



VCU

VCU Foundation

Virginia Commonwealth University Foundation

Financial Statements

June 30, 2018

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Virginia Commonwealth University Foundation

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Independent Auditor's Report

Board of Trustees
Virginia Commonwealth University Foundation
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Commonwealth University Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2018, the related statements of activities and changes in 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.

Auditor's 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 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 the Foundation as of June 30, 2018, 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.

Report on Summarized Comparative Statements

We have previously audited the Foundation's June 30, 2017, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mitchell Wiggins

Petersburg, Virginia
September 21, 2018

Virginia Commonwealth University Foundation

Statement of Financial Position

June 30, 2018, with Comparative Totals as of June 30, 2017

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Cash and cash equivalents	\$ 559,355	\$ 20,070,929	\$ -	\$ 20,630,284	\$ 19,651,650
Contributions receivable, less allowance for uncollectible receivables 2018 \$647,870; 2017 \$871,503	-	10,833,168	1,701,010	12,534,178	12,690,870
Investments	2,475,071	50,081,135	31,544,094	84,100,300	80,320,989
Interfund obligations	(23,459)	(69,200)	92,659	-	-
Due from Virginia Commonwealth University affiliated foundations	2,336	272,455	-	274,791	212,799
Beneficial interest in charitable remainder trust	-	860,787	-	860,787	942,648
Other assets	1,001	26,545	-	27,546	27,677
Total assets	\$ 3,014,304	\$ 82,075,819	\$ 33,337,763	\$ 118,427,886	\$ 113,846,633

(continued)

Virginia Commonwealth University Foundation

Statement of Financial Position (continued)

June 30, 2018, with Comparative Totals as of June 30, 2017

Liabilities and Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Liabilities					
Accounts payable	\$ 11,279	\$ 138,992	\$ -	\$ 150,271	\$ 306,615
Due to Virginia Commonwealth University	-	1,027,203	-	1,027,203	892,267
Due to Virginia Commonwealth University affiliated foundations	-	47,941	-	47,941	250,375
Deposits held for Virginia Commonwealth University	-	26,586,837	-	26,586,837	26,865,382
Deposits held for VCU Real Estate Foundation	-	7,818,718	-	7,818,718	7,580,318
Deposits held for VCU Intellectual Property Foundation	-	1,122,023	-	1,122,023	1,087,812
Deposits held for VCU Alumni Association	-	822,762	-	822,762	799,122
Annuity payment liability	-	263,640	27,825	291,465	383,906
Total liabilities	11,279	37,828,116	27,825	37,867,220	38,165,797
Net Assets	3,003,025	44,247,703	33,309,938	80,560,666	75,680,836
Total liabilities and net assets	\$ 3,014,304	\$ 82,075,819	\$ 33,337,763	\$ 118,427,886	\$ 113,846,633

The accompanying notes are an integral part of these financial statements.

Virginia Commonwealth University Foundation

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018, with Comparative Totals for the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2018	2017
Operating Revenues					
Contributions	\$ -	\$ 12,593,825	\$ 3,613,229	\$ 16,207,054	\$ 13,450,702
Administrative fees	715,000	-	-	715,000	680,000
Other revenue	-	-	-	-	25,695
Interest income	5,010	310,079	-	315,089	167,328
Net assets released from restrictions	12,735,064	(12,735,064)	-	-	-
Total operating revenue	13,455,074	168,840	3,613,229	17,237,143	14,323,725
Operating Expenses					
Distributions to and in support of Virginia Commonwealth University	13,020,005	-	-	13,020,005	25,178,368
Bad debt expense	-	74,135	1,038	75,173	94,672
Personnel	339,272	-	-	339,272	282,325
Professional fees	30,859	-	-	30,859	53,200
Other expenses	59,254	-	-	59,254	59,073
Total operating expenses	13,449,390	74,135	1,038	13,524,563	25,667,638
Changes in net assets from operations	5,684	94,705	3,612,191	3,712,580	(11,343,913)
Other Changes in Net Assets					
Investment return	52,008	1,314,706	2,888	1,369,602	3,106,706
Change in value of annuity agreements	-	43,339	4,532	47,871	(78,563)
Change in value of charitable remainder trust	-	(81,861)	-	(81,861)	(6,346)
Reclassification of net assets	-	(877,049)	877,049	-	-
Changes in net assets before transfers	57,692	493,840	4,496,660	5,048,192	(8,322,116)
Transfers to Virginia Commonwealth University affiliated foundations	-	(168,362)	-	(168,362)	(1,155)
Changes in net assets	57,692	325,478	4,496,660	4,879,830	(8,323,271)
Net assets, beginning	2,945,333	43,922,225	28,813,278	75,680,836	84,004,107
Net assets, ending	\$ 3,003,025	\$ 44,247,703	\$ 33,309,938	\$ 80,560,666	\$ 75,680,836

The accompanying notes are an integral part of these financial statements.

Virginia Commonwealth University Foundation

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Changes in net assets	\$ 4,879,830	\$ (8,323,271)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Net realized gains on investment transactions	(369,256)	(870,898)
Net unrealized gains on investments	(1,627,520)	(2,767,550)
Adjustment to beneficial interest in CRT	81,861	6,346
Transfers to Virginia Commonwealth University affiliated foundations	168,362	1,155
Permanently restricted contributions and other support	(3,613,229)	(981,810)
Donated securities - temporarily restricted	(445,063)	(275,432)
Changes in operating assets		
Contributions receivable	358,921	1,861,036
Due from VCU affiliated foundations	(61,992)	71,623
Other assets	131	8,872
Changes in operating liabilities		
Accounts payable	(156,344)	289,832
Due to VCU	134,936	(348,400)
Due to VCU affiliated foundations	(198,164)	214,494
Annuity payment liability	(92,441)	32,675
Net cash (used in) operating activities	<u>(939,969)</u>	<u>(11,081,328)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	3,447,260	38,890,578
Purchase of investment securities	(2,722,480)	(37,017,466)
Net cash provided by investing activities	<u>724,780</u>	<u>1,873,112</u>
Cash Flows from Financing Activities		
Permanently restricted contributions	1,362,185	698,378
Transfers to Virginia Commonwealth University affiliated foundations	(168,362)	(1,155)
Net cash provided by financing activities	<u>1,193,823</u>	<u>697,223</u>
Net change in cash and cash equivalents	978,634	(8,510,993)
Cash and cash equivalents, beginning	<u>19,651,650</u>	<u>28,162,643</u>
Cash and cash equivalents, ending	<u>\$ 20,630,284</u>	<u>\$ 19,651,650</u>

(continued)

Virginia Commonwealth University Foundation

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

	2018	2017
Supplemental Schedule of Noncash Operating Activities		
Gifts of noncash investments in satisfaction of prior year contributions receivable balances	<u>\$ 997,698</u>	<u>\$ 649,361</u>
Increase (decrease) in deposits liability for Virginia Commonwealth University offset by increase (decrease) in investment assets	<u>\$ (278,545)</u>	<u>\$ 891,196</u>
Increase in deposits liability for VCU Real Estate Foundation offset by increase in investment assets	<u>\$ 238,400</u>	<u>\$ 533,133</u>
Increase in deposits liability for VCU Intellectual Property Foundation offset by increase in investment assets	<u>\$ 34,211</u>	<u>\$ 76,507</u>
Increase in deposits liability for VCU Alumni Association offset by increase in investment assets	<u>\$ 23,640</u>	<u>\$ 55,109</u>

The accompanying notes are an integral part of these financial statements.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization

Virginia Commonwealth University Foundation (the Foundation) is a Virginia corporation that functions as a nonprofit charitable foundation solely to assist, support, and foster Virginia Commonwealth University in all proper ways that may from time to time be approved by the trustees of the Foundation with the guidance of the University. The Foundation manages and distributes current and endowed gifts for schools, departments, and programs throughout the University, with major emphasis on programs for the Monroe Park Campus.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting

The Foundation's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Comparative financial statements

These financial statements include summarized comparative prior-year information in the statement of financial position and the statement of activities and changes in net assets. The prior year balances are not presented by net asset class and do not contain sufficient detail to conform with generally accepted accounting principles. Therefore, this information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2017.

Cash and cash equivalents

For purposes of reporting the statements of cash flows, the Foundation includes all cash accounts and highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying statement of financial position. Cash and cash equivalents, held by investment managers, are reported with investments. At times, the Foundation may have cash in excess of insured limits. The Foundation's cash is in institutions whose credit ratings are monitored by management to minimize the concentration of credit risk. At June 30, 2018, the Foundation had cash balances and cash investments that exceeded insurance limits.

Contributions receivable

Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are made. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

in support or expenses until the conditions are substantially met. The Foundation provides an allowance for doubtful accounts equal to estimated pledge defaults. The estimated defaults are based on historical collection experience together with a review of the current status of the existing receivables.

Investments

Investments in all debt securities and equity securities are stated at fair value based on quoted market prices. Alternative investments include investments in limited partnerships and limited liability corporations (hedge funds, private equity, and publicly-traded securities). Alternative investment interests are stated at fair value based on the financial statements and other information received from the general partners of such entities. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost, or other estimates including appraisals. The Foundation believes that the stated value of its alternative investments was a reasonable estimate of its fair value as of June 30, 2018. However, alternative investments are not marketable and some of the alternative investments have underlying investments that do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed for these alternative investments. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements as unrealized gain (loss) on investments.

Net Asset Value (NAV) is used as a practical expedient for certain commingled funds, privately held investments, and securities held in partnership format for which a readily determinable fair value is not available, unless the Foundation believes such NAV calculation is not measured in accordance with fair value. These values may differ significantly from values that would have been used had a readily available market existed for such investments, and that difference could be material to the change in net assets of the Foundation.

Revenue recognition

All contributions and investment income are available for unrestricted use unless specifically restricted by the donor. Amounts received and investment income earned that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Collections

Collection items acquired through purchase or donation are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the absence or existence and nature of donor-imposed restrictions.

Unrestricted net assets

The Foundation reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Trustees to support the Foundation's purpose and operations.

Temporarily restricted net assets

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions restricted for capital improvements are released to unrestricted revenue at the time the funds are expended for the specified improvement. Temporarily restricted net assets at June 30, 2018, consist of contributions restricted by donor designation to support individual departments and specific initiatives within Virginia Commonwealth University.

Permanently restricted net assets

Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be utilized only for purposes specified by the donor. At June 30, 2018, the income from these permanently restricted net assets may be used in support of Virginia Commonwealth University including scholarships, endowed chairs, and other school-related programs.

Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Use of estimates

The preparation of financial statements in conformity with 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.

Measure of operations

The Foundation reports as changes in net assets from operations all activities, except for investment income or loss and the change in value of split interest agreement obligations with beneficiaries.

Income taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. The Foundation recognized \$86,721 of unrelated business income tax expense from an investment partnership during the year ended June 30, 2018. The tax expense is included in investment return on the statement of activities and investment expenses in Note 3. This includes \$2,523 of penalties and interest expense. The Foundation includes penalties and interest assessed by income taxing authorities in operating expenses, if applicable.

The Foundation has determined that it does not have any material unrecognized tax benefits or obligations at June 30, 2018.

In addition, the Foundation qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(iv) and has been classified as an organization other than a private foundation under IRC Section 509(a)(1).

Note 2. Contributions Receivable

Contributions receivable as of June 30, 2018, are expected to be received as follows:

Receivable in less than one year	\$ 5,824,416
Receivable in one year or more	7,551,525
	<u>13,375,941</u>
Less discount	(193,893)
Less allowance for uncollectible receivables	(647,870)
	<u>\$ 12,534,178</u>

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 2. Contributions Receivable (Continued)

Discount rates ranging from 0.11% to 2.03% were used in determining the present value of the contributions receivable.

Note 3. Investments

The Foundation's pooled investments consist of both endowed funds (see Note 8) and unrestricted funds, as well as funds held on behalf of the University (see Note 7) and its affiliates. Assets of various funds are pooled for investment purposes. Equity of individual funds in the pooled investments is maintained using the "market value method." Under the market value method, units of participation are assigned when dollars enter the pool based upon the most recently determined market value of units. The market value of units of participation is calculated monthly.

Pooled assets at June 30, 2018 are summarized below:

	Cost	Fair Value	Net Unrealized Gains
Cash and cash equivalents	\$ 2,971,145	\$ 2,971,145	\$ -
Alternative investments	70,866,746	81,129,155	10,262,409
	<u>\$ 73,837,891</u>	<u>\$ 84,100,300</u>	<u>\$ 10,262,409</u>

The number of units of participation in the pooled investments at June 30, 2018 was 1,017,075.1037 with an \$82.688387 value per unit.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividend and interest income	\$ 596	\$ 7,128	\$ 24	\$ 7,748
Net realized gains	20,981	347,292	983	369,256
Net unrealized gains	60,012	1,564,532	2,976	1,627,520
Investment expenses and taxes	(29,581)	(604,246)	(1,095)	(634,922)
Total investment return	<u>\$ 52,008</u>	<u>\$ 1,314,706</u>	<u>\$ 2,888</u>	<u>\$ 1,369,602</u>

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 3. Investments (Continued)

The Foundation maintains investments in various money market funds, fixed income instruments, equity securities, and other investments that are at risk to loss of principal. The Foundation holds these investments in various custodial accounts with its custodian, SunTrust Bank. The custodial accounts are monitored; however, there is no guarantee that the custodian will not become insolvent. The Foundation believes that in the event of insolvency of its custodian, some of the Foundation's assets may be unavailable for a period of time, but that it would ultimately have a full recovery of its assets.

VCU Investment Management Company

Beginning in July 2016, the Foundation transitioned its portfolio to the VCU Investment Management Company (VCIMCO) as its new investment advisor. VCIMCO is a nonprofit, nonstock corporation organized under Virginia law for exclusively charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. VCIMCO was set up to advise the University and its affiliated foundations on the management of its investments. The Foundation is also a limited partner in two funds managed by VCIMCO: The Ram Fund, LP, and The Ram Private Assets Fund, LP (see Note 4).

Note 4. Fair Value Measurements

Accounting standards establish a framework for measuring fair value. Fair value is defined 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. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Virginia Commonwealth University Foundation
Notes to Financial Statements
June 30, 2018

Note 4. Fair Value Measurements (Continued)

The classification of assets by level within the valuation hierarchy as of June 30, 2018 is as follows:

	Fair Value Measurements at Reporting Date Using				
	June 30,2018	Level 1	Level 2	Level 3	Measured at NAV
Assets					
Cash and cash equivalents	\$ 2,971,145	\$2,971,145	\$ -	\$ -	\$ -
Alternative investments					
Relative value	69,502	-	-	-	69,502
Diversified strategies	4,885	-	-	-	4,885
Real estate	2,496,546	-	-	2,496,546	-
The Ram Private Assets Fund, LP	3,351,239	-	-	-	3,351,239
The Ram Fund, LP	75,206,983	-	-	-	75,206,983
Total investments	<u>\$84,100,300</u>	<u>\$2,971,145</u>	<u>\$ -</u>	<u>\$2,496,546</u>	<u>\$78,632,609</u>
Beneficial interest in charitable remainder unitrust	\$ 860,787	\$ -	\$ -	\$ 860,787	\$ -

The reconciliation of activity for Level 3 investments for fiscal year 2018 is as follows:

	Real Estate Funds	Beneficial Interest in Charitable Remainder Unitrust	Total
Level 3 Assets			
Beginning of year	\$ 3,191,145	\$ 942,648	\$ 4,133,793
Sales and other dispositions	(237,987)	-	(237,987)
Change in value of charitable remainder unitrust	-	(81,861)	(81,861)
Change in unrealized losses	<u>(456,612)</u>	-	<u>(456,612)</u>
End of year	<u>\$ 2,496,546</u>	<u>\$ 860,787</u>	<u>\$ 3,357,333</u>

The amount of total unrealized loss for the period included in the statement of activities attributable to Level 3 investments still held at June 30, 2018 is \$456,612.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 4. Fair Value Measurements (Continued)

For investments in entities that calculate net asset value or its equivalent whose fair value is not readily determinable, the following table provides information about the liquidity of these investments. The fair values of these investments have been estimated using net asset value per share of the investments, unless noted. Management is not aware of any factors that would impact net asset value as of June 30, 2018.

The following table sets forth a summary of the Foundation's assets valued at net asset value per share, or its equivalent, as of June 30, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Relative value	\$ 69,502	\$ -	Quarterly	65 days
Diversified strategies	4,885	-	Quarterly	70 days
The Ram Private Assets Fund, LP	3,351,239	-	N/A	N/A
The Ram Fund, LP	75,206,983	-	Quarterly	120 days
	<u>\$ 78,632,609</u>	<u>\$ -</u>		

Relative value funds

Relative value funds are investment strategies that use quantitative and/or fundamental analysis designed to exploit the relative imbalances and dislocations in the pricing relationships of two securities. Relative value strategies are expected to have very limited correlation with equities and fixed income markets, as managers generally hedge out the systemic risk of the markets in which they invest.

Diversified strategies

These funds include investments in broadly diversified portfolios of hedge funds. Underlying manager strategies will vary but primarily include a long/short equity strategy. Other strategies used are convertible bond arbitrage, merger arbitrage, distressed securities, and private equity/real estate. The majority of the investments across the underlying manager strategies are in publicly traded securities, but managers have the flexibility to invest in private/non-marketable investments. The fair value of two of the investments have been estimated using the net asset value per share of the investments, and the fair value of two other investments have been estimated using the percentage share of the Foundation's ownership interest in the partner's capital.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 4. Fair Value Measurements (Continued)

The Ram Fund, LP

The Ram Fund, LP (the Ram Fund) is a limited partnership organized under the laws of the Commonwealth of Virginia. The Ram Fund was organized as a pooled investment vehicle for the purpose of investing the assets of the University and its affiliated organizations in the investment strategies pursued by the Ram Fund. The investment manager of the Ram Fund is VCIMCO.

The Ram Fund invests via a mix of active and passive investment managers and strategies across a diversified group of asset classes including global equity, fixed income (treasuries and credit), real assets, and cash. Investments and investment managers included in the fund employ strategies primarily involving marketable securities.

Redemptions from the Ram Fund may be done quarterly and require a 120 day notice with an effective date on the last day of such calendar quarter. The general partner may, in its discretion, apply a limit to any quarterly redemption request in excess of 20% of the total capital account balance of the limited partner's interest. A limited partner may redeem its entire capital account balance in five quarterly redemptions.

The Ram Private Assets Fund, LP

The Ram Private Assets Fund, LP (the Private Assets Fund) is a limited partnership organized under the laws of the Commonwealth of Virginia. The Private Assets Fund was organized as a pooled investment vehicle for the purpose of investing the assets of the University and its affiliated organizations in the investment strategies pursued by the Private Assets Fund. The investment manager of the Private Assets Fund is VCIMCO.

The Private Assets Fund invests in active investment managers employing strategies primarily in the illiquid asset classes, including private equity, venture capital, private debt, real estate, infrastructure and natural resources. Due to the illiquid nature of these strategies, the contracted investment period for these investments is typically greater than 5 years.

Redemptions from the Private Assets Fund are at the discretion of the general partner. The general partner shall make a good faith effort to effect a redemption of a limited partner's interest upon a termination of such limited partner's advisory agreement, or in certain extraordinary circumstances, as defined in the partnership agreement.

Real Estate Funds

The Foundation is a limited partner in three real estate investment partnerships. Pursuant to its limited partnership agreements as of June 30, 2018, the Foundation had unfunded commitments of approximately \$181,036.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 4. Fair Value Measurements (Continued)

Other financial instruments

The Foundation's other financial instruments not measured at fair value on a recurring basis include amounts due from VCU affiliated foundations, contributions receivable, amounts due to VCU, amounts due to VCU affiliated foundations, deposits held for VCU Intellectual Property Foundation, deposits held for VCU Alumni Association, deposits held for VCU Real Estate Foundation, and deposits held for Virginia Commonwealth University. These financial instruments are reflected in the financial statements at cost, which approximates fair value.

Note 5. Charitable Remainder Annuity Agreements

The Foundation has entered into various agreements providing for gift contributions for the benefit of certain endowments in exchange for a life gift annuity agreement from the Foundation to the grantors. The Foundation is obligated to pay the grantors various quarterly installments for the remainder of their lives. There are a total of four agreements with three donors at year-end. The present value of these annuities at June 30, 2018 is \$291,465 and is included on the Statement of Financial Position as Annuity Payment Liability.

Note 6. Charitable Remainder Unitrust

The Foundation is a 50% remainder beneficiary of a charitable remainder unitrust. The contribution portion of an agreement is recognized as revenue when the Foundation has the unconditional right to receive benefits under the agreement and is measured at fair value using a current discount rate. During the term of the agreement, any changes in actuarial assumptions are recognized as "change in value of charitable remainder trust" in the statement of activities and changes in net assets.

The fair value of the trust is \$860,787 at June 30, 2018. The discount rate used in calculating the value was 3.40% for 2018. The depreciation in value of the trust was \$81,861.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 7. Deposits Held for Virginia Commonwealth University

These funds, including all income earned net of expenses, are owned by Virginia Commonwealth University.

Deposits held for Virginia Commonwealth University consist of the following amounts:

University deposits, beginning of year	\$ 26,865,382
Add	
Contributions, net	13,445
Investment income	6,959
Unrealized gain on investments	877,538
Net realized gain on investments transactions	243,722
Less	
Related fees for investment managers	(317,689)
Disbursements to the University	(1,102,520)
University deposits, end of year	<u>\$ 26,586,837</u>

Note 8. Endowment

The Foundation's endowment consists of approximately 400 individual funds established for purposes that support the University. The endowment is comprised only of donor-restricted endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant state law

The Board of Trustees of the Foundation has interpreted the Commonwealth of Virginia's 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 fund, 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 portion of a donor-restricted endowment fund not classified as a permanently restricted net asset is classified as a temporarily restricted net asset until appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 8. Endowment (Continued)

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

The following schedule summarizes the endowment net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	\$ (23,459)	\$ 12,388,309	\$ 33,309,938	\$ 45,674,788
Total endowment funds	\$ (23,459)	\$ 12,388,309	\$ 33,309,938	\$ 45,674,788

The following schedule summarizes the net asset composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (23,459)	\$ 12,388,309	\$ 33,309,938	\$ 45,674,788
Unrestricted funds	3,026,484	-	-	3,026,484
Temporarily restricted funds	-	31,859,394	-	31,859,394
Total net assets	\$ 3,003,025	\$ 44,247,703	\$ 33,309,938	\$ 80,560,666

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 8. Endowment (Continued)

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 12,362,916	\$ 28,813,278	\$ 41,176,194
Reclassification of net assets				
Reclassification of amounts due to correction of donor intent for prior year gifts	-	-	101,362	101,362
Reclassification of amounts due to correction of prior year investment earnings	-	(100,816)	100,816	-
Reclassification of amounts that meet minimum for establishment of endowment fund	-	-	544,523	544,523
Reclassification of amounts converted by donors to endowment fund	-	-	130,348	130,348
Total reclassification of net assets	-	(100,816)	877,049	776,233
Investment return				
Investment income	-	11,028	24	11,052
Net appreciation, realized and unrealized	(23,459)	1,744,262	3,959	1,724,762
Investment expenses	-	(501,911)	(1,095)	(503,006)
Total investment return	(23,459)	1,253,379	2,888	1,232,808
Contributions and other income	-	-	3,613,229	3,613,229
Appropriation of endowment assets for expenditure	-	(1,127,170)	-	(1,127,170)
Other changes				
Bad debt expense	-	-	(1,038)	(1,038)
Change in value of annuity agreements	-	-	4,532	4,532
	(23,459)	25,393	4,496,660	4,498,594
Endowment net assets, end of year	\$ (23,459)	\$ 12,388,309	\$ 33,309,938	\$ 45,674,788

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 8. Endowment (Continued)

A description of the amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2018 is as follows:

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA

\$ 33,309,938

Total endowment funds classified as permanently restricted net assets

\$ 33,309,938

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions

\$ 12,388,309

Total endowment funds classified as temporarily restricted net assets

\$ 12,388,309

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$23,459 as of June 30, 2018. These deficiencies resulted from unfavorable market fluctuations that occurred during the fiscal year ending June 30, 2018.

Return objectives and risk parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to earn a real total return that is at least equal to the annual spending rate plus inflation as measured by the Consumer Price Index, while assuming a moderate level of risk. Actual returns in any given year may vary from this amount.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 8. Endowment (Continued)

Strategies employed for achieving objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation, which includes equity funds, fixed income instruments, hedge funds, and limited liability partnerships in order to minimize risks while achieving total return objectives.

Spending policy

For the year ended June 30, 2018, the Foundation has a policy of appropriating for distribution each year up to 5% of the twelve-quarter average market value of endowment fund units as of December 31 of the preceding calendar year. Effective July 1, 2018, the spending rate will be decreased to 4.5%. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

Note 9. Transfers to Virginia Commonwealth University Affiliated Foundations

Transfers were made to the following University affiliated foundations for the year ended June 30, 2018:

VCU School of Business Foundation	<u>\$ 168,362</u>
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Note 10. Economic Dependency

For the year ended June 30, 2018, approximately 54% of total gross contributions receivable represents promises to give from twelve donors.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2018

Note 11. Allocation of Functional Expenses

	Total	Program	Management & General	Fundraising
Distribution to and support of the University	\$ 13,020,005	\$ 13,020,005	\$ -	\$ -
Bad debt expense	75,173	75,173	-	-
Personnel	339,272	32,942	232,841	73,489
Professional fees	30,859	-	30,859	-
Other	59,254	-	59,254	-
Total functional expenses	<u>\$ 13,524,563</u>	<u>\$ 13,128,120</u>	<u>\$ 322,954</u>	<u>\$ 73,489</u>
Allocation percentage	100.0%	97.1%	2.4%	0.5%

Note 12. Contingency

On June 7, 2017, the bankruptcy trustee for a local business filed a complaint in bankruptcy court seeking recovery of certain past transfers made to the Foundation during the applicable time period under current bankruptcy law. The case is ongoing and there has been no change in the status of the case during the fiscal year. An adverse result is not probable and no estimate of loss, if any, can be determined at the date of the financial statements.

Note 13. Subsequent Events

Management has evaluated events through September 21, 2018, the date which the financial statements were available for issue.