

ASHESI UNIVERSITY FOUNDATION

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED DECEMBER 31, 2018 AND 2017



**ASHESI
UNIVERSITY
FOUNDATION**

ASHESI UNIVERSITY FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

June 8, 2019

Board of Trustees
Ashesi University Foundation
Seattle, Washington

We have audited the accompanying financial statements of Ashesi University Foundation, a nonprofit corporation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activity, 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; 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Ashesi University Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

ASHESI UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 3,032,554	\$ 3,646,407
Promises to Give	1,939,368	3,106,862
Interest Receivable	38,262	41,269
Prepaid Expenses	25,141	20,288
Investments	1,242,363	2,093
AFM Scholarship Fund Investments	287,091	343,983
Notes Receivable, net of discount (See Note F)	1,111,833	1,197,503
Equipment, net of accumulated depreciation	-	3,568
Endowment Investments	<u>826,133</u>	<u>405,563</u>
	<u>\$ 8,502,745</u>	<u>\$ 8,767,536</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 12,057	\$ 8,579
Accrued liabilities	38,695	62,777
Refundable advance	340,407	-
Loans payable, net of discount (See Note H)	<u>1,143,653</u>	<u>1,231,717</u>
	Total Liabilities	<u>1,534,812</u>
Net Assets		
Without donor restrictions	2,291,551	2,926,648
With donor restrictions	<u>4,676,382</u>	<u>4,537,815</u>
	Total Net Assets	<u>6,967,933</u>
	<u>\$ 8,502,745</u>	<u>\$ 8,767,536</u>

ASHESI UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITY

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Contributions	\$ 327,188	\$ 2,065,284	\$ 2,392,472	\$ 778,323	\$ 3,040,570	\$ 3,818,893
Grants from government agencies	370,000		370,000	745,143		745,143
In-kind contributions	-	-	-	7,717	-	7,717
Interest on notes receivable	88,273		88,273	93,722		93,722
Investment interest and dividends	49,515	21,582	71,097	11,227	13,111	24,338
Total Public Support and Revenue	834,976	2,086,866	2,921,842	1,636,132	3,053,681	4,689,813
Net Assets Released from Restrictions						
Satisfaction of purpose restrictions	1,762,066	(1,762,066)	-	3,098,608	(3,098,608)	-
Satisfaction of time restrictions	132,368	(132,368)	-	233,596	(233,596)	-
Total Public Support, Revenue, and Other Support	2,729,410	192,432	2,921,842	4,968,336	(278,523)	4,689,813
Expenses						
Program services	2,913,119		2,913,119	4,742,408		4,742,408
Management and general	170,886		170,886	148,072		148,072
Fundraising	252,678		252,678	245,104		245,104
Total Expenses	3,336,683		3,336,683	5,135,584		5,135,584
Gains and Losses						
Net (loss) gain on investments	(39,482)	(53,865)	(93,347)	518	43,228	43,746
Net recovery (loss) on uncollectible promises to give	11,658	-	11,658	(10,476)	-	(10,476)
Changes in Net Assets	(635,097)	138,567	(496,530)	(177,206)	(235,295)	(412,501)
Net Assets – beginning of year	2,926,648	4,537,815	7,464,463	3,103,854	4,773,110	7,876,964
Net Assets – end of year	\$ 2,291,551	\$ 4,676,382	\$ 6,967,933	\$ 2,926,648	\$ 4,537,815	\$ 7,464,463

ASHESI UNIVERSITY FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 66,253	\$ 91,209	\$ 119,793	\$ 277,255	\$ 62,515	\$ 67,725	\$ 130,241	\$ 260,481
Payroll taxes	5,441	7,596	9,910	22,947	5,193	5,626	10,819	21,638
Employee benefits	11,108	12,585	18,233	41,926	10,269	11,124	21,393	42,786
	<u>82,802</u>	<u>111,390</u>	<u>147,936</u>	<u>342,128</u>	<u>77,977</u>	<u>84,475</u>	<u>162,453</u>	<u>324,905</u>
Grants to Ashesi University College	2,677,067	-	-	2,677,067	4,499,102	-	-	4,499,102
Travel	40,471	6,254	42,315	89,040	31,804	3,739	33,419	68,962
Interest expense	86,553	-	-	86,553	92,037	-	-	92,037
Professional fees	-	37,475	-	37,475	17,795	43,953	4,500	66,248
Occupancy	7,639	8,276	15,915	31,830	6,053	6,492	12,457	25,002
Local events and transportation	3,850	1,570	22,517	27,937	2,132	2,299	10,950	15,381
Equipment	804	2,042	10,109	12,955	923	2,262	8,921	12,106
Postage and printing	4,509	432	7,363	12,304	4,223	640	6,106	10,969
Insurance	1,823	1,974	3,797	7,594	1,768	1,916	3,683	7,367
Miscellaneous	3,533	311	492	4,336	3,738	745	34	4,517
Depreciation	3,568	-	-	3,568	4,284	-	-	4,284
Bank fees	-	636	1,491	2,127	-	702	1,531	2,233
Supplies	<u>500</u>	<u>526</u>	<u>743</u>	<u>1,769</u>	<u>572</u>	<u>849</u>	<u>1,050</u>	<u>2,471</u>
Total Expenses	<u>\$ 2,913,119</u>	<u>\$ 170,886</u>	<u>\$ 252,678</u>	<u>\$ 3,336,683</u>	<u>\$ 4,742,408</u>	<u>\$ 148,072</u>	<u>\$ 245,104</u>	<u>\$ 5,135,584</u>

ASHESI UNIVERSITY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from:		
Donors	\$ 2,062,539	\$ 2,246,087
Government agencies	710,407	745,143
Investment income	95,734	76,995
Cash paid for:		
Grants to Ashesi University College	(2,696,139)	(4,480,030)
Employees	(344,369)	(321,948)
Services and supplies	(228,742)	(205,320)
Interest	<u>(58,154)</u>	<u>(61,384)</u>
Net Cash Used by Operating Activities	<u>(458,724)</u>	<u>(2,000,457)</u>
Cash Flows from Investing Activities		
Payments on notes receivable from Ashesi University College	115,385	76,923
Purchase of investments	(2,081,664)	(163,601)
Proceeds from sale of investments	<u>1,930,382</u>	<u>623,483</u>
Net Cash (Used) Provided by Investing Activities	<u>(35,897)</u>	<u>536,805</u>
Cash Flows Used by Financing Activities		
Payments on loans payable	<u>(119,232)</u>	<u>(80,770)</u>
Change in Cash and Cash Equivalents	(613,853)	(1,544,422)
Cash and Cash Equivalents - beginning of year	<u>3,646,407</u>	<u>5,190,829</u>
Cash and Cash Equivalents - end of year	<u>\$ 3,032,554</u>	<u>\$ 3,646,407</u>

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ashesi University Foundation (the Foundation) was founded in 1999 to provide educational opportunities in Ghana. It accomplishes this purpose by forming and providing operating, program, scholarship, and capital support to Ashesi University (the University) in Ghana. The University's mission is to educate a new generation of ethical, entrepreneurial leaders in Africa; to cultivate within our students the critical thinking skills, the concern for others and the courage it will take to transform their continent.

Adoption of new accounting pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Basis of presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has designated certain otherwise unrestricted net assets as follows as of December 31:

	<u>2018</u>	<u>2017</u>
University Capital Reserve	\$ 1,235,000	\$ 1,235,000
Engineering Program	118,633	303,633
Foundation Operating Reserve	600,000	600,000
University Operating Reserve	-	400,000
University Programs	-	145,000
	<u>\$ 1,953,633</u>	<u>\$ 2,683,633</u>

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor) 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 resources be maintained in perpetuity.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets with donor restrictions were as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specific purposes:		
University Capital Fund	\$ 529,323	\$ 1,528,722
AFM Scholarship Fund	287,691	343,983
Engineering Program	10,100	10,000
Scholarships	1,979,174	1,723,218
Unamortized Discount on Loans Payable	190,961	222,129
Available for future periods	551,200	302,400
University Programs	<u>1,800</u>	<u>1,800</u>
	<u>3,550,249</u>	<u>4,132,252</u>
Endowments:		
Subject to endowment spending policy and appropriation:		
Kofi Tawiah Good Citizenship Scholar Award	495,281	161,533
Fred and Vera Orthlieb Scholarship	105,903	117,260
Jan Stenbeck Scholarship	200,000	100,000
Emmanuel Kofi Effah Osei Scholarship	24,949	26,770
Not subject to spending policy or appropriation:		
Pledges to Jan Stenbeck Scholarship	<u>300,000</u>	<u>-</u>
	<u>1,126,133</u>	<u>405,563</u>
Total net assets with donor restrictions	<u>\$ 4,676,382</u>	<u>\$ 4,537,815</u>

Contributions restricted by donors are reported increases in net assets with donor restrictions when received. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activity as net assets released from restriction.

Federal income taxes

The Internal Revenue Service has recognized the Foundation as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and not as a private foundation.

Cash and cash equivalents

Cash and cash equivalents represent checking, savings, and money market accounts held at various regional financial institutions.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Use of estimates

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

Investments

Investments are stated at fair value and include investments held for board reserves, scholarships and endowment fund investments.

Promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are shown net of an allowance for uncollectibility.

The fair value of promises to give is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Amortization of the discount is reported as contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional promises to give are due as follows as of December 31, 2018:

Receivable in less than one year	\$ 718,579
Receivable in one to five years	<u>1,305,089</u>
Total unconditional promises to give	2,023,668
Less:	
Discounts to net present value (2.46% - 2.67% discount rate)	(64,063)
Allowance for uncollectible pledges	<u>(20,237)</u>
	<u>\$ 1,939,368</u>

Concentrations

The Foundation maintains cash deposits in bank accounts which exceed federally insured limits. The Foundation has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

As of December 31, 2018, outstanding pledges from one donor represent 57% of total promises to give.

Equipment

Equipment is recorded at cost or, if donated, at the estimated fair value at date of donation. Equipment purchases that exceed \$5,000 are capitalized as assets. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, typically five years. Accumulated depreciation as of December 31, 2018 and 2017 totaled \$31,645 and \$28,077, respectively.

In-kind goods and services

Contributed materials and use of facilities have been recorded on the basis of rates that otherwise would have been paid for similar items. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated fair values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activity and of functional expenses. Where possible, specific expenses have been charged directly to the appropriate category. When functions are shared or costs are intermingled, expenses are allocated based on employee counts and estimated percentage of effort.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain accounts in the 2017 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended December 31, 2017.

NOTE B - LIQUIDITY

As shown in Note A, the Foundation maintains funds with donor restrictions for grants to the University as well as funds designated by the Board of Trustees for use by the University. To ensure financial assets are sufficient to meet Foundation cash needs for the year, the Board has designated a Foundation Operating Reserve to be available for use by the Foundation for operating expenses included in the board-approved budget if there is a shortfall of available funds. The target amount of the Foundation Operating Reserve is 100% of the Foundation's personnel and operations expenses for one calendar year. The operating reserve was \$600,000 as of December 31, 2018 and those funds are included in the total below of financial assets available to meet cash needs for general expenditures within one year.

As part of its liquidity management plan, the Foundation invests cash in excess of daily requirements in an ultra-short-term bond fund and a U.S. Treasury money fund.

Financial assets available for general expenditure within one year as of December 31, 2018 are as follows:

Total financial assets	\$ 8,477,604
Financial assets not available for general expenditure:	
Contract advances	(340,407)
Notes receivable in more than one year	(1,024,657)
Donor-imposed restrictions:	
Subject to expenditure for specific purposes	(3,550,249)
Endowments	<u>(1,126,133)</u>
Net financial assets after donor-imposed restrictions	2,436,158
Internal designations:	
University Capital Reserve	(1,235,000)
Engineering Program	<u>(118,633)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,082,525</u>

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE C - ASHESI UNIVERSITY

Ashesi University (the University) was founded in 2002 by Patrick Awuah, a Ghanaian who chose to return to Ghana after a successful career in the U.S. software industry. He believed that for Africa to move forward, it needed a new kind of university, one that focused on quality, ethics and personal empowerment.

The University aims to be a catalyst for change not only in the lives of the students but in the manner education is conducted in Ghana and other parts of Africa. The University has built an impressive track record over the past sixteen years and is widely considered the highest quality private university in the country. The University's curriculum combines a liberal arts core that emphasizes critical thinking, communication skills and ethics, with in-depth major programs in Business Administration, Computer Science, Management Information Systems, and Engineering.

The University is the only university in Ghana to feature a student honor code which places responsibility for reporting exam malpractice on the students. Relationships with top universities in the United States, including the University of Washington, University of California-Berkeley and Swarthmore College, help ensure that the University's classes are meeting global standards.

Top Ghanaian and international companies are now actively recruiting students from the University. Graduates typically find employment, gain admission to graduate school, or start their own businesses within three months of graduation. In addition to academic quality, the University is committed to diversity in its classrooms and offers scholarships to women and students from disadvantaged backgrounds.

As stated in Note A, the Foundation accomplishes its mission of providing educational opportunities in Ghana by providing operating, program, scholarship, and capital support to the University. During the years ended December 31, 2018 and 2017 \$2,677,067 and \$4,499,102, respectively, in cash grants was provided to the University. The President of the Foundation also currently serves as the President of the University.

NOTE D - DONATIONS SENT DIRECTLY TO ASHESI UNIVERSITY

Ashesi University Foundation and Ashesi University both have staff who cultivate and solicit gifts. On occasion, a donor or grantor who has been working with Foundation staff to develop their gift may prefer to make their gift directly to the University. Those gifts are acknowledged in the Foundation's reports because they resulted from Foundation efforts. However, they are not included in the Foundation's financial statements. In 2018 and 2017, gifts that were cultivated and solicited by Foundation staff, but sent directly to the University by the donors included gifts from the ELMA Growth Foundation in the amount of \$900,000 and \$400,000, respectively, for dormitory construction.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE E - FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis as of December 31 are as follows:

	Fair Value Inputs			Total
	(Level 1)	(Level 2)	(Level 3)	
As of December 31, 2018:				
Treasury Money Market	\$ 278,526	\$ -	\$ -	\$ 278,526
Equity Securities	31,852			31,852
Vanguard Total International Stock Index Fund Admiral Shares	165,894	-	-	165,894
Vanguard Total Bond Market Index Fund Admiral Shares	483,144	-	-	483,144
Vanguard Total Stock Market Index Fund Admiral Shares	185,660	-	-	185,660
PIMCO Short Asset Investment Fund	1,210,511	-	-	1,210,511
Investments	<u>\$ 2,355,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,355,587</u>
As of December 31, 2017:				
Prime Money Market Fund	\$ 177,697	\$ -	\$ -	\$ 177,697
Equity Securities	2,093			2,093
Vanguard Total International Stock Index Fund Admiral Shares	114,738	-	-	114,738
Vanguard Total Bond Market Index Fund Admiral Shares	318,290	-	-	318,290
Vanguard Total Stock Market Index Fund Admiral Shares	138,821	-	-	138,821
Investments	<u>\$ 751,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 751,639</u>

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input.

NOTE F - NOTES RECEIVABLE

On April 30, 2014, the Foundation entered into a \$1,000,000 loan agreement whereby the capital raised from the issuance of the Unsecured Student Housing Revenue Notes discussed in Note H was loaned to Ashesi University (the University). The loan proceeds were used by the University to build a dormitory (approximately 96 beds).

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE F - NOTES RECEIVABLE (Continued)

Interest-only payments were due annually in 2015 and 2016. Annual principal payments on this note began in April 2017, in the amount of \$76,923 plus accrued interest. In August 2014, the initial funding request was disbursed by the Foundation to the University in the amount of \$947,882, with the balance of \$52,118 disbursed in December 2014.

On April 30, 2015, the Foundation entered into an additional \$500,000 loan agreement whereby the additional capital raised from the issuance of the Unsecured Student Housing Revenue Notes discussed in Note H was loaned to Ashesi University (the University). These loan proceeds will also be used by the University to help build the dormitory. The terms of this additional loan are the same as above, with interest-only payments due annually in 2016 and 2017. Annual principal payments on this note began in April 2018, in the amount of \$38,462 plus accrued interest. In December 2015, the additional \$500,000 funding request was disbursed by the Foundation to the University.

The notes receivable are considered below-market rate notes. As such, when the note proceeds were advanced, the Foundation recorded a grant to the University and a note discount for the difference between the stated rate of 4.35% and the estimated market rate of 7.36%. The notes are reported in the statements of financial position net of unamortized discount of \$195,859 and \$225,574 as of December 31, 2018 and 2017, respectively.

The discount on the notes is amortized to interest income over the life of the note. Due to the nature of the notes receivable and the relationship between the Foundation and the University, no allowance has been made for estimated uncollectibility of the notes. Management believes the notes to be fully collectible.

NOTE G - ENDOWMENTS

The Foundation's endowment fund was established in November 2009 and consists of funds that are donor-restricted for student scholarships. In March 2010, the Board adopted an Endowment Investment and Spending Policy in an attempt to provide a predictable stream of funding for programs supported by the endowment, while seeking to maintain the purchasing power of endowed assets and honor the donors' desired restrictions. The Foundation's investment policy guidelines and performance of invested assets are reviewed by the Foundation's Finance Committee no less than annually. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Foundation accounts for its endowments in accordance with the "Uniform Prudent Management of Institutional Funds Act," (UPMIFA) as stated in the Revised Code of Washington (RCW) 24.55.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE G - ENDOWMENTS (Continued)

Interpretation of Relevant Law

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

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 investment;
- (6) Other resources of the Foundation; and
- (7) The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that focus on long-term results. At a minimum, these policies attempt to provide a predictable stream of funding to programs supported by The Foundation, while seeking to maintain the purchasing power of the endowment assets. Under the policy, the endowment assets are invested in a manner that is intended to produce maximum long-term total returns consistent with reasonable risk to principal for their asset category.

Strategies Employed for Achieving Objectives

To satisfy its long term total return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield.

To enhance return and reduce risk, the endowment portfolio is composed of diversified assets, including equities and fixed-income investments. The equities are intended to provide current income, growth of income and appreciation of principal. The fixed-income investments are intended to provide a predictable and reliable source of interest income while reducing the volatility of the portfolio.

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE G - ENDOWMENTS (Continued)

The current allocation ratio goal is 0%-30% cash, 30%-70% equities and 30%-70% fixed income. The Foundation's investment policy guidelines are reviewed and reconfirmed or revised on at least an annual basis. Performance of the Foundation's investments is reviewed on a regular basis by the Finance Committee.

Spending Policy and How the Investment Objectives Relate to Spending Policy

At the Foundation's first Board meeting of each fiscal year after the Finance Committee has prepared the endowment analysis, the Finance Committee will recommend to the Board Spending Rates and distribution for the upcoming academic year.

The approved Spending Rate will be applied to the average of the market value of all endowment funds for the preceding 12 quarters. To honor individual endowment agreements for four-year scholarships, the Finance Committee can approve endowment spending in line with current tuition rates and evaluate the frequency of four-year scholarships to maintain endowment principal.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature totaled \$4,770 as of December 31, 2018. No such deficiencies existed as of December 31, 2017. These deficiencies resulted from unfavorable market fluctuations.

Change in Endowment Funds for the Years Ended December 31:

	<u>2018</u>	<u>2017</u>
Endowment funds, beginning of year	\$ 405,563	\$ 234,522
Investment return:		
Investment income	11,972	5,347
Net unrealized (loss) gain	<u>(32,507)</u>	<u>16,694</u>
Total investment return	<u>(20,535)</u>	<u>22,041</u>
Contributions, net	450,000	150,000
Appropriated for expenditure	<u>(8,895)</u>	<u>(1,000)</u>
Endowment funds, end of year	<u>\$ 826,133</u>	<u>\$ 405,563</u>

NOTE H - LOANS PAYABLE

In 2013, Ashesi University Foundation (the Foundation) launched a new project that raises funds to build housing on campus and allows more students to have full access to the Ashesi education experience. The Foundation solicits and collects funds from investors through the issuance of Unsecured Student Housing Revenue Notes (loans).

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE H - LOANS PAYABLE (Continued)

The loans have a 15-year term and pay interest at a 4% annual rate. In 2014, the Foundation loaned the capital raised from the issuance of these loans to Ashesi University (the University) which will use the note proceeds to build a dormitory (approximately 96 beds) at the University. Repayment of the investor loans will be dependent upon the Foundation's receipt of repayment of the note between the Foundation and the University.

The loans payable are considered below-market rate loans. As such, when the loan proceeds are advanced, the Foundation records support and a loan discount for the difference between the stated rate of 4% and the estimated market rate of 7.36%. The loans are reported in the statements of financial position net of unamortized discounts. The discount on the loans is amortized to interest expense over the lives of the loans.

In 2013, the Foundation issued the first of the loans in the amount of \$200,000 net of unamortized discount of \$41,401. Interest-only payments were due annually in 2014 and 2015. Annual principal payments on this note began in 2016 in the amount of \$15,385 plus accrued interest and continue through 2028. In 2014, the Foundation issued six additional loans totaling \$850,000 net of unamortized discount of \$175,952. The terms of these additional loans are the same as above, with interest-only payments due annually in 2015 and 2016 and annual principal payments beginning in 2017, in the aggregate amount of \$65,385 plus accrued interest, continuing through 2029.

On April 30, 2015, the Foundation issued an additional loan in the amount of \$500,000 net of unamortized discount of \$110,028. The terms of this additional loan are the same as above with interest-only payments due annually in 2016 and 2017 and annual principal payments beginning in 2018 in the amount of \$38,462 plus accrued interest, continuing through 2030.

Total remaining unamortized discount on the loans payable as of December 31, 2018 and 2017 was \$190,962 and \$222,129, respectively. Minimum future principal payments on the loans are as follows for the years ending December 31:

2019	\$	119,232
2020		119,232
2021		119,232
2022		119,232
2023		119,323
Thereafter		<u>738,364</u>
		<u>\$ 1,334,615</u>

ASHESI UNIVERSITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE I - IFC LOAN TO UNIVERSITY

In 2017, the University signed a loan agreement with the International Finance Corporation (IFC) for \$6,300,000 to facilitate construction of a research lab, student housing cluster, student center, and sports center. Per terms of this agreement, the Foundation, as the Sponsor of the University, was required to make a grant to the University in the amount of \$2,000,000 as a condition of disbursement of funds by IFC. In addition, the Foundation has agreed to the following:

- Prior to the completion of the project as defined by the terms of the agreement, the Foundation will cover any cost overruns on the project and any deficiencies, up to \$1,200,000, of the University due to financial obligations. In addition, the Foundation has agreed to continue reasonable fundraising efforts to cover the University's obligation to the IFC if required.
- The Foundation will maintain a minimum of \$1,200,000 in cash or cash equivalent until project completion.
- The Foundation subordinated its notes receivable from the University to the IFC loan.

The Foundation completed its disbursement obligation in 2017 and is otherwise in compliance with the terms of the agreement.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to December 31, 2018 through June 8, 2019, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2018, including the estimates inherent in the processing of financial statements.