MCV Foundation

VCU Health™

Financial Statements

June 30, 2019 and 2018

Keiter
Your Opportunity Advisors

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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 at June 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses 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 at June 30, 2019 and 2018, 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.

Other Matter

As discussed in Note 1 to the financial statements under new accounting guidance, the Foundation adopted Accounting Standards Update ("ASU") 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). As a result of this adoption, net assets are now presented as net assets without donor restrictions and net assets with donor restrictions and the Foundation added a statement of functional expenses. In addition, there are additional disclosures related to the presentation of expenses by function and nature, and disclosures of quantitative and qualitative information regarding liquidity and availability of resources. Our opinion is not modified with respect to this matter.

Keiter

August 27, 2019
Glen Allen, Virginia

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Financial Position
June 30, 2019 and 2018
(in thousands)

Assets	2019	2018
Operating pooled investments:		
Cash and cash equivalents	$ 12,012	$ 10,776
Short-term investments	80,242	75,157
Total operating pooled investments	92,254	85,933
Managed portfolio pooled investments	500,314	454,829
Funds held for others	1,532	1,469
Other assets	28,143	26,130
Total assets	$ 622,243	$ 568,361

Liabilities and Net Assets	2019	2018
Liabilities:		
Debt service obligation	$ 5,250	$ 5,980
Accounts payable and accrued expenses	438	1,001
Obligations under split-interest agreements	1,864	1,873
Funds held for others	2,871	2,669
Total liabilities	10,423	11,523
Net assets:		
With donor restrictions:		
Time and/or purpose	302,171	269,995
Perpetuity	240,157	222,053
	542,328	492,048
Without donor restrictions:		
Board designated	41,470	37,958
Other	28,021	26,832
	69,491	64,790
Total net assets	611,820	556,838
Total liabilities and net assets	$ 622,243	$ 568,361

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Activities
Year Ended June 30, 2019 with Comparative Totals for 2018
(in thousands)

	With Donor Restrictions	Without Donor Restrictions	2019 Total	2018 Comparative Total
Revenues, gains and other support:				
Contributions	$ 32,208	$ 1	$ 32,209	$ 26,469
Program services and other revenue	5,484	-	5,484	1,165
Change in split-interest agreements	(180)	-	(180)	(176)
Income on operating pooled investments, net of $124 of management fees	2,068	-	2,068	1,420
Income on managed portfolio pooled investments, net of $6,903 of management fees	(1,526)	(156)	(1,682)	1,996
Realized and unrealized gains on investments, net	41,103	3,989	45,092	38,601
Total revenues, gains and other support	79,157	3,834	82,991	69,475
Net assets released from restrictions	(22,952)	22,952	-	-
Net assets transferred / reinvested	(5,925)	5,925	-	-
Expenses:				
Program services	-	23,924	23,924	24,152
Supporting services:				
General and administrative	-	3,860	3,860	3,456
Depreciation	-	226	226	73
Total supporting services	-	4,086	4,086	3,529
Total expenses	-	28,010	28,010	27,681
Change in net assets	50,280	4,701	54,981	41,794
Net assets, beginning of year	492,048	64,790	556,838	515,044
Net assets, end of year	$ 542,328	$ 69,491	$ 611,820	$ 556,838

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

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

	With Donor Restrictions	Without Donor Restrictions	2018 Total
Revenues, gains and other support:			
Contributions	$ 26,463	$ 6	$ 26,469
Program services and other revenue	1,165	-	1,165
Change in split-interest agreements	(176)	-	(176)
Income on operating pooled investments, net of $131 of management fees	1,418	2	1,420
Income on managed portfolio pooled investments, net of $6,185 of management fees	1,803	193	1,996
Realized and unrealized gains on investments, net	34,250	4,351	38,601
Total revenues, gains and other support	64,923	4,552	69,475
Net assets released from restrictions	(22,608)	22,608	-
Net assets transferred / reinvested	(5,660)	5,660	-
Expenses:			
Program services	-	24,152	24,152
Supporting services:			
General and administrative	-	3,456	3,456
Depreciation	-	73	73
Total supporting services	-	3,529	3,529
Total expenses	-	27,681	27,681
Change in net assets	36,655	5,139	41,794
Net assets, beginning of year	455,393	59,651	515,044
Net assets, end of year	$ 492,048	$ 64,790	$ 556,838

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 54,981	$ 41,794
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	226	73
Contributions restricted for endowment	(10,964)	(6,268)
Net unrealized and realized gains on investments	(45,092)	(38,601)
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	(2,151)	2,160
Increase (decrease) in accounts payable and accrued expenses	(563)	470
Net cash used in operating activities	(3,563)	(372)
Cash flows from investing activities:		
Purchase of property and equipment	(88)	(487)
(Purchase) sale of investments, net	(5,338)	139
Net cash used in investing activities	(5,426)	(348)
Cash flows from financing activities:		
Payments on debt service obligation	(730)	(695)
Contributions restricted for endowment	10,964	6,268
Obligations on split-interest agreements	(9)	(12)
Net cash provided by financing activities	10,225	5,561
Net change in operating pooled investments cash and cash equivalents	1,236	4,841
Cash and cash equivalents operating pooled investments:		
Beginning of year	10,776	5,935
End of year	$ 12,012	$ 10,776
Supplemental disclosures:		
Cash paid for interest	$ 261	$ 297
Cash paid for software	$ 6	$ 25

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

Statement of Functional Expenses
Year Ended June 30, 2019
(in thousands)

		Supporting Services			
	Program Services	Management & General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 4,397	$ 2,633	$ 40	$ 2,673	$ 7,070
Education, Research & General	14,742	-	-	-	14,742
Scholarships & Awards	3,592	-	-	-	3,592
Indigent Patient Care	115	-	-	-	115
Fundraising Program Support	487	-	-	-	487
Professional Fees	-	73	31	104	104
Office Expenses	-	138	55	193	193
Publications	-	-	99	99	99
Public Relations	-	-	118	118	118
Advertising	-	-	288	288	288
Information Systems	-	95	13	108	108
Insurance Expense	-	31	-	31	31
Meetings & Events	-	36	174	210	210
Other Expenses	591	16	20	36	627
Expenses before depreciation	23,924	3,023	837	3,860	27,784
Depreciation	-	226	-	226	226
Total functional expenses	$ 23,924	$ 3,249	$ 837	$ 4,086	$ 28,010

See accompanying notes to financial statements.

MEDICAL COLLEGE OF VIRGINIA FOUNDATION

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

	Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total Expenses
Salaries	$ 4,230	$ 2,349	$ 33	$ 2,382	$ 6,612
Education, Research & General	15,325	-	-	-	15,325
Scholarships & Awards	3,019	-	-	-	3,019
Indigent Patient Care	111	-	-	-	111
Fundraising Program Support	600	-	-	-	600
Professional Fees	-	75	3	78	78
Office Expenses	-	98	50	149	149
Public Relations	-	-	94	94	94
Advertising	-	-	225	225	225
Information Systems	-	116	11	127	127
Insurance Expense	-	31	-	31	31
Meetings & Events	-	35	177	212	212
Other Expenses	866	158	-	158	1,024
Expenses before depreciation	24,152	2,863	592	3,456	27,608
Depreciation	-	73	-	73	73
Total functional expenses	$ 24,152	$ 2,936	$ 592	$ 3,529	$ 27,681

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 (MCV): 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. 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 reported in the accompanying financial statements for the periods ended March 31, 2019 and 2018. These assets are invested through Bespoke Private Strategies, LLC, Elliot International Limited 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, 2019 and 2018 were not available at the time the Foundation's statements were issued. The fair value of these assets at March 31, 2019 plus contributions, less distributions, for the period from April 1, 2019 to June 30, 2019 was $112,931,894. The fair value of these assets at March 31, 2018 plus contributions, less distributions, for the period from April 1, 2018 through June 30, 2018 was $67,150,133.

Operating Pooled Investments: The operating investment pool consists of net assets with donor restrictions 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 11).

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 with donor restrictions and without donor restrictions.

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.

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.

1. Summary of Significant Accounting Policies, Continued:

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 with donor restrictions 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 ten 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 2.52 percent and 2.98 percent at June 30, 2019 and 2018, 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 at June 30 (in thousands):

	2019	2018
Amounts due in:		
Less than one year	$ 10,210	$ 8,628
One to five years	14,796	13,609
More than five years	41	1,135
Less - allowance for uncollectibles and discount to present value	(1,994)	(2,641)
	$ 23,053	$ 20,731

Functional Allocation of Expenses: The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, certain expenses require allocation on a reasonable basis that is consistently applied. Those expenses are allocated on the basis of estimates of time and effort.

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, investing and disbursing them according to a written agreement that contains 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, 2019 and June 30, 2018, the Foundation held assets totaling $1,531,971 and $1,469,139, respectively, on behalf of the Medical College of Virginia Alumni Association. At June 30, 2019 and June 30, 2018, the Foundation held assets totaling $1,338,879 and $1,200,000, respectively, on behalf of the VCU Intellectual Property Foundation.

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 2019 and in 2018. 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 two categories: without donor restrictions and with donor restrictions. Net assets without donor restrictions represent contributions and the accumulated expendable net income earned on contributions that have not been restricted by donor stipulations. Net assets without donor restrictions 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 $248,090 and $293,244 during 2019 and 2018, respectively.

Net assets with donor restrictions are contributions with donor-imposed time or purpose restrictions. Net assets with donor restrictions 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. Net assets with donor restrictions become net assets without donor restrictions 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: Net assets with donor restrictions also represent endowment funds to be held in perpetuity. Income from these restricted net assets is recorded until used in accordance with donor stipulations. These donor stipulations generally provide that unexpended restricted income is managed in accordance with the Foundation's investment policy. For financial reporting, income in excess of budgetary needs is transferred between net assets with donor restrictions and net assets without donor restrictions. These transferred amounts were $4,166,967 and $3,564,784 for the years ended June 30, 2019 and 2018, 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 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, restricted net assets are reclassified to net assets without donor restrictions 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.

Adoption of New Accounting Principles: In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities"* (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods

1. Summary of Significant Accounting Policies, Continued:

Adoption of New Accounting Principles, Continued: used to allocate costs, (c) requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted this ASU as of and for the year ended June 30, 2019 with retrospective presentation in the financial statements as of and for the year ended June 30, 2018.

In June 2018, the FASB issued ASU 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to provide specific criteria to determine whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. The ASU provides a framework for determining whether a contribution is conditional or unconditional. Prior to the ASU, FASB's new revenue recognition standard eliminated exchange guidance and added additional disclosure requirements that are not relevant to these types of transactions. Specific to contributions or grants received by the Foundation, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018 with early adoption permitted. Specific to contributions or grants awarded by the Foundation, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Foundation has adopted this ASU as of and for the year ended June 30, 2019 with retrospective presentation in the financial statements as of and for the year ended June 30, 2018.

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 27, 2019, 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, 2019 and 2018. The Foundation is not currently under audit by any tax jurisdiction.

3. Short-Term Investments:

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

	2019		2018	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 12,012	$ 12,012	$ 10,776	$ 10,776
Equities	9,116	12,151	10,853	13,934
Fixed income	68,159	68,091	62,717	61,223
	$ 89,287	$ 92,254	$ 84,346	$ 85,933

4. Long-Term Investments:

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

	2019		2018	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 7,324	$ 7,338	$ 3,215	$ 3,215
Equities	28,394	56,553	43,814	69,821
Fixed income	31,060	31,940	38,303	37,835
Alternative investments	306,271	403,144	262,368	342,758
Funds held for others	1,200	1,339	1,200	1,200
	$ 374,249	$ 500,314	$ 348,900	$ 454,829

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

	2019	2018
Net realized gain on sales of investments	$ 24,915	$ 11,075
Net unrealized gain on market value of investments	20,177	27,526
	$ 45,092	$ 38,601

5. Other Assets:

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

	2019	2018
Net pledges receivable	$ 23,053	$ 20,731
Life income investments	2,403	2,361
Loans receivable	4	9
Property and equipment, net of $995 and $1,085, respectively, of accumulated depreciation	2,102	2,240
Life insurance receivables	422	347
Other assets	159	442
	$ 28,143	$ 26,130

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.

6. 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 at 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 at 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.

6. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2019, 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	$ 19,350	$ -	$ -	$ 19,350
Equities:				
Large cap	36,341	12,152	-	48,493
Small cap	1,445	-	-	1,445
International	701	18,065	-	18,766
Fixed income:				
Corporate bonds	918	18,452	-	19,370
U.S. government obligations	-	64,005	-	64,005
Mortgage & asset-backed securities	-	16,656	-	16,656
Funds held for others	1,339	-	-	1,339
Investments measured at NAV (a)	-	-	-	403,144
Total investments	60,094	129,330	-	592,568
Pledges receivable	-	-	23,053	23,053
Life income investments	-	-	2,403	2,403
Student loans receivable	-	-	4	4
Total	$ 60,094	$ 129,330	$ 25,460	$ 618,028
Liabilities:				
Funds held for others	$ -	$ 2,871	$ -	$ 2,871
Obligations under split-interest agreements	$ -	$ 1,864	$ -	$ 1,864

6. 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
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Investments:				
Cash and cash equivalents	$ 13,991	$ -	$ -	$ 13,991
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	1,101	15,915	-	17,016
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
Liabilities:				
Funds held for others	$ -	$ 2,669	$ -	$ 2,669
Obligations under split-interest agreements	$ -	$ 1,873	$ -	$ 1,873

6. Fair Value Measurements, Continued:

(a) In accordance with 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):

	Pledges Receivable	Student Loans Receivable	Life Income Investments
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)	(9,788)	(4)	-
Balance at June 30, 2018	20,731	9	2,361
Change in allowance and discount	647	-	-
Change in beneficial interest in trusts	-	-	42
New pledges	11,694	-	-
Payments on pledges / loans (net)	(10,019)	(5)	-
Balance at June 30, 2019	$ 23,053	$ 4	$ 2,403

6. 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, 2019, the redemption limits and related amounts were as follows (in thousands):

Daily	$ 138,784
Monthly	53,315
Quarterly	117,727
Semi-Annually	34,843
Annually	9,139
Every 2 Years	48,374
Every 3 Years	15,603
Every 4 Years	12,909
Illiquid Investments	101,782
	$ 532,474

At June 30, 2019 and 2018, the Foundation had unfunded commitments to Stonelake, Mangrove Partners Fund, and Bespoke Private Strategies of $76,123,457 and $69,626,574, respectively.

7. 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 2019 and 2018, total debt service payments, including interest, amounted to $990,607 and $991,803, respectively.

7. Debt Service Obligation, Continued:

The present values of future maturities of the debt service obligation, which expires on September 1, 2025, are as follows at June 30, 2019 (in thousands):

Year	Amount
2020	$ 770
2021	810
2022	850
2023	925
2024	935
2025	960
	$ 5,250

8. Net Assets with Donor Restrictions:

Net assets with donor restrictions are available for the following purposes at June 30 (in thousands):

	2019	2018
Support of current operations in MCV schools and departments net of pledges receivable	$ 94,872	$ 96,248
Principal designated for investment to support donor-restricted purpose	115,622	102,043
Donor-restricted endowments - corpus	240,157	222,053
Donor-restricted endowments - unspent earnings	91,677	71,704
	$ 542,328	$ 492,048

8. Net Assets with Donor Restrictions, Continued:

During 2019 and 2018, 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):

	2019	2018
Faculty salaries and support	$ 4,279	$ 4,150
Education, research, and general	14,790	15,325
Scholarships and awards	3,592	3,019
Indigent patient care	115	111
Other program services, net and equipment purchases	176	3
	$ 22,952	$ 22,608

9. Other Matters:

Contributions totaling $537,495 and $514,727 were received during 2019 and 2018, respectively, from certain related-party private practice groups to be used for the benefit of specific departments of MCV with $422,495 and $474,727 included in temporarily restricted funds and $115,000 and $40,000 in permanently restricted funds, respectively.

The Foundation incurred expenses during 2019 and 2018 to support programs as follows (in thousands):

	2019	2018
Purpose restrictions accomplished:		
Faculty salaries and support	$ 4,644	$ 4,230
Education, research, and general	15,148	16,496
Scholarships and awards	3,592	3,019
Indigent patient care	115	111
Other program services and equipment purchases	425	296
	$ 23,924	$ 24,152

9. Other Matters, Continued:

The Foundation has an institutional advisory services agreement with an investment advisory firm partially owned by one of its board members. The Foundation paid $709,368 and $706,469 in 2019 and 2018, 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 $207,110 and $763,438 in 2019 and 2018, respectively, to a firm partially owned by one of its board members to perform accounting services. An additional $5,000 and $45,734 was accrued under this arrangement at June 30, 2019 and June 30, 2018, respectively.

10. Retirement Plans:

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 (IRS). 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, 2018. The Foundation made 401(k) contributions of $171,874 for the year ended June 30, 2019 and had $10,974 accrued at June 30, 2019. The Foundation made 401(k) contributions of $127,291 for the year ended June 30, 2018 and had $7,563 accrued at June 30, 2018.

During fiscal year 2018, the Foundation was notified by its 401(k) plan administrator that a single employee had exceeded the maximum allowable annual retirement plan contribution set by the IRS. Because this employee is also a contractual employee with a guaranteed annual contribution (% of total compensation), the Foundation established a self-administered 457(b) deferred compensation plan (effective January 1, 2019) that allows the Foundation to honor its contractual commitment to the employee by contributing to the 457(b) plan once the IRS maximum contribution amount has been reached in the 401(k) plan. The total accrued 457(b) plan liability for the fiscal year ended June 30, 2019 was $5,478.

11. Endowment Funds:

At June 30, 2019 and 2018, the Foundation’s endowment consists of 1,046 and 985, 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.

11. Endowment Funds, Continued:

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 at 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. 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

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. 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% for fiscal years 2019 and 2018.

11. Endowment Funds, Continued:

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 ($97,894) and ($421,314) at June 30, 2019 and 2018, respectively. These deficiencies resulted largely from unfavorable market fluctuations that occurred after the establishment of the endowments. The Foundation's policy is to apply its spending policy to the underwater endowments consistent with all other endowments.

Endowment net asset composition: by type of fund was as follows at June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ (98)	$ (98)
Time and/or purpose	-	91,677	91,677
Perpetuity	-	240,157	240,157
Board-designated funds	41,470	-	41,470
Total funds	$ 41,470	$ 331,736	$ 373,206

11. Endowment Funds, Continued:

Changes in endowment net assets were as follows for the year ended June 30, 2019 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 37,958	$ 293,336	$ 331,294
Investment return	3,511	20,296	23,807
Contributions and other income	1	10,933	10,934
Allocated income (payout)	-	17,082	17,082
Appropriation of endowment assets for expenditure	-	(9,911)	(9,911)
Endowment net assets, end of year	$ 41,470	$ 331,736	$ 373,206

Endowment net asset composition by type of fund was as follows at June 30, 2018 (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ (421)	$ (421)
Time and/or purpose	-	71,704	71,704
Perpetuity	-	222,053	222,053
Board-designated funds	37,958	-	37,958
Total funds	$ 37,958	$ 293,336	$ 331,294

11. Endowment Funds, Continued:

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 33,020	$ 269,958	$ 302,978
Investment return	4,965	20,513	$ 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	-	-	-
Endowment net assets, end of year	$ 37,958	$ 293,336	$ 331,294

12. Liquidity and Availability of Funds:

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows (in thousands):

	2019	2018
Cash and cash equivalents	$ 909	$ 403
Short-term investments	6,084	6,316
	$ 6,993	$ 6,719

The assets listed in the table above are used for general expenditures without any restrictions of the Foundation, which may include expenses for campus programs, general and administrative expenses and fundraising expenses.

12. Liquidity and Availability of Funds, Continued:

The Foundations liquidity policies and procedures are designed to make financial assets available as expenditures, liabilities and other obligations become due. Assets used to cover program expenses from funds with donor restrictions are maintained in an interest bearing checking account and a highly liquid short-term investment account. Funds in these accounts are generally available for current expenditures within 1 business day for the checking account and within 30 business days for the short-term investment account. Liquid assets available for expenditures from funds with donor restrictions at June 30, 2019 was $85.3 million and $79.2 million at June 30, 2018.

13. 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, results of operations, or cash flows.

14. 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 Foundation to recover a portion of any future amounts paid.