



VCU

VCU Foundation

Virginia Commonwealth University Foundation

Financial Statements

June 30, 2019

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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, 2019, the related statements of activities and changes in net assets, statement of functional expenses 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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mitchell Wiggins

Petersburg, Virginia
October 28, 2019

Virginia Commonwealth University Foundation

Statement of Financial Position

June 30, 2019, with Comparative Totals as of June 30, 2018

Assets	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2019	2018
Cash and cash equivalents	\$ 476,047	\$ 21,079,464	\$ 21,555,511	\$ 20,630,284
Contributions receivable, less allowance for uncollectible receivables 2019 \$703,966; 2018 \$647,870	-	9,523,122	9,523,122	12,534,178
Investments	2,540,650	84,212,628	86,753,278	84,100,300
Interfund obligations	18,981	(18,981)	-	-
Due from Virginia Commonwealth University affiliated foundations	2,272	161,618	163,890	274,791
Beneficial interest in charitable remainder trust	-	881,397	881,397	860,787
Other assets	4,871	31,254	36,125	27,546
Total assets	\$ 3,042,821	\$ 115,870,502	\$ 118,913,323	\$ 118,427,886

(continued)

Virginia Commonwealth University Foundation

Statement of Financial Position (continued)

June 30, 2019, with Comparative Totals as of June 30, 2018

Liabilities and Net Assets	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2019	2018
Liabilities				
Accounts payable	\$ 428,293	\$ 12,466	\$ 440,759	\$ 150,271
Due to Virginia Commonwealth University	-	708,547	708,547	1,027,203
Due to Virginia Commonwealth University affiliated foundations	-	18,558	18,558	47,941
Deposits held for Virginia Commonwealth University	-	26,218,714	26,218,714	26,586,837
Deposits held for VCU Real Estate Foundation	-	8,025,881	8,025,881	7,818,718
Deposits held for VCU Intellectual Property Foundation	-	1,151,752	1,151,752	1,122,023
Deposits held for VCU Alumni Association	-	825,924	825,924	822,762
Annuity payment liability	-	347,760	347,760	291,465
Total liabilities	428,293	37,309,602	37,737,895	37,867,220
Net Assets				
Without donor restrictions				
Undesignated	73,878	-	73,878	3,026,484
Designated by the board for quasi-endowment	2,540,650	-	2,540,650	-
	2,614,528	-	2,614,528	3,026,484
With donor restrictions				
Purpose restrictions	-	43,055,336	43,055,336	44,247,703
Perpetual in nature	-	35,510,208	35,510,208	33,309,938
Underwater endowments	-	(4,644)	(4,644)	(23,459)
	-	78,560,900	78,560,900	77,534,182
Total net assets	2,614,528	78,560,900	81,175,428	80,560,666
Total liabilities and net assets	\$ 3,042,821	\$ 115,870,502	\$ 118,913,323	\$ 118,427,886

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, 2019, with Comparative Totals for the Year Ended June 30, 2018

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2019	2018
Operating Revenues				
Contributions	\$ -	\$ 12,212,392	\$ 12,212,392	\$ 16,207,054
Administrative fees	298,820	-	298,820	295,939
Interest income	11,285	543,668	554,953	315,089
Net assets released from restrictions	11,033,651	(11,033,651)	-	-
Total operating revenue	11,343,756	1,722,409	13,066,165	16,818,082
Operating Expenses				
Program	11,030,092	2,199,307	13,229,399	13,128,120
Management & General	340,994	-	340,994	322,954
Fundraising	76,465	-	76,465	73,489
Total operating expenses	11,447,551	2,199,307	13,646,858	13,524,563
Changes in net assets from operations	(103,795)	(476,898)	(580,693)	3,293,519
Other Changes in Net Assets				
Net investment return	112,457	1,602,512	1,714,969	1,788,663
Change in value of annuity agreements	-	(100,682)	(100,682)	47,871
Change in value of beneficial interest in life insurance policy	-	7,402	7,402	-
Change in value of charitable remainder trust	-	20,610	20,610	(81,861)
Return of donor contribution	(397,159)	-	(397,159)	-
Changes in net assets before transfers	(388,497)	1,052,944	664,447	5,048,192
Transfers to Virginia Commonwealth University affiliated foundations	-	(49,685)	(49,685)	(168,362)
Changes in net assets	(388,497)	1,003,259	614,762	4,879,830
Net assets, beginning	3,003,025	77,557,641	80,560,666	75,680,836
Net assets, ending	\$ 2,614,528	\$ 78,560,900	\$ 81,175,428	\$ 80,560,666

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

Virginia Commonwealth University Foundation

Statement of Functional Expenses

June 30, 2019, with Comparative Totals as of June 30, 2018

	Program	Management & General	Fundraising	Totals	
				2019	2018
Distributions to and in support of Virginia Commonwealth University	\$ 10,995,694	\$ -	\$ -	\$ 10,995,694	\$ 13,020,005
Uncollectible contributions receivable	2,199,307	-	-	2,199,307	75,173
Personnel	34,398	244,890	76,465	355,753	339,272
Professional fees	-	49,821	-	49,821	30,859
Other expenses	-	46,283	-	46,283	59,254
	\$ 13,229,399	\$ 340,994	\$ 76,465	\$ 13,646,858	\$ 13,524,563

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

Virginia Commonwealth University Foundation

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Contributions, net of amounts restricted for endowment	5,607,604	8,323,133
Collection of contributions receivable, net of amounts restricted for endowment	4,012,237	4,118,045
Proceeds from sale of donated securities, net of amounts restricted for endowment	433,600	1,124,769
Administrative fees received	750,000	715,000
Interest received on cash deposits	554,953	315,089
Income received on investments	11,980	7,748
Payments made to and in support of VCU	(11,285,106)	(13,177,170)
Payments made for investment fees and taxes	(640,664)	(548,201)
Payments for personnel expenses	(355,753)	(339,272)
Payments for professional fees	(45,565)	(34,095)
Payments for other expenses	(53,897)	(52,669)
Payments to beneficiaries of annuity agreements	(44,386)	(44,571)
Net payments (made to) received from Affiliates	79,182	(266,660)
Net cash provided by (used in) operating activities	(975,815)	141,146
Cash Flows from Investing Activities		
Proceeds from sale of investments	743,220	957,652
Purchase of investment securities	(1,718,515)	(2,722,480)
Net cash (used in) investing activities	(975,295)	(1,764,828)
Cash Flows from Financing Activities		
Contributions restricted to endowment	689,399	303,854
Collection of contributions receivable restricted to endowment	870,446	961,489
Proceeds from sale of donated securities restricted to endowment	1,366,177	1,505,335
Transfers to VCU affiliated foundations	(49,685)	(168,362)
Net cash provided by financing activities	2,876,337	2,602,316
Net change in cash and cash equivalents	925,227	978,634
Cash and cash equivalents, beginning	20,630,284	19,651,650
Cash and cash equivalents, ending	\$ 21,555,511	\$ 20,630,284

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Virginia Commonwealth University Foundation

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Change in Net Assets to Cash Provided by (Used In) Operating Activities		
Changes in net assets	\$ 614,762	\$ 4,879,830
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Net realized gains on investments	(313,234)	(369,256)
Net unrealized gains on investments	(1,492,518)	(1,627,520)
Adjustment to beneficial interest in CRT	(20,610)	81,861
Adjustment to beneficial interest in life insurance policy	(7,402)	-
Transfers to Virginia Commonwealth University affiliated foundations	49,685	168,362
Permanently restricted contributions and other support	(2,229,979)	(3,613,229)
Changes in operating assets		
Contributions receivable	2,299,226	985,334
Due from VCU affiliated foundations	110,901	(61,992)
Other assets	14,610	18,609
Changes in operating liabilities		
Accounts payable	290,488	(156,344)
Due to VCU	(318,656)	134,936
Due to VCU affiliated foundations	(29,383)	(207,004)
Annuity payment liability	56,295	(92,441)
Net cash provided by (used in) operating activities	(975,815)	141,146

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Virginia Commonwealth University Foundation

Statements of Cash Flows (continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Supplemental Schedule of Noncash Operating Activities		
Gifts of noncash investments in satisfaction of prior year contributions receivable balances	\$ 521,745	\$ 997,698
Decrease in deposits liability for Virginia Commonwealth University offset by decrease in investment assets	\$ (368,123)	\$ (278,545)
Increase in deposits liability for VCU Real Estate Foundation offset by increase in investment assets	\$ 207,163	\$ 238,400
Increase in deposits liability for VCU Intellectual Property Foundation offset by increase in investment assets	\$ 29,729	\$ 34,211
Increase in deposits liability for VCU Alumni Association offset by increase in investment assets	\$ 3,162	\$ 23,640

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

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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 (the 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.

New Accounting Pronouncements

During the year ended June 30, 2019, the Foundation adopted the requirements of new standards issued by the Financial Accounting Standards Board:

Accounting Standards Update No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This guidance is intended to improve the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. The major changes of ASU 2016-14 that impact the Foundation are (1) requiring the presentation of only two net asset classes, where amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions; (2) requiring all non-profits present an analysis of expense by function and nature and disclose a summary of the allocation methods used to allocate costs; (3) requiring the disclosure of quantitative and qualitative information regarding the liquidity and availability of financial assets; (4) presenting investment return net of external investment expenses; and (5) requiring modification of other financial statement reporting requirements and disclosures intended to increase the usefulness of financial statements.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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

Comparative financial statements

These financial statements include summarized comparative prior-year information in the statement of financial position and the statement of activities, functional expenses 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, 2018.

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, 2019, 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 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, 2019. However, alternative investments are not marketable and some of the alternative investments have underlying investments that do

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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

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.

Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence of or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. As of June 30, 2019, the governing board has designated a portion of assets without donor restrictions as a board designated quasi-endowment.

Net assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Net assets with donor restrictions at June 30, 2019 consist of contributions with restrictions that support student, faculty, and programmatic initiatives within the University.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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

Functional allocation of expenses

The costs of program and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 had no unrelated business income during the year ended June 30, 2019.

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, 2019.

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).

Reclassifications

Certain amounts 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, 2019

Note 2. Contributions Receivable

Contributions receivable as of June 30, 2019, are expected to be received as follows:

Receivable in less than one year	\$ 3,885,877
Receivable in one year or more	<u>6,673,072</u>
	10,558,949
Less discount	(331,861)
Less allowance for uncollectible receivables	<u>(703,966)</u>
	<u>\$ 9,523,122</u>

Discount rates ranging from 0.11% to 2.45% 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, 2019 are summarized below:

	Cost	Fair Value	Net Unrealized Gains
Cash and cash equivalents	\$ 4,094,164	\$ 4,094,164	\$ -
Alternative investments	70,064,416	82,659,114	12,594,698
	<u>\$ 74,158,580</u>	<u>\$ 86,753,278</u>	<u>\$ 12,594,698</u>

The number of units of participation in the pooled investments at June 30, 2019 was 1,022,384.4263, with a \$84.853872 value per unit.

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.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 3. Investments (Continued)

VCU Investment Management Company

Beginning in July 2016, the Foundation transitioned its portfolio to the VCU Investment Management Company (VCIMCO) as its 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, 2019

Note 4. Fair Value Measurements (Continued)

The classification of assets by level within the valuation hierarchy as of June 30, 2019 is as follows:

	Fair Value Measurements at Reporting Date Using				
	June 30,2019	Level 1	Level 2	Level 3	Measured at NAV
Assets					
Cash and cash equivalents	\$ 4,094,164	\$4,094,164	\$ -	\$ -	\$ -
Alternative investments					
Relative value	128,587	-	-	-	128,587
Diversified strategies	941	-	-	-	941
Real estate	1,521,435	-	-	1,521,435	-
The Ram Private Assets Fund, LP	4,896,052	-	-	-	4,896,052
The Ram Fund, LP	76,112,099	-	-	-	76,112,099
Total investments	\$86,753,278	\$4,094,164	\$ -	\$1,521,435	\$81,137,679
Beneficial interest in charitable remainder unitrust	\$ 881,397	\$ -	\$ -	\$ 881,397	\$ -

The reconciliation of activity for Level 3 investments for fiscal year 2019 is as follows:

	Real Estate Funds	Beneficial Interest in Charitable Remainder Unitrust	Total
Level 3 Assets			
Beginning of year	\$2,496,546	\$860,787	\$ 3,357,333
Purchases	-	-	-
Sales and other dispositions	(431,456)	-	(431,456)
Change in value of charitable remainder unitrust	-	20,610	20,610
Change in unrealized losses	(543,655)	-	(543,655)
End of year	\$1,521,435	\$881,397	\$ 2,402,832

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, 2019 is \$543,655.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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, 2019.

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, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Relative value	\$ 128,587	\$ -	Quarterly	65 days
Diversified strategies	941	-	Quarterly	70 days
The Ram Private Assets Fund, LP	4,896,052	-	N/A	N/A
The Ram Fund, LP	76,112,099	-	Quarterly	120 days
	<u>\$ 81,137,679</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, 2019

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, 2019, the Foundation had unfunded commitments of approximately \$181,036.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

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 funds 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, 2019 is \$347,760 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 \$881,397 at June 30, 2019. The discount rate used in calculating the value was 2.80% for 2019. The appreciation in value of the trust was \$20,610.

Note 7. Deposits Held for Virginia Commonwealth University

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

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 7. Deposits Held for Virginia Commonwealth University (Continued)

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

University deposits, beginning of year	\$ 26,586,837
Add	
Contributions, net	3,072
Investment income	9,925
Unrealized gain on investments	633,378
Net realized gain on investments transactions	365,385
Less	
Related fees for investment managers	(331,983)
Disbursements to the University	<u>(1,047,900)</u>
University deposits, end of year	<u>\$ 26,218,714</u>

Note 8. Endowment

The Foundation's endowment consists of approximately 420 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, 2019

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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,540,650	\$ -	\$ 2,540,650
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	35,505,564	35,505,564
Accumulated investment gains	-	12,140,843	12,140,843
Total endowment net assets	<u>\$ 2,540,650</u>	<u>\$ 47,646,407</u>	<u>\$ 50,187,057</u>

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 8. Endowment (Continued)

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ (23,459)	\$ 45,698,247	\$ 45,674,788
Reclassification of net assets			
Reclassification of amounts due to correction of donor intent for prior year gifts	-	4,187	4,187
Reclassification of amounts that do not meet minimum for establishment of endowment fund	-	(9,428)	(9,428)
Reclassification of amounts converted by donors to endowment fund	-	49,597	49,597
Total reclassification of net assets	-	44,356	44,356
Board designation of quasi-endowment	2,475,071	-	2,475,071
Net investment return	89,038	1,572,184	1,661,222
Contributions and other income	-	2,229,979	2,229,979
Appropriation of endowment assets for expenditure	-	(1,801,489)	(1,801,489)
Other changes			
Uncollectible contributions receivable	-	(43,729)	(43,729)
Change in value of annuity agreements	-	(10,966)	(10,966)
Change in value of beneficial interest in life insurance policy	-	7,402	7,402
Transfers to VCU affiliated foundations	-	(49,577)	(49,577)
Endowment net assets, end of year	\$ 89,038	\$ 1,948,160	\$ 4,512,269
	\$ 2,540,650	\$ 47,646,407	\$ 50,187,057

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. As of June 30, 2019, funds with original gift values of \$628,306, fair values of \$623,662, and deficiencies of \$4,644 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred during the fiscal year ending June 30, 2019.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 8. Endowment (Continued)

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.

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, 2019, the Foundation has a policy of appropriating for distribution each year up to 4.5% of the twelve-quarter average market value of endowment fund units as of December 31 of the preceding calendar year. Distributions from underwater funds are prohibited. Distributions from such funds are reactivated when the account grows sufficiently to allow for a distribution while maintaining the donor's original corpus.

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.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 9. Net Assets With Donor Restrictions

Net Assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specified purpose:

Scholarships and other University departmental uses	\$19,443,475
Building projects	1,833,500
Promises to give, net - the proceeds from which have been restricted by donors for	
Scholarships and other University departmental uses	2,819,522
Building projects	5,742,362
Beneficial interests in charitable remainder trust	881,397
Assets held under split-interest (annuity) agreements	194,237
	<u>30,914,493</u>

Endowments:

Accumulated investment gains subject to appropriation and expenditure when a specified event occurs:

Restricted by donors for	
Scholarships and Departmental Use	<u>12,140,843</u>

Corpus subject to endowment spending policy and appropriation:

Scholarships and other University departmental uses	34,491,331
Unconditional promises to give, net - restricted in perpetuity for endowment	961,238
Underwater endowments	<u>(4,644)</u>
	<u>35,447,925</u>

Not subject to spending policy or appropriation:

Cash surrender value of life insurance included in other assets	7,402
Assets held under split-interest (annuity) agreements	50,237
	<u>57,639</u>

Total Endowments 47,646,407

\$78,560,900

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 10. Transfers to Virginia Commonwealth University Affiliated Foundations

Transfers were made to the following University affiliated foundations for the year ended June 30, 2019:

VCU School of Business Foundation	\$	49,577
MCV Foundation		108
	\$	<u>49,685</u>

Note 11. Economic Dependency

For the year ended June 30, 2019, approximately 24% of total gross contributions receivable represents promises to give from one donor.

For the year ended June 30, 2019, approximately 20% of total contribution revenue for the year came from one donor.

Note 12. Allocation of Functional Expenses

The statement of functional expenses includes personnel expenses that are attributed to both program services and supporting functions. Therefore, these expenses are allocated based on an estimate of time and effort.

Note 13. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of cash and cash equivalents of \$476,047 as of June 30, 2019. Donor restricted funds are not available for general expenditure.

The Foundation has an operating reserve with a balance of \$392,985 as of June 30, 2019. The operating reserve is invested in a low risk money market fund. The balance is included in the cash and cash equivalents line on the statement of financial position.

In addition, the Foundation has a board-designated quasi-endowment without donor restrictions with a balance of \$2,540,650 as of June 30, 2019. This fund is subject to the annual spending policy as described in Note 8. Although the Foundation does not intend to spend from this board designated quasi-endowment (other than the amounts appropriated for expenditure as part of the annual budget approval), the board could make these amounts available if necessary.

Virginia Commonwealth University Foundation

Notes to Financial Statements

June 30, 2019

Note 14. Subsequent Events

Management has evaluated events through October 28, 2019, the date which the financial statements were available for issue.

