

MCV Foundation



Financial Statements

June 30, 2018 and 2017



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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, 2018 and 2017, 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.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keita", with a long, sweeping horizontal stroke extending to the right.

August 30, 2018
Glen Allen, Virginia

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Financial Position
June 30, 2018 and 2017
(in thousands)

| <u>Assets</u> | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Operating pooled investments: | | |
| Cash and cash equivalents | \$ 5,147 | \$ 5,935 |
| Long-term investments | <u>75,157</u> | <u>68,367</u> |
| Total operating pooled investments | 80,304 | 74,302 |
| Managed portfolio pooled investments | 460,458 | 421,957 |
| Funds held for others | 1,469 | 1,347 |
| Other assets | <u>26,130</u> | <u>27,876</u> |
| Total assets | <u>\$ 568,361</u> | <u>\$ 525,482</u> |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Debt service obligation | \$ 5,980 | \$ 6,675 |
| Accounts payable and accrued expenses | 1,001 | 531 |
| Obligations under split-interest agreements | 1,873 | 1,885 |
| Funds held for others | <u>2,669</u> | <u>1,347</u> |
| Total liabilities | <u>11,523</u> | <u>10,438</u> |
| Net assets: | | |
| Donor restricted: | | |
| Temporarily | 269,995 | 236,205 |
| Permanently | 222,053 | 219,188 |
| Unrestricted: | | |
| Board designated | 37,958 | 33,988 |
| Other | <u>26,832</u> | <u>25,663</u> |
| Total net assets | <u>556,838</u> | <u>515,044</u> |
| Total liabilities and net assets | <u>\$ 568,361</u> | <u>\$ 525,482</u> |

See accompanying notes to financial statements

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Activities
Year Ended June 30, 2018
(in thousands)

| | <u>Donor Restricted</u> | | <u>Unrestricted</u> | | <u>2018 Total</u> | <u>2017 Comparative Total</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------|---------------------|-----------------------|---------------------------------------|
| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Board Designated</u> | <u>Unrestricted</u> | | |
| Revenues, gains (losses) and other support: | | | | | | |
| Contributions | \$ 20,195 | \$ 6,268 | \$ 6 | \$ - | \$ 26,469 | \$ 21,174 |
| Program services and other revenue | 1,160 | 5 | - | - | 1,165 | 1,670 |
| Change in split-interest agreements | (367) | 191 | - | - | (176) | (16) |
| Income on operating pooled investments, net of \$131 of management fees | 1,418 | - | - | 2 | 1,420 | 1,159 |
| Income on managed portfolio pooled investments, net of \$6,185 of management fees | 1,803 | - | 193 | - | 1,996 | (199) |
| Realized and unrealized gains (losses) on investments, net | <u>34,284</u> | <u>(34)</u> | <u>3,804</u> | <u>547</u> | <u>38,601</u> | <u>57,392</u> |
| Total revenues, gains (losses) and other support | <u>58,493</u> | <u>6,430</u> | <u>4,003</u> | <u>549</u> | <u>69,475</u> | <u>81,180</u> |
| Net assets released from restrictions | <u>(22,608)</u> | <u>-</u> | <u>-</u> | <u>22,608</u> | <u>-</u> | <u>-</u> |
| Net assets transferred / reinvested | <u>(2,095)</u> | <u>(3,565)</u> | <u>(33)</u> | <u>5,693</u> | <u>-</u> | <u>-</u> |
| Expenses: | | | | | | |
| Program services | <u>-</u> | <u>-</u> | <u>-</u> | <u>24,152</u> | <u>24,152</u> | <u>23,571</u> |
| Supporting services: | | | | | | |
| General and administrative | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,456</u> | <u>3,456</u> | <u>3,085</u> |
| Depreciation | <u>-</u> | <u>-</u> | <u>-</u> | <u>73</u> | <u>73</u> | <u>74</u> |
| Total supporting services | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,529</u> | <u>3,529</u> | <u>3,159</u> |
| Total expenses | <u>-</u> | <u>-</u> | <u>-</u> | <u>27,681</u> | <u>27,681</u> | <u>26,730</u> |
| Change in net assets | 33,790 | 2,865 | 3,970 | 1,169 | 41,794 | 54,450 |
| Net assets, beginning of year | <u>236,205</u> | <u>219,188</u> | <u>33,988</u> | <u>25,663</u> | <u>515,044</u> | <u>460,594</u> |
| Net assets, end of year | <u>\$ 269,995</u> | <u>\$ 222,053</u> | <u>\$ 37,958</u> | <u>\$ 26,832</u> | <u>\$ 556,838</u> | <u>\$ 515,044</u> |

See accompanying notes to financial statements

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

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

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

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(in thousands)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------|-----------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 41,794 | \$ 54,450 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 73 | 74 |
| Contributions restricted for endowment | (6,268) | (7,756) |
| Net unrealized and realized gains on investments | (38,601) | (57,392) |
| Changes in operating assets and liabilities: | | |
| Decrease in other assets | 2,160 | 2,246 |
| Increase (decrease) in accounts payable and accrued expenses | <u>470</u> | <u>(670)</u> |
| Net cash used in operating activities | <u>(372)</u> | <u>(9,048)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (487) | (51) |
| (Purchase) sale of investments, net | <u>(5,490)</u> | <u>5,149</u> |
| Net cash (used in) provided by investing activities | <u>(5,977)</u> | <u>5,098</u> |
| Cash flows from financing activities: | | |
| Payments on debt service obligation | (695) | (665) |
| Contributions restricted for endowment | 6,268 | 7,756 |
| Obligations on split-interest agreements | <u>(12)</u> | <u>(157)</u> |
| Net cash provided by financing activities | <u>5,561</u> | <u>6,934</u> |
| Net change in cash and cash equivalents | (788) | 2,984 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>5,935</u> | <u>2,951</u> |
| End of year | <u>\$ 5,147</u> | <u>\$ 5,935</u> |
| Supplemental disclosures: | | |
| Cash paid for interest | <u>\$ 297</u> | <u>\$ 331</u> |
| Cash paid for software | <u>\$ 25</u> | <u>\$ 134</u> |

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 College of 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.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Investments, Continued: Due to the nature of certain investments, fair market value information is reported in the accompanying financial statements for the periods ended March 31, 2018 and 2017. 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, 2018 and 2017 were not available at the time the Foundation's statements were issued. The fair value of these assets at March 31, 2018 plus contributions, less distributions, for the period from April 1, 2018 to June 30, 2018 was \$67,150,133. The fair value of these assets at March 31, 2017 plus contributions, less distributions, for the period from April 1, 2017 through June 30, 2017 was \$44,253,666.

Operating Pooled Investments: The operating investment pool consists of temporarily restricted assets that have been derived from contributions for current purposes. The Foundation allocates income annually to each individual fund 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 2018 and 2017, these transfers approximated \$17,100,149 and \$16,560,450, 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.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

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 2.98 percent and 2.84 percent at June 30, 2018 and 2017, 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):

| | 2018 | 2017 |
|---|-----------|-----------|
| Amounts due in: | | |
| Less than one year | \$ 8,628 | \$ 11,451 |
| One to five years | 13,609 | 12,203 |
| More than five years | 1,135 | 1,110 |
| Less - allowance for uncollectibles and discount to present value | (2,641) | (2,071) |
| | \$ 20,731 | \$ 22,693 |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Funds Held for Others: Funds held for others 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 conditions and restriction of the donor or organization that transferred the funds to the Foundation. Expenses and investment income, including investment gains and losses, related to these accounts are not included in the statements of activities. At June 30, 2018 and June 30, 2017, the Foundation held assets totaling \$1,469,139 and \$1,346,969 respectively, on behalf of the Medical College of Virginia Foundation Alumni Association. At June 30, 2018, the Foundation held assets totaling \$1,200,000 on behalf of the VCU Intellectual Property Foundation. The funds held on behalf of the VCU Intellectual Property Foundation are classified as managed portfolio pooled investments in the accompanying statements of financial position and are broken out in detail on the table accompanying Note 3.

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 2018 and in 2017. 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 \$293,244 and \$297,971 during 2018 and 2017, 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.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

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 \$3,564,784 and \$2,742,421 for the years ended June 30, 2018 and 2017, 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.

New Accounting Guidance: In May 2015, FASB issued ASU No. 2015-07, "Disclosure for Investments in Certain Entities that Calculated Net Asset Value ("NAV") 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 the ASU are effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Foundation has adopted this ASU and the adoption of this ASU is reflected in the fair value hierarchy where investments valued using NAV per share as a practical expedient are excluded from categorization in the fair value hierarchy.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Reclassifications: Certain items in the prior year have been reclassified to conform to the current year presentation.

Subsequent Events: Management has evaluated subsequent events through August 30, 2018, 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, 2018 and 2017. 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):

| | 2018 | | 2017 | |
|---------------------------|------------|------------|------------|------------|
| | Cost | Market | Cost | Market |
| Cash and cash equivalents | \$ 8,844 | \$ 8,844 | \$ 14,860 | \$ 14,789 |
| Equities | 43,814 | 69,821 | 50,668 | 72,619 |
| Fixed income | 38,303 | 37,835 | 31,750 | 32,422 |
| Alternative investments | 262,368 | 342,758 | 246,677 | 302,127 |
| Funds held for others | 1,200 | 1,200 | - | - |
| | \$ 354,529 | \$ 460,458 | \$ 343,955 | \$ 421,957 |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

3. Long-Term Investments, Continued:

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

| | 2018 | | 2017 | |
|---------------------------|------------------|------------------|------------------|------------------|
| | Cost | Market | Cost | Market |
| Cash and cash equivalents | \$ 5,147 | \$ 5,147 | \$ 5,935 | \$ 5,935 |
| Equities | 10,853 | 13,934 | 9,555 | 11,699 |
| Fixed income | 62,717 | 61,223 | 57,120 | 56,668 |
| | <u>\$ 78,717</u> | <u>\$ 80,304</u> | <u>\$ 72,610</u> | <u>\$ 74,302</u> |

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

| | 2018 | 2017 |
|--|------------------|------------------|
| Net realized gain on sales of investments | \$ 11,075 | \$ 5,066 |
| Net unrealized gain on market value of investments | 27,526 | 52,326 |
| | <u>\$ 38,601</u> | <u>\$ 57,392</u> |

4. Other Assets:

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

| | 2018 | 2017 |
|--|------------------|------------------|
| Net pledges receivable | \$ 20,731 | \$ 22,693 |
| Life income investments | 2,361 | 2,338 |
| Loans receivable | 9 | 13 |
| Property and equipment, net of \$1,085 and \$1,019, respectively, of accumulated depreciation | 2,240 | 1,826 |
| Life insurance receivables | 347 | 451 |
| Other assets | 442 | 555 |
| | <u>\$ 26,130</u> | <u>\$ 27,876</u> |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

4. Other Assets, Continued:

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.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2018, include the following (in thousands):

| | Fair Value Using | | | Assets / Liabilities at Fair Value |
|---|------------------|------------|-----------|--|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments: | | | | |
| Cash and cash equivalents | \$ 13,990 | \$ - | \$ - | \$ 13,990 |
| Equities: | | | | |
| Large cap | 35,766 | 30,345 | - | 66,111 |
| Small cap | 10,099 | - | - | 10,099 |
| International | 7,479 | - | - | 7,479 |
| Preferred | 66 | - | - | 66 |
| Fixed income: | | | | |
| Corporate bonds | 1,102 | 15,915 | - | 17,017 |
| U.S. government obligations | 11,684 | 60,092 | - | 71,776 |
| Mortgage & asset-backed securities | - | 10,266 | - | 10,266 |
| Funds held for others | 1,200 | - | - | 1,200 |
| Investments measured at NAV (a) | - | - | - | 342,758 |
| Total investments | 81,386 | 116,618 | - | 540,762 |
| Pledges receivable | - | - | 20,731 | 20,731 |
| Life income investments | - | - | 2,361 | 2,361 |
| Student loans receivable | - | - | 9 | 9 |
| Total | \$ 81,386 | \$ 116,618 | \$ 23,101 | \$ 563,863 |
| Funds held for others | \$ - | \$ 2,669 | \$ - | \$ 2,669 |
| Obligations under split-interest agreements | \$ - | \$ 1,873 | \$ - | \$ 1,873 |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

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 at Fair Value |
|---|------------------|-------------------|------------------|--|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments: | | | | |
| Cash and cash equivalents | \$ 20,725 | \$ - | \$ - | \$ 20,725 |
| Equities: | | | | |
| Large cap | 36,846 | 37,996 | - | 74,842 |
| Small cap | 8,750 | - | - | 8,750 |
| Preferred | 726 | - | - | 726 |
| 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 |
| Investments measured at NAV (a) | <u>-</u> | <u>-</u> | <u>-</u> | <u>302,126</u> |
| Total investments | 77,691 | 116,442 | - | 496,259 |
| Pledges receivable | - | - | 22,693 | 22,693 |
| Life income investments | - | - | 2,338 | 2,338 |
| Student loans receivable | <u>-</u> | <u>-</u> | <u>13</u> | <u>13</u> |
| Total | <u>\$ 77,691</u> | <u>\$ 116,442</u> | <u>\$ 25,044</u> | <u>\$ 521,303</u> |
| Funds held for others | <u>\$ -</u> | <u>\$ 1,347</u> | <u>\$ -</u> | <u>\$ 1,347</u> |
| Obligations under split-interest agreements | <u>\$ -</u> | <u>\$ 1,885</u> | <u>\$ -</u> | <u>\$ 1,885</u> |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

(a) In accordance of FASB guidance Accounting Standard Update (ASU) 2015-07, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position and consist of investments in a limited partnership, a real estate investment trust and other alternative investments.

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):

| | <u>Pledges</u> <u>Receivable</u> | <u>Student Loans</u> <u>Receivable</u> | <u>Life Income</u> <u>Investments</u> |
|---|-------------------------------------|---|--|
| Balance at June 30, 2016 | \$ 24,925 | \$ 23 | \$ 2,253 |
| Change in allowance and discount | (194) | - | - |
| Change in beneficial interest in trusts | - | - | 85 |
| New pledges | 5,451 | - | - |
| Payments on pledges / loans (net) | <u>(7,489)</u> | <u>(10)</u> | <u>-</u> |
| Balance at June 30, 2017 | 22,693 | 13 | 2,338 |
| Change in allowance and discount | (569) | - | - |
| Change in beneficial interest in trusts | - | - | 23 |
| New pledges | 8,395 | - | - |
| Payments on pledges / loans (net) | <u>(9,788)</u> | <u>(4)</u> | <u>-</u> |
| Balance at June 30, 2018 | <u>\$ 20,731</u> | <u>\$ 9</u> | <u>\$ 2,361</u> |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

The Foundation's investments classified as Level 2 and measured at NAV are subject to restrictions on the frequency of redemptions. At June 30, 2018, the redemption limits and related amounts were as follows (in thousands):

| | |
|----------------------------------|-------------------|
| Daily | \$ 125,602 |
| Monthly | 45,872 |
| Quarterly | 114,157 |
| Semi-annually | 31,158 |
| Annually | 38,091 |
| Every two years | 14,637 |
| Every three years | 11,562 |
| Upon sale of investment property | <u>78,297</u> |
| | <u>\$ 459,376</u> |

At June 30, 2018 and 2017, the Foundation had unfunded commitments to Property Holdings III, LLC, Property Holdings V, LLC, Property Holdings VI, LLC, Stonelake, Redwood Drawdown, Mangrove Partners Fund, and Bespoke Private Strategies of \$69,626,574 and \$51,485,824, 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 2018 and 2017, total debt service payments, including interest, amounted to \$991,803 and \$996,084, respectively.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

6. Debt Service Obligation, Continued:

The present values of future maturities of the debt service obligation, which expires on September 1, 2025, are as follows as of June 30, 2018 (in thousands):

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------|
| 2019 | \$ 730 |
| 2020 | 770 |
| 2021 | 810 |
| 2022 | 850 |
| 2023 | 925 |
| Thereafter | <u>1,895</u> |
| | <u>\$ 5,980</u> |

7. Restricted Net Assets:

Temporarily Restricted

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

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Support of current operations in MCV schools and departments | \$ 80,304 | \$ 75,178 |
| Available to be released from donor restrictions by satisfying the restricted purpose | 2,848 | 6,226 |
| Principal designated for investment to support donor-restricted purpose | 102,043 | 94,676 |
| Present value of pledges receivable | 13,096 | 9,355 |
| Unrealized gains on permanently restricted net assets | <u>71,704</u> | <u>50,770</u> |
| | <u>\$ 269,995</u> | <u>\$ 236,205</u> |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

7. Restricted Net Assets, Continued:

Temporarily Restricted, Continued

During 2018 and 2017, 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):

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Faculty salaries and support | \$ 4,150 | \$ 4,317 |
| Education, research, and general | 15,325 | 15,879 |
| Scholarships and awards | 3,019 | 2,173 |
| Indigent patient care | 111 | 117 |
| Other program services, net and equipment purchases | <u>3</u> | <u>2</u> |
| | <u>\$ 22,608</u> | <u>\$ 22,488</u> |

Permanently Restricted

Income from permanently restricted net assets is used to support the various programs of the Foundation (see Note 10). For 2018 and 2017, income released amounted to \$0 and \$308,301, respectively.

8. Other Matters:

Contributions totaling \$514,727 and \$1,158,630 were received during 2018 and 2017, respectively, from certain related-party private practice groups to be used for the benefit of specific departments of MCV with \$474,727 and \$881,269 included in temporarily restricted funds and \$40,000 and \$277,361 in permanently restricted funds, respectively.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

8. Other Matters, Continued:

The Foundation incurred expenses during 2018 and 2017 to support programs as follows (in thousands):

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Purpose restrictions accomplished: | | |
| Faculty salaries and support | \$ 4,230 | \$ 4,638 |
| Education, research, and general | 16,496 | 16,317 |
| Scholarships and awards | 3,019 | 2,199 |
| Indigent patient care | 111 | 117 |
| Other program services and equipment purchases | <u>296</u> | <u>300</u> |
| | <u>\$ 24,152</u> | <u>\$ 23,571</u> |

The Foundation incurred fundraising expenses of \$733,830 and \$520,411 for the years ended June 30, 2018 and 2017, 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 \$706,469 and \$662,082 in 2018 and 2017, 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. In addition, the Foundation paid \$763,438 and \$34,194 in 2018 and 2017, respectively, to a firm partially owned by one of its board members to perform accounting services. An additional \$45,734 and \$2,831 was accrued under this arrangement as of June 30, 2018 and June 30, 2017, respectively.

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 401K contributions of \$127,291 for the year ended June 30, 2018. The Foundation made 401K contributions of \$151,532 for the year ended June 30, 2017 and had \$2,834 accrued as of June 30, 2017.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

10. Endowment Funds:

At June 30, 2018 and 2017, the Foundation's endowment consists of 985 and 973, 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

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

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. The Foundation has adopted a maximum per unit ceiling for annual endowment spending of 4.5%.

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 (\$421,314) and (\$967,511) as of June 30, 2018 and 2017, 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, 2018 (in thousands):

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Donor-restricted endowment funds | \$ (421) | \$ 71,704 | \$ 222,053 | \$ 293,336 |
| Board-designated funds | <u>37,958</u> | <u>-</u> | <u>-</u> | <u>37,958</u> |
| Total funds | <u>\$ 37,537</u> | <u>\$ 71,704</u> | <u>\$ 222,053</u> | <u>\$ 331,294</u> |

Changes in endowment net assets were as follows for the year ended June 30, 2018 (in thousands):

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|
| Endowment net assets, beginning of year | \$ 33,020 | \$ 50,770 | \$ 219,188 | \$ 302,978 |
| Investment return | 4,544 | 20,934 | - | 25,478 |
| Contributions and other income | 6 | - | 6,430 | 6,436 |
| Allocated income (payout) | - | 15,685 | - | 15,685 |
| Appropriation of endowment assets for expenditure | (33) | (19,250) | - | (19,283) |
| Reinvestments | <u>-</u> | <u>3,565</u> | <u>(3,565)</u> | <u>-</u> |
| Endowment net assets, end of year | <u>\$ 37,537</u> | <u>\$ 71,704</u> | <u>\$ 222,053</u> | <u>\$ 331,294</u> |

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, 2017 (in thousands):

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

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

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| 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) |
| Transfers | - | - | - | - |
| Reinvestments | <u>-</u> | <u>(2,742)</u> | <u>2,742</u> | <u>-</u> |
| Endowment net assets, end of year | <u>\$ 33,020</u> | <u>\$ 50,770</u> | <u>\$ 219,188</u> | <u>\$ 302,978</u> |

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Notes to Financial Statements, Continued

11. Commitments and Contingencies:

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.