



**VIRGINIA
HEALTH CARE
FOUNDATION**

Financial Statements

June 30, 2018 and 2017



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VIRGINIA HEALTH CARE FOUNDATION

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Virginia Health Care Foundation
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Health Care Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Health Care Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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

August 15, 2018
Glen Allen, Virginia

VIRGINIA HEALTH CARE FOUNDATION

Statements of Financial Position June 30, 2018 and 2017

| <u>Assets</u> | <u>2018</u> | <u>2017</u> |
|---------------------------------------|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,804,971 | \$ 2,650,871 |
| Investments | 11,459,967 | 10,849,627 |
| Government appropriations receivable | 4,580,571 | 4,580,571 |
| Interest receivable | 15,709 | 19,032 |
| Contributions receivable | 390,566 | 830,066 |
| Prepaid expenses | <u>30,870</u> | <u>16,233</u> |
| Total current assets | 19,282,654 | 18,946,400 |
| Property and equipment, net | <u>25,419</u> | <u>25,720</u> |
| Total assets | <u>\$ 19,308,073</u> | <u>\$ 18,972,120</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 124,604 | \$ 38,326 |
| Accrued rent | 15,755 | 21,545 |
| Grants payable | <u>5,182,839</u> | <u>4,606,919</u> |
| Total current liabilities | <u>5,323,198</u> | <u>4,666,790</u> |
| Total liabilities | <u>5,323,198</u> | <u>4,666,790</u> |
| Net assets: | | |
| Unrestricted | 6,668,154 | 6,953,463 |
| Temporarily restricted | 7,243,270 | 7,294,406 |
| Permanently restricted | <u>73,451</u> | <u>57,461</u> |
| Total net assets | <u>13,984,875</u> | <u>14,305,330</u> |
| Total liabilities and net assets | <u>\$ 19,308,073</u> | <u>\$ 18,972,120</u> |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Statements of Activities Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|----------------------|
| Support and revenue: | | | | |
| Government appropriations | \$ - | \$ 4,580,571 | \$ - | \$ 4,580,571 |
| Contributions | 180,361 | 1,100,451 | 15,990 | 1,296,802 |
| Contract revenue | - | 880,262 | - | 880,262 |
| Investment income | 600,522 | - | - | 600,522 |
| Unrealized net gain on investments | 52,542 | - | - | 52,542 |
| Other income | 230,086 | - | - | 230,086 |
| | <u>1,063,511</u> | <u>6,561,284</u> | <u>15,990</u> | <u>7,640,785</u> |
| Total support and revenue | | | | |
| | <u>1,063,511</u> | <u>6,561,284</u> | <u>15,990</u> | <u>7,640,785</u> |
| Net assets released from restriction | <u>6,612,420</u> | <u>(6,612,420)</u> | <u>-</u> | <u>-</u> |
| Expenditures: | | | | |
| Program services - grants | 7,218,062 | - | - | 7,218,062 |
| Supporting services: | | | | |
| Management and general | 606,413 | - | - | 606,413 |
| Fundraising | 136,765 | - | - | 136,765 |
| | <u>7,961,240</u> | <u>-</u> | <u>-</u> | <u>7,961,240</u> |
| Total expenditures | | | | |
| | <u>7,961,240</u> | <u>-</u> | <u>-</u> | <u>7,961,240</u> |
| Change in net assets | (285,309) | (51,136) | 15,990 | (320,455) |
| Net assets, beginning of year | <u>6,953,463</u> | <u>7,294,406</u> | <u>57,461</u> | <u>14,305,330</u> |
| Net assets, end of year | <u>\$ 6,668,154</u> | <u>\$ 7,243,270</u> | <u>\$ 73,451</u> | <u>\$ 13,984,875</u> |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Statements of Activities Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------------------------------|--------------|---------------------------|---------------------------|---------------|
| Support and revenue: | | | | |
| Government appropriations | \$ - | \$ 4,445,538 | \$ - | \$ 4,445,538 |
| Contributions | 150,883 | 1,295,104 | 57,461 | 1,503,448 |
| Contract revenue | - | 757,166 | - | 757,166 |
| Investment income | 571,684 | - | - | 571,684 |
| Unrealized net gain on investments | 465,562 | - | - | 465,562 |
| Other income | 307,956 | - | - | 307,956 |
| | 1,496,085 | 6,497,808 | 57,461 | 8,051,354 |
| Total support and revenue | | | | |
| Net assets released from restriction | 7,774,245 | (7,774,245) | - | - |
| Expenditures: | | | | |
| Program services - grants | 6,705,436 | - | - | 6,705,436 |
| Supporting services: | | | | |
| Management and general | 480,570 | - | - | 480,570 |
| Fundraising | 185,309 | - | - | 185,309 |
| | 7,371,315 | - | - | 7,371,315 |
| Total expenditures | | | | |
| Change in net assets | 1,899,015 | (1,276,437) | 57,461 | 680,039 |
| Net assets, beginning of year | 5,054,448 | 8,570,843 | - | 13,625,291 |
| Net assets, end of year | \$ 6,953,463 | \$ 7,294,406 | \$ 57,461 | \$ 14,305,330 |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Statements of Functional Expenses Year Ended June 30, 2018

| | Program Services - Grants | Supporting Services | | Total |
|---|------------------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Salaries | \$ - | \$ 187,712 | \$ 101,022 | \$ 288,734 |
| Employee benefits/payroll taxes | - | 42,749 | 27,666 | 70,415 |
| | | | | |
| Total salaries and related expenditures | - | 230,461 | 128,688 | 359,149 |
| | | | | |
| Grants | 5,390,745 | - | - | 5,390,745 |
| RX Partnership | 105,000 | - | - | 105,000 |
| The Pharmacy Connection | 417,514 | - | - | 417,514 |
| MAP | 248,511 | - | - | 248,511 |
| Strategic Initiatives | 298,199 | - | - | 298,199 |
| Child Health Insurance Initiatives | 337,320 | - | - | 337,320 |
| Grantee Technical Assistance | 83,326 | - | - | 83,326 |
| Grantmaking | 233,916 | - | - | 233,916 |
| Dental Opportunities Initiative | 103,531 | - | - | 103,531 |
| Contractual services | - | 185,585 | - | 185,585 |
| Office rent | - | 44,369 | - | 44,369 |
| Investment fees | - | 60,858 | - | 60,858 |
| Telephone and fax | - | 4,590 | 510 | 5,100 |
| Supplies | - | 3,190 | 10 | 3,200 |
| Computer software and supplies | - | 11,348 | - | 11,348 |
| Printing and copying | - | 17,496 | 537 | 18,033 |
| Postage | - | 4,658 | 247 | 4,905 |
| Travel | - | 4,603 | 599 | 5,202 |
| Meeting/conference costs | - | 11,235 | 20 | 11,255 |
| Special events | - | - | 5,171 | 5,171 |
| Miscellaneous | - | 2,090 | 8 | 2,098 |
| Insurance | - | 13,458 | - | 13,458 |
| Subscriptions, fees and dues | - | 1,013 | 975 | 1,988 |
| | | | | |
| Total expenditures before depreciation and amortization | 7,218,062 | 594,954 | 136,765 | 7,949,781 |
| | | | | |
| Depreciation and amortization of property and equipment | - | 11,459 | - | 11,459 |
| | | | | |
| Total expenditures | <u>\$ 7,218,062</u> | <u>\$ 606,413</u> | <u>\$ 136,765</u> | <u>\$ 7,961,240</u> |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Statements of Functional Expenses Year Ended June 30, 2017

| | Supporting Services | | | Total |
|---|------------------------------|---------------------------|-------------|--------------|
| | Program Services - Grants | Management and General | Fundraising | |
| Salaries | \$ - | \$ 162,388 | \$ 107,017 | \$ 269,405 |
| Employee benefits/payroll taxes | - | 45,100 | 26,103 | 71,203 |
| Total salaries and related expenditures | - | 207,488 | 133,120 | 340,608 |
| Grants | 4,935,242 | - | - | 4,935,242 |
| RX Partnership | 111,850 | - | - | 111,850 |
| The Pharmacy Connection | 414,765 | - | - | 414,765 |
| MAP | 247,728 | - | - | 247,728 |
| Strategic Initiatives | 234,851 | - | - | 234,851 |
| Child Health Insurance Initiatives | 374,045 | - | - | 374,045 |
| Grantee Technical Assistance | 86,144 | - | - | 86,144 |
| Grantmaking | 254,109 | - | - | 254,109 |
| Dental Opportunities Initiative | 46,702 | - | - | 46,702 |
| Contractual services | - | 92,241 | - | 92,241 |
| Office rent | - | 50,560 | - | 50,560 |
| Investment fees | - | 57,915 | - | 57,915 |
| Telephone and fax | - | 4,028 | 419 | 4,447 |
| Supplies | - | 2,025 | 46 | 2,071 |
| Computer software and supplies | - | 2,339 | - | 2,339 |
| Printing and copying | - | 7,051 | 131 | 7,182 |
| Postage | - | 3,915 | 317 | 4,232 |
| Travel | - | 1,703 | 251 | 1,954 |
| Meeting/conference costs | - | 15,686 | 375 | 16,061 |
| Special events | - | 5,058 | 48,464 | 53,522 |
| Miscellaneous | - | 2,039 | 200 | 2,239 |
| Insurance | - | 13,258 | - | 13,258 |
| Subscriptions, fees and dues | - | 5,256 | 1,986 | 7,242 |
| Total expenditures before depreciation and amortization | 6,705,436 | 470,562 | 185,309 | 7,361,307 |
| Depreciation and amortization of property and equipment | - | 10,008 | - | 10,008 |
| Total expenditures | \$ 6,705,436 | \$ 480,570 | \$ 185,309 | \$ 7,371,315 |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Statements of Cash Flows Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (320,455) | \$ 680,039 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 11,459 | 10,008 |
| Net investment income reinvested | (192,964) | (164,294) |
| Net realized and unrealized gain on investments | (428,104) | (842,169) |
| Contributions restricted for endowment | (15,990) | (57,461) |
| Change in assets and liabilities: | | |
| Government appropriations receivable | - | 1,145,143 |
| Interest receivable | 3,323 | (29) |
| Contributions receivable | 439,500 | 175,513 |
| Prepaid expenses | (14,637) | (1,606) |
| Accounts payable and accrued expenses | 80,488 | (54,948) |
| Grants payable | <u>575,920</u> | <u>1,526</u> |
| Net cash provided by operating activities | <u>138,540</u> | <u>891,722</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (11,158) | (11,315) |
| Proceeds from sales of investments | 3,316,270 | 3,012,950 |
| Purchase of investments | <u>(3,305,542)</u> | <u>(3,000,612)</u> |
| Net cash (used in) provided by investing activities | <u>(430)</u> | <u>1,023</u> |
| Cash flow provided by financing activities: | | |
| Contributions restricted for endowment | <u>15,990</u> | <u>57,461</u> |
| Net change in cash and cash equivalents | 154,100 | 950,206 |
| Cash and cash equivalents, beginning of year | <u>2,650,871</u> | <u>1,700,665</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,804,971</u> | <u>\$ 2,650,871</u> |

See accompanying notes to financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements

1. **Organization and Business:**

Virginia Health Care Foundation (the “Foundation”) is a Virginia not-for-profit entity which was created in June 1992 as a public/private partnership by the Governor of Virginia and the Virginia General Assembly’s Joint Commission on Health Care. The Foundation’s mission is to enhance access to primary care for Virginia’s uninsured and medically underserved population by helping to foster community-based projects that combine the resources of state government, health care professionals, the business sector local private funds, and revenue from various sources.

2. **Summary of Significant Accounting Policies:**

Basis of Accounting: The Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”).

Net Assets: The Foundation classifies its net assets into three categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets include funds that are not subject to donor-imposed restrictions.

Temporarily restricted net assets are those funds subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or passage of time.

Permanently restricted net assets are endowment funds that are restricted to investment in perpetuity, the income from which is expendable to support the various programs sponsored by the Foundation.

Revenue Recognition: Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenditures are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Cash and Cash Equivalents: Cash equivalents consist of investments in money market funds. For purposes of the statements of cash flows, the Foundation considers all highly liquid financial instruments not included in the investment portfolio or with original maturities of three months or less to be cash equivalents.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Concentrations of Credit Risk: Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and receivables. At times, these balances are in excess of the FDIC insurance limit.

The Foundation's receivables are from individuals, corporations, government organizations and foundations. During 2018 and 2017, there were no concentrations in receivables other than the government appropriation. The Foundation believes its credit risk related to these receivables is limited due to the nature of its donors. See Note 11 for additional information on the government appropriation.

The Foundation places its short-term investments in a variety of financial instruments and, by policy, limits the amount of credit exposure through diversification and by restricting its investments to highly rated securities.

Investments: Investments in marketable securities are carried at fair value as determined by the investment managers. Unrealized gains and losses are included in the statements of activities. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain marketable securities and the level of uncertainty related to changes in the value of marketable securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported on the financial statements.

Property and Equipment: Property and equipment is recorded at cost for purchased items and at fair value on the date of the gift for contributed items. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives (generally five years) of the assets.

Fair Value of Financial Instruments: The carrying amounts of cash and cash equivalents; government appropriations receivable; interest receivable; contributions receivable; accounts payable and accrued expenses; and grants payable approximate fair value because of the short-term nature of these financial instruments.

Income Taxes: The Foundation received a favorable determination letter from the Internal Revenue Service on October 22, 1996 stating that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC").

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Foundation has no significant financial statement exposure to uncertain income tax positions at June 30, 2018 and 2017. The Foundation is not currently under audit by any tax jurisdiction.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Contributions and Contract Revenue: Contributions to the Foundation are recognized as revenue in the period the promise is made by the donor. Contributions of assets other than cash are recorded at their estimated fair values. Contract revenue is recorded in the year the contract is awarded, provided that the award is unconditional.

Many of the Foundation's contributions are part of a multi-year commitment. Long-term commitments are recognized as contributions in the statements of activities even though a portion of the contribution is receivable in future periods. The long-term contributions are recognized as contributions receivable at their net present value in the statements of financial position.

Donated Services: During 2018 and 2017, the Foundation received professional services at no charge from outside organizations. These services, valued by the donors at approximately \$24,614 in 2018 and \$24,099 in 2017, were recorded as unrestricted contribution revenue and recorded as expenditures in the related expense accounts in the accompanying statements of activities.

Grants: The Foundation makes grants to various Virginia not-for-profit organizations to carry out its mission. A grant is recognized as an expense in the year the board of trustees authorizes the grant. Although certain requirements are stipulated for each grant, management has assessed the possibility that those requirements will not be met as remote and, therefore, they are considered to be unconditional. Grants are generally paid within one year of authorization. The Foundation reduced grant expense by \$474,338 in 2018 and \$213,620 in 2017 for grants recognized in prior years that will not be paid. These reductions relate to terminated or reduced grants resulting from the grantees' inability to fulfill the requirements of the grants, and to grantees that did not spend anticipated funding. All of these funds were reallocated to future grants.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Management has evaluated subsequent events through August 15, 2018, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

3. Cash and Cash Equivalents:

Cash and cash equivalents include the following as of June 30, 2018 and 2017:

| | 2018 | 2017 |
|--------------------|--------------|--------------|
| Cash on deposit | \$ 2,788,746 | \$ 2,634,653 |
| Money market funds | 16,225 | 16,218 |
| | \$ 2,804,971 | \$ 2,650,871 |

4. Investments:

The costs and fair values of investments as of June 30, 2018 and 2017 are summarized as follows:

| | 2018 | | 2017 | |
|-------------------------|--------------|---------------|--------------|---------------|
| | Cost | Fair value | Cost | Fair value |
| Money market funds | \$ 1,140,228 | \$ 1,140,228 | \$ 626,654 | \$ 626,654 |
| Certificates of deposit | - | - | 500,000 | 500,000 |
| Common stocks | 5,153,659 | 7,335,600 | 4,935,094 | 7,003,611 |
| Corporate bonds | 3,018,742 | 2,984,139 | 2,693,083 | 2,719,362 |
| | \$ 9,312,629 | \$ 11,459,967 | \$ 8,754,831 | \$ 10,849,627 |

Investment income and gains and losses for investments are comprised of the following for the years ended June 30:

| | 2018 | 2017 |
|----------------------|------------|------------|
| Interest income | \$ 224,960 | \$ 195,077 |
| Net realized gains | 375,562 | 376,607 |
| | \$ 600,522 | \$ 571,684 |
| Net unrealized gains | \$ 52,542 | \$ 465,562 |

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements:

The Financial Accounting Standards Board (“FASB”) has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The levels of the hierarchy are defined as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
- Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement. The Foundation did not have any Level 3 assets or liabilities at June 30, 2018 and 2017.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

Money market funds: Valued at the cash balance.

Certificates of deposit: Valued at face value and accrued interest.

Securities: Valued at the closing price reported on the active market on which the individual mutual funds and common stocks are traded.

Corporate bonds: Valued at the present value of the bond’s cash flow which includes periodic interest payments and the repayment of principal.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Investments measured at fair value on a recurring basis at June 30, 2018 include the following:

| | Fair Value Using | | Investments at Fair Value |
|-------------------------------|------------------|--------------|------------------------------|
| | Level 1 | Level 2 | |
| Assets: | | | |
| Money market funds | \$ 1,140,228 | \$ - | \$ 1,140,228 |
| Securities: | | | |
| Closed end mutual funds | 531,570 | - | 531,570 |
| Consumer discretionary | 612,889 | - | 612,889 |
| Consumer staples | 622,994 | - | 622,994 |
| Energy | 554,854 | - | 554,854 |
| Financials | 1,450,205 | - | 1,450,205 |
| Health care | 678,546 | - | 678,546 |
| Industrials | 755,379 | - | 755,379 |
| Information technology | 1,136,734 | - | 1,136,734 |
| Materials | 514,305 | - | 514,305 |
| Real estate investment trusts | 377,602 | - | 377,602 |
| Telecommunication services | 44,273 | - | 44,273 |
| Utilities | 56,249 | - | 56,249 |
| Corporate bonds | - | 2,984,139 | 2,984,139 |
| | \$ 8,475,828 | \$ 2,984,139 | \$ 11,459,967 |

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

Investments measured at fair value on a recurring basis at June 30, 2017 include the following:

| | Fair Value Using | | Investments at Fair Value |
|-------------------------------|---------------------|---------------------|------------------------------|
| | Level 1 | Level 2 | |
| Assets: | | | |
| Money market funds | \$ 626,654 | \$ - | \$ 626,654 |
| Certificates of deposit | - | 500,000 | 500,000 |
| Securities: | | | |
| Closed end mutual funds | 887,742 | - | 887,742 |
| Consumer discretionary | 702,953 | - | 702,953 |
| Consumer staples | 638,025 | - | 638,025 |
| Energy | 477,784 | - | 477,784 |
| Financials | 1,219,965 | - | 1,219,965 |
| Health care | 826,784 | - | 826,784 |
| Industrials | 799,665 | - | 799,665 |
| Information technology | 723,431 | - | 723,431 |
| Materials | 279,137 | - | 279,137 |
| Real estate investment trusts | 361,313 | - | 361,313 |
| Telecommunication services | 39,301 | - | 39,301 |
| Utilities | 47,511 | - | 47,511 |
| Corporate bonds | - | 2,719,362 | 2,719,362 |
| | <u>\$ 7,630,265</u> | <u>\$ 3,219,362</u> | <u>\$ 10,849,627</u> |

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

5. Fair Value Measurements, Continued:

The Foundation's investments in corporate bonds are subject to restrictions on the frequency of redemptions without penalty. At June 30, 2018, the redemption periods and related amounts were as follows:

| Year Ended June 30: | Corporate Bonds |
|---------------------|--------------------|
| 2019 | \$ 100,021 |
| 2020 | 575,278 |
| 2021 | 665,537 |
| 2022 | 757,088 |
| 2023 | 186,294 |
| 2024 | 161,071 |
| 2025 | 97,876 |
| 2026 | 103,231 |
| 2027 | 250,357 |
| 2028 | 87,386 |
| | \$ 2,984,139 |

6. Contributions Receivable:

Contributions receivable are summarized as follows as of June 30, 2018 and 2017:

| | 2018 | 2017 |
|--|------------|------------|
| Unconditional contributions expected to be collected in: | | |
| Less than one year | \$ 390,566 | \$ 830,066 |
| Total contributions receivable | \$ 390,566 | \$ 830,066 |

There was no discount on future expected cash flows from contributions receivable in 2018 and 2017.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

7. Property and Equipment, Net:

Property and equipment, net as of June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|------------|-----------|
| Equipment | \$ 101,456 | \$ 97,971 |
| Leasehold improvements | 4,987 | 2,949 |
| Software | 39,592 | 42,749 |
| | 146,035 | 143,669 |
| Less accumulated depreciation and amortization | (120,616) | (117,949) |
| Property and equipment, net | \$ 25,419 | \$ 25,720 |

8. Lease Commitments:

The Foundation is obligated under operating leases for office space and equipment that expire on various dates through March 31, 2020. The office space lease includes scheduled rent increases at specified intervals during the term of the lease. The Foundation recognizes rent expense on a straight-line basis over the life of the related lease. Total rental expense for operating leases was \$103,808 in 2018 and \$104,465 in 2017. Future minimum lease payments as of June 30, 2018 are:

| Year Ended June 30: | Amount |
|---------------------|------------|
| 2019 | \$ 100,478 |
| 2020 | 76,498 |
| Total | \$ 176,976 |

9. Restricted Net Assets:

Temporarily restricted net assets are available for program development purposes in the following periods subsequent to June 30, 2018 and 2017:

| | 2018 | 2017 |
|--|--------------|--------------|
| For periods after the end of the fiscal year | \$ 7,243,270 | \$ 7,294,406 |

Net assets released from restriction in 2018 and 2017 were released for program development purposes.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

9. Restricted Net Assets, Continued:

During 2017, the Foundation established the *Deborah D. Oswalt Excellence in Leadership Endowment*. The purpose of the endowment is to support, encourage, and sustain Virginia's health safety net leaders. The Foundation has received contributions to the endowment fund totaling \$15,990 for 2018 and \$57,461 for 2017. The endowment funds are held solely in cash.

10. Employee Retirement Plan:

The Foundation has an employee retirement plan under Section 403(b) of the IRC. The plan provides for salary reduction contributions by eligible employees and for Foundation contributions, subject to certain limitations. The Foundation's contribution to the plan was \$61,029 in 2018 and \$52,560 in 2017.

11. Government Appropriations:

The Commonwealth of Virginia (the "Commonwealth") has designated an appropriation in its biennial budget to the Foundation of \$4,580,571 for the 2018 fiscal year. This appropriation is to be used to fulfill the purpose of the Foundation. The Foundation has elected to record these funds as a receivable when the Commonwealth has completed action on the current budget, which is done on an annual basis. Since the final action has been taken on the 2019 budget, the appropriation was included as a receivable as of June 30, 2018 in the accompanying financial statements. The amount of the appropriation is subject to change should the Commonwealth experience a budget shortfall; however, the Foundation has taken this possibility into consideration in its 2019 fiscal year budget. These appropriations accounted for 60% of support and revenue for 2018 and 55% of support and revenue for 2017. These appropriations accounted for 92% of total receivables at June 30, 2018 and 85% of total receivables at June 30, 2017.

VIRGINIA HEALTH CARE FOUNDATION

Notes to Financial Statements, Continued

12. New Accounting Guidance:

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

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds
- Requires all not-for-profits to provide expenses by nature and function
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

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

Leases: In February 2016, the FASB issued a new accounting standard for leases that will impact both lessees and lessors. The new lease standard will require leases with terms more than 12 months to be recognized on the statement of financial position of lessees by recording a right of use asset with a corresponding obligation to pay rent liability which will be calculated based on the net present value of rental payments. This change is expected to be effective starting with years beginning after December 15, 2018. The Foundation is evaluating the impact that this pronouncement will have on its financial statements.