MCV Foundation

VCU Health

Financial Statements

June 30, 2017 and 2016

Keiter
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MEDICAL COLLEGE OF VIRGINIA FOUNDATION

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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, 2017 and 2016, 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, 2017 and 2016, 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.

August 28, 2017
Glen Allen, Virginia

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Financial Position
June 30, 2017 and 2016
(in thousands)

Assets	2017	2016
Operating pooled investments:		
Cash and cash equivalents	$ 5,935	$ 2,951
Long-term investments	68,367	66,669
Total operating pooled investments	74,302	69,620
Managed portfolio pooled investments	421,957	371,412
Agency assets	1,347	1,215
Other assets	27,876	30,092
Total assets	$ 525,482	$ 472,339

Liabilities and Net Assets	2017	2016
Liabilities:		
Debt service obligation	$ 6,675	$ 7,340
Accounts payable and accrued expenses	531	1,148
Obligations under split-interest agreements	1,885	2,042
Agency liabilities	1,347	1,215
Total liabilities	10,438	11,745
Net assets:		
Donor restricted:		
Temporarily	236,205	201,638
Permanently	219,188	208,994
Unrestricted:		
Board designated	33,988	29,483
Other	25,663	20,479
Total net assets	515,044	460,594
Total liabilities and net assets	$ 525,482	$ 472,339

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Activities
Year Ended June 30, 2017
(in thousands)

	Donor Restricted		Unrestricted			2016
	Temporarily Restricted	Permanently Restricted	Board Designated	Unrestricted	2017 Total	Comparative Total
Revenues, gains (losses) and other support:						
Contributions	$ 13,377	$ 7,756	$ 41	$ -	$ 21,174	$ 32,721
Program services and other revenue	1,666	4	-	-	1,670	2,530
Change in split-interest agreements	(16)	-	-	-	(16)	(1,413)
Income on operating pooled investments, net of $122 of management fees	1,159	-	-	-	1,159	1,293
Income on managed portfolio pooled investments, net of $5,112 of management fees	(178)	-	(21)	-	(199)	(463)
Realized and unrealized gains (losses) on investments, net	48,434	-	5,969	2,989	57,392	(21,969)
Total revenues, gains (losses) and other support	64,442	7,760	5,989	2,989	81,180	12,699
Net assets released from restrictions	(22,488)	(308)	-	22,796	-	-
Net assets transferred / reinvested	(7,387)	2,742	(1,484)	6,129	-	-
Expenses:						
Program services	-	-	-	23,571	23,571	27,536
Supporting services:						
General and administrative	-	-	-	3,085	3,085	2,598
Depreciation	-	-	-	74	74	64
Total supporting services	-	-	-	3,159	3,159	2,662
Total expenses	-	-	-	26,730	26,730	30,198
Change in net assets	34,567	10,194	4,505	5,184	54,450	(17,499)
Net assets, beginning of year	201,638	208,994	29,483	20,479	460,594	478,093
Net assets, end of year	$ 236,205	$ 219,188	$ 33,988	$ 25,663	$ 515,044	$ 460,594

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	Total
Revenues, gains (losses) and other support:					
Contributions	$ 10,946	$ 21,754	$ 21	$ -	$ 32,721
Program services and other revenue	2,401	125	-	4	2,530
Change in split-interest agreements	(1,413)	-	-	-	(1,413)
Income on operating pooled investments, net of $92 of management fees	1,293	-	-	-	1,293
Loss on managed portfolio pooled investments, net of $2,934 of management fees	(413)	-	(50)	-	(463)
Realized and unrealized gains (losses) on investments, net	(15,687)	-	(2,508)	(3,774)	(21,969)
Total revenues, gains (losses) and other support	(2,873)	21,879	(2,537)	(3,770)	12,699
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
Supporting services:					
General and administrative	-	-	-	2,598	2,598
Depreciation	-	-	-	64	64
Total supporting services	-	-	-	2,662	2,662
Total expenses	-	-	-	30,198	30,198
Change in net assets	(34,435)	24,239	(4,120)	(3,183)	(17,499)
Net assets, beginning of year	236,073	184,755	33,603	23,662	478,093
Net assets, end of year	$ 201,638	$ 208,994	$ 29,483	$ 20,479	$ 460,594

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 54,450	$ (17,499)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	74	64
Contributions restricted for endowment	(7,756)	(21,754)
Net unrealized and realized (gains) losses on investments	(57,392)	21,969
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	2,246	(6,679)
(Decrease) increase in accounts payable and accrued expenses	(670)	368
Net cash used in operating activities	(9,048)	(23,531)
Cash flows from investing activities:		
Purchase of property and equipment	(51)	(161)
Sale (purchase) of investments, net	5,149	(3,457)
Net cash provided by (used in) investing activities	5,098	(3,618)
Cash flows from financing activities:		
Payments on debt service obligation	(665)	(635)
Contributions restricted for endowment	7,756	21,754
Obligations on split-interest agreements	(157)	(80)
Net cash provided by financing activities	6,934	21,039
Net change in cash and cash equivalents	2,984	(6,110)
Cash and cash equivalents:		
Beginning of year	2,951	9,061
End of year	$ 5,935	$ 2,951
Supplemental disclosures:		
Cash paid for interest	$ 331	$ 364
Software purchase included in accounts payable	$ 53	$ 188

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Organization: The mission of the Medical College of Virginia Foundation (the “Foundation”) is to inspire and steward philanthropic resources for our MCV Campus partners at VCU Health: VCU School of Applied Health Professions, VCU School of Dentistry, VCU School of Medicine, VCU School of Nursing, VCU School of Pharmacy, VCU Massey Cancer Center and VCU Medical Center. This mission is achieved by fundraising, 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 ended March 31, 2017 and 2016. 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 ended June 30, 2017 and 2016 were not available at the time the Foundation's statements were issued. The fair value of these assets at March 31, 2017 plus contributions, less distributions, for the period from April 1, 2017 to June 30, 2017 was $44,253,666. The fair value of these assets at March 31, 2016 plus contributions, less distributions, for the period from April 1, 2016 through June 30, 2016 was $26,969,031.

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 2017 and 2016, these transfers approximated $16,560,450 and $18,069,473, 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 2.84 percent and 2.30 percent at June 30, 2017 and 2016, 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 (both temporarily and permanently restricted) as of June 30 (in thousands):

	2017	2016
Amounts due in:		
Less than one year	$ 11,451	$ 9,793
One to five years	12,203	14,789
More than five years	1,110	2,220
Less - allowance for uncollectibles and discount to present value	(2,071)	(1,877)
	$ 22,693	$ 24,925

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. To determine the actuarial liability, discount rates from 1.2 percent to 9.6 percent were used in 2017 and 5.7 percent to 12.9 percent were used in 2016. 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 $297,971 and $351,832 during 2017 and 2016, 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 $2,742,421 and $2,712,226 for the years ended June 30, 2017 and 2016, respectively, and are included in net assets transferred / reinvested in the accompanying statements of activities. Income from perpetual endowments that have 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.

Subsequent Events: Management has evaluated subsequent events through August 28, 2017, 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, 2017 and 2016. 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):

	2017		2016	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 14,860	$ 14,789	$ 6,241	$ 6,241
Equities	50,668	72,619	49,357	61,489
Fixed income	31,750	32,422	33,856	35,424
Alternative investments	246,677	302,127	251,821	268,258
	$ 343,955	$ 421,957	$ 341,275	$ 371,412

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

	2017		2016	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 5,935	$ 5,935	$ 2,951	$ 2,951
Equities	9,555	11,699	11,221	12,262
Fixed income	57,120	56,668	54,374	54,407
	$ 72,610	$ 74,302	$ 68,546	$ 69,620

3. Long-Term Investments, Continued:

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

	2017	2016
Net realized gain (loss) on sales of investments	$ 5,066	$ (3,881)
Net unrealized gain (loss) on market value of investments	52,326	(18,088)
	$ 57,392	$ (21,969)

4. Other Assets:

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

	2017	2016
Net pledges receivable	$ 22,693	$ 24,925
Life income investments	2,338	2,253
Student loans receivable	13	23
Property and equipment, net of $1,020 and $946, respectively, of accumulated depreciation	1,826	1,796
Life insurance receivables	451	569
Other assets	555	526
	$ 27,876	$ 30,092

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, 2017, 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	$ 20,725	$ -	$ -	$ 20,725
Equities:				
Large cap	36,846	37,996	-	74,842
Preferred	726	-	-	726
Small cap	8,750	-	-	8,750
Fixed income:				
Corporate bonds	-	16,091	-	16,091
U.S. government obligations	10,644	54,147	-	64,791
Mortgage & asset-backed securities	-	8,208	-	8,208
Alternative investments:				
Hedged equity funds:				
Long only equity	-	-	39,426	39,426
Long/Short equity	-	-	69,379	69,379
Multi-strategy	-	-	64,965	64,965
International	-	19,505	52,232	71,737
Private equity	-	-	40,768	40,768
Real estate funds	-	-	15,851	15,851
Total investments	77,691	135,947	282,621	496,259
Pledges receivable	-	-	22,693	22,693
Life income investments	-	-	2,338	2,338
Student loans receivable	-	-	13	13
Total	$ 77,691	$ 135,947	$ 307,665	$ 521,303
Agency assets / liabilities	$ -	$ 1,347	$ -	$ 1,347
Obligations under split-interest agreements	$ -	$ 1,885	$ -	$ 1,885

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
Life income investments	-	-	2,253	2,253
Student loans receivable	-	-	23	23
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:

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	Life Income Investments
Balance at June 30, 2015	$ 276,987	$ 17,191	$ 37	$ 3,437
Purchases	39,758	-	-	-
Distributions	(43,339)	-	-	-
Investment 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
Purchases	21,896	-	-	-
Distributions	(33,355)	-	-	-
Investment loss, net of investment expenses	(1,379)	-	-	-
Net realized and unrealized gain on investments	42,804	-	-	-
Change in allowance and discount	-	(194)	-	-
Change in beneficial interest in trusts	-	-	-	85
New pledges	-	5,451	-	-
Payments on pledges / loans (net)	-	(7,489)	(10)	-
Balance at June 30, 2017	$ 282,621	$ 22,693	$ 13	$ 2,338

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, 2017, the redemption limits and related amounts were as follows (in thousands):

Redemption Limit	
Daily	$ 128,241
Monthly	47,345
Quarterly	103,147
Semi-annually	38,370
Annually	42,208
Upon sale of investment property	59,257
	$ 418,568

At June 30, 2017 and 2016, 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 $51,485,824 and $46,827,146, 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 2017 and 2016, total debt service payments, including interest, amounted to $996,084 and $998,672, respectively.

6. Debt Service Obligation, Continued:

The present values of future maturities of the debt service obligation are as follows as of June 30, 2017 (in thousands):

Year	Amount
2018	$ 695
2019	730
2020	770
2021	810
2022	850
Thereafter	2,820
	$ 6,675

7. Restricted Net Assets:

Temporarily Restricted

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

	2017	2016
Support of current operations in MCV schools and departments	$ 75,178	$ 70,131
Available to be released from donor restrictions by satisfying the restricted purpose	6,226	5,497
Principal designated for investment to support donor-restricted purpose	94,676	84,458
Present value of pledges receivable	9,355	10,426
Unrealized gains on permanently restricted net assets	50,770	31,126
	$ 236,205	$ 201,638

7. Restricted Net Assets, Continued:

Temporarily Restricted, Continued

During 2017 and 2016, 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):

	2017	2016
Faculty salaries and support	$ 4,317	$ 3,945
Education, research, and general	15,879	19,440
Scholarships and awards	2,173	2,683
Indigent patient care	117	115
Other program services, net and equipment purchases	2	3
	$ 22,488	$ 26,186

Permanently Restricted

Income from permanently restricted net assets is used to support the various programs of the Foundation (see Note 10). For 2017 and 2016, income released amounted to $308,301 and $351,810, respectively.

8. Other Matters:

Contributions totaling $1,158,630 and $1,483,265 were received during 2017 and 2016, respectively, from certain related-party private practice groups to be used for the benefit of specific departments of MCV with $881,269 and $1,369,916 included in temporarily restricted funds and $277,361 and $113,349 in permanently restricted funds, respectively.

8. Other Matters, Continued:

The Foundation incurred expenses during 2017 and 2016 to support programs as follows:

	2017	2016
Purpose restrictions accomplished:		
Faculty salaries and support	$ 4,638	$ 4,262
Education, research, and general	16,317	20,122
Scholarships and awards	2,199	2,683
Indigent patient care	117	115
Other program services and equipment purchases	300	354
	$ 23,571	$ 27,536

The Foundation incurred fundraising expenses of $520,411 and $539,716 for the years ended June 30, 2017 and 2016, respectively. These amounts are included in general and administrative expense.

The Foundation has an institutional advisory services agreement with an investment advisory firm partially owned by one of its board members. The Foundation paid $662,082 and $664,332 in 2017 and 2016, 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 participate 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 5% of each employee’s compensation to be made on an annual basis. All safe harbor non-elective 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 was amended to include this change upon the renewal on January 1, 2017. The Foundation made profit sharing contributions of $81,684 for the year ended June 30, 2017 and has $2,834 accrued as of June 30, 2017. The Foundation made profit sharing contributions of $68,212 for the year ended June 30, 2016.

10. Endowment Funds:

At June 30, 2017 and 2016, the Foundation's endowment consists of 973 and 951, 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 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 funds 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 ($967,511) and ($3,956,941) as of June 30, 2017 and 2016, respectively. These deficiencies resulted largely from unfavorable market fluctuations that occurred after the establishment of the endowments.

10. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows as of June 30, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (968)	$ 50,770	$ 219,188	$ 268,990
Board-designated funds	33,988	-	-	33,988
Total funds	$ 33,020	$ 50,770	$ 219,188	$ 302,978

Changes in endowment net assets were as follows for the year ended June 30, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 25,526	$ 31,126	$ 208,994	$ 265,646
Investment return	8,937	19,644	-	28,581
Contributions and other income	41	-	7,760	7,801
Allocated income (payout)	-	15,947	-	15,947
Appropriation of endowment assets for expenditure	(1,484)	(13,205)	(308)	(14,997)
Reinvestments	-	(2,742)	2,742	-
Endowment net assets, end of year	$ 33,020	$ 50,770	$ 219,188	$ 302,978

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 loss	(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

11. Commitments and Contingencies:

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, 2017, work had been performed and either paid or accrued in the amount of $156,538, leaving a remaining balance on the contract of $50,873.

From time to time, the Foundation is involved in litigation that it considers to be in the normal course of business. The Foundation is not presently involved in any legal proceedings which management expects individually or in the aggregate to have a material adverse effect on its financial condition or results of operations.

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.