

Virginia Commonwealth University School of Business Foundation

Financial Statements

June 30, 2021

***Virginia Commonwealth University
School of Business Foundation***

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Virginia Commonwealth University
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Independent Auditor's Report

Board of Trustees
Virginia Commonwealth University School of Business Foundation
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Commonwealth University School of Business Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, statements 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 Virginia Commonwealth University School of Business Foundation as of June 30, 2021, 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mitchell Wiggins

Petersburg, Virginia
October 11, 2021

Virginia Commonwealth University School of Business Foundation

Statement of Financial Position

June 30, 2021, with Comparative Totals as of June 30, 2020

			Totals	
	Without Donor Restrictions	With Donor Restrictions	2021	2020
Assets				
Cash and cash equivalents	\$ 5,435,053	\$1,408,902	\$ 6,843,955	\$ 8,194,232
Accounts receivable	103,636	1,025	104,661	67,335
Other receivable	70,000	-	70,000	260,351
Contributions receivable, less allowance for uncollectible receivables 2021 \$79,561; 2020 \$117,557	37,954	3,955,778	3,993,732	5,420,800
Investments	23,802,121	38,414,389	62,216,510	47,279,097
Interfund obligations	(1,441,249)	1,441,249	-	-
Other assets, net of accumulated amortization 2021 \$14,046; 2020 \$12,966	18,849	117,712	136,561	126,964
Real estate, net of accumulated depreciation 2021 \$18,033,319; 2020 \$16,693,382	22,164,805	-	22,164,805	23,504,742
Total assets	\$ 50,191,169	\$ 45,339,055	\$ 95,530,224	\$ 84,853,521

(continued)

Virginia Commonwealth University School of Business Foundation

Statement of Financial Position (continued)

June 30, 2021, with Comparative Totals as of June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 142,047	\$ 108,967	\$ 251,014	\$ 937,498
Contract liabilities	204,481	-	204,481	416,550
Due to Virginia Commonwealth University affiliated foundations	-	-	-	522,164
Deposits held for Virginia Commonwealth University	-	1,496,445	1,496,445	1,170,168
Due to Virginia Commonwealth University, net of unamortized debt issuance costs	17,614,640	-	17,614,640	19,056,400
Accrued contributions to Virginia Commonwealth University	15,062,570	-	15,062,570	16,336,060
Total liabilities	33,023,738	1,605,412	34,629,150	38,438,840
Net Assets	17,167,431	43,733,643	60,901,074	46,414,681
Total liabilities and net assets	\$ 50,191,169	\$ 45,339,055	\$ 95,530,224	\$ 84,853,521

See Notes to Financial Statements

Virginia Commonwealth University School of Business Foundation

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2021, with Comparative Totals for the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2021	2020
Operating Revenue				
Contributions	\$ 298,481	\$ 1,001,417	\$ 1,299,898	\$ 1,539,474
Rental income	2,018,414	-	2,018,414	2,018,414
Course revenue	750,848	-	750,848	1,722,147
Miscellaneous	11,737	-	11,737	37,368
Net assets released from restrictions	1,486,863	(1,486,863)	-	-
Total operating revenue	4,566,343	(485,446)	4,080,897	5,317,403
Operating Expenses				
School of Business Programs	1,348,215	111,500	1,459,715	2,805,300
Educational Facilities	2,706,635	-	2,706,635	2,813,424
Center for Corporate Education	685,395	-	685,395	845,867
Management & General	258,862	-	258,862	235,618
Fundraising	59,991	-	59,991	125,891
Total operating expenses	5,059,098	111,500	5,170,598	6,826,100
Changes in net assets from operations	(492,755)	(596,946)	(1,089,701)	(1,508,697)
Other Changes in Net Assets				
Net investment return	6,256,466	9,319,628	15,576,094	1,493,294
Claim on life insurance policy	-	-	-	250,000
Changes in net assets	5,763,711	8,722,682	14,486,393	234,597
Net assets, beginning	11,403,720	35,010,961	46,414,681	46,180,084
Net assets, ending	\$ 17,167,431	\$ 43,733,643	\$ 60,901,074	\$ 46,414,681

See Notes to Financial Statements

Virginia Commonwealth University School of Business Foundation

Statement of Functional Expenses

Year Ended June 30, 2021, with Comparative Totals for the Year Ended June 30, 2020

	Program Services				Supporting Services			2021 Total	2020 Total
	School of Business Programs	Educational Facilities	Center for Corporate Education	Total Program Services	Management & General	Fundraising	Total Supporting Services		
Expenses									
Distributions to and in support of VCU	\$ 1,310,164	\$ 744,924	\$ 44,492	\$ 2,099,580	\$ -	\$ -	\$ -	\$ 2,099,580	\$ 3,326,866
Reimbursement to VCU for personnel expenses	-	-	325,349	325,349	200,554	-	200,554	525,903	471,887
Depreciation and amortization	-	1,341,017	-	1,341,017	-	-	-	1,341,017	1,341,017
Interest expense	-	606,976	-	606,976	-	-	-	606,976	654,263
Interest expense, amortization of debt issuance costs	-	10,716	-	10,716	-	-	-	10,716	10,716
Professional services and fees	4,200	-	270,058	274,258	27,270	3,104	30,374	304,632	607,718
Other expenses	469	3,002	21,701	25,172	24,875	126,047	150,922	176,094	219,538
Supplies and marketing materials	24,007	-	23,795	47,802	-	3,056	3,056	50,858	136,663
Legal and regulatory fees	-	-	-	-	6,163	-	6,163	6,163	9,165
Write-off of uncollectible contribution receivables	120,875	-	-	120,875	-	-	-	120,875	83,383
	<u>1,459,715</u>	<u>2,706,635</u>	<u>685,395</u>	<u>4,851,745</u>	<u>258,862</u>	<u>132,207</u>	<u>391,069</u>	<u>5,242,814</u>	<u>6,861,216</u>
Less expenses included with revenues on the statement of activities									
Gift fees netted against permanent corpus	-	-	-	-	-	(72,216)	(72,216)	(72,216)	(35,116)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,459,715</u>	<u>\$ 2,706,635</u>	<u>\$ 685,395</u>	<u>\$ 4,851,745</u>	<u>\$ 258,862</u>	<u>\$ 59,991</u>	<u>\$ 318,853</u>	<u>\$ 5,170,598</u>	<u>\$ 6,826,100</u>

See Notes to Financial Statements

Virginia Commonwealth University School of Business Foundation

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Changes in net assets	\$ 14,486,393	\$ 234,597
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,341,017	1,341,017
Interest expense, amortization of debt issuance costs	10,716	10,716
Interest expense, amortization of bond premium	(202,476)	(202,476)
Net realized gains on investments	(242,312)	(4,088,375)
Net unrealized (gains) losses on investments	(15,478,182)	2,831,889
Contributions restricted for endowment	(453,630)	(530,976)
Donated securities	(26,321)	(18,803)
Changes in operating assets		
Accounts receivable	(37,326)	(38,392)
Contributions receivable	46,908	(37,954)
Other receivable	(59,649)	(260,351)
Other assets	(10,677)	(15,045)
Changes in operating liabilities		
Accounts payable and accrued expenses	(686,484)	522,719
Contract liabilities	(212,069)	(107,640)
Amounts due to Virginia Commonwealth University affiliated foundations	(522,164)	240,830
Accrued contributions to Virginia Commonwealth University	(1,273,490)	(1,217,951)
Net cash (used in) operating activities	(3,319,746)	(1,336,195)
Cash Flows from Investing Activities		
Purchase of investment securities	(3,291,514)	(44,602,778)
Proceeds from sale of investments	4,535,440	46,235,414
Net cash provided by investing activities	1,243,926	1,632,636
Cash Flows from Financing Activities		
Receipt of contributions restricted to endowment	1,975,543	797,087
Payments to Virginia Commonwealth University under financing agreement	(1,250,000)	(1,220,000)
Net cash provided by (used in) financing activities	725,543	(422,913)
Net change in cash and cash equivalents	(1,350,277)	(126,472)
Cash and cash equivalents, beginning	8,194,232	8,320,704
Cash and cash equivalents, ending	\$ 6,843,955	\$ 8,194,232
Supplemental Schedule of Cash Flow Information		
Cash payments for interest	\$ 818,459	\$ 862,463
Gifts of noncash investments in satisfaction of prior year contributions receivable balances	\$ 108,247	\$ 58,681

(continued)

Virginia Commonwealth University School of Business Foundation

Statements of Cash Flows (continued)

Years Ended June 30, 2021 and 2020

	2021	2020
Supplemental Schedule of Noncash Investing and Financing Activities		
Increase (decrease) in deposits held liability for Virginia Commonwealth University offset by decrease in investment assets	<u>\$ 326,277</u>	<u>\$ (17,814)</u>
Decrease in amounts due to Virginia Commonwealth University		
Decrease in amounts due to Virginia Commonwealth University	\$ (1,441,760)	\$ (1,411,760)
Amortization of debt issuance costs, series 2018 bonds	(10,716)	(10,716)
Amortization of bond premium	202,476	202,476
Cash remitted to Virginia Commonwealth University	<u>\$ (1,250,000)</u>	<u>\$ (1,220,000)</u>

See Notes to Financial Statements

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization

Virginia Commonwealth University School of Business Foundation (the Foundation), organized March 23, 2005, is a Virginia corporation which functions as a nonprofit charitable foundation solely to assist and support Virginia Commonwealth University.

The sole purpose of the Foundation is to provide financial and other support to the School of Business for the benefit of Virginia Commonwealth University.

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 that 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, 2020.

Cash, cash equivalents and cash investments

For purposes of reporting the statements of cash flows, the Foundation includes all cash accounts except funds held by investment managers, which are not subject to withdrawal restrictions or penalties, and all 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. The Foundation, at times, 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, 2021, the Foundation had cash balances and cash investments that exceeded insurance limits.

Accounts receivable

The Foundation extends unsecured credit in the ordinary course of its activities but mitigates the associated credit risk by actively pursuing past due accounts. Accounts receivable are considered past due if nonpayment exceeds forty-five days from the due date. If necessary, an allowance for uncollectible receivables is recorded based on management's evaluation of the collectability of individual receivables. Receivables are charged against the allowance when deemed to be uncollectible. Subsequent recoveries are added to the allowance.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

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

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 received or paid. Amortization of the discounts is included in contribution revenue or expense. 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 (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, 2021. However, alternative investments are not marketable and some of the alternative investments have underlying investments which 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. Actual gains or losses are dependent upon the general partners' distributions during the life of each partnership.

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 and realized and unrealized capital gains and losses less external investment expenses.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

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

Debt issuance costs

Debt issuance costs are being amortized over the life of the bonds, which is 13 years, using the straight-line method. Accumulated amortization was \$28,576 at June 30, 2021.

Real estate

Acquisitions of real estate are recorded at cost or, if donated, at fair market value at the time of the donation. Depreciation is provided for property that is actively rented using the straight-line method at rates adequate to amortize the cost of the property over its estimated useful life. The estimated useful life of the property is 30 years.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence 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, 2021, the governing board has designated a portion of assets without donor restrictions to support the goals of the Campaign for the VCU School of Business.

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, 2021 consist of contributions with restrictions that support student, faculty, and programmatic initiatives within the VCU School of Business.

Revenue recognition

Contributions - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. 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 increases in net assets with donor restrictions. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

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

Course and program revenue – The Foundation recognizes revenue related to course and program-related service fees in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Foundation derives revenue from course and program-related service fees. Those fees contain a single delivery element and revenue is recognized at a single point in time when the program services are rendered.

Program service fees received in advance are deferred to the applicable period in which the related services are performed and included under the caption *Contract liabilities* in the financial statements. For the year ended June 30, 2021, it is anticipated that all amounts shown in contract liabilities will be realized within one year. The Foundation does not accept contracts related to the delivery of non-credit programs which extend beyond one year from the statement of financial position date.

In-kind contributions

In-kind contributions, when received or pledged, are recorded as revenue and expense in the accompanying financial statements.

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.

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.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

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

Measure of operations

The Foundation reports all activities as changes in net assets from operations, except for investment return, the change in value of the interest rate swap agreement, the sale of assets which are not held for investment, and other changes related to the financing agreement with Virginia Commonwealth University.

Recently issued accounting standards

The Foundation has adopted Accounting Standards Update No. 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820) for the year ended June 30, 2021. The new standard eliminated, amended and added disclosure requirements for fair value.

Income taxes

The Organization is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. The Organization had no unrelated business income during the year ended June 30, 2021. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Management has concluded that the Foundation had no significant financial exposure to uncertain tax positions as of June 30, 2021. The tax years of 2018 to 2020 remain subject to examination by the taxing authorities.

The Organization includes penalties and interest assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the year ended June 30, 2021.

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 2. 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 the following:

Cash and cash equivalents	\$ 3,927,123
Accounts receivable	103,636
Other receivable	70,000
Contributions receivable	25,129
Endowment appropriations	1,181,258
Appropriations from board-designated funds	<u>2,058,750</u>
	<u>\$ 7,365,896</u>

As part of the Foundation's liquidity management process, cash in excess of operating requirements is invested in short-term, highly liquid investments which are included in the cash and cash equivalents amount. Additionally, the Foundation has board-designated financial assets of \$23,736,927 without donor restrictions. While the Foundation does not intend to spend for purposes other than those identified, the amounts could be made available for current operations, if necessary.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Endowment distributions subject to spending policy and appropriation are restricted for specific purposes, with the exceptions of amounts available for general use.

Note 3. Contributions Receivable

Contributions receivable as of June 30, 2021 are expected to be received as follows:

Receivable in less than one year	\$ 1,576,307
Receivable in one to five years	<u>2,558,876</u>
	4,135,183
Less discount	(61,890)
Less allowance for uncollectible receivables	<u>(79,561)</u>
	<u>\$ 3,993,732</u>

Discount rates between 0.29% and 2.73% were used in determining the present value of the contributions receivable.

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 4. Investments

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.

The Foundation’s investment portfolio as of June 30, 2021 consists of the following:

	Cost	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains
Cash and cash equivalents	\$ 243,331	\$ 243,331	\$ -	\$ -
Equities	173,260	326,104	(2,772)	155,616
Alternative investments	45,016,584	61,647,075	(11,956)	16,642,447
	<u>\$45,433,175</u>	<u>\$62,216,510</u>	<u>\$ (14,728)</u>	<u>\$16,798,063</u>

The investments as of June 30, 2021 are held as follows:

Pooled investments	\$ 61,874,930
Other investments	<u>341,580</u>
Total investments	<u>\$ 62,216,510</u>

The number of units of participation in the pooled investments at June 30, 2021 was 474,097.02, with a \$130.511114 value per unit.

The Foundation maintains investments in various money market funds, equity securities, and alternative investments that are at risk to loss of principal. The Foundation holds money market investment funds in various custodial accounts with its primary custodian, SunTrust Bank (now Truist). 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 November 2019, the Foundation transitioned the management of its portfolio to the VCU Investment Management Company (VCIMCO). 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. VCIMCO

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 4. Investments (Continued)

was created to advise the university and its affiliated foundations on the management of investments. The Foundation is a limited partner in The Ram Fund, LP, which is managed by VCIMCO, and is in the process of redeeming alternative investments held by JP Morgan for future transfer to VCIMCO.

Given the uncertain and continuously evolving nature of investment markets, no static list of asset classes or definitions of investment management strategies can continuously express prudent practice. Therefore, the Foundation and its investment managers must satisfy relevant standards of care through the process by which investment actions are determined and executed. As a part of this process, the Board sets a strategic asset allocation, prudently diversified across asset classes, designed to achieve the objectives stated in the Investment Policy Statement. VCIMCO invests the portfolio in keeping with the parameters of the strategic asset allocation below.

<u>Asset Class</u>	<u>Long-Term Policy</u>	<u>Range</u>
Equity	65%	40%-80%
Real Assets	5%	0-20%
Credit	10%	0-30%
Government Bonds	5%	0-25%
Cash & Treasuries	15%	0-25%
Total	100%	

Note 5. Fair Value Measurements

U. S. GAAP has established a framework to measure fair value and defined the required disclosures about fair value measurements. 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 established 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.

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 5. Fair Value Measurements (Continued)

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.

The classification of investments by level within the valuation hierarchy as of June 30, 2021 is as follows:

	Fair Value Measurements at Reporting Date Using				
	June 30, 2021	Level 1	Level 2	Level 3	Measured at NAV
Assets					
Cash and cash equivalents	\$ 243,331	\$ 243,331	\$ -	\$ -	\$ -
Equities:					
US Large Cap	326,104	326,104	-	-	-
Alternative Investments:					
Relative Value	74,091	-	-	-	74,091
Diversified Strategies	918	-	-	-	918
Opportunistic/Macro	32,760	-	-	-	32,760
Long/Short Equities	66,238	-	-	-	66,238
Merger Arbitrage/Event Driven	146,826	-	-	-	146,826
Real Estate	358,636	-	-	358,636	-
The Ram Fund, LP	60,967,606	-	-	-	60,967,606
	<u>\$ 62,216,510</u>	<u>\$ 569,435</u>	<u>\$ -</u>	<u>\$ 358,636</u>	<u>\$ 61,288,439</u>

During the year ended June 30, 2021, there were no purchases, sales or transfers in or out of Level 3 investments.

The Foundation's interest in the real estate funds is considered a level 3 valuation in the fair value hierarchy. The investment is valued using the Foundation's pro rata share of member's equity in the partnerships and is then adjusted for fair value using an unrealized incentive allocation. The unrealized incentive allocation is a projection based on the estimated fair value of the assets and liabilities of the partnership, and any preferred returns payable to the members.

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, 2021.

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 5. Fair Value Measurements (Continued)

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, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
The Ram Fund, LP	\$ 60,967,606	\$ -	Quarterly	120 days
Relative Value	70,198	-	Quarterly	90 days
Relative Value	3,893	-	N/A	N/A
Diversified Strategies	918	-	N/A	N/A
Opportunistic/Macro	32,760	-	Annually	65 days
Long/Short Equities	38,986	-	Quarterly	60 days
Long/Short Equities	11,960	-	N/A	N/A
Long/Short Equities	15,292	-	Annually	90 days
Merger Arbitrage/Event Driven	86,679	-	Semi-Annually	60 days
Merger Arbitrage/Event Driven	15,361	-	Quarterly	45 days
Merger Arbitrage/Event Driven	44,786	-	N/A	N/A
	<u>\$61,288,439</u>	<u>\$ -</u>		

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, using a manager of managers format, for the purpose of investing the assets of Virginia Commonwealth University and its affiliated organizations.

The investment strategies of the Ram Fund employ a variety of strategies including long equity, hedged equity, absolute return, fixed income, distressed debt, and special situations strategies. Investments are not expected to use substantially illiquid strategies, such as private equity, venture capital, real estate, infrastructure, or natural resources.

Redemptions from the Ram Fund may be executed quarterly and require 120-day notice with an effective date of the last 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 balance of the limited partner's interest. A limited partner may redeem its entire capital balance in five quarterly redemptions.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 5. Fair Value Measurements (Continued)

Relative Value Funds

Relative value funds employ 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 Funds

Diversified strategies funds employ investment strategies that invest in each of several sub-strategies (Event Driven, Equity Long/Short, Relative Value, Macro) within the context of a single hedge fund vehicle. Diversified strategy managers use multiple strategies in order to allow these funds to opportunistically shift capital allocations depending upon their view of the relative attractiveness of each strategy in the prevailing market environment.

Opportunistic/Macro Funds

These investment strategies have the broadest mandate of all hedge funds and are designed to be the least correlated to broader stock and fixed income capital markets. This category includes systematic and discretionary macro managers, but also contains managers with idiosyncratic mandates that do not fit into any of the other categories.

Long/Short Equity Funds

Long/Short equity funds employ investment strategies that employ fundamental and technical assessments on the equities in their investable universe, and that create portfolios of long positions in securities deemed undervalued and short positions in securities deemed overvalued. These strategies are generally subdivided by the degree to which each manager maintains market exposure (i.e., low net exposure, low-to-mid net exposure, aggressive net exposure) and defines its focus (i.e., by regions, sectors, or market caps).

Merger Arbitrage/Event Driven Funds

Merger arbitrage/event driven funds employ investment strategies that attempt to profit as a result of stocks and bonds changing in response to certain corporate actions including mergers, shareholder activism, restructurings, share buybacks, spinoffs, etc. Event driven managers typically look to isolate the expected event itself and assess investment opportunities based on their assessment of each event's ability to create additional value in a security.

Real Estate Funds

The Foundation is a limited partner in two real estate investment partnerships. Pursuant to its limited partnership agreements as of June 30, 2021, the Foundation had unfunded commitments of approximately \$57,375.

Virginia Commonwealth University School of Business Foundation

Notes to Financial Statements

June 30, 2021

Note 6. Real Estate

The Foundation entered into a project development and financing agreement with Virginia Commonwealth University for purposes of constructing a facility to house the School of Business. Under the terms of this agreement, the Foundation constructed the facility using funds advanced from a Virginia Commonwealth University bond issue. Upon completion of the facility, the two parties entered into a lease whereby the Foundation would lease the property to Virginia Commonwealth University for \$1 annually with Virginia Commonwealth University being responsible for all operating costs. The original lease term began January 2008 and terminates on November 1, 2030. The lessee has the option to renew this lease for three additional consecutive terms of ten, five, and five years, respectively. Upon the expiration of the initial lease term or any exercised renewal options, Virginia Commonwealth University may purchase the property from the Foundation at a price equal to the greater of the Foundation's original cost or the Foundation's share of the property's fair market value.

Under the authoritative guidance, *Accounting for Contributions Received and Contributions Made*, the Foundation has recorded as a liability an amount equal to the estimated present value of the future rental value of the facility over the initial lease term less the \$1 annual rent payments due under the lease. A discount rate of 4.56% was used in determining the present value of the promise to give. Rental income in the amount of \$2,018,414 was recorded for the year ended June 30, 2021, with the corresponding reduction in the present value of the accrued contributions included in the caption, *Accrued contributions to Virginia Commonwealth University*. At June 30, 2021, the estimated present value of the future rental value of the facility was \$ 15,062,570 and is included in the caption, *Accrued contributions to Virginia Commonwealth University*.

The Foundation agreed, as a part of the project development and financing agreement, to make annual payments to Virginia Commonwealth University to cover the debt service on the bonds issued by Virginia Commonwealth University. The debt service due to the bond issue is included on the accompanying statement of financial position under the caption, *Due to Virginia Commonwealth University, net of unamortized debt issuance costs*.

In November 2018, Virginia Commonwealth University, with the approval of the Executive Committee of the Foundation, issued general revenue pledge refunding bonds series 2018A and 2018B, a portion of which refunded the existing variable-rate, privately-placed debt and terminated the related fixed-payor interest rate swap agreement related to the Foundation's financing agreement. The value of the outstanding principal and related swap liability at the time of refunding was \$20,596,000, with unamortized bond issuance costs of \$127,544.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 6. Real Estate (Continued)

Under the financing agreement, publicly-traded debt maturing in 2030 was issued for \$18,295,000, with \$128,590 of related bond issuance costs. Interest rates are fixed at a 5% rate, payable to Virginia Commonwealth University semi-annually in May and November.

These bonds were issued at a premium of \$2,429,590. The premium is being amortized over the life of the bonds as a reduction to interest expense. Interest expense was reduced by \$202,476 for the year ended June 30, 2021.

Aggregate principal payments required under the debt service agreement at June 30, 2021 are as follows:

Fiscal Year Ending June 30,	
2022	\$ 1,300,000
2023	1,355,000
2024	1,415,000
2025	1,470,000
2026	1,530,000
Thereafter	8,755,000
Less unamortized debt issuance costs	(100,014)
Unamortized premium on bond issuance	1,889,654
	<u>\$17,614,640</u>

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 7. Net Assets with Donor Restrictions

Net assets were restricted by donors for the following purposes at June 30, 2021:

Subject to expenditure for specific purpose:

Scholarships	\$ 338,310
Programmatic support	6,242,709

Contributions receivable, net, the proceeds from which
have been restricted by donors for

Scholarships	71,293
Programmatic support	208,531
	<u>\$ 6,860,843</u>

Endowments:

Subject to endowment spending policy and appropriation

Scholarships	\$ 11,833,574
Programmatic support	10,853,191
Chairs, professorships and faculty support	10,392,369

Contributions receivable, net - restricted to endowment

Scholarships	877,516
Programmatic support	1,352,513
Chairs, professorships and faculty support	1,445,925
	<u>\$ 36,755,088</u>

Not subject to spending policy or appropriation:

Life insurance policy, proceeds of which are designated for

Chairs, professorships and faculty support	\$ 107,340
Scholarships	10,372
	<u>\$ 117,712</u>

Total net assets with donor restrictions

\$ 43,733,643

Note 8. Endowment

The Foundation's endowment consists of approximately 167 individual funds established for purposes which support the Foundation. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowments). As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 8. Endowment (Continued)

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 donor-restricted endowment funds – original donor-restricted gift amount 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 as original donor-restricted gift amount net assets is classified as accumulated investment gains net assets until those amounts are 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:

- 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, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 23,736,927	\$ -	\$ 23,736,927
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	22,272,019	22,272,019
Accumulated investment gains	-	14,483,069	14,483,069
Total endowment funds	\$ 23,736,927	\$ 36,755,088	\$ 60,492,015

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 8. Endowment (Continued)

The following schedule summarizes the net asset composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 36,755,088	\$ 36,755,088
Board-designated endowment funds	23,736,927	-	23,736,927
Donor-restricted funds	-	6,978,555	6,978,555
Unrestricted (deficit) funds	(6,569,496)	-	(6,569,496)
Total net assets	\$ 17,167,431	\$ 43,733,643	\$ 60,901,074

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 19,549,425	\$ 28,902,258	\$ 48,451,683
Investment return, net	6,252,068	8,334,026	14,586,094
Contributions	-	424,329	424,329
Reclass of donor intent	-	30,802	30,802
Uncollectible contributions receivable	-	(1,500)	(1,500)
Appropriation of endowment assets for expenditure	(2,064,566)	(934,827)	(2,999,393)
	4,187,502	7,852,830	12,040,332
Endowment net assets, end of year	\$ 23,736,927	\$ 36,755,088	\$ 60,492,015

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 8. Endowment (Continued)

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. There were no such deficiencies at June 30, 2021.

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) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested to produce results that are measured against specific benchmarks while assuming a moderate level of risk. Investment activity is intended to earn a real total return of at least 5%. 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 and targets a diversified asset allocation, as outlined in its investment policy statement. The Ram Fund LP, as a limited partnership, has an asset allocation that is designed to achieve the total return objective of the Foundation while minimizing risks.

Spending policy and how the investment objectives relate to the spending policy

The objective of the Foundation's spending policy is to preserve the long-term value of the endowment by balancing spending and reinvestment, while providing a predictable and sustainable level of income to support initiatives and operations of the VCU School of Business. Under this policy, the Foundation appropriates up to 5% of the trailing twelve quarter average market value of the endowment, as of December 31 of the preceding calendar year. 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. Functionalized Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Foundation. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses related to personnel are allocated based on a time and cost study of where efforts are made. All other costs have been allocated among the programs and supporting services benefited.

Virginia Commonwealth University School of Business Foundation
Notes to Financial Statements
June 30, 2021

Note 10. Economic Dependency

For the year ended June 30, 2021, approximately 72% of total gross contributions receivable represent a promise to give from one donor.

Note 11. Other Matter

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. COVID-19 and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. The extent to which the COVID-19 pandemic may impact operating results, financial condition, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted as of the date of this report. If the financial markets and/or the overall economy are impacted for an extended period, the Foundation's investment results may be adversely affected. The Foundation is adequately capitalized and continues to evaluate operational impacts and implement mitigation tactics where possible and necessary.

Note 12. Subsequent Events

Management has evaluated subsequent events through October 11, 2021, the date which the financial statements were available for issue.