



ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2018 and 2017, 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 2, 2018

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statements of Financial Position

June 30, 2018 and 2017

Assets	2018	2017
Cash and cash equivalents (note 4)	\$ 21,733,302	20,391,073
Prepaid expenses and other assets	208,142	193,052
Contributions and other receivables, net (note 3)	5,036,522	9,337,240
Beneficial interest in trusts (note 4)	13,572,268	11,238,078
Investments (note 4)	333,963,547	300,663,966
Property, net (note 6)	4,687,548	4,948,614
Total assets	\$ 379,201,329	346,772,023
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,958,580	1,520,882
Due to University of Virginia organizations and related foundations (note 7)	115,455,950	103,082,921
Annuity and life income obligations (note 4)	1,958,688	1,931,212
Other liabilities	1,045,978	1,034,968
Total liabilities	120,419,196	107,569,983
Net assets:		
Unrestricted (note 11)	77,820,587	72,554,181
Temporarily restricted (notes 9 and 11)	104,361,612	99,651,029
Permanently restricted (notes 10 and 11)	76,599,934	66,996,830
Total net assets	258,782,133	239,202,040
Total liabilities and net assets	\$ 379,201,329	346,772,023

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Public support and revenues:				
Public support – contributions (notes 3 and 11)	\$ 969,366	30,055,551	9,371,250	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
Annual dues	101,300	—	—	101,300
Life memberships	286,025	802,316	—	1,088,341
University of Virginia:				
Expense reimbursements	4,136,967	—	—	4,136,967
Appropriations	58,000	—	—	58,000
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	476,495	577,178	1,059,710
Change in value of trusts and annuities (notes 4 and 11)	—	(57,504)	(345,324)	(402,828)
Net assets released from restrictions (notes 9 and 11)	50,004,451	(50,004,451)	—	—
Total revenues	<u>65,957,251</u>	<u>(25,344,968)</u>	<u>231,854</u>	<u>40,844,137</u>
Total public support and revenues	<u>66,926,617</u>	<u>4,710,583</u>	<u>9,603,104</u>	<u>81,240,304</u>
Expenses:				
Program activities (notes 7 and 8):				
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>—</u>	<u>53,995,463</u>
Supporting services (notes 7 and 8):				
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>—</u>	<u>7,664,748</u>
Total expenses	<u>61,660,211</u>	<u>—</u>	<u>—</u>	<u>61,660,211</u>
Change in net assets	5,266,406	4,710,583	9,603,104	19,580,093
Net assets:				
Beginning of year	<u>72,554,181</u>	<u>99,651,029</u>	<u>66,996,830</u>	<u>239,202,040</u>
End of year	\$ <u><u>77,820,587</u></u>	<u><u>104,361,612</u></u>	<u><u>76,599,934</u></u>	<u><u>258,782,133</u></u>

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Public support and revenues:				
Public support – contributions (notes 3 and 11)	\$ 1,010,519	38,956,194	4,726,373	44,693,086
Revenues:				
Investment, dividend income and gains, net of fees (notes 4,5, and 11)	7,336,185	22,385,100	—	29,721,285
Annual dues	113,118	—	—	113,118
Life memberships	273,419	741,800	—	1,015,219
University of Virginia:				
Expense reimbursements	3,677,357	—	—	3,677,357
Appropriations	58,000	—	—	58,000
Administrative service fees (note 7)	1,301,916	—	—	1,301,916
Special events	2,737,185	37,288	—	2,774,473
Change in fair value of beneficial interest in trusts (notes 4 and 11)	284,180	523,086	726,685	1,533,951
Change in value of trusts and annuities (notes 4 and 11)	—	(46,418)	80,605	34,187
Net assets released from restrictions (notes 9 and 11)	55,989,863	(55,989,863)	—	—
Total revenues	<u>71,771,223</u>	<u>(32,349,007)</u>	<u>807,290</u>	<u>40,229,506</u>
Total public support and revenues	<u>72,781,742</u>	<u>6,607,187</u>	<u>5,533,663</u>	<u>84,922,592</u>
Expenses:				
Program activities (notes 7 and 8):				
Grants and scholarships	55,051,191	—	—	55,051,191
Alumni relations	6,437,840	—	—	6,437,840
UVA Fund	2,853,923	—	—	2,853,923
Total program activities expenses	<u>64,342,954</u>	<u>—</u>	<u>—</u>	<u>64,342,954</u>
Supporting services (notes 7 and 8):				
Membership development	554,307	—	—	554,307
Management and general	1,279,032	—	—	1,279,032
Fundraising	515,722	—	—	515,722
Total supporting services expenses	<u>2,349,061</u>	<u>—</u>	<u>—</u>	<u>2,349,061</u>
Total expenses	<u>66,692,015</u>	<u>—</u>	<u>—</u>	<u>66,692,015</u>
Change in net assets	6,089,727	6,607,187	5,533,663	18,230,577
Net assets:				
Beginning of year	66,464,454	93,043,842	61,463,167	220,971,463
End of year	\$ <u>72,554,181</u>	<u>99,651,029</u>	<u>66,996,830</u>	<u>239,202,040</u>

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

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	\$ 19,580,093	18,230,577
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	369,362	308,207
Net realized and unrealized gains on investments	(30,881,369)	(29,702,213)
Adjustment to allowance for uncollectible receivables	4,757,876	—
Contribution of fine arts	(1,500)	—
Contribution of beneficial interest in trusts	(2,474,211)	(102,848)
Contributions restricted for endowment	(7,352,900)	(4,742,280)
Distributions of beneficial interest in trusts	1,186,770	676,571
Change in fair value of beneficial interest in trusts	(1,046,749)	(1,533,951)
Change in value of trusts and annuities	402,828	(34,187)
Change in assets and liabilities:		
Contributions and other receivables, net	(457,158)	(434,291)
Prepaid expenses and other assets	(15,090)	(24,152)
Accounts payable and accrued expenses	2,011	22,644
Due to University of Virginia and related foundations	12,373,029	11,137,571
Annuity and life income obligations	181,049	293,516
Other liabilities	11,010	383,703
Net cash used in operating activities	<u>(3,364,949)</u>	<u>(5,521,133)</u>
Cash flows from investing activities:		
Capital expenditures	(106,796)	(1,239,167)
Proceeds from sales of investments	19,166,454	15,651,488
Purchases of investments	<u>(21,584,666)</u>	<u>(13,611,080)</u>
Net cash (used in) provided by investing activities	<u>(2,525,008)</u>	801,241
Cash flows from financing activities:		
Contributions restricted for investment in endowment	7,352,900	4,742,280
Payments of annuity obligations	(556,401)	(337,165)
Net change in overdrafts	<u>435,687</u>	—
Net cash provided by financing activities	<u>7,232,186</u>	4,405,115
Increase (decrease) in cash and cash equivalents	1,342,229	(314,777)
Cash and cash equivalents at beginning of year	<u>20,391,073</u>	<u>20,705,850</u>
Cash and cash equivalents at end of year	\$ <u>21,733,302</u>	<u>20,391,073</u>
Supplemental disclosure of noncash transactions:		
Contribution of fine arts	\$ 1,500	—
Contribution of beneficial interest in trusts	2,474,211	102,848

See accompanying notes to financial statements.

ALUMNI ASSOCIATION OF THE UNIVERSITY OF VIRGINIA

Notes to Financial Statements

June 30, 2018 and 2017

(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 in 1838. 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 was incorporated as a nonstock corporation in the Commonwealth of Virginia on March 7, 1903. The Association operates under the University of Virginia's Policy on University Related Foundations and is subject to an annual certification of compliance to the University's Board of Visitors.

The Association partners with the University to create a strong and collaborative institution-wide alumni engagement program that has enhanced the University's ability to build and maintain ties with an increasingly diverse community of alumni. Alumni Hall is seen as the hub of alumni-relations activities on Grounds. The University provides some funding to the Association to undertake a number of alumni-relations programs that benefit the University. 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 that are targeted to build a strong bond between the University and its alumni. These activities are reported as Alumni relations in the accompanying statements of activities.

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 annual fundraising efforts of the Alumni Association as well as various University organizations and 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 administers 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 related foundations, and hundreds of endowments and restricted accounts for organizations and units across the University. The Association manages the assets for the UVA Fund, which are pooled for investment purposes with other Association funds. The accompanying financial statements represent an aggregated view of the combined financial statements of the Alumni Association and the UVA Fund. Gifts accepted by the Association on behalf of University affiliated organizations are reported as public support and distributions are recognized as scholarship and grants expense on the accompanying statements of activities. Some amounts held by the UVA Fund for investment and management are reported as liabilities to the University of Virginia organizations and related foundations in the accompanying statements of financial position. UVA Fund services are reported as the UVA Fund in 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

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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 \$29 million in total assets and has awarded more than \$7 million in grants. During the 2017-18 academic year, the Trust distributed grants of \$700,000 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.

The Association's endowments consist of approximately 3,400 individual funds established for a variety of purposes in furtherance of the Association's mission, including donor-restricted endowment funds, term endowments, and funds designated by the Association's Board of Managers (the Board) to function as endowments. The endowments support specific programs, grants and scholarships, student activities, and University-related organizations. These disbursements are reported as Grants and scholarships in the accompanying statements of activities.

(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) Net Assets

The Association classifies net assets and changes therein into three categories: unrestricted, temporarily restricted, and permanently restricted. These categories are described below:

- *Unrestricted net assets* include funds with no donor restrictions placed on the Association as to their use or purpose.
- *Temporarily restricted net assets* include funds resulting from contributions limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by the actions of the organization. In general, these stipulations include support of specific programs, student activities, and the benefit of University-related organizations.
- *Permanently restricted net assets* have been restricted by donors to be maintained by the Association in perpetuity. The income from these funds is used according to the terms stipulated by the donor. Generally, income from permanently restricted net assets is used for the payment of scholarships, for the benefit of University-related organizations, or for the payment of annuity and life income obligations to the donor and specified beneficiaries. Regardless of whether the income is restricted by purpose or time, the investment income is reported as temporarily restricted net investment income until appropriated and expended consistent with Virginia law.

(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.

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Notes to Financial Statements

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(d) Revenue Recognition

The Association reports contributions as support when they are received or unconditionally pledged by the donor. The Association reports restricted contributions as temporarily restricted support if they are restricted for use in a subsequent year or for a specific purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are released from restriction and reclassified to unrestricted net assets.

Contributions of long-lived assets with no donor-imposed time or purpose restrictions are reported as unrestricted support. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as restricted support that increases temporarily restricted net assets, and those restrictions expire at the later of the expenditure for the asset or 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 as to the use of such income or in the case of endowment funds, in temporarily restricted until amounts have been appropriated by the Board and the time period for expenditure has been reached.

(e) 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 funds related to endowments held temporarily until suitable long-term investment opportunities are identified and gifts received through gift processing services on behalf of the University and related foundations.

(f) 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 land, buildings, and equipment 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, 2018 and 2017.

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Notes to Financial Statements

June 30, 2018 and 2017

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

	<u>Year</u>
Buildings	30
Buildings improvements	15
Furniture, fixtures, and equipment	4–7

(g) 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 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.

(h) 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 Parents Program, the Jefferson Trust, and the Walter N. Ridley Scholarship Program. All amounts recorded in the accompanying financial statements represent donors' unconditional promises to make financial contributions to the Association.

Other trade receivables include accounts, loans and notes receivable from departments of the University of Virginia; persons and organizations affiliated with the University; and student loans receivable issued by the General Fund loan funds. These accounts, loans, and notes receivable bear interest at various rates from 0% to 8.0%.

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% has significantly affected the net realizable value of collectibles from Membership. Accordingly, management has increased the estimate for the allowance for uncollectible receivables. For the years ended June 30, 2018 and 2017, the allowance for uncollectible receivables was \$5,750,405 and \$980,115, respectively. The change in estimate for uncollectible receivables related to life membership of \$4,757,876 is recorded within membership development expense on the Statement of Activities.

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Notes to Financial Statements

June 30, 2018 and 2017

The following shows the expected collection periods of these receivables and the related allowance for uncollectible amounts at June 30, 2018 and 2017:

		2018			
		Collection expected in			
		Less than 1 year	1–5 years	Greater than 5 years	Total
Membership and other	\$	2,010,423	5,749,042	941,975	8,701,440
Parents Program		77,741	6,850	—	84,591
Ridley Scholarship Program		87,762	20,080	—	107,842
Jefferson Trust		483,490	736,904	—	1,220,394
Memorials and scholarships		124,427	116,261	—	240,688
Other trade		646,617	—	—	646,617
Total					
receivables	\$	<u>3,430,460</u>	<u>6,629,137</u>	<u>941,975</u>	11,001,572
Less:					
Allowance for uncollectible receivables					(5,750,405)
Discount to present value (rates from 0.5% to 5.0%)					<u>(214,645)</u>
Contributions and other receivables, net					\$ <u>5,036,522</u>

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		2017			
		Collection expected in			
		Less than		Greater than	
		1 year	1–5 years	5 years	Total
Membership and other	\$	1,506,230	5,865,727	1,005,851	8,377,808
Parents Program		30,861	20,000	—	50,861
Ridley Scholarship Program		25,753	900	—	26,653
Jefferson Trust		526,017	621,434	22,500	1,169,951
Memorials and scholarships		123,167	231,688	—	354,855
Other trade		652,248	—	—	652,248
Total					
receivables	\$	<u>2,864,276</u>	<u>6,739,749</u>	<u>1,028,351</u>	10,632,376
Less:					
Allowance for uncollectible					
receivables					(980,115)
Discount to present value					
(rates from 0.5% to					
5.0%)					<u>(315,021)</u>
Contributions					
and other					
receivables,					
net					\$ <u>9,337,240</u>

(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 prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Inputs to the valuation methodology include quoted 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.

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June 30, 2018 and 2017

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
UVIMCO (see note 4(c)), page 18	\$ 299,871,755	269,250,730
Hedge fund	18,132	20,475
Charitable trusts and gift annuities	2,336,848	2,792,813
Investments in certificates of deposit and public debt and equities	30,628,912	28,599,948
Investment in real estate	<u>1,107,900</u>	<u>—</u>
Investments	<u>\$ 333,963,547</u>	<u>300,663,966</u>

At June 30, 2018 and 2017, 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-related foundations.

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-related foundations in a unitized investment vehicle. Each month, the Association may 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 are subject to the notification requirements and caps set forth in the deposit and management agreement between the Association and UVIMCO. The Association is currently 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 is subject to a monthly cap of the greater of 3% of its investment in UVIMCO of the previous month end or \$15,000,000. 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

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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 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

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the estimated future payments to the trust grantors. 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. At June 30, 2017, the total fair value of assets held under the trust agreements included cash and cash equivalents of approximately \$121,000 and investments of approximately \$2,793,000. The present value of the future payouts to the donors at June 30, 2018 and 2017, which approximates fair value, is recorded in the accompanying statements of financial position as annuity and life income obligations in the amount of \$1,958,688 and \$1,931,212, respectively. At June 30, 2018 and 2017, the present value of the future payments is based on the following actuarial assumptions:

<u>Item</u>	<u>Assumption</u>
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, 2018 and 2017, the Association received new split interest agreements held by third party trustees in the amount of \$2,474,211 and \$102,848, 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 related foundations, 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 table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017, by level within the fair value hierarchy:

	2018				
	Level 1	Level 2	Level 3	NAV¹	Total
Assets:					
Cash equivalents	\$ 6,220,287	252,072	—	—	6,472,359
Investment in UVIMCO	—	—	—	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
	2018				
	Level 1	Level 2	Level 3	NAV¹	Total
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.

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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.

	2017				Total
	Level 1	Level 2	Level 3	NAV ¹	
Assets:					
Cash equivalents	\$ 5,780,135	—	—	—	5,780,135
Investment in UVIMCO	—	—	—	269,250,730	269,250,730
Investment in hedge fund	—	—	—	20,475	20,475
Beneficial interest in trusts	—	—	11,238,078	—	11,238,078
Investment in trusts held – debt securities	153,125	448,003	—	—	601,128
Investment in trusts held – U.S. equity securities	2,191,685	—	—	—	2,191,685
Investment in mutual funds fixed income	1,009,142	—	—	—	1,009,142
Investment in mutual funds equity	516,236	—	—	—	516,236
Fixed maturity securities – certificates of deposit	—	5,899,571	—	—	5,899,571
Fixed maturity securities – government bonds	8,506,364	5,858,325	—	—	14,364,689
Fixed maturity securities – corporate bonds – investment grade	—	6,810,310	—	—	6,810,310
Total	\$ 18,156,687	19,016,209	11,238,078	269,271,205	317,682,179

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 \$20,391,073 from the Statement of Financial Position is a combination of cash equivalents above of \$5,780,135 and cash of \$14,610,938, as of June 30, 2017.

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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	Real estate	Total assets
	<u> </u>	<u> </u>	<u> </u>
Level 3 assets:			
Ending balance as of June 30, 2016	\$ 10,277,850	—	10,277,850
Total net appreciation (depreciation) included in:			
Change in fair value of net assets	1,533,951	—	1,533,951
Contributions	102,848	—	102,848
Distributions and maturities	<u>(676,571)</u>	<u>—</u>	<u>(676,571)</u>
Ending balance as of June 30, 2017	11,238,078	—	11,238,078
Total net appreciation (depreciation) included 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	<u>(1,388,952)</u>	<u>—</u>	<u>(1,388,952)</u>
Ending balance as of June 30, 2018	\$ <u>13,370,086</u>	<u>1,310,082</u>	<u>14,680,168</u>
Net unrealized gains (losses) included in change in net assets for the period relating to assets held at June 30, 2018	\$ 1,046,749	372,000	1,418,749

The Association did not have any assets or liabilities measured at fair value on a nonrecurring basis during the years ended June 30, 2018 and 2017. During the years ended June 30, 2018 and 2017, there were no transfers into (out of) Levels 1, 2 or 3.

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The composition of investments at June 30, 2018 and 2017 is as follows:

	2018		
	UVIMCO	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 Resources – oil, energy and natural resources	39,290,345	—	39,290,345
	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
Investments	\$ <u>299,871,755</u>	<u>34,091,792</u>	<u>333,963,547</u>
	2017		
	UVIMCO	Directly held investments	Total investments
Public equity	\$ 71,989,923	3,818,233	75,808,156
Long/short equity	52,698,922	20,475	52,719,397
Buyout	15,584,395	—	15,584,395
Growth equity	15,072,878	—	15,072,878
Venture capital	11,664,329	—	11,664,329
Real estate	14,918,819	—	14,918,819
Marketable alternatives and credit Resources – oil, energy and natural resources	38,916,171	—	38,916,171
	17,654,584	—	17,654,584
Bonds	24,516,214	21,674,957	46,191,171
Certificates of deposit	—	5,899,571	5,899,571
Cash and accruals	6,234,495	—	6,234,495
Investments	\$ <u>269,250,730</u>	<u>31,413,236</u>	<u>300,663,966</u>

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(5) Net Investment Income

Investment income consists of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 785,584	670,683
Net realized losses	(10,304)	(2,128)
Net unrealized gains	30,891,673	29,704,341
Investment expenses	(421,286)	(651,611)
Net investment income	\$ 31,245,667	29,721,285

Investment expenses for the years ended June 30, 2018 and 2017 related to UVIMCO were \$404,654 and \$632,821, 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, 2018 and 2017 of the following:

	2018	2017
Alumni Hall land, building, and improvements	\$ 8,134,110	8,124,617
Furniture, fixtures, and equipment	2,130,778	2,031,975
Environmental sciences land and residence	675,620	675,620
	10,940,508	10,832,212
Less accumulated depreciation	(6,252,960)	(5,883,598)
Property, net	\$ 4,687,548	4,948,614

(7) Due to University of Virginia Organizations and Related Foundations

The Association serves the University in a number of ways, including through its management of the UVA Fund and centralized gift processing services. Assets managed by the Association for the UVA Fund are pooled for investment purposes with other Association funds. Gifts received 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 related foundations on a daily basis. Fees earned by the UVA Fund for endowment management services are included in administrative service fees. Expenses generated by the gift processing services center are reimbursed by the users and included in University of Virginia Expense reimbursements in the statements of activities.

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The composition of due to University of Virginia organizations and related foundations at June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Due to University of Virginia Commerce School	\$ 44,819,385	42,160,752
Due to University of Virginia other related organizations	68,106,874	59,353,686
Due to University of Virginia and related foundations	<u>2,529,691</u>	<u>1,568,483</u>
Due to University of Virginia organizations and related foundations	\$ <u>115,455,950</u>	<u>103,082,921</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 \$538,000 and \$537,000 during the years ended June 30, 2018 and 2017, respectively.

(9) Temporarily Restricted Net Assets

As of June 30, 2018 and 2017, temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
University-related organizations	\$ 65,389,733	57,117,968
Loan Fund, Parent Fund and other	27,129,108	26,695,527
Membership and Programs	<u>11,842,771</u>	<u>15,837,534</u>
Total temporarily restricted net assets	\$ <u>104,361,612</u>	<u>99,651,029</u>

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:

	<u>2018</u>	<u>2017</u>
Distributions to University-related organizations	\$ 43,851,638	53,734,914
Adjustment to allowance for uncollectible receivables	4,757,876	—
Other program expenses	<u>1,394,937</u>	<u>2,254,949</u>
Total net assets released from restrictions	\$ <u>50,004,451</u>	<u>55,989,863</u>

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(10) Permanently Restricted Net Assets

As of June 30, 2018 and 2017, permanently restricted net assets consist of amounts whose income will support the following purposes:

	2018	2017
University-related organizations	\$ 58,751,312	48,824,583
Loan Fund, Parent Fund and other	17,848,622	18,172,247
Total permanently restricted net assets	\$ 76,599,934	66,996,830

(11) Endowment

The Association's endowments include donor-restricted endowment funds, term endowments, and funds designated by the Board to function as endowments. The portion of a term endowment that must be maintained for a specified term is classified as temporarily restricted net assets. All unrestricted net assets have been designated and earmarked by the Board to be invested to provide income for a long, but unspecified period. Most assets of the endowment funds are pooled for investment purposes at UVMCO (note 4a). 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.

(a) Interpretation of Relevant Law

The Board has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act of 2007 (the Act) as allowing the Association to appropriate for expenditure or accumulate so much of an endowment fund as the Association determines is prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Unless stated otherwise in the gift agreement, the assets in an endowment fund should be donor restricted assets until appropriated for expenditure by the Board.

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 Association in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with the Act, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Association and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation

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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

Endowment net assets consist of the following at June 30, 2018 and 2017:

		2018			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted					
endowment funds	\$	(69,415)	104,361,612	76,599,934	180,892,131
Board-designated					
endowment funds		<u>77,890,002</u>	<u>—</u>	<u>—</u>	<u>77,890,002</u>
Total endowed					
net assets	\$	<u><u>77,820,587</u></u>	<u><u>104,361,612</u></u>	<u><u>76,599,934</u></u>	<u><u>258,782,133</u></u>
		2017			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted					
endowment funds	\$	(56,661)	99,651,029	66,996,830	166,591,198
Board-designated					
endowment funds		<u>72,610,842</u>	<u>—</u>	<u>—</u>	<u>72,610,842</u>
Total endowed					
net assets	\$	<u><u>72,554,181</u></u>	<u><u>99,651,029</u></u>	<u><u>66,996,830</u></u>	<u><u>239,202,040</u></u>

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Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2017	\$ 72,554,181	99,651,029	66,996,830	239,202,040
Investment, dividend income and gains, net of fees	7,841,944	23,403,723	—	31,245,667
Contributions	969,366	30,055,551	9,371,250	40,396,167
Change in beneficial interest in trusts	6,037	476,495	577,178	1,059,710
Change in value of trusts and annuities	—	(57,504)	(345,324)	(402,828)
Appropriation of endowment assets for expenditure	(11,655,760)	(50,004,451)	—	(61,660,211)
Other program revenue	8,104,819	836,769	—	8,941,588
Endowment net assets, June 30, 2018	\$ <u>77,820,587</u>	<u>104,361,612</u>	<u>76,599,934</u>	<u>258,782,133</u>
	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2016	\$ 66,464,454	93,043,842	61,463,167	220,971,463
Investment, dividend income and gains, net of fees	7,336,185	22,385,100	—	29,721,285
Contributions	1,010,519	38,956,194	4,726,373	44,693,086
Change in beneficial interest in trusts	284,180	523,086	726,685	1,533,951
Change in value of trusts and annuities	—	(46,418)	80,605	34,187
Appropriation of endowment assets for expenditure	(10,702,152)	(55,989,863)	—	(66,692,015)
Other program revenue	8,160,995	779,088	—	8,940,083
Endowment net assets, June 30, 2017	\$ <u>72,554,181</u>	<u>99,651,029</u>	<u>66,996,830</u>	<u>239,202,040</u>

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(b) Funds with Deficiencies

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 the Act requires the Association to retain as a fund of duration. Deficiencies of this nature that are reported in unrestricted net assets were \$69,415 and \$56,661 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the organizations must hold in perpetuity or for a donor-specified period as well as board-designated funds. The Association 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. To achieve this objective, the Board has adopted the investment objectives and strategy of UVIMCO. UVIMCO attempts to manage the Pool to provide long-term real returns 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.

(d) 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. At present, this policy benchmark is 60% equity, 10% real estate, and 30% 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.

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

The Association has adopted a policy discipline consistent with University policy. In all cases, donor restrictions accepted by the Association shall be honored unless the donor consents or when a change is permitted by the gift instrument or applicable law. To provide flexibility as may be needed, the Board approved a distribution range of 4% to 6% of the market value of the endowment fund, independent of the UVA Fund and other related organizations. The Association's distribution of \$500,204 and \$586,415 for the years ended June 30, 2018 and 2017, respectively, is included in Net assets released from restrictions in the Statement of Activities. The distribution for the year ended June 30, 2018 does not include the adjustment to the life membership allowance for uncollectible receivables of \$4,757,876 which is included in membership development expense on the Statement of Activities. In establishing this policy, the Association considered the expected return on its endowment. Accordingly, the Association expects the current spending policy to allow its endowment to maintain its purchasing power by growing at the anticipated rate of inflation. Additional real growth will be provided through new gifts and any excess investment return.

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(12) Subsequent Events

The Association has evaluated the effects of events that have occurred subsequent to period end June 30, 2018, through October 2, 2018, 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.