



ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

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KPMG LLP
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Independent Auditors' Report

The Board of Managers
Alumni Association of the University of Virginia:

We have audited the accompanying financial statements of the Alumni Association of the University of Virginia (the Association), which comprise the statements of financial position as of 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Alumni Association of the University of Virginia as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 4, 2019

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statements of Financial Position

June 30, 2019 and 2018

Assets	2019	2018
Cash and cash equivalents (note 4)	\$ 32,584,207	21,733,302
Prepaid expenses and other assets	144,936	208,142
Contributions and other receivables, net (note 3)	3,443,516	5,036,522
Beneficial interest in trusts (note 4)	3,825,267	13,572,268
Investments (note 4)	345,041,716	333,963,547
Property, net (note 6)	<u>4,382,551</u>	<u>4,687,548</u>
Total assets	<u>\$ 389,422,193</u>	<u>379,201,329</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,196,078	1,958,580
Due to University of Virginia and related organizations (note 7)	116,777,495	115,455,950
Annuity and life income obligations (note 4)	1,767,291	1,958,688
Other liabilities	<u>1,943,784</u>	<u>1,045,978</u>
Total liabilities	<u>121,684,648</u>	<u>120,419,196</u>
Net assets:		
Without donor restrictions (note 11)	79,135,551	77,890,002
With donor restrictions (note 10)	<u>188,601,993</u>	<u>180,892,131</u>
Total net assets	<u>267,737,544</u>	<u>258,782,133</u>
Total liabilities and net assets	<u>\$ 389,422,193</u>	<u>379,201,329</u>

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Activities

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues:			
Public support – contributions (notes 3 and 11)	\$ 1,201,481	34,548,757	35,750,238
Revenues:			
Investment income and gains, net of fees (notes 4,5, and 11)	4,301,102	13,882,554	18,183,656
Lifetime and annual memberships	486,541	215,503	702,044
Support from the University of Virginia	4,184,061	—	4,184,061
Administrative service fees (note 7)	1,462,447	—	1,462,447
Special events	2,396,852	29,295	2,426,147
Change in fair value of beneficial interest in trusts (notes 4 and 11)	1,463	(292,734)	(291,271)
Change in value of trusts and annuities (notes 4 and 11)	246,293	246,293	246,293
Net assets released from restrictions (notes 9 and 11)	<u>40,919,806</u>	<u>(40,919,806)</u>	<u>—</u>
Total revenues	<u>53,752,272</u>	<u>(26,838,895)</u>	<u>26,913,377</u>
Total public support and revenues	<u>54,953,753</u>	<u>7,709,862</u>	<u>62,663,615</u>
Expenses:			
Program activities (note 1):			
Grants and scholarships	37,945,332	—	37,945,332
Alumni relations	6,990,180	—	6,990,180
UVA Fund	2,571,775	—	2,571,775
Total program activities expenses	<u>47,507,287</u>	<u>—</u>	<u>47,507,287</u>
Supporting services:			
Membership development	2,735,032	—	2,735,032
Management and general	2,309,489	—	2,309,489
Fundraising	1,156,396	—	1,156,396
Total supporting services expenses	<u>6,200,917</u>	<u>—</u>	<u>6,200,917</u>
Total expenses	<u>53,708,204</u>	<u>—</u>	<u>53,708,204</u>
Change in net assets	1,245,549	7,709,862	8,955,411
Net assets:			
Beginning of year	<u>77,890,002</u>	<u>180,892,131</u>	<u>258,782,133</u>
End of year	<u>\$ 79,135,551</u>	<u>188,601,993</u>	<u>267,737,544</u>

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Activities

Year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues:			
Public support – contributions (notes 3 and 11)	\$ 969,366	39,426,801	40,396,167
Revenues:			
Investment income and gains, net of fees (notes 4,5, and 11)	7,841,944	23,403,723	31,245,667
Lifetime and annual memberships	387,325	802,316	1,189,641
Support from the University of Virginia	4,194,967	—	4,194,967
Administrative service fees (note 7)	1,361,691	—	1,361,691
Special events	2,160,836	34,453	2,195,289
Change in fair value of beneficial interest in trusts (notes 4 and 11)	6,037	1,053,673	1,059,710
Change in value of trusts and annuities (notes 4 and 11)	—	(402,828)	(402,828)
Net assets released from restrictions (notes 9 and 11)	<u>50,073,866</u>	<u>(50,073,866)</u>	<u>—</u>
Total revenues	<u>66,026,666</u>	<u>(25,182,529)</u>	<u>40,844,137</u>
Total public support and revenues	<u>66,996,032</u>	<u>14,244,272</u>	<u>81,240,304</u>
Expenses:			
Program activities (note 1):			
Grants and scholarships	45,044,772	—	45,044,772
Alumni relations	6,336,889	—	6,336,889
UVA Fund	2,613,802	—	2,613,802
Total program activities expenses	<u>53,995,463</u>	<u>—</u>	<u>53,995,463</u>
Supporting services:			
Membership development	5,340,572	—	5,340,572
Management and general	1,576,772	—	1,576,772
Fundraising	747,404	—	747,404
Total supporting services expenses	<u>7,664,748</u>	<u>—</u>	<u>7,664,748</u>
Total expenses	<u>61,660,211</u>	<u>—</u>	<u>61,660,211</u>
Change in net assets	5,335,821	14,244,272	19,580,093
Net assets:			
Beginning of year	<u>72,554,181</u>	<u>166,647,859</u>	<u>239,202,040</u>
End of year	<u>\$ 77,890,002</u>	<u>180,892,131</u>	<u>258,782,133</u>

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 8,955,411	19,580,093
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	365,201	369,362
Net realized and unrealized gains on investments	(17,751,641)	(30,881,369)
Adjustment to allowance for uncollectible receivables	—	4,757,876
Contribution of fine arts	—	(1,500)
Contribution of beneficial interest in trusts	(24,155)	(2,474,211)
Distributions of beneficial interest in trusts	9,493,908	1,186,770
Contributions restricted for endowment	(6,152,411)	(7,352,900)
Change in fair value of beneficial interest in trusts	277,248	(1,046,749)
Change in value of trusts and annuities	(246,292)	402,828
Change in assets and liabilities:		
Contributions and other receivables, net	1,593,006	(457,158)
Prepaid expenses and other assets	63,206	(15,090)
Accounts payable and accrued expenses	(762,502)	2,011
Due to University of Virginia and related foundations	1,321,545	12,373,029
Annuity and life income obligations	281,445	181,049
Other liabilities	897,806	11,010
Net cash used in operating activities	(1,688,225)	(3,364,949)
Cash flows from investing activities:		
Capital expenditures	(60,204)	(106,796)
Proceeds from sales of investments	36,408,608	19,166,454
Purchases of investments	(29,735,136)	(21,584,666)
Net cash (used in) provided by investing activities	6,613,268	(2,525,008)
Cash flows from financing activities:		
Contributions restricted for investment in endowment	6,152,411	7,352,900
Payments of annuity obligations	(226,549)	(556,401)
Net change in overdrafts	—	435,687
Net cash provided by financing activities	5,925,862	7,232,186
Increase (decrease) in cash and cash equivalents	10,850,905	1,342,229
Cash and cash equivalents at beginning of year	21,733,302	20,391,073
Cash and cash equivalents at end of year	\$ 32,584,207	21,733,302
Supplemental disclosure of noncash transactions:		
Contribution of fine arts	\$ —	1,500
Contribution of beneficial interest in trusts	24,155	2,474,211

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Functional Expenses

Year ended June 30, 2019

	Program Activities			Supporting Services			Total
	Grants & Scholarships	Alumni Relations	UVA Fund	Membership Development	Management & General	Fundraising	
Support to University Community	\$ 37,945,332	—	—	—	—	—	37,945,332
Salaries & wages	—	2,747,605	1,436,360	231,400	1,082,545	519,805	6,017,715
Employee benefits	—	1,068,091	522,632	76,282	567,467	154,320	2,388,792
Contractual services	—	—	105,381	—	304,218	3,653	413,252
Professional services	—	7,600	33,476	—	89,369	163,889	294,334
Merchant services	—	—	238,804	—	—	—	238,804
Legal fees	—	—	—	—	22,125	—	22,125
Insurance	—	20,512	41,939	1,256	81,220	3,567	148,494
Printing	—	455,509	3,815	15,459	1,082	40,558	516,423
Postage	—	343,231	18,544	36,475	1,702	24,805	424,757
Copying, computer, and office supplies	—	49,713	22,153	7,569	10,455	3,873	93,763
Production expenses	—	144,418	11,152	1,694	20,881	13,129	191,274
Marketing and promotions	—	126,349	—	19,548	2,088	28,559	176,544
Travel & entertainment	—	61,545	10,121	3,038	19,878	36,281	130,863
Event expense	—	1,605,954	—	37,368	6,574	70,453	1,720,349
Facility expense	—	361,301	101,451	41,656	90,448	88,253	683,109
Bad debt expense	—	12,000	—	2,257,739	—	—	2,269,739
Other expenses/(refunds)	—	(13,648)	25,947	5,548	9,437	5,251	32,535
Total expenses by function	\$ 37,945,332	6,990,180	2,571,775	2,735,032	2,309,489	1,156,396	53,708,204

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Functional Expenses

Year ended June 30, 2018

	Program Activities			Supporting Services			Total
	Grants & Scholarships	Alumni Relations	UVA Fund	Membership Development	Management & General	Fundraising	
Support to University Community	\$ 45,044,772	—	—	—	—	—	45,044,772
Salaries & wages	—	2,497,723	1,416,836	261,849	686,071	384,277	5,246,756
Employee benefits	—	913,712	490,697	87,878	417,208	107,609	2,017,104
Contractual services	—	—	79,941	—	298,110	—	378,051
Professional services	—	21,410	101,427	—	3,270	—	126,107
Merchant services	—	—	311,596	—	—	—	311,596
Legal fees	—	—	240	—	24,219	—	24,459
Insurance	—	19,727	73,347	1,845	46,810	3,690	145,419
Printing	—	433,336	2,422	60,478	63	44,755	541,054
Postage	—	366,357	21,546	35,191	122	29,454	452,670
Copying, computer, and office supplies	—	77,073	24,991	5,529	10,223	6,217	124,033
Production expenses	—	130,125	13,573	2,148	21,045	1,933	168,824
Marketing and promotions	—	120,865	315	20,825	3,251	18,897	164,153
Travel & entertainment	—	50,769	8,461	2,807	4,990	22,221	89,248
Event expense	—	1,344,403	—	49,901	8,793	29,206	1,432,303
Facility expense	—	333,630	113,548	41,213	115,606	70,541	674,538
Bad debt expense	—	29,066	—	4,757,876	—	—	4,786,942
Other expenses/(refunds)	—	(1,307)	(45,138)	13,032	(63,009)	28,604	(67,818)
Total expenses by function	\$ 45,044,772	6,336,889	2,613,802	5,340,572	1,576,772	747,404	61,660,211

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization and Programs

The Alumni Association of the University of Virginia (the Association) is a not for profit corporation originally formed as the Society of Alumni of the University of Virginia in 1838. The Society of Alumni was incorporated by legislative act February 6, 1873. The Society was re-incorporated as the General Alumni Association of the University of Virginia, a nonstock corporation in the Commonwealth of Virginia, on March 7, 1903. The charter of the corporation was amended July 5, 1922 and the name changed to the Alumni Association of the University of Virginia.

The purpose of the Association is to provide services to all alumni of the University of Virginia (the University), thereby assisting the University and its students, faculty and administration in attaining the University's highest priority of achieving eminence as a center of higher learning. The Association operates in accordance with the University of Virginia's Board of Visitors Policy on University Associated Organizations and is subject to an annual certification of compliance to the University's Board of Visitors.

Program Activities

(a) Alumni Relations

The Association partners with the University to create collaborative institution-wide alumni engagement programs. These programs serve to enhance the University's ability to build and maintain ties with an increasingly diverse community of alumni and also to offer alumni opportunities to continue their relationship with the University. Alumni Hall is the hub of alumni-relations activities on the Grounds. Through a series of events held throughout the year, the Association welcomes thousands of alumni back to the University in meaningful, often educational ways, to strengthen the bond between alumni and their alma mater. The Association serves as a center of communications, both outgoing and incoming, between the University and its alumni. The award winning *University of Virginia Magazine* is published quarterly and distributed to all alumni and students. This publication is supplemented by websites, social media, electronic newsletters and videos. In addition, the Association provides a wide variety of alumni programs targeted to support our alumni and build a strong bond between the University and its alumni. These activities are reported as Alumni relations in the accompanying statements of activities and functional expenses. The University provides some funding to the Association to undertake a number of alumni-relations programs that benefit the University. Other program support includes membership, philanthropy, investment income, and cost recovery fees for services.

(b) UVA Fund

The UVA Fund was first organized at the request of the University in 1928 as a way for friends and alumni to support the University. The UVA Fund continues that rich tradition of service today by supporting the fundraising efforts of the Alumni Association and various University related organizations as well as providing financial and endowment management and banking services that are not otherwise available within the University community. The delivery of service is tailored to the unique needs of the clients and is designed to provide a full suite of financial tools to support each client throughout the business cycle, from receipt of gift to use of funds. The UVA Fund supports numerous student scholarships, operating accounts, emergency loan funds and annual grants for projects that enhance the University as a preeminent global institution of higher learning; it serves approximately 500 student organizations, 150 alumni clubs, 13 associated organizations/foundations, and hundreds of restricted accounts for organizations and units across the University. Some amounts

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2019 and 2018

held by the UVA Fund for investment and management are reported as liabilities to the University of Virginia organizations in the accompanying statements of financial position. UVA Fund services are reported as the UVA Fund in the accompanying statements of activities and functional expenses.

(c) Grants and Scholarships

Gifts accepted by the Association on behalf of University related organizations are reported as public support and distributions are recognized Grants and scholarships expense on the accompanying statements of activities.

The Jefferson Trust is a charitable foundation, the total income from which is used exclusively for charitable and educational purposes. The Trust was formed as a limited liability company on October 25, 2006. The Association is the sole member of the Trust. The Trust manages a grant program that provides funding to various University constituencies to enhance the University's margin of excellence consistent with the founder's vision and its national and international reputation. Since inception, the Jefferson Trust has grown to more than \$31 million in total assets and has awarded more than \$7 million in grants. During the 2018-19 academic year, the Trust awarded grants of \$850,000 for new initiatives spanning a broad range of schools, departments, student groups and academic centers at the University. The activities of the Trust are reported as Grants and scholarships and Fundraising in the accompanying statements of activities and functional expenses.

Supporting Services

Supporting services include membership development, management and general expenses, and fundraising. Membership development encompasses solicitation and payment processing, development of member affinity programs, and business development including advertising and sponsorships. Management and general includes administrative support activities not directly identifiable with one or more programs or fundraising. Fundraising services include solicitation of donations for the annual fund as well as specific programs and initiatives of the Association. In addition to its core services the Association has historically served as a platform to launch other programs that support the University such as the Jefferson Scholars Program and the Virginia Athletics Fund.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

(b) Basis of Presentation

The accompanying financial statements have been prepared following the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958, *Not-for-Profit Entities*.

In August 2016 the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Major components of this standard include disclosures regarding liquidity and availability of resources, presentation of expenses by their functional and natural classifications, and changes to net asset classifications. The pronouncement requires new qualitative and quantitative information to be presented about management of liquidity resources and the

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2019 and 2018

availability of financial assets to meet cash needs within one year. In addition, net asset classifications are reduced from three classes (unrestricted, temporarily restricted, and permanently restricted) to two (net assets without donor restrictions and net assets with donor restrictions) as follows:

- *Net assets without donor restrictions* include funds with no donor restrictions placed on the Association as to their use or purpose.
- *Net assets with donor restrictions* include funds resulting from contributions limited by donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature such as those that will expire by passage of time or can be fulfilled by the actions of the organization. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. In general, these restrictions include stipulations that require support for specific programs, student activities, research, scholarships, prizes and awards, University associated organizations, or the payment of annuity and life income obligations to the donor and/or specified beneficiaries.

The Association has adopted ASU 2016-14 for the year ended June 30, 2019 and retrospectively applied its provisions to all periods presented. There was no impact on total net assets as a result of the adoption of ASU 2016-14.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(d) Revenue Recognition

The Association reports contributions as support when they are received or unconditionally pledged by the donor. The Association reports contributions as without donor restrictions or with donor restrictions depending on the existence of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of long-lived assets with no donor-imposed time or purpose restrictions are reported as without donor restrictions. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as increases in net assets with donor restrictions. Those restrictions expire when the long-lived assets are placed into service.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their expected future cash flows. The discounts on those amounts are computed using risk-free interest rates adjusted for credit risk determined in the year in which the promises are received. Amortization of the discounts is included in contribution revenue.

Investment income is reported as changes in the appropriate net asset class based on donor stipulations, if any, as to the use of such income. In addition, for donor restricted funds reported income

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Notes to Financial Statements

June 30, 2019 and 2018

is deemed to be subject to a time restriction until such amounts have been appropriated for expenditure and the time period for expenditure has been reached.

(e) Functional Allocation of Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs that are attributable to one or more programs have been allocated among the program and supporting services benefited. Expenses related to the facility are allocated based on square foot usage. Expenses related to shared services are allocated based on estimates of time and effort.

(f) Cash Equivalents

For purposes of reporting cash flows, cash equivalents include all demand instruments with an initial maturity of three months or less at date of purchase. Cash and cash equivalents in the accompanying statements of financial position include operating cash, donor restricted funds held for UVA Fund clients, and gifts received through gift processing services on behalf of the University and associated organizations.

(g) Property

Buildings, building improvements, and furniture, fixtures, and equipment are reported by the Association at purchase price or construction cost or, if donated to the Association, at fair value at the time of gift, less accumulated depreciation. Land is reported by the Association at purchase price or, if donated to the Association, at fair value at the time of gift. Realized gains or losses from the sale of property are recorded as proceeds received less the book value on the date of the sale. There were no such realized gains or losses for the years ended June 30, 2019 and 2018.

The Association computes depreciation using the straight-line method over the estimated useful lives of capitalized property, as follows:

	Year
Buildings	30
Building improvements	15
Furniture, fixtures, and equipment	4–7

(h) Income Taxes

The Association is exempt from federal income taxes as defined by Section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public charity under 509(a)(1) of the Code.

The Association is required to recognize the effect of a tax position taken or expected to be taken on a tax return based on a 'more likely than not' of being sustained by a taxing authority threshold. The Association does not believe it has any uncertain tax positions required to be recognized in the financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2019 and 2018

(i) Fair Value Measurements

Please refer to note 4 for discussion of accounting policies surrounding fair value measurements, including investment holdings.

(3) Contributions and Other Receivables

Contributions receivable include receivables for the Association including life memberships, the Jefferson Trust, scholarships and other program support funds. All amounts recorded in the accompanying financial statements represent donors' unconditional promises to make financial contributions to the Association.

Other trade receivables include accounts receivable from departments of the University of Virginia, persons and organizations affiliated with the University, and student loans receivable. These accounts and loans receivable bear interest at various rates from 0% to 5.0%.

In 2018, management conducted an in-depth analysis of the life membership program. This analysis revealed a decline in the percentage of student life members converting to fully paid members following graduation. The downward trend in the conversion rate of student life memberships from 90% to 39% significantly affected the net realizable value of collectibles from Membership. In 2019 receivables previously reserved in the amount \$5,603,973 were written off and management continued to assess the conversion of remaining life membership receivables. Accordingly, in 2018 and 2019 management increased the estimate for the allowance for uncollectible receivables. For the years ended June 30, 2019 and 2018 the changes in estimate for uncollectible receivables related to life membership was \$2,257,739 and \$4,757,876 respectively. This change is reported within membership development expense on the Statement of Activities. For the years ended June 30, 2019 and 2018, the allowance for uncollectible receivables was \$2,458,868 and \$5,750,405, respectively.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2019 and 2018

The following shows the expected collection periods of these receivables and the related allowance for uncollectible amounts at June 30, 2019 and 2018:

	2019			
	Collection expected in			
	Less than 1 year	1–5 years	Greater than 5 years	Total
Membership and other	\$ 258,248	2,607,558	123,125	2,988,931
Jefferson Trust	652,439	1,187,534	—	1,839,973
Scholarships and other	320,024	108,494	—	428,518
Other trade	761,130	—	—	761,130
Total receivables	\$ 1,991,841	3,903,586	123,125	6,018,552
Less:				
Allowance for uncollectible receivables				(2,458,868)
Discount to present value (rates from 0.5% to 5.0%)				(116,168)
Contributions and other receivables, net				\$ 3,443,516
2018				
	Collection expected in			
	Less than 1 year	1–5 years	Greater than 5 years	Total
	\$ 2,010,423	5,749,042	941,975	8,701,440
Membership and other	483,490	736,904	—	1,220,394
Jefferson Trust	289,930	143,191	—	433,121
Scholarships and other	646,617	—	—	646,617
Total receivables	\$ 3,430,460	6,629,137	941,975	11,001,572
Less:				
Allowance for uncollectible receivables				(5,750,405)
Discount to present value (rates from 0.5% to 5.0%)				(214,645)
Contributions and other receivables, net				\$ 5,036,522

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(4) Fair Value Measurements

Assets and liabilities are classified under 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 input that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the markets in which the assets and 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 – Inputs to the valuation methodology are quoted or published prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Inputs to the valuation methodology include quoted or published prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Association's valuation methodologies are described below:

(a) Investments

The Association reports investments at estimated fair value based on quoted market prices if available, or for hedge funds and fund of funds, the Association's percentage ownership of the net asset values of the funds. The net asset value is utilized as a practical expedient estimate of fair value. The Association recognizes unrealized and realized gains and losses as components of investment income.

The Association's investment portfolio consists of the following at June 30, 2019 and 2018:

	2019	2018
UVIMCO (see note 4(c))	\$ 314,992,043	299,871,755
Hedge fund	14,307	18,132
Charitable trusts and gift annuities	2,468,427	2,336,848
Investments in certificates of deposit and public debt and equities	26,832,839	30,628,912
Investment in real estate	734,100	1,107,900
Total investments	<u>\$ 345,041,716</u>	<u>333,963,547</u>

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At June 30, 2019 and 2018, the Association has invested its long term portfolio principally in the University of Virginia Investment Management Company (UVIMCO). UVIMCO is a not-for-profit corporation organized to invest funds on behalf of the Rector and Visitors of the University of Virginia and University associated organizations.

Assets held in the UVIMCO investment pool are commingled with other long-term funds of the Rector and Visitors of the University of Virginia and University associated organizations in a unitized investment vehicle. For fiscal years ending June 30, 2019 and 2018 the Association had the ability to monthly subscribe to or dispose of units on the basis of the net asset value per share as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVIMCO. Transactions were subject to the notification requirements and caps set forth in the deposit and management agreement between the Association and UVIMCO. The Association was subject to an annual withdrawal cap of an amount equal to 10% of its investment in UVIMCO at the previous fiscal year end plus 10% of deposits made during the current fiscal year. Additionally, the Association was subject to a monthly cap of the greater of 3% of its investment in UVIMCO of the previous month end or \$15,000,000.

During fiscal year ending June 30, 2019 UVIMCO amended and restated the deposit and management agreement for the long term pool. Effective July 1, 2019 the Association will have the ability to deposit on a monthly basis after providing 5 days' notice, and withdraw on a quarterly basis after providing 120 days' notice. Quarterly withdrawals will be limited to 4% of the value of the Association's total interest in the pool as reflected in the most recent shareholder report, typically the last day of the prior month. On the last day of any calendar month the Association shall be entitled to request a special redemption up to 20% of the total number of shares held on the notice date. Any special redemption request shall be effective on or prior to the twelve-month anniversary of any such request. The Association records its portion of the net asset value and investment income of UVIMCO's investment pool in the accompanying financial statements.

UVIMCO values direct investments in publicly traded debt and equity securities at quoted market prices where readily available. Exchange traded securities are stated at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market are valued using the mean of the last quoted bid and ask prices. Independent third-party sources are used to value all publicly traded securities. Due to variations in trading volumes and the lack of quoted market prices for fixed maturities, the fair value of fixed income securities is derived from recent reported trades for identical or similar securities, matrix pricing or model process, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate or dealer quotes. Quoted prices are not adjusted.

UVIMCO has investments in limited partnership hedge funds, private equity, and venture capital investment vehicles. These investments do not actively trade through established exchanges and are valued at estimated fair value based on UVIMCO's interest in the investee as determined and reported by the external manager of the investment. Because of the inherent uncertainty of such valuations, these estimated values may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The Association's other investments include a certain hedge fund, real estate, fixed maturity securities such as certificates of deposit and government and corporate bonds, public equities, and similar

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investment vehicles. The hedge fund is valued at estimated fair value, based upon net asset value and the Association's percentage of ownership of the fund. The real estate is valued at estimated fair value of the discounted cash flow of future royalty income generated by the Association's partial ownership in the petroleum production from four leases located on the land. The Association values direct investments in publicly traded debt and equity securities at quoted market prices where readily available. Independent third-party sources are used to value all publicly traded securities.

While the Association believes the above valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies, assumptions, changes in the economic environment, financial markets and any other parameters used to determine the fair value of certain estimated values may differ significantly from the values that would have been used had a readily available market for such investment existed, or had such investments been liquidated, and these differences could be material to the financial statements. Investments are exposed to several risks, such as interest rate, currency, market and credit risks.

(b) Charitable Trusts, Gift Annuities and Beneficial Interest in Trusts

The Association is the trustee of several charitable gift annuity trusts. Under the trust agreements, the grantor contributes assets to the Association. For the remainder of the grantor's life, the Association pays an annuity to the grantor. The payout is a fixed amount based on a percentage of the original gift, as defined by the trusts.

The Association is also the trustee of several charitable remainder unitrust agreements. Under trust agreements, unitrusts generally pay annual benefits 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 trusts.

The Association is also the trustee under several charitable remainder annuity trust agreements. The terms of these trusts are similar to those of the unitrusts except that the annual payout to the donors is a fixed amount.

The fair value of the assets received under these trust agreements is included in cash and cash equivalents and investments in the accompanying statements of financial position. Contribution revenue is recognized to the extent that the fair value of the trust's assets exceeds the present value of the estimated future payments to the trust grantors. At June 30, 2019, the total fair value of assets held under the trust agreements included cash and cash equivalents of approximately \$125,000 and investments of approximately \$2,468,000. At June 30, 2018, the total fair value of assets held under the trust agreements included cash and cash equivalents of approximately \$201,000 and investments of approximately \$2,337,000. The present value of the future payouts to the donors at June 30, 2019 and 2018, which approximates fair value, is recorded in the accompanying statements of financial position as annuity and life income obligations in the amount of \$1,767,291 and \$1,958,688,

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respectively. At June 30, 2019 and 2018, the present value of the future payments is based on the following actuarial assumptions:

Item	Assumption
Estimated life of trust	The 2012 Individual Annuity Reserving Tables in accordance with Treasury Reg. Sec. 1.72-9, as amended
Discount rate	Range from 3.67% to 8.23%

The Association has an irrevocable beneficial interest in split interest agreements such as perpetual trusts and charitable remainder trusts for which third party entities are the trustees. The Association has no control over these assets and only realizes the interest upon a termination event as defined by the agreement. These interests are initially recorded as contribution revenue at their fair value with subsequent changes in the fair value recorded as change in fair value of beneficial interest in trusts on the statement of activities. Fair value is calculated as the Association's share of the fair value of the underlying assets in trusts as of the reporting date.

For the years ended June 30, 2019 and 2018, the Association received new split interest agreements held by third party trustees in the amount of \$24,155 and \$2,474,211, respectively.

(c) Other Financial Instruments

The carrying amounts of cash and cash equivalents, prepaid expenses and other assets, accounts payable and accrued expenses, due to University of Virginia organizations and associated organizations, and other liabilities approximate fair value because of the short maturity of these instruments. Management has estimated the net realizable value of contributions and other receivables, evaluated collection history and has concluded the carrying amounts approximate the fair values.

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The following tables present the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and 2018, by level within the fair value hierarchy:

	2019				
	Level 1	Level 2	Level 3	NAV ¹	Total
Assets:					
Cash equivalents	\$ 14,605,871	—	—	—	14,605,871
Investment in UVIMCO	—	—	—	314,992,043	314,992,043
Investment in hedge fund	—	—	—	14,307	14,307
Securities held (private entity)	—	—	28,940	—	28,940
Investment in real estate	—	—	734,100	—	734,100
Beneficial interest in trusts	—	—	3,825,267	—	3,825,267
Investment in trusts held – debt securities	318,629	—	—	—	318,629
Investment in trusts held – U.S. equity securities	2,149,798	—	—	—	2,149,798
Investment in mutual funds fixed income	1,124,959	—	—	—	1,124,959
Investment in mutual funds equity	684,743	—	—	—	684,743
Fixed maturity securities – certificates of deposit	—	6,291,134	—	—	6,291,134
Fixed maturity securities – government bonds	3,749,622	7,419,524	—	—	11,169,146
Fixed maturity securities – corporate bonds – investment grade	—	7,533,917	—	—	7,533,917
Total	\$ 22,633,622	21,244,575	4,588,307	315,006,350	363,472,854

¹ Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Financial Position.

Cash and cash equivalents of \$32,584,207 from the Statement of Financial Position is a combination of cash equivalents above of \$14,605,871 and cash of \$17,978,336, as of June 30, 2019.

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	2018				
	Level 1	Level 2	Level 3	NAV ¹	Total
Assets:					
Cash equivalents	\$ 6,220,287	252,072	—	—	6,472,359
Investment in UVMCO	—	—	—	299,871,755	299,871,755
Investment in hedge fund	—	—	—	18,132	18,132
Investment in real estate	—	—	1,107,900	—	1,107,900
Beneficial interest in trusts	—	—	13,572,268	—	13,572,268
Investment in trusts held – debt securities	48,550	190,119	—	—	238,669
Investment in trusts held – U.S. equity securities	2,098,179	—	—	—	2,098,179
Investment in mutual funds fixed income	1,238,482	—	—	—	1,238,482
Investment in mutual funds equity	625,364	—	—	—	625,364
Fixed maturity securities – certificates of deposit	—	6,107,395	—	—	6,107,395
Fixed maturity securities – government bonds	7,459,957	5,413,569	—	—	12,873,526
Fixed maturity securities – corporate bonds – investment grade	—	9,784,145	—	—	9,784,145
Total	\$ 17,690,819	21,747,300	14,680,168	299,889,887	354,008,174

¹ Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Financial Position.

Cash and cash equivalents of \$21,733,302 from the Statement of Financial Position is a combination of cash equivalents above of \$6,472,359 and cash of \$15,260,943, as of June 30, 2018.

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The following table summarizes changes in Level 3 assets measured at fair value on a recurring basis:

	Beneficial interest in trusts	Securities Held	Real Estate	Total assets
Level 3 assets:				
Ending balance as of June 30, 2017	\$ 11,238,078	—	—	11,238,078
Total net appreciation (depreciation) including in:				
Change in fair value of net assets	1,046,749	—	1,310,082	2,356,831
Contributions	2,474,211	—	—	2,474,211
Distributions and maturities	(1,388,952)	—	—	(1,388,952)
Ending balance as of June 30, 2018	13,370,086	—	1,310,082	14,680,168
Total net appreciation (depreciation) including in:				
Change in fair value of net assets	(277,248)	—	(575,982)	(853,230)
Contributions	24,155	28,940	—	53,095
Distributions and maturities	(9,291,726)	—	—	(9,291,726)
Ending balance as of June 30, 2019	\$ 3,825,267	28,940	734,100	4,588,307

The Association did not have any assets or liabilities measured at fair value on a nonrecurring basis during the years ended June 30, 2019 and 2018. During the years ended June 30, 2019 and 2018, there were no transfers into (out of) Levels 1, 2 or 3.

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The Association holds shares of the UVIMCO Long-term Pool as well as directly held investments. The composition of the total portfolio of investments at June 30, 2019 and 2018 is as follows:

	2019		
	UVIMCO Long-Term Pool	Directly held investments	Total investments
Public equity	\$ 91,048,194	4,036,290	95,084,484
Long/short equity	63,259,531	43,248	63,302,779
Buyout	13,500,565	—	13,500,565
Growth equity	24,729,775	—	24,729,775
Venture capital	20,031,044	—	20,031,044
Real estate	15,128,483	734,100	15,862,583
Marketable alternatives and credit	38,113,375	—	38,113,375
Resources – oil, energy and natural resources	17,144,448	—	17,144,448
Bonds	20,935,597	18,944,902	39,880,499
Certificates of deposit	—	6,291,134	6,291,134
Cash and accruals	11,101,031	—	11,101,031
Total investments	\$ 314,992,043	30,049,674	345,041,717
	2018		
	UVIMCO Long-term Pool	Directly held investments	Total investments
Public equity	\$ 83,599,932	3,962,025	87,561,957
Long/short equity	59,250,732	18,132	59,268,864
Buyout	15,675,301	—	15,675,301
Growth equity	21,746,646	—	21,746,646
Venture capital	15,631,418	—	15,631,418
Real estate	13,477,316	1,107,900	14,585,216
Marketable alternatives and credit	39,290,345	—	39,290,345
Resources – oil, energy and natural resources	19,652,697	—	19,652,697
Bonds	24,837,034	22,896,340	47,733,374
Certificates of deposit	—	6,107,395	6,107,395
Cash and accruals	6,710,334	—	6,710,334
Total investments	\$ 299,871,755	34,091,792	333,963,547

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(5) Net Investment Income

Investment income consists of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 1,127,672	785,584
Net realized losses	(15,619)	(10,304)
Net unrealized gains	17,767,259	30,891,673
Investment expenses	<u>(695,656)</u>	<u>(421,286)</u>
 Net investment income	 <u>\$ 18,183,656</u>	 <u>31,245,667</u>

Investment expenses for the years ended June 30, 2019 and 2018 related to UVIMCO were \$684,185 and \$404,654, respectively. UVIMCO's fees are incurred retrospectively and consist of incentive fees, management fees, management fee rebates, and reimbursements for any long term pool expenses allocated on a per share basis.

(6) Property

Property consists at June 30, 2019 and 2018 of the following:

	2019	2018
Alumni Hall land, building, and improvements	\$ 8,137,075	8,134,110
Furniture, fixtures, and equipment	2,188,017	2,130,778
Other real estate	<u>675,620</u>	<u>675,620</u>
 11,000,712	 11,000,712	10,940,508
Less accumulated depreciation	<u>(6,618,161)</u>	<u>(6,252,960)</u>
 Property, net	 <u>\$ 4,382,551</u>	<u>4,687,548</u>

(7) Due to University of Virginia and Related Organizations

The Association serves the University and related organizations in a number of ways, including through its management of the UVA Fund and by providing centralized gift processing services. Assets managed by the Association for the UVA Fund are pooled for investment purposes with other Association funds. Fees earned by the UVA Fund for endowment management services are included in administrative service fees on the Statement of Activities. Gifts processed through the central gift processing center are held in a separate bank account, recorded as assets and liabilities on the statements of financial position, and remitted to the University and associated organizations on a daily basis.

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The composition of due to University of Virginia and related organizations at June 30, 2019 and 2018 consists of the following:

	2019	2018
Due to the University of Virginia Commerce School	\$ 44,131,181	44,819,385
Due to the University of Virginia and other related organizations	<u>72,646,314</u>	<u>70,636,565</u>
Total due to University of Virginia and related organizations	<u>\$ 116,777,495</u>	<u>115,455,950</u>

(8) Retirement Plan

The Association provides for a defined contribution retirement plan, which covers substantially all employees once the eligibility requirements of the plan are met. Contributions by the Association to the plan totaled approximately \$652,000 and \$538,000 during the years ended June 30, 2019 and 2018, respectively.

(9) Liquidity and Availability

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management the Association invests cash in excess of daily requirements in various short-term (available within one year) investments. The Association Board of Managers has designated a portion of its net assets without donor restrictions for specific use. These are not included in this disclosure. In addition the Association maintains a committed line of credit in the amount of \$200,000 that it could draw upon in the event of an unanticipated liquidity need.

Financial assets held for the benefit of others are not available to support Association operations and are excluded from this disclosure.

Financial assets available for general expenditure by the Association within one year at June 30:

	2019
Cash, cash equivalents and investments liquid within 1 day	\$ 8,377,118
Contributions and other receivables, net	816,818
Investment at UVIMCO liquid within 12 months	<u>12,856,280</u>
Total	<u>\$ 22,050,216</u>

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(10) Net Assets with Donor Restrictions

As of June 30, 2019 and 2018, assets with donor restrictions were available for the following purposes:

	2019	2018
University-related organizations	\$ 133,692,957	124,071,630
Scholarships and other	45,245,152	44,977,730
Alumni Association programs	<u>9,663,884</u>	<u>11,842,771</u>
Total net assets with donor restrictions	<u>\$ 188,601,993</u>	<u>180,892,131</u>

Net assets with donor restrictions subject to expenditures for specified purposes are \$186,185,597 and \$178,708,370 at June 30, 2019 and 2018 respectively. Net assets with donor restrictions subject to the passage of time are \$2,416,396 and \$2,186,761 at June 30, 2019 and 2018 respectively.

Determinations to appropriate or accumulate the approximately 3,400 donor-restricted funds held by the UVA Fund on behalf of clients are made by the clients. The Association is responsible for the use in accordance with donor intent of other donor-restricted contributions held by the Association. In all cases, donor restrictions accepted by the Association are honored unless the donor consents or when a change is permitted by the gift instrument or applicable law.

Net assets were released from donor restrictions by the passage of time or by incurring expenses or making distributions satisfying the restricted purposes as follows:

	2019	2018
Distributions to University-related organizations	\$ 37,129,897	43,921,053
Adjustment to allowance for uncollectible receivables	2,257,739	4,757,876
Other program expenses	<u>1,532,170</u>	<u>1,394,937</u>
Total net assets released from restrictions	<u>\$ 40,919,806</u>	<u>50,073,866</u>

(11) Net Assets without Donor Restrictions

The Association has historically designated the majority of its assets without donor restriction to function as endowments. Net assets without donor restrictions also include funds designated by the Board for the Operating Reserve and the Building and Capital Reserve. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden unexpected increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Building and Capital Reserve is intended to provide a source of funds for repair, expansion, or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the Association and its programs. Most assets without donor restrictions are pooled for investment purposes (note 4a).

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Net assets without donor restriction consist of the following at June 30, 2019 and 2018:

	2019	2018
Funds designated to function as endowment	\$ 74,509,986	73,907,110
Other board designated funds:		
Operating Reserve	1,351,982	1,047,242
Building and Capital Asset Reserve	<u>3,273,583</u>	<u>2,935,650</u>
Net Assets	<u>\$ 79,135,551</u>	<u>77,890,002</u>

Changes in funds designated to function as endowment for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Net assets, July 1, 2018	\$ 73,907,110	69,031,778
Investment, dividend income and gains, net of fees	4,257,249	7,827,093
Contributions	1,201,481	969,366
Change in beneficial interest in trusts	1,463	6,037
Expenditures	(13,387,218)	(12,031,983)
Other program revenue	<u>8,529,901</u>	<u>8,104,819</u>
Net assets, June 30, 2019	<u>\$ 74,509,986</u>	<u>73,907,110</u>

(a) ***The Association considers the following factors in making a determination to appropriate or accumulate funds designated to function as endowment:***

- 1) The duration and preservation of the assets
- 2) The purposes of the Association
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Association
- 7) The investment policies of the Association

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(b) Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for assets expected to function as endowments that attempt to provide a predictable stream of funding to supported programs while seeking to maintain the purchasing power of the assets over the long term. To achieve this objective, the Board has adopted the investment objectives and strategy of UVIMCO. UVIMCO attempts to manage the long-term pool to provide real returns over time that compare favorably with the returns of endowments of other outstanding schools in its peer group which consists of the Colleges & Universities Over \$1 billion Universe, as reported by Cambridge Associates. The Board has determined that UVIMCO's risk tolerance is appropriate given the Association's tolerance for volatility in spending.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on UVIMCO's traditional policy portfolio benchmark comprised of public market indices. For fiscal years ending June 30, 2019 and 2018, this policy benchmark was 60% equity, 10% real estate, and 30% fixed income. Beginning July 1, 2019 the policy benchmark will be 65% equity, 10% real estate, and 25% fixed income. The strategic asset allocation is prudently diversified across asset classes and lies near the efficient frontier of portfolios that provide the highest expected return per unit of risk and the lowest risk per unit of expected return. The Board relies on the risk controls employed by UVIMCO based on the Pool's tolerance for volatility, but also to ensure adequate liquidity.

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has adopted a policy discipline consistent with University policy, which calls for a percentage increase in the annual distribution, unless such increase causes the distribution to fall outside a range of 4% to 6% of the market value of the pooled funds. In establishing this policy, the Association considered the expected return on its investments in the UVIMCO long-term pool. Accordingly, the Association expects the current spending policy to allow its assets functioning as endowments to maintain purchasing power by growing at the anticipated rate of inflation. Additional real growth will be provided through new gifts and any excess investment return.

(12) Subsequent Events

The Association has evaluated the effects of events that have occurred subsequent to period end June 30, 2019, through October 4, 2019, which is the date the financial statements were available for issue. During this period, there have been no material events that would require recognition in the financial statements or disclosure in the notes thereto.