Reclassification of net assets (Note H)	<u>(1,399,163)</u>	<u>1,399,163</u>	<u>-</u>
Net assets end of year	<u>\$ 866,835</u>	<u>\$ 77,152,884</u>	<u>\$ 78,019,719</u>

The accompanying notes are an integral part of these financial statements.

**EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Scholarships and Grants	Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 415,040	\$ 294,938	\$ 440,709	\$ 1,150,687
Consulting	-	32,681	6,938	39,619
Professional services	4,698	58,400	5,155	68,253
Office expenses	41,098	92,796	47,155	181,049
Events	-	172	3,125	3,297
Travel and board meetings	-	60,365	35,919	96,284
Scholarships	5,327,773	-	-	5,327,773
Project and program expense	2,156,066	-	-	2,156,066
	<u>\$ 7,944,675</u>	<u>\$ 539,352</u>	<u>\$ 539,001</u>	<u>\$ 9,023,028</u>

The accompanying notes are an integral part of these financial statements.

**EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017**

	Scholarships and Grants			Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 527,474	\$ 241,703	\$ 460,426	\$ 1,229,603		
Consulting	-	70,508	3,806	74,314		
Professional services	6,592	40,673	5,572	52,837		
Office expenses	46,612	93,720	48,637	188,969		
Events	-	-	5,095	5,095		
Travel and board meetings	943	66,260	58,106	125,309		
Scholarships	3,372,831	-	-	3,372,831		
Project and program expense	2,342,012	-	-	2,342,012		
	<u>\$ 6,296,464</u>	<u>\$ 512,864</u>	<u>\$ 581,642</u>	<u>\$ 7,390,970</u>		

The accompanying notes are an integral part of these financial statements.

EARTH UNIVERSITY FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in Net Assets	\$ (4,955,518)	\$ 16,581,809
Adjustments to reconcile change in net assets to net cash required by operating activities:		
Depreciation and amortization	19,067	19,985
Endowment fund contributions and pledges	(5,273,225)	(11,201,861)
Realized and unrealized (gain) loss on investments	5,862,597	(7,832,835)
Unrealized gain on cash surrender value of life insurance	(30,056)	(30,068)
Changes in assets and liabilities		
Increase (decrease) in:		
Prepaid expenses, deposits and other receivables	(6,141)	6,278
Receivable from EARTH	(16,102)	54,557
Pledges receivable, net	1,667,485	879,535
Increase (decrease) in:		
Accounts payable and accrued expenses	11,818	(53,634)
Scholarships payable to EARTH	3,823	(32,025)
Payable to EARTH Trust	(8,340)	(12,333)
Total Adjustments	<u>2,230,926</u>	<u>(18,202,401)</u>
Net Cash Required by Operating Activities	<u>(2,724,592)</u>	<u>(1,620,592)</u>
Cash Flows From Investing Activities:		
Net purchases of long-term investments	(2,619,741)	(11,000,705)
Purchases of property and equipment	<u>(5,680)</u>	<u>(5,770)</u>
Net Cash Required by Investing Activities	<u>(2,625,421)</u>	<u>(11,006,475)</u>
Cash Flows From Financing Activities:		
Endowment contributions and pledges received	<u>4,973,859</u>	<u>11,707,081</u>
Net Cash Provided by Financing Activities	<u>4,973,859</u>	<u>11,707,081</u>
Net Decrease in Cash and Cash Equivalents	(376,154)	(919,986)
Cash and Cash Equivalents at Beginning of Year	<u>2,709,145</u>	<u>3,629,131</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,332,991</u>	<u>\$ 2,709,145</u>

The accompanying notes are an integral part of these financial statements.

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - NATURE OF ORGANIZATION

Organizational Purpose

EARTH University Foundation, Inc. (the "Foundation") was incorporated in the state of Delaware in 1989 and relocated to Atlanta, Georgia in 1997. The Foundation is a nonprofit corporation whose purpose is to foster educational programs in teaching, research, and dissemination of knowledge about agriculture and conservation of the tropical region and in furtherance of the foregoing purpose, to raise and provide financial and other support for the programs of the Escuela de Agrícola de la Región Tropical Húmeda (EARTH). EARTH's stated mission is to prepare leaders with ethical values to contribute to the sustainable development of the tropics and to construct a prosperous and just society. EARTH's vision is that its actions are directed toward building a future in which the tropics and its communities achieve social, economic, and environmental well-being. EARTH accomplishes its mission and vision by implementing a value structure which includes human development, academic excellence, ethical behavior, social consciousness, the search for knowledge, sustainable development, and biodiversity conservation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP").

Accounting Pronouncement Adopted

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a nonprofit's liquidity and availability of resources, expenses and investments returns, and cash flows. Main provisions of this guidance include: (a) presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose a summary of the allocation methods used to allocate costs, (d) presenting investment return net of external and direct internal investment expenses, and (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources. The Foundation opted to not disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption.

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Presentation

Net assets, along with revenues, expenses, gains and losses, are classified 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:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.
- Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity.

Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, endowment and other investments and pledges receivable. At times, cash and cash equivalent balances may exceed federally insured amounts. Management believes that cash and other investments are maintained at financial institutions with high credit ratings that would, accordingly, carry a low risk of potential loss. Management continually monitors receivable balances and believes that its exposure to credit risk is limited. Endowment and other investments are exposed to various risks, such as interest rate risk, market risk and credit risk. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

Pledges Receivable

Contributions are recognized when the donor makes a pledge to give to the Foundation. Contributions restricted by the donor for the benefit of EARTH or EARTH scholarships are recorded as donor restricted net assets. Pledges receivable consist of these uncollected pledges, net of an allowance for uncollectible pledges and a present value discount. The Foundation uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific pledges made.

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable (Continued)

The Foundation has three major donors that comprised approximately 57% of pledges receivable and five major donors that comprised approximately 78% of endowment pledges receivable at December 31, 2018. At December 31, 2017, the Foundation had three major donors that comprised approximately 62% of pledges receivable and four major donors that comprised approximately 90% of endowment pledges receivable. At December 31, 2018 and 2017, 56% and 82% of contributions and pledges were from one donor, respectively.

Endowment Fund

GAAP requires the following financial statement disclosures for the Foundation:

- Classification of net assets

Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

- Interpretation of Relevant Law

The Foundation has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulation to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Fund (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 Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Foundation, the endowment assets are invested in a manner to attain an average annual real total return, net of investment management fees, of at least 5% over the long term.

- Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

- Spending Policy

The Foundation has a spending policy approved by the Foundation's Board of Trustees that is designed to ensure that the real value of both the funds and of the spending stream is maintained over time. The Foundation's spending policy states that annuities from endowed scholarship gifts are approved by the Chairman of the Board of Trustees on behalf of the board every four years as the funds become available for a new incoming student. Annuities from other endowed gifts, such as Professorships and Programs are approved by the Chairman of the Board of Trustees annually, depending on the nature of the gift. The maximum base to which the 5% rule is applied, is calculated using a rolling average of the market during the previous 36 months. The value of endowment using the average month-end values of the fund cumulatively.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Fund (Continued)

- Underwater Endowment Funds

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation's policy is to refrain from disbursement from individual endowment funds if the fund's value is 95% or less of the corpus. At December 31, 2018, the Foundation had 44 endowment funds and 15 were underwater endowments. Underwater endowments had an original gift value of \$47,210,944, fair values of \$46,486,216, and deficiencies of \$724,728 that were reported in net assets with donor restrictions. At December 31, 2017, the Foundation did not have any endowments that were underwater.

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets			
December 31, 2016	\$ -	\$ 50,206,295	\$ 50,206,295
Cash contributions	-	11,705,081	11,705,081
Earnings used for scholarship and programs	-	(1,601,840)	(1,601,840)
Investment return, net	-	8,730,299	8,730,299
Endowment net assets			
December 31, 2017	-	69,039,835	69,039,835
Cash contributions	-	4,973,859	4,973,859
Earnings used for scholarship and programs	-	(3,332,493)	(3,332,493)
Investment return, net	-	(4,884,222)	(4,884,222)
Endowment net assets			
December 31, 2018	\$ -	\$ 65,796,979	\$ 65,796,979

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair market value in accordance with GAAP. Fair value is determined from quoted market prices or market prices of similar instruments. Realized and unrealized gains and losses from investments are reflected as investment return within the Statement of Activities and Changes in Net Assets.

Fair Values Measured on Recurring Basis

The FASB issued a pronouncement on fair value measurement defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. The statement, when adopted by the Foundation, did not have any impact on the Foundation's financial statements.

FASB establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

Basis of Fair Value Measurement (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The table below represents fair value measurement hierarchy of the Foundation's assets at fair value as of December 31:

	<u>Fair Value</u>	<u>Level 1</u>	<u>2018</u> <u>Level 2</u>	<u>Level 3</u>	<u>NAV (a)</u>
Government obligations	\$ 384,251	\$ -	\$ 384,251	\$ -	\$ -
Equity mutual funds	41,357,735	41,357,735	-	-	-
Fixed income					
mutual funds	5,386,828	5,386,828	-	-	-
Certificates of deposit	9,349,568	-	9,349,568	-	-
Alternative investments	<u>9,318,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,318,597</u>
	<u>\$ 65,796,979</u>	<u>\$ 46,744,563</u>	<u>\$ 9,733,819</u>	<u>\$ -</u>	<u>\$ 9,318,597</u>
			<u>2017</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV (a)</u>
Government obligations	\$ 338,409	\$ -	\$ 338,409	\$ -	\$ -
Common stocks	3,118,654	3,118,654	-	-	-
Equity mutual funds	37,488,684	37,488,684	-	-	-
Fixed income					
mutual funds	5,301,897	5,301,897	-	-	-
Certificates of deposit	13,222,966	-	13,222,966	-	-
Alternative investments	<u>9,569,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,569,225</u>
	<u>\$ 69,039,835</u>	<u>\$ 45,909,235</u>	<u>\$ 13,561,375</u>	<u>\$ -</u>	<u>\$ 9,569,225</u>

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

Basis of Fair Value Measurement (Continued)

Fair values for investments are determined by reference to quoted market prices, market transactions and other relevant information.

- (a) In accordance with FASB ASC Topic 820-10, as amended by ASU 2015-07, certain investments that are measured using the net asset value (“NAV”) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the carrying values disclosed in the “Endowment Fund” section of Note B.

Investments Measured at NAV per Share or Equivalent

The Foundation’s investment advisor performs ongoing due diligence of the funds which includes benchmarking and comparing the results of the fund to certain applicable indices. The Foundation’s investment advisor also has regular calls with management of the funds and meets periodically with the Foundation’s Board of Trustees and reports the performance of funds. There were no changes in valuation techniques noted for these funds for 2018 and 2017.

Property and Equipment

Property and equipment are recorded at cost or fair value at the date of gift and is depreciated on a straight-line basis over estimated useful lives ranging from three to seven years. The Foundation follows the practice of capitalizing all equipment expenditures in excess of \$1,000.

Contributions

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)

The Foundation records gifts of property and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, as well as gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Marketable securities, and other assets, are recorded at their fair market value on the date of receipt. If donated services received either create or enhance non-financial assets or require specialized skills which would need to be purchased if not donated, the value of those donated services would be recorded in accordance with GAAP. No donated services were received during the years ended December 31, 2018 and 2017.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates prepared by management.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore, no provision for income taxes is required. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. In 2007, the Foundation received approval from the IRS that it was considered to be a public charity under Section 509(a)(1) and 170 (b)(1)(a)(vi) of the Internal Revenue Code, since it receives a substantial part of its support from governmental grants and the general public.

The Foundation annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Foundation takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In the normal course of business, the Foundation is subject to examination by the federal and state taxing authorities. In general, the Foundation is no longer subject to tax examinations for the tax years ending before December 31, 2014.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

During December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act. Under this Act, maximum corporate tax rates were reduced from a rate of 35% to a flat rate of 21%. The Foundation's tax liability for any potential unrelated business income tax should not be significant. There are other changes to the tax law that may affect the Foundation, but the magnitude of such changes has not been determined.

Use of Estimates

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

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

NOTE C - CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, the Foundation considers all short-term liquid investments with maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash without donor restrictions	\$ 419,245	\$ 322,691
Cash with donor restrictions	<u>1,913,746</u>	<u>2,386,454</u>
	<u>\$ 2,332,991</u>	<u>\$ 2,709,145</u>

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE D - PLEDGES RECEIVABLE, NET

The Foundation receives donor restricted pledges for scholarships, projects and programs that are temporarily in nature and pledges without donor restrictions, some of which are to be received over several years. The Foundation records these multi-year pledges net of a present value discount. These discounts are amortized between the date the promise to give is initially recognized and the date the cash or other contributed assets are to be received. As of December 31, 2018 and 2017, the fair value of contributions receivable is estimated by discounting the future cash flows using a rate of 4.5%.

As of December 31, pledges receivable are as follows:

	<u>2018</u>	<u>2017</u>
Amounts receivable in less than 1 year	\$ 669,985	\$ 2,680,412
Amounts receivable in 1 to 5 years	2,977,667	2,740,083
Amounts receivable in 6 to 7 years	<u>178,130</u>	<u>178,130</u>
	3,825,782	5,598,625
Unamortized present value of discount	(479,533)	(624,162)
Allowance for uncollectible pledges	<u>(113,712)</u>	<u>(74,441)</u>
	<u><u>\$ 3,232,537</u></u>	<u><u>\$ 4,900,022</u></u>

The Foundation has outstanding pledges related to its endowment with payments receivable over several years. The receivables are recorded net of a present value discount using a rate of 4.5% at December 31 as follows:

	<u>2018</u>	<u>2017</u>
Amounts receivable in less than 1 year	\$ 359,444	\$ 656,444
Amounts receivable in 1 to 5 years	1,230,274	600,112
Amounts receivable in 6 years	<u>-</u>	<u>-</u>
	1,589,718	1,256,556
Unamortized present value of discount	(169,258)	(137,572)
Allowance for uncollectible pledges	<u>(9,943)</u>	<u>(7,833)</u>
	<u><u>\$ 1,410,517</u></u>	<u><u>\$ 1,111,151</u></u>

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE E - CASH SURRENDER VALUE OF LIFE INSURANCE

Cash surrender value of life insurance at December 31, 2018 and 2017 is \$419,941 and \$389,885, respectively. The Foundation is the owner, applicant, payer and beneficiary of two life insurance policies. The insured are two board members that made a donation to purchase the life insurance. The face value of each life insurance policy is \$1,000,000.

NOTE F - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Computer equipment and software	\$ 62,441	\$ 72,075
Furniture	21,840	21,840
Other office equipment	3,187	3,187
Leasehold improvements	<u>42,998</u>	<u>42,998</u>
	130,466	140,100
Less accumulated depreciation and amortization	<u>116,809</u>	<u>113,056</u>
	<u>\$ 13,657</u>	<u>\$ 27,044</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$19,067 and \$19,985, respectively.

NOTE G - SCHOLARSHIPS PAYABLE TO EARTH

The Foundation receives requests from EARTH for scholarship funds in order to pay students' tuition. When the donations are received and the Foundation's Chairman of the Board approves these requests on behalf of the board, they are recorded as a liability in the accompanying financial statements.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE H – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purpose at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Scholarships	\$ 1,827,031	\$ 1,983,743
Programs	71,715	400,711
Pledge receivable, which have been restricted by donors for:		
Scholarships	2,403,682	3,202,356
Programs	499,160	1,413,088
	<u>4,801,588</u>	<u>6,999,898</u>
Subject to spending policy and appropriation:		
Endowment pledge receivable, which the corpus has been restricted by the donor for:		
Scholarships	1,281,756	939,995
Programs	12,329	54,725
General support	116,432	116,431
Endowment cash	15,000	2,000
Investment in perpetuity (including accumulated amounts above original gift amount of \$65,640,287 in 2018 and \$60,666,429 in 2017), which, once appropriated, is expendable to support:		
Scholarships	59,145,866	65,410,897
Programs	5,784,347	2,650,115
General support	866,766	978,823
	<u>67,222,496</u>	<u>70,152,986</u>
 Total net assets with donor restrictions	 <u>\$ 72,024,084</u>	 <u>\$ 77,152,884</u>

During 2018, management noted donor restricted funds for scholarship and program purposes that are temporarily in nature, which were restricted as without donor restrictions that related to funds prior to 2017. Therefore, a reclassification in net assets was recorded to 2017 in the amount of \$1,399,163.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE I - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purpose. Donor restricted net assets released consisted of the following during the years ended December 31:

	<u>2018</u>	<u>2017</u>
EARTH scholarships	\$ 5,327,773	\$ 3,387,832
EARTH projects and programs	1,679,853	1,669,064
Other	<u>17,156</u>	<u>-</u>
	<u>\$ 7,024,782</u>	<u>\$ 5,056,896</u>

NOTE J - COMMITMENT

Subsequent to year end, the Foundation entered into a non-cancellable lease agreement for office space. Future minimum lease payments for the years ending December 31 are approximately as follows:

2019	\$ 15,350
2020	17,950
2021	18,550
2022	<u>2,400</u>
	<u>\$ 54,250</u>

Rent expense for the years ended December 31, 2018 and 2017 was \$57,992 and \$57,064, respectively.

EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE K - RELATED PARTY TRANSACTIONS

EARTH University and EARTH Trust reimburses the Foundation for various operating expenses and at December 31, 2018 and 2017, the Foundation was due \$129,151 and \$113,049, respectively, for such expenses. The Foundation had a payable to EARTH for scholarships as of December 31, 2018 and 2017 of \$129,788 and \$125,965, respectively. The Foundation also has a liability to EARTH for a working capital advance of \$100,000 as of December 31, 2018 and 2017, respectively. The Foundation has a payable to EARTH Trust as of December 31, 2018 and 2017 in the amount of \$13,554 and \$21,894, respectively. The Foundation received funding from EARTH University of \$1,494,953 and \$1,651,831 during the years ended December 31, 2018 and 2017, respectively. The Foundation received funding from EARTH Trust of \$8,340 and \$5,333 during the years ended December 31, 2018 and 2017, respectively.

In 2018 and 2017, certain trustees serving on the Foundation board were affiliated with foundations that donated \$312,809 and \$1,157,315, respectively. At December 31, 2018 and 2017, these foundations had discounted pledges receivable totaling \$1,274,901 and \$1,648,781, respectively.

A trustee of the Foundation is the chief executive officer/owner of one of the Foundation's vendors and an officer of the Foundation is a partner of another Foundation vendor. These vendors provided services to the Foundation in the total amount of \$23,050 and \$19,036 for 2018 and 2017, respectively.

NOTE L - RETIREMENT PLAN AND TAX DEFERRED ANNUITY PLAN

The Foundation sponsors a defined contribution retirement plan and a tax-deferred annuity plan that operate under Section 403(b) of the Internal Revenue Code. Benefits are provided through the Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF). An employee may make contributions to this plan immediately. An employee becomes eligible for matching contributions after one year of employment with the Foundation. The Foundation matches employee contributions to the defined contribution retirement plan up to 5% of annual gross salary. The Foundation's portion of this contribution for the years ended December 31, 2018 and 2017 totaled \$26,498 and \$45,431, respectively.

**EARTH UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE M - LIQUIDITY AND AVAILABILITY OF RESOURCES

For purposes of analyzing resources available to meet general expenditures for 2019, the Foundation considers cash, pledge receivables without donor restrictions and pledges receivable with donor restrictions (scholarships and programs) that will be collected and available in 2019 for activities that are ongoing and major to the Foundation. The Foundation does not include appropriated earnings from donor-restricted endowments as these funds have not been appropriated by the Board of Trustees as of December 31, 2018. Financial assets available for general expenditures, within one year are as follows:

Cash and cash equivalents	\$ 2,332,991
Accounts receivable	129,151
Pledges and endowment pledge receivable, net	4,643,054
Investments	<u>65,796,979</u>
Financial assets, at year end	<u>72,902,175</u>
Less those unavailable for general expenditures within one year, due to :	
Pledges restricted by donor due to time	(2,562,552)
Endowment pledge receivable restricted by donor	(1,410,517)
Investments not appropriated for spending	<u>(65,796,979)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,132,127</u>

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation maintains sufficient resources to meet those responsibilities to its donors. Thus, certain financial assets may not be available for general expenditures within one year. As part of Foundation's liquidity management, the Foundation structure's its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Board of Trustees could vote to make investments available for general expenditures.