MCV Foundation

VCU Health

Financial Statements

June 30, 2016 and 2015

Keiter
Your Opportunity Advisors

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MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Table of Contents

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Medical College of Virginia Foundation
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Medical College of Virginia Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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; 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.

Auditor's 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. 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, 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.

Keiter

August 25, 2016
Glen Allen, Virginia

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Financial Position
June 30, 2016 and 2015
(in thousands)

Assets	2016	2015
Operating pooled investments:		
Cash and cash equivalents	$ 2,951	$ 9,061
Long-term investments	66,669	54,413
Total operating pooled investments	69,620	63,474
Managed portfolio pooled investments	371,412	402,180
Agency assets	1,215	1,294
Other assets	30,092	23,128
Total assets	$ 472,339	$ 490,076

Liabilities and Net Assets	2016	2015
Liabilities:		
Debt service obligation	$ 7,340	$ 7,975
Accounts payable and accrued expenses	1,148	592
Obligations under split-interest agreements	2,042	2,122
Agency liabilities	1,215	1,294
Total liabilities	11,745	11,983
Net assets:		
Donor restricted:		
Temporarily	201,638	236,073
Permanently	208,994	184,755
Unrestricted:		
Board designated	29,483	33,603
Other	20,479	23,662
Total net assets	460,594	478,093
Total liabilities and net assets	$ 472,339	$ 490,076

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Activities
Year Ended June 30, 2016
(in thousands)

	Donor Restricted		Unrestricted			
	Temporarily Restricted	Permanently Restricted	Board Designated	Unrestricted	2016 Total	2015 Comparative Total
Revenues, gains (losses) and other support:						
Contributions	$ 10,946	$ 21,754	$ 21	$ -	$ 32,721	$ 23,858
Program services and other revenue	2,401	125	-	4	2,530	2,484
Change in split-interest agreements	(1,413)	-	-	-	(1,413)	915
Income on operating pooled investments, net of $92 of management fees	1,293	-	-	-	1,293	1,244
Loss on managed portfolio pooled investments, net of $2,934 of management fees	(413)	-	(50)	-	(463)	(1,766)
Realized and unrealized gains (losses) on investments, net	(15,687)	-	(2,508)	(3,774)	(21,969)	16,671
Total revenues, gains (losses) and other support	(2,873)	21,879	(2,537)	(3,770)	12,699	43,406
Net assets released from restrictions	(26,186)	(352)	-	26,538	-	-
Net assets transferred / reinvested	(5,376)	2,712	(1,583)	4,247	-	-
Expenses:						
Program services	-	-	-	27,536	27,536	29,953
Supporting services:						
General and administrative	-	-	-	2,598	2,598	2,327
Depreciation	-	-	-	64	64	51
Total supporting services	-	-	-	2,662	2,662	2,378
Total expenses	-	-	-	30,198	30,198	32,331
Change in net assets	(34,435)	24,239	(4,120)	(3,183)	(17,499)	11,075
Net assets, beginning of year	236,073	184,755	33,603	23,662	478,093	467,018
Net assets, end of year	$ 201,638	$ 208,994	$ 29,483	$ 20,479	$ 460,594	$ 478,093

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Activities
Year Ended June 30, 2015
(in thousands)

	Donor Restricted		Unrestricted		
	Temporarily Restricted	Permanently Restricted	Board Designated	Unrestricted	Total
Revenues, gains (losses) and other support:					
Contributions	$ 17,133	$ 6,710	$ 15	$ -	$ 23,858
Program services and other revenue	2,342	7	-	135	2,484
Change in split-interest agreements	915	-	-	-	915
Income on operating pooled investments, net of $75 of management fees	1,244	-	-	-	1,244
Income (loss) on managed portfolio pooled investments, net of $5,011 of management fees	(1,927)	-	161	-	(1,766)
Realized and unrealized gains on investments, net	15,027	-	1,548	96	16,671
Total revenues, gains and other support	34,734	6,717	1,724	231	43,406
Net assets released from restrictions	(28,290)	(169)	-	28,459	-
Net assets transferred / reinvested	(7,165)	2,556	(958)	5,567	-
Expenses:					
Program services	-	-	-	29,953	29,953
Supporting services:					
General and administrative	-	-	-	2,327	2,327
Depreciation	-	-	-	51	51
Total supporting services	-	-	-	2,378	2,378
Total expenses	-	-	-	32,331	32,331
Change in net assets	(721)	9,104	766	1,926	11,075
Net assets, beginning of year	236,794	175,651	32,837	21,736	467,018
Net assets, end of year	$ 236,073	$ 184,755	$ 33,603	$ 23,662	$ 478,093

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (17,499)	$ 11,075
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	64	51
Contributions restricted for endowment	(21,754)	(6,710)
In-kind contribution of land	-	(148)
Net unrealized and realized gains on investments	21,969	(16,671)
Changes in operating assets and liabilities:		
Increase in other assets	(6,679)	(436)
Increase in accounts payable and accrued expenses	368	74
Net cash used in operating activities	(23,531)	(12,765)
Cash flows from investing activities:		
Purchase of property and equipment	(161)	(128)
(Purchase) sale of investments, net	(3,457)	2,939
Net cash (used in) provided by investing activities	(3,618)	2,811
Cash flows from financing activities:		
Payments on debt service obligation	(635)	(600)
Contributions restricted for endowment	21,754	6,710
Obligations on split-interest agreements	(80)	(23)
Net cash provided by financing activities	21,039	6,087
Net change in cash and cash equivalents	(6,110)	(3,867)
Cash and cash equivalents:		
Beginning of year	9,061	12,928
End of year	$ 2,951	$ 9,061
Supplemental disclosures:		
Cash paid for interest	$ 364	$ 395
Software purchase included in accounts payable	$ 188	$ -

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies:

Nature of Organization: The Medical College of Virginia Foundation (the "Foundation") is a not-for-profit corporation organized to aid, strengthen, and extend the work, services, and objectives of the Medical College of Virginia ("MCV") Campus of Virginia Commonwealth University. This mission is achieved by receiving contributions, investing and managing funds, disbursing current funds and a portion of the total return on endowment, and providing information about the activities of MCV and the Foundation.

Basis of Accounting: The financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which include the use of the accrual basis of accounting.

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 reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For financial statement purposes, the Foundation considers cash and cash equivalents to include cash in banks and investments in commercial paper and money market funds in the operating pooled investments with an original maturity of three months or less when purchased. The carrying amount approximates fair value because of the short maturity of those investments. Temporary cash investments in the managed portfolio pool are not considered cash equivalents as the pool is not considered by the Foundation to be liquid.

Concentrations of Credit Risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and pledges receivable. The Foundation places its cash and cash equivalents with financial institutions located in Richmond, Virginia. At times, these balances are in excess of the FDIC insurance limit. Pledges receivable are from individuals, corporations and foundations located primarily in the United States. The Foundation believes its credit risk related to these pledges receivable is limited due to the nature of its donors.

Investments: Assets are maintained in two pools for investment purposes. The equity of individual funds in the pooled investments is determined using the market-value method. Under the market-value method, units of participation are assigned when dollars enter the pool (from gifts, reinvestment of income, etc.) based on the most recently determined unit market value for the existing units of participation. Net adjusted gains or losses, both realized and unrealized, are maintained in a separate classification of accounts with no units of participation assigned thereto. Withdrawals from individual funds are based upon the most recently determined market value of the respective net gains or losses. The market value of the units of participation is calculated monthly.

1. Summary of Significant Accounting Policies, Continued:

Investments, Continued: Due to the nature of certain investments, fair market value information is only available for the periods ending March 31, 2016 and 2015. These assets are invested through Bespoke Private Strategies, LLC and Stonelake Opportunity Partners III, LLC in private placements, real estate funds, and hedge funds which are not actively traded on public markets and therefore a lag exists in the valuation of these assets. The investments are subjected to audit by various accounting firms; however, the audits for the years ending June 30, 2016 and 2015 were not available at the time the Foundation's statements were issued. The fair value of these assets at March 31, 2016 plus contributions, less distributions, for the period from April 1, 2016 to June 30, 2016 was $26,969,031. The fair value of these assets at March 31, 2015 plus contributions, less distributions, for the period from April 1, 2015 through June 30, 2015 was $20,125,485.

Operating Pooled Investments: The operating investment pool consists of temporarily restricted assets that have been derived from contributions for current purposes. During 2016, the Foundation changed the allocation method of income to each individual fund from a quarterly distribution to a yearly distribution based on the previous year's earnings. Gains or losses realized in the pool are offset against or added to net interest income each year.

Managed Portfolio Pooled Investments: The financial objective of the managed portfolio pool, as adopted by the Board of Trustees, is to protect the future purchasing power of the portfolio while providing a stable amount available from the endowment for spending (see Note 10). At year-end, the difference between the spending amounts appropriated and net income from investments is transferred from or added to net adjusted gains and losses. In 2016 and 2015, these transfers approximated $18,069,473 and $15,795,901, respectively, from net adjusted gains or losses to the individual managed portfolio pool funds.

An allocable portion of the administrative costs relating to the pooled investments held by the Foundation is reimbursed from the investment pools. The costs of providing investment and other administrative activities have been reported on a functional basis. Accordingly, certain costs have been allocated among the individual funds, both restricted and unrestricted.

The Foundation records investments in equity securities with a readily determinable fair market value and all investments in debt securities at fair values with gains and losses included in the statements of activities. The Foundation reports investments in securities at published or confirmed market values. Fair values for certain alternative investments, including private equity and real estate, are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the Foundation's Investment Committee.

1. Summary of Significant Accounting Policies, Continued:

Management Fees: Investment income on the operating pool and managed portfolio pooled investments is reported net of identifiable management fees based on information provided by the investment managers.

Life Income Investments: Gifts in which the Foundation has an irrevocable interest, but that are held in trust and administered by outside agents, have been recorded as gifts that are temporarily restricted based on the donor stipulations and reported as life income investments. Upon termination of the life interests in the trust, the remainder will be distributed to the Foundation. The life income investments are valued using present value and actuarial techniques to estimate present value of expected future cash flows.

Property and Equipment: Property and equipment are recorded at cost for purchased items and at fair value for contributed items. Acquisitions of fixed assets with a cost less than $5,000 are expensed as acquired. Management believes that this policy has an immaterial effect on the Foundation's financial statements.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Useful lives range between three and thirty-nine years.

Pledges Receivable: Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable values. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate of 2.30 and 3.11 percent at June 30, 2016 and 2015, respectively. Amortization of the discount is included in contributions revenue. Net pledges receivable, included in other assets in the accompanying statements of financial position, include the following unconditional promises to give as of June 30 (in thousands):

	2016	2015
Amounts due in:		
Less than one year	$ 9,793	$ 8,280
One to five years	14,789	7,196
More than five years	2,220	3,430
Less - allowance for uncollectibles and discount to present value	(1,877)	(1,715)
	$ 24,925	$ 17,191

1. Summary of Significant Accounting Policies, Continued:

Agency Accounts: Agency accounts represent funds received and held by the Foundation as a fiscal agent for others. These funds are entrusted to the Foundation only for the purpose of receiving, holding and disbursing them according to the restriction of the donor. Expenses and investment income, including investment gains and losses, related to these accounts are not included in the statements of activities.

Split-Interest Agreements: Certain donors have contributed assets to the Foundation and in exchange the donor or other beneficiaries will receive a fixed amount or percentage of assets over their lifetime. The present values of these commitments are liabilities and are classified as obligations under split interest agreements in the accompanying statements of financial position. Discount rates from 5.7 percent to 12.9 percent were used in determining the actuarial liability for fiscal years 2016 and 2015. The related assets were classified in the managed portfolio pooled investments in the accompanying statements of financial position.

Net Assets: The Foundation classifies its net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets represent the accumulated expendable net income earned on contributions that have not been restricted by donor stipulations. Unrestricted net assets also include the Foundation's real and personal property, as well as, board designated net assets. Board designated net assets represent contributions with no donor stipulations as to their purpose which the Foundation's Board of Trustees has invested to provide income for a long but unspecified period of time. Income from board designated net assets is used to support the various programs of the Foundation, including the servicing of the bond obligation. Income earned from Board designated net assets and used to pay interest expense on the bond obligation amounted to $351,832 and $388,953 during 2016 and 2015, respectively.

Temporarily restricted net assets are contributions with donor-imposed time or purpose restrictions. Temporarily restricted net assets also include contributions with donor stipulations as to their purposes that the Foundation's Board of Trustees has invested to provide income for a long but unspecified period of time. The income provided from these long-term investments is used in accordance with the donor-specified purposes. Temporarily restricted net assets become unrestricted when the time restrictions expire or when the funds are used for their restricted purposes, and are reported in the statements of activities as net assets released from restrictions.

1. Summary of Significant Accounting Policies, Continued:

Net Assets, Continued: Permanently restricted net assets represent endowments to be held in perpetuity. Income from permanently restricted net assets is temporarily restricted until used in accordance with donor stipulations. These donor stipulations generally provide that unexpended temporarily restricted income is managed in accordance with the Foundation's investment policy, which provides that income from endowments in excess of budgetary requirements may be added to the endowment principal. For financial reporting, income in excess of budgetary needs is transferred between temporarily restricted, unrestricted and permanently restricted net assets. These transferred amounts were $2,712,226 and $2,695,426 for the years ended June 30, 2016 and 2015, respectively, and are included in net assets transferred / reinvested in the accompanying statements of activities. Income from perpetual endowments that has no donor stipulations is expended for Foundation purposes at the direction of the Board of Trustees.

Classification by Individual Fund: Foundation accounts are established by donors to support specific purposes, such as scholarships, research, or faculty positions. These accounts are identified as individually named funds. Perpetual endowment and long-term investment funds may bear a commemorative name assigned by the donor(s). Contributions for current purposes will be expended in their entirety over a finite period of time and are generally not assigned a commemorative name.

Revenue Recognition: The Foundation reports contributions as support when they are received or pledged by the donor. The Foundation reports restricted contributions as temporarily restricted support if they are restricted for use in a subsequent year or for a specific program. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Contributed Services: A substantial number of unpaid volunteers make significant contributions of their time to enhance the Foundation's programs. Contributed services received should be recognized if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The value of this contributed time is not reflected in these financial statements since it is not subject to objective measurement or valuation and does not meet the stated criteria.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through August 25, 2016, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

2. Tax Status:

The Foundation has qualified as an exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Foundation has no significant financial statement exposure to uncertain income tax positions at June 30, 2016 and 2015. The Foundation is not currently under audit by any tax jurisdiction.

3. Long-Term Investments:

Long-term investments in the managed portfolio are composed of the following as of June 30 (in thousands):

	2016		2015	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 6,241	$ 6,241	$ 9,695	$ 9,695
Equities	49,357	61,489	46,617	62,052
Fixed income	33,856	35,424	31,286	32,172
Alternative investments	251,821	268,258	263,118	298,261
	$ 341,275	$ 371,412	$ 350,716	$ 402,180

Long-term investments in the operating pool are composed of the following as of June 30 (in thousands):

	2016		2015	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 2,951	$ 2,951	$ 9,061	$ 9,061
Equities	11,221	12,262	5,052	4,985
Fixed income	54,374	54,407	50,068	49,428
	$ 68,546	$ 69,620	$ 64,181	$ 63,474

3. Long-Term Investments, Continued:

Realized and unrealized gains (losses) on investments are as follows for the years ended June 30 (in thousands):

	2016	2015
Net realized (loss) gain on sales of investments	$ (3,881)	$ 25,821
Net unrealized loss on market value of investments	(18,088)	(9,150)
	$ (21,969)	$ 16,671

4. Other Assets:

Other assets are as follows at June 30 (in thousands):

	2016	2015
Net pledges receivable	$ 24,925	$ 17,191
Life income investments	2,253	3,437
Loans receivable	23	37
Property and equipment, net of $946 and $895, respectively, of accumulated depreciation	1,796	1,511
Life insurance receivables	569	599
Other assets	526	353
	$ 30,092	$ 23,128

The Foundation is a remainder beneficiary of several irrevocable charitable remainder unitrust agreements ("Unitrusts"), which are included as a component of life income investments in the table above. Under the agreements, the assets of the trust are contributed to the Foundation upon the death of the donor and/or donor's spouse. Such Unitrust assets are held and maintained by third-party trustees until such time arises. Unitrusts generally pay an annual benefit to the trust grantors throughout their lives based on a percentage of the fair value of the trust's assets each year as defined by the trust agreement.

5. Fair Value Measurements:

Financial Accounting Standards Board ("FASB") guidance on fair value measurements establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the market in which the assets or liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. Investments that are included in this category generally include investments in limited partnerships and limited liability corporations.

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016, include the following (in thousands):

	Fair Value Using			Assets / liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Investments:				
Cash and cash equivalents	$ 9,192	$ -	$ -	$ 9,192
Equities:				
Large Cap	25,985	36,142	-	62,127
Preferred	639	-	-	639
Small Cap	10,985	-	-	10,985
Fixed income:				
Corporate bonds	-	16,871	-	16,871
U.S. government obligations	14,320	57,379	-	71,699
Mortgage & Asset-backed Securities	-	1,261	-	1,261
Alternative investments:				
Hedged Equity Funds:				
Long Only Equity	-	-	31,440	31,440
Long/Short Equity	-	-	70,967	70,967
Multi-Strategy	-	-	67,758	67,758
International	-	15,603	42,061	57,664
Private Equity	-	-	24,713	24,713
Real Estate funds	-	-	15,716	15,716
Total investments	61,121	127,256	252,655	441,032
Pledges receivable	-	-	24,925	24,925
Student loans receivable	-	-	23	23
Unitrusts	-	-	2,253	2,253
Total	$ 61,121	$ 127,256	$ 279,856	$ 468,233
Agency assets / liabilities	$ -	$ 1,215	$ -	$ 1,215
Obligations under split-interest agreements	$ -	$ 2,042	$ -	$ 2,042

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2015, include the following (in thousands):

	Fair Value Using			Assets / liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Investments:				
Cash and cash equivalents	$ 18,756	$ -	$ -	$ 18,756
Equities:				
Large Cap	34,248	20,606	-	54,854
Small Cap	12,183	-	-	12,183
Fixed income:				
Corporate bonds	-	14,772	-	14,772
U.S. government obligations	10,162	55,347	-	65,509
Mortgage & Asset-backed Securities	-	1,319	-	1,319
Alternative investments:				
Emerging Markets	-	-	23,145	23,145
Hedged Equity Funds:				
Long Only Equity	-	-	27,631	27,631
Long/Short Equity	-	-	83,695	83,695
Multi-Strategy	-	-	70,036	70,036
International	-	21,274	41,332	62,606
Private Equity	-	-	19,426	19,426
Real Estate funds	-	-	11,722	11,722
Total investments	75,349	113,318	276,987	465,654
Pledges receivable	-	-	17,191	17,191
Student loans receivable	-	-	37	37
Unitrusts	-	-	3,437	3,437
Total	$ 75,349	$ 113,318	$ 297,652	$ 486,319
Agency assets / liabilities	$ -	$ 1,294	$ -	$ 1,294
Obligations under split-interest agreements	$ -	$ 2,122	$ -	$ 2,122

5. Fair Value Measurements, Continued:

The following table provides a reconciliation between the beginning and ending balances of assets measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in thousands):

	Alternative Investments	Pledges Receivable	Student Loans Receivable	Unitrusts
Balance at June 30, 2014	$ 217,589	$ 17,615	$ 55	$ 2,382
Purchases	65,945	-	-	-
Distributions	(15,579)	-	-	-
Investment income (loss), net of investment expenses	(2,734)	-	-	-
Net realized and unrealized gain on investments	11,766	-	-	-
Change in allowance and discount	-	208	-	-
Change in beneficial interest in trusts	-	-	-	1,055
New pledges	-	3,324	-	-
Payments on pledges / loans (net)	-	(3,956)	(18)	-
Balance at June 30, 2015	276,987	17,191	37	3,437
Purchases	39,758	-	-	-
Distributions	(43,339)	-	-	-
Investment income (loss), net of investment expenses	(1,470)	-	-	-
Net realized and unrealized loss on investments	(19,281)	-	-	-
Change in allowance and discount	-	(163)	-	-
Change in beneficial interest in trusts	-	-	-	(1,184)
New pledges	-	17,823	-	-
Payments on pledges / loans (net)	-	(9,926)	(14)	-
Balance at June 30, 2016	$ 252,655	$ 24,925	$ 23	$ 2,253

5. Fair Value Measurements, Continued:

The Foundation's Level 2 and Level 3 investments are subject to restrictions on the frequency of redemptions. At June 30, 2016 and 2015, the redemption limits and related amounts were as follows (in thousands):

Redemption Limit	Amount
Daily	$ 122,898
Monthly	39,769
Quarterly	98,578
Semi-annually	39,068
Annually	36,677
Upon sale of investment property	42,921
	$ 379,911

At June 30, 2016 and 2015, the Foundation had unfunded commitments to Property Holdings III, LLC, Property Holdings V, LLC, Property Holdings VI, LLC, Elliott Management, Stonelake, Redwood Drawdown, and Bespoke Private Strategies of $46,827,146 and $56,848,292, respectively.

6. Debt Service Obligation:

On September 15, 2003, the Foundation entered into the Massey Cancer Center Development and Financing Agreement (the "Agreement") with Virginia Commonwealth University ("VCU"). The Agreement set forth the plan for the construction of an addition to the Massey Cancer Center and the financing mechanisms to be used to fund the construction. Included in the financing were tax-exempt general revenue pledge bonds in the amount of $13,500,000 that were issued by Virginia College Building Authority. VCU is responsible for fulfilling the debt service requirements of the bonds; however, in the Agreement, the Foundation unconditionally agreed to pay to VCU an amount equal to all debt service on the bonds in semi-annual installments. During 2016 and 2015, total debt service payments, including interest, amounted to $986,832 and $994,546, respectively.

6. Debt Service Obligation, Continued:

The present values of future maturities of the debt service obligation are as follows as of June 30, 2016:

Year	Amount
2017	$ 665,000
2018	695,000
2019	730,000
2020	770,000
2021	810,000
Thereafter	3,670,000
	$ 7,340,000

7. Restricted Net Assets:

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of June 30 (in thousands):

	2016	2015
Support of current operations in MCV schools and departments	$ 70,131	$ 65,152
Available to be released from donor restrictions by satisfying the restricted purpose	5,497	5,137
Principal designated for investment to support donor-restricted purpose	84,458	97,180
Present value of pledges receivable	10,426	13,876
Unrealized gains on permanently restricted net assets	31,126	54,728
	$ 201,638	$ 236,073

7. Restricted Net Assets, Continued:

Temporarily Restricted, Continued

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions as follows (in thousands):

	2016	2015
Faculty salaries and support	$ 3,945	$ 3,536
Education, research, and general	19,440	22,268
Scholarships and awards	2,683	2,373
Indigent patient care	115	110
Other program services, net and equipment purchases	3	3
	$ 26,186	$ 28,290

Permanently Restricted

Income from permanently restricted net assets is used to support the various programs of the Foundation (see Note 10). For 2016 and 2015, income released amounted to $351,810 and $169,438, respectively.

8. Other Matters:

Contributions totaling $1,483,265 and $1,334,082 were received during 2016 and 2015, respectively, from certain related-party private practice groups to be used for the benefit of specific departments of MCV with $1,369,916 and $1,213,033 included in temporarily restricted funds and $113,349 and $121,049 in permanently restricted funds, respectively.

8. Other Matters, Continued:

The Foundation incurred expenses during 2016 and 2015 to support programs as follows:

		2016		2015
Purpose restrictions accomplished:				
Faculty salaries and support	$	4,262	$	4,589
Education, research, and general		20,122		22,709
Scholarships and awards		2,683		2,373
Indigent patient care		115		110
Other program services and equipment purchases		354		172
	$	27,536	$	29,953

The Foundation incurred fundraising expenses of $539,716 and $390,782 for the years ended June 30, 2016 and 2015, respectively. These amounts are included in general and administrative expense.

The Foundation has an institutional advisory services agreement with an investment advisory firm owned by one of its board members. The Foundation paid $664,332 and $699,618 in 2016 and 2015, respectively, under this agreement to the investment advisory firm. A member of the advisory firm is also a Board member of the Foundation, but does not particpate in investment decisions on behalf of the Foundation.

9. Retirement Plan:

Effective July 1, 2008, the Foundation established a 401(k) Plan (the “Plan”) to provide retirement benefits to its employees. Employees may contribute up to 100% of their annual compensation to the Plan, limited to the maximum annual amount as set periodically by the Internal Revenue Service. The Plan provides for a safe harbor non-elective contribution equal to 3% of each employee’s compensation to be made on an annual basis. All safe harbor nonelective contributions, discretionary matching and profit sharing contributions vest immediately. During 2016, the Foundation approved the increase of the safe harbor contribution from 3% to 5% and the Plan will be amended to include this change upon the renewal on January 1, 2017. The Foundation made a contribution of $46,469 in March 2016 and has $20,497 accrued as of June 30, 2016. The Foundation made contributions of $52,639 in 2015.

10. Endowment Funds:

At June 30, 2016 and 2015, the Foundation's endowment consists of approximately 951 and 910, respectively, individual named funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the cost basis of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, plus any amounts reinvested into the fund through the Foundation's reinvestment process. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) reinvestment of income earned on the fund, but not spent as of the end of the fiscal year. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure 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:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

10. Endowment Funds, Continued:

Endowment Investing and Spending Policies: 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. Under this policy, as approved by the Board of Trustees, the endowment funds are invested in a manner that is intended to produce stated investment results while assuming a moderate level of investment risk. The Foundation's spending and investment policies work together to achieve this objective. The Board of Trustees has concluded that payout amounts will equal 70% of the previous year's spending amount, adjusted for inflation by the Higher Education Price Index (HEPI) for the twelve months prior to the start of the fiscal year. In addition, 30% will be equal to 4.5 percent of the trailing three-year average market value of the endowment investment pool. Distributions of this spending amount are based upon the number of units of participation assigned to individual fund in the pool and adjusted for gifts received in the previous fiscal year. Spending on gifts received in the previous fiscal year receive a pro-rated amount based on the number of whole months each gift was included in the fund.

At year-end, the difference between the spending amounts appropriated and net income from investments is transferred from or added to net adjusted gains and losses.

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

Funds with Deficits: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were ($3,956,941) and ($182,913) as of June 30, 2016 and 2015, respectively. These deficiencies resulted largely from unfavorable market fluctuations that occurred after the establishment of the endowments.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

10. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows as of June 30, 2016 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,957)	$ 31,126	$ 208,994	$ 236,163
Board-designated funds	29,483	-	-	29,483
Total funds	$ 25,526	$ 31,126	$ 208,994	$ 265,646

Changes in endowment net assets were as follows for the year ended June 30, 2016 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 33,420	$ 54,728	$ 184,755	$ 272,903
Investment return	(6,331)	(22,889)	-	(29,220)
Contributions and other income	21	-	21,879	21,900
	-			
Allocated income (payout)	-	15,339	-	15,339
Appropriation of endowment assets for expenditure	(1,584)	(12,646)	(352)	(14,582)
Transfers	-	(694)	-	(694)
Reinvestments	-	(2,712)	2,712	-
Endowment net assets, end of year	$ 25,526	$ 31,126	$ 208,994	$ 265,646

10. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows as of June 30, 2015 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (183)	$ 54,728	$ 184,755	$ 239,300
Board-designated funds	33,603	-	-	33,603
Total funds	$ 33,420	$ 54,728	$ 184,755	$ 272,903

Changes in endowment net assets were as follows for the year ended June 30, 2015 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 32,558	$ 55,853	$ 175,651	$ 264,062
Investment return	1,805	614	-	2,419
Contributions and other income	15	-	6,718	6,733
	-			
Allocated income (payout)	-	12,488	-	12,488
Appropriation of endowment assets for expenditure	(958)	(11,532)	(169)	(12,659)
Transfers	-	-	(140)	(140)
Reinvestments	-	(2,695)	2,695	-
Endowment net assets, end of year	$ 33,420	$ 54,728	$ 184,755	$ 272,903

11. Commitments:

The Foundation entered into a contract on May 6, 2016 for a software package and conversion in the amount of $207,411. As of June 30, 2016, work had been performed and either paid or accrued in the amount of $58,197, leaving a remaining balance on the contract of $149,214.

12. Indemnification:

The Foundation has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Foundation's request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia. The Foundation has a Director and Officer insurance policy that further limits its exposure and enables the Organization to recover a portion of any future amounts paid.

13. New Accounting Guidance

In August 2016, FASB issued ASU No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities", which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions

- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds

- Requires all not-for-profits to provide expenses by nature and function

- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Foundation has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

13. New Accounting Guidance, Continued:

In May 2015, FASB issued ASU No. 2015-07, “Disclosure for Investments in Certain Entities that Calculated Net Asset Value per Share (or Its Equivalent)”, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured using net asset value per share as a practical expedient. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Foundation has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.