

The Howard and Georgeanna Jones Foundation for Reproductive Medicine

Financial Statements

Year Ended June 30, 2016 with Comparative Totals for 2015



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Independent Auditors' Report

Board of Directors
The Howard and Georgeanna Jones
Foundation for Reproductive Medicine
Virginia Beach, Virginia

We have audited the accompanying financial statements of The Howard and Georgeanna Jones Foundation for Reproductive Medicine (Foundation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and net assets, and cash flows for the year 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 of America; 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 audit. We conducted our audit 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 Howard and Georgeanna Jones Foundation for Reproductive Medicine as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis-of-Matter

As discussed in Notes 4 and 5, the financial statements include an investment valued at \$397,136 whose value has been estimated based on cost less taxable losses in absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimated value may differ significantly from the value that would have been used had a ready market for this investment existed, and the difference could be material. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited The Howard and Georgeanna Jones Foundation for Reproductive Medicine's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

**Norfolk, Virginia
February 3, 2017**

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Statement of Financial Position
June 30, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 175,482	\$ 150,006
Investments	2,314,790	2,467,100
Prepaid expenses	3,804	-
Property and equipment, net	<u>3,469</u>	<u>2,848</u>
	<u>\$ 2,497,545</u>	<u>\$ 2,619,954</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 7,841</u>	<u>\$ 2,963</u>
Net assets		
Unrestricted:		
Operating	191,101	94,626
Quasi endowment, board designated	896,299	1,117,124
Total unrestricted	<u>1,087,400</u>	<u>1,211,750</u>
Temporarily restricted	281,339	285,161
Permanently restricted	<u>1,120,965</u>	<u>1,120,080</u>
Total net assets	<u>2,489,704</u>	<u>2,616,991</u>
	<u>\$ 2,497,545</u>	<u>\$ 2,619,954</u>

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Statement of Activities and Net Assets
Year Ended June 30, 2016 with Comparative Totals for 2015

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Support, revenue and other changes:					
Contributions	\$ 185,317	\$ 100,000	\$ -	\$ 285,317	\$ 637,987
Return of unused grants	-	1,505	-	1,505	-
Interest and dividend income	17,194	18,932	885	37,011	29,601
Realized and unrealized investment gains (losses)	8,961	10,347	-	19,308	(9,805)
Loss on disposal of property and equipment	(80)	-	-	(80)	-
Net assets released from restrictions	134,606	(134,606)	-	-	-
Total support and revenue	345,998	(3,822)	885	343,061	657,783
Expenses:					
Program services:					
Research funding	160,000	-	-	160,000	330,306
Staff salaries and benefits	107,294	-	-	107,294	93,116
General expenses	24,174	-	-	24,174	17,163
Supplies	3,967	-	-	3,967	3,321
Insurance	3,162	-	-	3,162	2,948
Website enhancements	2,287	-	-	2,287	814
	300,884	-	-	300,884	447,668
Fundraising:					
Staff salaries and benefits	24,760	-	-	24,760	21,488
General expenses	13,783	-	-	13,783	8,530
Insurance	487	-	-	487	454
Supplies	536	-	-	536	448
Website enhancements	351	-	-	351	125
	39,917	-	-	39,917	31,045
Administrative expenses:					
Staff salaries and benefits	48,446	-	-	48,446	88,791
Contractual services	41,156	-	-	41,156	42,919
Professional fees	24,255	-	-	24,255	25,932
General expenses	11,746	-	-	11,746	8,976
Supplies	1,848	-	-	1,848	1,555
Insurance	1,216	-	-	1,216	1,134
Website enhancements	880	-	-	880	313
	129,547	-	-	129,547	169,620
Total expenses	470,348	-	-	470,348	648,333
Change in net assets	(124,350)	(3,822)	885	(127,287)	9,450
Net assets, beginning of year	1,211,750	285,161	1,120,080	2,616,991	2,607,541
Net assets, end of year	\$ 1,087,400	\$ 281,339	\$ 1,120,965	\$ 2,489,704	\$ 2,616,991

See accompanying notes.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Statement of Cash Flows
Year Ended June 30, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Contributions received	\$ 285,317	\$ 637,987
Payments for program services	(294,501)	(453,852)
Payments for supporting services	<u>(171,748)</u>	<u>(144,926)</u>
Net cash from operating activities	<u>(180,932)</u>	<u>39,209</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2,221)	(2,560)
Sales and maturities of investments	<u>208,629</u>	<u>57,954</u>
Net cash from investing activities	<u>206,408</u>	<u>55,394</u>
Net change in cash and cash equivalents	<u>25,476</u>	<u>94,603</u>
Cash and cash equivalents, beginning of year	<u>150,006</u>	<u>55,403</u>
Cash and cash equivalents, end of year	<u>\$ 175,482</u>	<u>\$ 150,006</u>
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ (127,287)	\$ 9,450
Adjustments to reconcile to net cash from operating activities:		
Realized and unrealized (gains) losses	(19,308)	9,805
Depreciation	1,520	1,203
Interest and dividend income reinvested	(37,011)	(29,601)
Loss on disposal of property and equipment	80	-
Changes in:		
Prepaid expenses	(3,804)	54,536
Accounts payable and accrued expenses	<u>4,878</u>	<u>(6,184)</u>
Net cash from operating activities	<u>\$ (180,932)</u>	<u>\$ 39,209</u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

The Howard and Georgeanna Jones Foundation for Reproductive Medicine (Foundation) was founded in 1985. The Foundation is a not-for-profit organization that solicits funds from the general public to support scientific and medical research in the field of reproductive medicine. In addition to providing research grants to deserving scientific investigators, the Foundation Board of Directors is prepared to serve in an advisory capacity to the agencies it supports. The Foundation may also sponsor seminars which would be designed to evaluate public policy issues related to reproductive medicine in order to educate the general public and attempt to improve the human condition.

The Foundation qualifies as a charitable foundation and is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia. Contributions to the Foundation are tax deductible.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Basis of presentation

The Foundation reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent unrestricted revenue and expenses and contributions received without donor-imposed restrictions. These funds are available for the overall operations of the Foundation and can be designated by the Board of Directors to fund certain projects or programs. Unrestricted contributions are recognized when cash is received and unconditional promises to give are recognized as revenue when the promise is made.

Temporarily restricted net assets represent all contributions or promises to give which are restricted by the donor as to purpose or are inherently time restricted (i.e. noncurrent unrestricted promises to give). Conditional contributions and conditional promises to give are recognized as revenue when such conditions are met. Temporarily restricted also includes net assets restricted to support EVMS and the Jones Institute negotiated in 2009 when the Foundation disassociated with EVMS (see Note 8).

Permanently restricted endowed net assets represent revenue and contributions received where the corpus cannot be spent. Interest, dividends, realized and unrealized gains and losses earned on the principal are recognized as temporarily restricted and used to fund the donor designated programs, except for the 5% earnings added to corpus of the two permanently restricted funds (see Note 8).

Cash and cash equivalents

Cash and cash equivalents consist primarily of temporary investments in government securities, money market accounts, and cash reserve funds. The Foundation considers all highly liquid investments with maturities of six months or less to be cash equivalents. Cash items held by investment managers are considered to be investments.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine Notes to Financial Statements

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Certain less marketable investments, principally a private equity investment, are carried at cost. Because of the inherent uncertainty in the use of this valuation, values that are based on cost may differ from the values that would have been used had a ready market for the investment been available and the differences may be material in the near term. The current year's gains and losses have been recognized as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations.

The Foundation's investments are managed by external investment managers in compliance with investment guidelines established by the Board of Directors, except for donated stocks, which are maintained temporarily at the Foundation.

Donated investments are recorded at estimated fair market value on the date of donation, which is then treated as cost.

Promises to give

Promises to give are stated at the amount management expects to collect from balances outstanding at year-end. Management believes that all of these receivables are fully collectible; therefore, no provision for doubtful accounts has been made for promises to give. Receivables due are recorded at present value of their net realizable value, using historical risk adjusted interest rates applicable to the years in which the amounts are expected to be received to discount the amount. There were no promises to give at June 30, 2016 and 2015.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on a useful life of five years for equipment. The Foundation's policy is to capitalize property and equipment purchased with a cost greater than \$500. Cost of equipment was \$6,495 and \$8,040, and accumulated depreciation was \$3,026 and \$5,192 at June 30, 2016 and 2015, respectively.

Functional allocation of expenses

The Foundation's cost of providing support for the various programs and other activities of the Foundation has been summarized on a functional basis in the statement of activities and net assets. Accordingly, certain costs have been allocated among the programs and supporting services.

Credit risk

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of cash and investments. The Foundation places unrestricted cash and temporary overnight investments with a high credit quality financial institution. At June 30, 2016, the Foundation had no cash deposits in excess of the FDIC limit.

Foundation endowment assets are held by a reputable asset management firm, and according to their investment policy, are invested in investment grade instruments. The asset management firm is independent of the funds' trustees who review their performance on a periodic basis. At June 30, 2016, 74% (2015 - 71%) of the total investment portfolio was not insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). However, the asset management firm carries separate insurance for all accounts to protect them in the event of a company failure.

Contributions for 2016 and 2015 included contributions from the top four donors of \$215,089 and \$501,385, representing 75% and 79% of total contributions, respectively. Of this amount, \$215,089 and \$476,466, or 75% and 75%, respectively, were contributed by Foundation Board members, which are related parties.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

Income taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. Should the Foundation become a private foundation, income taxes would be accrued at that time.

Comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for 2015, from which the summarized information was derived.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through February 3, 2017, the date the financial statements were available to be issued.

3. Investments

Investments at fair market value at June 30, 2016 were as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Depreciation</u>
Cash and certificates of deposits	\$ 10,657	\$ 10,657	\$ -
Private equity investment (Note 4)	400,000	397,136	(2,864)
Mutual funds, fixed income	<u>1,888,362</u>	<u>1,906,997</u>	<u>18,635</u>
	<u>\$ 2,299,019</u>	<u>\$ 2,314,790</u>	<u>\$ 15,771</u>

Investments at fair market value at June 30, 2015 were as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Depreciation</u>
Cash and certificates of deposits	\$ 219,348	\$ 219,348	\$ -
Private equity investment (Note 4)	400,000	400,000	-
Mutual funds, fixed income	<u>1,851,364</u>	<u>1,847,752</u>	<u>(3,612)</u>
	<u>\$ 2,470,712</u>	<u>\$ 2,467,100</u>	<u>\$ (3,612)</u>

4. Private Equity Investment

In June 2014, the Foundation entered into a subscription agreement for a membership interest in HPM Display Partners, LLC (Partnership) in the amount of \$400,000. The Chairman of the Board of the Foundation paid the subscription commitment in the form of a charitable contribution to the Foundation. In addition, the Chairman of the Board is the manager of the Partnership. The Foundation's ownership interest in the Partnership as of June 30, 2016, is 2.5%. The Foundation has adjusted the investment balance based on gains or losses reported to them on Federal K-1's. The adjusted balance at June 30, 2016 is \$397,136.

Redemptions are not permitted during the life of the private equity investment. The private equity investment life is 10 years with an option to extend an additional 2 years. When assets are sold, the proceeds will be distributed to the investors.

As the Partnership is regularly engaged in a trade or business that is unrelated to the Foundation's mission, future earnings of this investment may be subject to unrelated business income tax.

5. Fair Value Measurements

The Foundation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Current accounting standards expands disclosures about instruments measured at fair value and applies the other accounting pronouncements that require or permit fair value measurements.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
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Level 2	Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and identical or similar assets or liabilities in inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
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Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of the Foundation's investments have been adjusted to their fair value except where fair value is not readily determinable in which case historical cost (book value) is utilized.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

The following table presents the financial instruments carried at fair value as of June 30, 2016, by caption on the statement of financial position by the valuation hierarchy defined previously:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, fixed income	\$ 1,906,997	\$ -	\$ -	\$ 1,906,997
Private equity investment	<u>-</u>	<u>-</u>	<u>397,136</u>	<u>397,136</u>
	<u>\$ 1,906,997</u>	<u>\$ -</u>	<u>\$ 397,136</u>	<u>\$ 2,304,133</u>

The following table presents the financial instruments carried at fair value as of June 30, 2015, by caption on the statement of financial position by the valuation hierarchy defined previously:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, fixed income	\$ 1,847,752	\$ -	\$ -	\$ 1,847,752
Private equity investment	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>400,000</u>
	<u>\$ 1,847,752</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ 2,247,752</u>

Fair value for Level 3 primarily consists of private equity funds detailed in Note 4. The Foundation's executive director and Chairman of the Board, with the help of a third-party investment advisory firm, determine fair value measurement valuation policies and procedures. The Foundation uses the net asset value (NAV) or capital balances of its interest in level 3 investments as a practical expedient to determine the fair value of level 3 investment funds. These funds do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the level 3 investments existed, and the difference could be material. At least annually, the executive director and Chairman of the Board determine if the current valuation techniques used in the fair value measurements are still appropriate based on current market conditions and third-party information. There were no changes in the valuation techniques during current year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Redemptions are not permitted during the life of the private equity investment. The private equity investment life is 10 years with an option to extend an additional 2 years. When assets are sold, the proceeds will be distributed to investors.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

The following table summarizes the changes to Level 3 instruments, which include the ownership interest in the Partnership, for the years ending June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Fair value, beginning of year	\$ 400,000	\$ 400,000
Unrealized losses	<u>(2,864)</u>	<u>-</u>
Fair value, end of year	<u>\$ 397,136</u>	<u>\$ 400,000</u>
Amount of unrealized losses related to Level 3 financial instruments held at June 30, 2016 included in the statement of activities	<u>\$ (2,864)</u>	<u>\$ -</u>

6. Intentions to Give

The Foundation has received indications of gifts in the form of charitable trusts which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, the Foundation has not recognized an asset or contribution revenue for these gifts. The estimated total intentions to give aggregate approximately \$440,000 at June 30, 2016 (2015 - \$492,000).

7. Retirement Plan

The Foundation adopted a 401(k) Profit Sharing Plan on July 1, 2011 that provides for a discretionary employer contribution for qualified individuals. Employer contributions during the year ended June 30, 2016 were \$25,000 (2015 - \$0).

8. Net Assets

The Foundation disassociated from EVMS on May 12, 2009. Based on the separation agreement, all previously contributed assets were to be separated from other assets in the Foundation, and held, invested, managed, and administered for the sole purpose of supporting reproductive medical research at the Jones Institute for Reproductive Medicine of Eastern Virginia Medical School, and therefore considered restricted assets.

Fund balances as of May 12, 2009 are listed below as "EVMS". The current balance is based on the May 12, 2009 balance less any expenditure since that time. These funds must be used in support of EVMS.

Funds created after May 12, 2009 are listed below as "Non-EVMS". Restrictions on the "Non-EVMS" funds are based on the original donor agreement.

On July 1, 2013, the Board of Directors resolved that all temporarily restricted funds in the general funds account allocated exclusively to the Jones Institute as directed by the 2009 separation agreement with EVMS had been expended in total for the benefit of the Jones Institute's program, research and administrative expenses. During fiscal year 2014, the Board reclassified the Jones Lectureship fund to general funds, as there was no donor restriction in place, only the separation agreement restriction requirements. The reclassification to general funds was needed to ensure the Jones Institute could benefit from these funds since no lectureship programs have occurred.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

Serono Laboratories, Inc. contributed \$1,000,000 in 1992 to the Jones Institute Foundation for the establishment of an endowed chair at the Eastern Virginia Medical School in the name of Howard and Georgeanna Jones. This agreement stipulates that 95% of the capital earnings be used to support the chair's direct and indirect expenses at EVMS. The remaining 5% is to be added to principal.

The Shirley Kheel Memorial Fund was established by a donor in 1994 for the establishment of an endowed mini-symposium in memory of Shirley Kheel. In June 2012 the donor requested that 95% of capital earnings of this fund be used to support educational purposes and the remaining 5% be added to principal.

At June 30, 2016 and 2015, the Foundation's net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Operating	\$ 191,101	\$ 94,626
Quasi endowment, board designated	<u>896,299</u>	<u>1,117,124</u>
Total unrestricted	<u>\$ 1,087,400</u>	<u>\$ 1,211,750</u>
Temporarily restricted:		
Temporarily restricted, Non-EVMS		
Serono Laboratories, Inc.	\$ 26,432	\$ 2,382
Jones-Andrews Scholarship Fund	4,779	2,038
Special Projects Fund	-	5,255
Shirley Kheel Memorial Fund	17,115	15,102
Howard Jones Research Fund	-	25,299
Howard Milstein Innovation Award Fund	<u>100,000</u>	<u>-</u>
Temporarily restricted, Non-EVMS total	<u>148,326</u>	<u>50,076</u>
Temporarily restricted, EVMS:		
General funds	-	37,948
Jones-Andrews Scholarship Fund	115,453	115,453
Special Projects Fund	-	64,124
Shirley Kheel Memorial Fund	<u>17,560</u>	<u>17,560</u>
Temporarily restricted, EVMS total	<u>133,013</u>	<u>235,085</u>
Total temporarily restricted	<u>\$ 281,339</u>	<u>\$ 285,161</u>
Permanently restricted:		
Serono Laboratories, Inc.	\$ 1,064,327	\$ 1,063,511
Shirley Kheel Memorial Fund	<u>56,638</u>	<u>56,569</u>
Total permanently restricted	<u>\$ 1,120,965</u>	<u>\$ 1,120,080</u>

9. Endowment Funds

The Foundation's endowment consists of various funds which are included in investments. These funds are donor-restricted and board designated endowment funds and were established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

The Board of Directors of the Foundation have interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- 1) The duration and preservation of the fund.
- 2) The purpose of the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and appreciation of investments.
- 6) Other resources of the Foundation.
- 7) The investment policies of the Foundation.

A summary of the activity in endowment fund for the year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,117,124	\$ 35,044	\$ 1,120,080	\$ 2,272,248
Contributions	14,625	-	-	14,625
Transfer from quasi endowment - board designated to unrestricted	(200,000)	-	-	(200,000)
Investment return:				
Investment income	16,114	16,814	885	33,813
Net appreciation (realized and unrealized gain)	<u>8,400</u>	<u>9,273</u>	<u>-</u>	<u>17,673</u>
Total investment return	24,514	26,087	885	51,486
Appropriation of endowment assets for expenditure	<u>(59,964)</u>	<u>(24)</u>	<u>-</u>	<u>(59,988)</u>
Endowment net assets, end of year	<u>\$ 896,299</u>	<u>\$ 61,107</u>	<u>\$ 1,120,965</u>	<u>\$ 2,078,371</u>

The Howard and Georgeanna Jones Foundation for Reproductive Medicine
Notes to Financial Statements

A summary of the activity in endowment fund for the year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,098,515	\$ 79,108	\$ 1,114,412	\$ 2,292,035
Contributions	10,000	-	5,000	15,000
Investment return:				
Investment income	12,653	12,669	668	25,990
Net appreciation (realized and unrealized loss)	<u>(4,044)</u>	<u>(4,437)</u>	<u>-</u>	<u>(8,481)</u>
Total investment return	8,609	8,232	688	17,509
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(52,296)</u>	<u>-</u>	<u>(52,296)</u>
Endowment net assets, end of year	<u>\$ 1,117,124</u>	<u>\$ 35,044</u>	<u>\$ 1,120,080</u>	<u>\$ 2,272,248</u>

The Foundation has adopted investment 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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the executive committee, the endowment assets are invested in a manner that is intended to maximize long-term growth using a balanced approach with less than full stock market risk and volatility.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The board approves the next year's authorized spending from the endowment with the budget approval process.

The endowment net assets at June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Serono Laboratories, Inc.	\$ -	\$ 26,432	\$ 1,064,327	\$ 1,090,759
Shirley Kheel Memorial Fund	-	34,675	56,638	91,313
Quasi endowment, board designated	<u>896,299</u>	<u>-</u>	<u>-</u>	<u>896,299</u>
	<u>\$ 896,299</u>	<u>\$ 61,107</u>	<u>\$ 1,120,965</u>	<u>\$ 2,078,371</u>

The endowment net assets at June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Serono Laboratories, Inc.	\$ -	\$ 2,382	\$ 1,063,511	\$ 1,065,893
Shirley Kheel Memorial Fund	-	32,662	56,569	89,231
Quasi endowment, board designated	<u>1,117,124</u>	<u>-</u>	<u>-</u>	<u>1,117,124</u>
	<u>\$ 1,117,124</u>	<u>\$ 35,044</u>	<u>\$ 1,120,080</u>	<u>\$ 2,272,248</u>