# The VMI Alumni Agencies

## Combined Financial Statements and Supplementary Information

**Years Ended June 30, 2018 and 2017**

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

# Independent Auditors' Report

Board of Directors
The VMI Alumni Association;
Board of Trustees,
VMI Foundation, Incorporated and Subsidiary;
Board of Directors,
VMI Alumni Agencies Board, Incorporated; and
Board of Governors,
VMI Keydet Club, Incorporated
Lexington, Virginia

### *Report on the Financial Statements*

We have audited the accompanying combined financial statements of The VMI Alumni Agencies (nonprofit corporations), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements (as defined in Note 1) 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DIXON HUGHES GOODMAN LLP

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The VMI Alumni Agencies as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supporting information shown on pages 22-29 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Dixon Hughes Goodman LLP

**Richmond, Virginia**
**September 14, 2018**

**The VMI Alumni Agencies**
**Combined Statements of Financial Position**
**June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 11,773,292** | $ 17,912,568 |
| Current portion of contributions receivable | **10,098,477** | 20,231,909 |
| Current portion of note receivable | **106,672** | 116,315 |
| Other assets | **181,077** | 213,109 |
| Total current assets | **22,159,518** | 38,473,901 |
| Noncurrent assets: | | |
| Contributions receivable, less current portion | **11,184,660** | 17,454,529 |
| Note receivable, less current portion | **-** | 107,417 |
| Investments held by trustees | **473,341,310** | 417,552,460 |
| Investments, other | **18,232,960** | 16,602,136 |
| Cash surrender value of life insurance | **5,352,716** | 6,024,732 |
| Property and equipment, net | **323,901** | 247,425 |
| Total assets | **$ 530,595,065** | $ 496,462,600 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 759,816** | $ 977,708 |
| Current portion of trust and annuity obligations | **630,339** | 682,345 |
| Total current liabilities | **1,390,155** | 1,660,053 |
| Noncurrent liabilities: | | |
| Trust and annuity obligations, less current portion | **4,694,199** | 4,700,806 |
| Bonds payable | **46,741,112** | 46,928,884 |
| Total liabilities | **52,825,466** | 53,289,743 |
| Net assets: | | |
| Unrestricted | **62,827,715** | 53,924,679 |
| Temporarily restricted | **203,135,852** | 189,084,107 |
| Permanently restricted | **211,806,032** | 200,164,071 |
| Total net assets | **477,769,599** | 443,172,857 |
| Total liabilities and net assets | **$ 530,595,065** | $ 496,462,600 |

**See accompanying notes.**

**The VMI Alumni Agencies**
**Combined Statement of Activities**
**Year Ended June 30, 2018**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Amounts raised on behalf of VMI | $ 9,170,661 | $ 3,796,154 | $ 11,657,591 | $ 24,624,406 |
| Investment income and other revenue, net | 1,531,373 | - | - | 1,531,373 |
| Actuarial loss on trust and annuity obligations | (128,014) | (259,522) | (15,630) | (403,166) |
| Administrative fees | 27,500 | - | - | 27,500 |
| Net assets released from restrictions | 13,768,662 | (13,768,662) | - | - |
| Total revenues | 24,370,182 | (10,232,030) | 11,641,961 | 25,780,113 |
| Expenses: | | | | |
| Amounts remitted directly to and on behalf of VMI: | | | | |
| Undesignated | 4,932,493 | - | - | 4,932,493 |
| Designated | 13,920,104 | - | - | 13,920,104 |
| Cost of operations | 7,068,831 | - | - | 7,068,831 |
| Total expenses | 25,921,428 | - | - | 25,921,428 |
| Change in net assets before net realized and unrealized gains on investments | (1,551,246) | (10,232,030) | 11,641,961 | (141,315) |
| Net realized and unrealized gains on investments | 10,454,282 | 24,283,775 | - | 34,738,057 |
| Change in net assets | 8,903,036 | 14,051,745 | 11,641,961 | 34,596,742 |
| Net assets, beginning of year | 53,924,679 | 189,084,107 | 200,164,071 | 443,172,857 |
| Net assets, end of year | $ 62,827,715 | $ 203,135,852 | $ 211,806,032 | $ 477,769,599 |

**See accompanying notes.**

**The VMI Alumni Agencies**
**Combined Statement of Activities**
**Year Ended June 30, 2017**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Amounts raised on behalf of VMI | $ 3,140,811 | $ 22,116,088 | $ 23,714,767 | $ 48,971,666 |
| Investment income and other revenue, net | 792,670 | - | - | 792,670 |
| Actuarial gain (loss) on trust and annuity obligations | (98,239) | (513,958) | 25,903 | (586,294) |
| Administrative fees | 30,000 | - | - | 30,000 |
| Net assets released from restrictions | 11,373,976 | (11,373,976) | - | - |
| Total revenues | 15,239,218 | 10,228,154 | 23,740,670 | 49,208,042 |
| Expenses: | | | | |
| Amounts remitted directly to and on behalf of VMI: | | | | |
| Undesignated | 5,972,267 | - | - | 5,972,267 |
| Designated | 11,507,397 | - | - | 11,507,397 |
| Cost of operations | 7,119,072 | - | - | 7,119,072 |
| Total expenses | 24,598,736 | - | - | 24,598,736 |
| Change in net assets before net realized and unrealized gains on investments | (9,359,518) | 10,228,154 | 23,740,670 | 24,609,306 |
| Net realized and unrealized gains on investments | 14,929,450 | 32,679,914 | - | 47,609,364 |
| Change in net assets | 5,569,932 | 42,908,068 | 23,740,670 | 72,218,670 |
| Net assets, beginning of year | 48,354,747 | 146,176,039 | 176,423,401 | 370,954,187 |
| Net assets, end of year | $ 53,924,679 | $ 189,084,107 | $ 200,164,071 | $ 443,172,857 |

**See accompanying notes.**

**The VMI Alumni Agencies**
**Combined Statements of Cash Flows**
**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 34,596,742** | $ 72,218,670 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Contributions restricted for long-term investment | **(11,657,591)** | (23,714,767) |
| Depreciation | **60,028** | 33,448 |
| Amortization of bond premium | **(187,772)** | (182,982) |
| Net realized and unrealized gains on investments | **(34,738,057)** | (47,609,364) |
| Cash surrender value of life insurance | **672,016** | (316,379) |
| Actuarial loss on trust and annuity obligations | **403,166** | 586,294 |
| Change in assets and liabilities: | | |
| Contributions receivable | **16,403,301** | (7,715,444) |
| Note receivable | **117,060** | 234,121 |
| Other assets | **32,032** | (147,882) |
| Accounts payable and accrued expenses | **(217,892)** | (706,590) |
| Trust and annuity obligations | **3,680** | 1,483 |
| Other liabilities | **-** | (19,445) |
| Net cash provided (used) by operating activities | **5,486,713** | (7,338,837) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | **(136,504)** | (152,481) |
| Purchases of investments | **(57,918,499)** | (65,981,259) |
| Proceeds from sales of investments | **35,236,882** | 60,746,102 |
| Net cash used by investing activities | **(22,818,121)** | (5,387,638) |
| Cash flows from financing activities: | | |
| Contributions restricted for long-term investment | **11,657,591** | 23,714,767 |
| Payments on trust and annuity obligations | **(465,459)** | (601,243) |
| Net cash provided by financing activities | **11,192,132** | 23,113,524 |
| Net (decrease) increase in cash and cash equivalents | **(6,139,276)** | 10,387,049 |
| Cash and cash equivalents, beginning of year | **17,912,568** | 7,525,519 |
| Cash and cash equivalents, end of year | **$ 11,773,292** | $ 17,912,568 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | **$ 1,609,400** | $ 1,067,871 |

**See accompanying notes.**

# Notes to Combined Financial Statements

## 1. Organization and Nature of Activities

The VMI Alumni Agencies ("Agencies") are comprised of four organizations that share the common purpose of raising funds, investing funds, and performing other activities on behalf of VMI alumni and other donors in support of Virginia Military Institute (VMI). Significant sources of revenue consist of contributions and investment return. Due to their shared purpose, the Agencies have elected to present their financial statements on a combined basis. All significant interagency accounts and transactions have been eliminated in combination. The individual organizations comprising the Agencies and their purposes are as follows:

The VMI Alumni Association

The purpose of the VMI Alumni Association ("Alumni Association") is to organize the alumni of VMI into one general body.

VMI Foundation, Incorporated and Subsidiary

The purpose of the VMI Foundation, Incorporated and Subsidiary ("Foundation") is to solicit and to accept various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the Alumni Association. The Foundation is the sole member of VMI Investment Holdings, LLC (see Note 4).

VMI Alumni Agencies Board, Incorporated (formerly VMI Development Board, Incorporated)

During fiscal year 2018, the VMI Development Board, Incorporated amended its bylaws and changed its name to the VMI Alumni Agencies Board, Incorporated. The purpose of the VMI Alumni Agencies Board, Incorporated ("Alumni Agencies Board") is to receive, hold, and manage assets for any purpose on behalf of the Agencies and VMI.

VMI Keydet Club, Incorporated

The purpose of the VMI Keydet Club, Incorporated ("Keydet Club") is to support, strengthen, and develop the intercollegiate athletic program at VMI.

## 2. Summary of Significant Accounting Policies

### *Basis of presentation*

The Agencies are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The combined financial statements report amounts separately by class of assets as follows:

**Unrestricted** net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Boards or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by the donors are included in this classification. Expenses are reported as reductions in this classification.

**Temporarily restricted** net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Agencies pursuant to those stipulations.

**Permanently restricted** net assets are amounts required by donors to be held in perpetuity; however, generally the income on these assets is available to meet various restricted and other operating needs.

### *Cash equivalents*

Highly-liquid investments with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents not held in Agencies' operating bank accounts are included in investments held by trustees and investments, other on the combined statements of financial position.

The Agencies follow the common cash management practice of consolidating certain of their operating cash and cash equivalent accounts into one account, which includes various designated and restricted current operating accounts. As a result of this practice, cash and cash equivalents specifically associated with the original gift of certain designated and restricted monies can be spent from the consolidated account.

### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statements of financial position. Net unrealized and realized gains or losses are reflected in the combined statements of activities. Certain land and other investments which are not readily marketable are carried at cost.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at the date of gift. Purchases and sales of investments are recorded on the trade date.

### *Cash surrender value of life insurance*

The Agencies record the cash surrender value of life insurance policies when it's the owner and the beneficiary on a policy contributed by a donor. The cash surrender value approximates the amount to be realized if a policy was to be cancelled or otherwise terminated.

### *Property and equipment*

Property and equipment are stated at cost at the date of acquisition, or fair value at the date of gift, less accumulated depreciation. Depreciation is recorded using the straight-line basis over the estimated useful lives as follows for the major classes of assets:

| | |
|---|---|
| Furniture and fixtures | 3 – 15 years |

Furniture and fixtures are removed from the records and any gain or loss is recognized at the time of disposal. Expenditures for new construction, major renewals, and replacements and betterments exceeding $5,000 are capitalized. Depreciation expense was $60,028 and $33,448 for 2018 and 2017, respectively.

### *Use of office space*

Use of certain office space which is owned by VMI is provided to the Agencies at little or no cost. No amounts (other than negligible annual charges) have been reflected in the statements for use of this space since no objective basis is available to measure its value.

### *Split-interest agreements*

The Agencies participate in various split-interest agreements that are unconditional and irrevocable. These arrangements are established when a donor makes a gift to the Agencies or a trust in which the Agencies share benefits with other beneficiaries. Generally, the Agencies account for these agreements by recording their share of the related assets at fair market value (which approximates the present value of the estimated future cash receipts). Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made. The liabilities are adjusted annually for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities.

If the Agencies hold the assets or are the trustees, the assets are included in investments and the liabilities are included in trust and annuity obligations. If a third party is the trustee until the termination of the trust and then the remaining assets are transferred to the beneficiaries, the assets less related liabilities are included in contributions receivable.

The Agencies have beneficial interests in approximately 130 various split-interest agreements, including charitable remainder trusts, charitable gift annuities and pooled income funds. The average discount rates for these agreements range from 3.4% to 10.6% and payment rates range from 5% to 8%, paid primarily quarterly.

### *Contributions*

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period the donor’s commitment is received. Unrestricted, unconditional promises to give are recognized as temporarily restricted operating revenues unless the donor explicitly stipulates its use to support current period activities.

Conditional promises to give are not recognized until they become unconditional – that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management’s judgment, including such factors as prior collection history, type of contribution and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment, with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

### *Income taxes*

All four entities comprising the Agencies are classified as exempt from federal and state income taxes as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia. In addition, the individual entities have been classified as organizations that are not private foundations under Section 509(a) of the Internal Revenue Code.

### *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

### *Concentrations of credit risk*

Financial instruments which potentially subject the Agencies to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Agencies have deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) totaling $12,067,511 and $18,156,523 at June 30, 2018 and 2017, respectively. Concentration of credit risk for investments is limited by the Agencies’ policy of diversification of investments.

***Subsequent events***

In preparing these combined financial statements, the Agencies have evaluated events and transactions for potential recognition or disclosure through September 14, 2018, the date the combined financial statements were issued.

## 3. Contributions Receivable

Contributions receivable consist of the following as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Unconditional promises to give | $ 21,283,137 | $ 37,500,492 |
| Charitable trusts held by others | - | 185,946 |
| | 21,283,137 | 37,686,438 |
| Current portion | (10,098,477) | (20,231,909) |
| Contributions receivable | $ 11,184,660 | $ 17,454,529 |
| Gross amounts expected to be collected in: | | |
| Less than one year | $ 11,377,121 | $ 22,625,997 |
| One to five years | 12,645,276 | 19,432,101 |
| More than five years | 586,418 | 1,193,420 |
| | 24,608,815 | 43,251,518 |
| Discount | (864,797) | (1,258,529) |
| Allowance for uncollectible contributions | (2,460,881) | (4,306,551) |
| Fair value | $ 21,283,137 | $ 37,686,438 |

Gross contributions receivable activity for the years ended June 30 is reflected in the table below:

| | 2018 | 2017 |
|---|---|---|
| Gross contributions receivable, beginning of year | $ 43,251,518 | $ 34,762,389 |
| New contributions receivable | 3,521,382 | 20,023,259 |
| Payments received | (20,564,231) | (7,455,232) |
| Write-offs and other adjustments | (1,599,854) | (4,078,898) |
| Gross contributions receivable, end of year | $ 24,608,815 | $ 43,251,518 |

Contributions receivable for each class of net assets is as follows as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Temporarily restricted | $ 12,373,243 | $ 16,422,933 |
| Permanently restricted | 8,909,894 | 21,263,505 |
| | $ 21,283,137 | $ 37,686,438 |

The fair value adjustment for 2018 and 2017 was $393,732 and $74,937, respectively, and is included in amounts raised on behalf of VMI in the combined statements of activities. The discount rate for 2018 and 2017 was 3.4% and 2.3%, respectively. No changes in the fair value measurement were attributable to instrument specific credit risk.

At June 30, 2018 and 2017, the Agencies had also received bequests and other intentions of approximately $164 million and $158 million, respectively. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2018 and 2017, approximately 37% and 48%, respectively, of the contributions receivable balance was from five donors.

## 4. Investments Held by Trustees

The Agencies participate in a combined investment fund (Fund) controlled by the VMI Investment Holdings, LLC. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following as of June 30:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Equities | **$ 226,116,297** | **47.8%** | $203,289,025 | 48.7% |
| Absolute return funds | **81,998,507** | **17.3%** | 68,619,788 | 16.4% |
| Private equities | **75,868,338** | **16.0%** | 68,115,823 | 16.3% |
| Fixed income | **60,130,001** | **12.7%** | 53,481,786 | 12.8% |
| Master limited partnership | **18,666,723** | **4.0%** | 15,739,001 | 3.8% |
| Cash and cash equivalents | **10,561,444** | **2.2%** | 8,307,037 | 2.0% |
| | **$ 473,341,310** | **100%** | $417,552,460 | 100% |

These investments, which comprise the majority of the Agencies' assets, are subject to market risk. However, the Agencies' investment funds are managed by a number of investment managers, which limits the amount of risk in any one fund. VMI Investment Holdings, LLC establishes investment guidelines and performance standards which further reduce its exposure to market risk.

Investments held by trustees activity for the years ended June 30 is reflected in the table below:

| | 2018 | 2017 |
|---|---|---|
| Investments, beginning of year | **$ 417,552,460** | $ 365,472,684 |
| Gifts and amounts available for investments | **31,000,000** | 15,000,000 |
| | **448,552,460** | 380,472,684 |
| Investment returns: | | |
| Dividends and interest | **4,583,228** | 3,461,280 |
| Net realized and unrealized gains | **33,451,315** | 46,060,383 |
| Investment fees | **(3,705,693)** | (3,081,887) |
| Total return on investments held by trustee, net | **34,328,850** | 46,439,776 |
| Net disbursements used to fund operations | **(9,540,000)** | (9,360,000) |
| Investments, end of year | **$ 473,341,310** | $ 417,552,460 |

The following summarizes the total investment return and its classification in the combined statements of activities for the years ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Investment return: | | |
| Dividends and interest: | | |
| Investments held by trustees | **$ 4,583,228** | $ 3,461,280 |
| Investments, other | **236,685** | 240,651 |
| Total dividends and interest | **4,819,913** | 3,701,931 |
| Net realized and unrealized gains: | | |
| Investments held by trustees | **33,451,315** | 46,060,383 |
| Investments, other | **1,260,557** | 1,546,523 |
| Total realized and unrealized gains | **34,711,872** | 47,606,906 |
| Investment fees | **(3,705,693)** | (3,081,887) |
| Other activity: | | |
| Net realized gains from the sales of gifted stock and property, rent and royalty income, changes in cash surrender value of life insurance, dividends on insurance policies and other | **443,338** | 175,084 |
| Total investment return | **$ 36,269,430** | $ 48,402,034 |
| Included in the combined statements of activities as follows: | | |
| Investment income and other revenue, net | **$ 1,531,373** | $ 792,670 |
| Net realized and unrealized gains on investments | **34,738,057** | 47,609,364 |
| Investment return | **$ 36,269,430** | $ 48,402,034 |

### *Investment Holdings, LLC*

On April 29, 2009, VMI Investment Holdings, LLC (LLC) was formed to manage the investments held by trustees. On June 1, 2009, all investments held by trustees and for which BNY Mellon, N.A. serves as custodian were transferred to the LLC. The Foundation is the sole member of the LLC, and acts as an intermediary between the LLC and the other agencies. As stated in the Deposit and Management Agreement, the LLC will operate the unitized investment pool and issue a number of units in the pool to each depositor based on the amount of its deposit divided by the then unit value. Each depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the pool by the other agencies will be made through the Foundation. A separate board of directors was established to manage the LLC.

## 5. Investments, Other

Investments, other consist of the following as of June 30:

| | 2018 | | | |
|---|---|---|---|---|
| | Held by Agent | Held by Foundation | Held in Irrevocable Trusts* | Total at Fair Value** |
| Equities | **$ 1,151,838** | **$ 9** | **$ 10,003,496** | **$ 11,155,343** |
| Fixed income | **4,273** | **5,891** | **2,320,133** | **2,330,297** |
| Real estate | **-** | **2,468,138** | **-** | **2,468,138** |
| Alternative investments | **-** | **-** | **1,309,065** | **1,309,065** |
| Cash and cash equivalents | **175,377** | **783** | **776,829** | **952,989** |
| Limited partnerships | **-** | **17,128** | **-** | **17,128** |
| Investments, other | **$ 1,331,488** | **$ 2,491,949** | **$ 14,409,523** | **$ 18,232,960** |

| | 2017 | | | |
|---|---|---|---|---|
| | Held by Agent | Held by Foundation | Held in Irrevocable Trusts* | Total at Fair Value** |
| Equities | $ 1,021,588 | $ 9 | $ 9,800,236 | $ 10,821,833 |
| Fixed income | 4,275 | 5,891 | 2,318,200 | 2,328,366 |
| Real estate | - | 1,757,468 | - | 1,757,468 |
| Alternative investments | - | - | 1,255,718 | 1,255,718 |
| Cash and cash equivalents | 171,479 | 793 | 249,351 | 421,623 |
| Limited partnerships | - | 17,128 | - | 17,128 |
| Investments, other | $ 1,197,342 | $ 1,781,289 | $ 13,623,505 | $ 16,602,136 |

*Investments held in irrevocable trusts are not available for use until the occurrence of a future event as noted in the applicable trust agreements.

**For certain components of these investments, primarily real estate, limited partnerships, and common stocks of closely held companies where fair values were not readily determinable, cost was used.

Investments, other activity is reflected in the table below for the years ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Investments, beginning of year | **$ 16,602,136** | $ 15,837,391 |
| Gifts and amounts available for investment | **792,669** | 401,278 |
| | **17,394,805** | 16,238,669 |
| Investment returns: | | |
| Dividends and interest | **236,685** | 240,651 |
| Net realized and unrealized gains | **1,260,557** | 1,546,523 |
| Total return on investments | **1,497,242** | 1,787,174 |
| Amounts appropriated for operations, net transfers to operational accounts and other activity | **(659,087)** | (1,423,707) |
| Investments, end of year | **$ 18,232,960** | $ 16,602,136 |

## 6. Investment Commitments

The Agencies have investments and future investment commitments in partnerships that are subject to capital calls and mandatory lock-in periods. The following is a schedule of total funds subject to commitments and lock-in periods.

| | Lock In Fiscal Year | Dollars Committed | Dollars Called To Date | Market Value |
|---|---|---|---|---|
| Total funds | 2019 | $ 14,194,605 | $ 10,248,556 | $ 4,166,604 |
| Total funds | 2020 | $ 24,058,653 | $ 20,614,548 | $ 10,532,310 |
| Total funds | 2021 | $ 17,322,230 | $ 14,406,148 | $ 5,349,144 |
| Total funds | 2022 | $ 13,118,107 | $ 12,107,060 | $ 2,333,126 |
| Total funds | 2023 | $ 15,397,538 | $ 10,897,236 | $ 5,505,573 |
| Total funds | 2024 | $ 19,246,922 | $ 12,290,289 | $ 7,298,297 |
| Total funds | 2025 | $ 17,322,230 | $ 10,556,792 | $ 3,473,777 |
| Total funds | 2026 | $ 8,949,819 | $ 3,976,141 | $ 5,584,353 |
| Total funds | 2027 | $ 2,887,038 | $ 240,103 | $ 2,646,935 |
| Total funds | 2028 | $ 13,472,845 | $ 456,152 | $ 13,016,693 |

## 7. Fair Value Measurements

Accounting standards establish 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 or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agencies have the ability to access.

**Level 2:** Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All assets reported at fair value have been valued using a market approach, except for Level 3 assets.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

*Contributions receivable*

Valued using the income approach based on discounted cash flows.

*Equities and fixed income securities*

Valued at the closing price reported on the active market on which the individual securities are traded or valued based on pricing models using standard inputs such as benchmark yields, reported trades, and broker/dealer quotes.

*Beneficial interest in perpetual trusts*

Valued by estimating future cash flows from the trusts (which hold diversified portfolios) and discounting them into perpetuity using a market participant's expected return on endowments and investments. This has typically been measured by the fair value of the underlying assets in the trust.

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

The following tables set forth by level, within the fair value hierarchy, the Agencies' assets at fair value as of June 30:

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Contributions receivable | **$ -** | **$ -** | **$ 21,283,137** | **$ 21,283,137** |
| Equities: | | | | |
| U.S. Equities | **1,151,847** | **112,646,367** | **-** | **113,798,214** |
| Non-U.S. Equities | **23,341,191** | **26,562,942** | **-** | **49,904,133** |
| Emerging markets | **-** | **23,800,286** | **-** | **23,800,286** |
| Public REITs | **18,405,002** | **-** | **-** | **18,405,002** |
| Fixed income securities | **49,516,792** | **-** | **-** | **49,516,792** |
| Fixed income funds (a) | **-** | **-** | **-** | **10,623,373** |
| Private equities (a) | **-** | **-** | **-** | **75,868,340** |
| Emerging markets equity (a) | - | - | - | **21,360,510** |
| Absolute return funds (a) | **-** | **-** | **-** | **18,666,723** |
| Master limited partnerships (a) | **-** | **-** | **-** | **81,998,506** |
| Limited partnerships (a) | **-** | **-** | **-** | **17,128** |
| Beneficial interest in perpetual trusts | **-** | **-** | **14,409,523** | **14,409,523** |
| Total assets at fair value | **$ 92,414,832** | **$163,009,595** | **$ 35,692,660** | **$499,651,667** |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Contributions receivable | $ - | $ - | $ 37,686,438 | $ 37,686,438 |
| Equities: | | | | |
| U.S. Equities | 1,021,597 | 98,793,984 | - | 99,815,581 |
| Non-U.S. Equities | 19,297,299 | 24,867,640 | - | 44,164,939 |
| Emerging markets | - | 24,322,290 | - | 24,322,290 |
| Public REITs | 15,942,185 | - | - | 15,942,185 |
| Fixed income securities | 48,629,715 | - | - | 48,629,715 |
| Fixed income funds (a) | - | - | - | 4,862,237 |
| Private equities (a) | - | - | - | 68,115,823 |
| Emerging markets equity (a) | - | - | - | 20,065,627 |
| Absolute return funds (a) | - | - | - | 68,619,788 |
| Master limited partnerships (a) | - | - | - | 15,739,001 |
| Limited partnerships (a) | - | - | - | 17,128 |
| Beneficial interest in perpetual trusts | - | - | 13,623,505 | 13,623,505 |
| Total assets at fair value | $ 84,880,630 | $147,983,914 | $ 51,309,943 | $461,604,257 |

(a) Certain investments that are measured at fair value using the net asset value per share (or equivalent) practical expedient have not been recognized in the fair value hierarchy. The fair value amounts presented in this table are intended to show reconciliation to the amounts presented in the combined statements of financial position.

Fixed income funds, private equity funds, emerging market equity funds, absolute return funds, master limited partnerships, and limited partnerships are valued using the practical expedient at the Agencies' pro-rata interest in the net assets of these entities. Investments held by these entities are valued at prices which approximate fair value. The fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Net asset valuations are provided daily, monthly, or quarterly by these entities. Appreciation of investments in these entities is net of all allocations to the investment advisors.

The following table sets forth quantitative information about Level 3 fair value measurements at June 30, 2018:

| | Valuation Techniques | Unobservable Input | Range |
|---|---|---|---|
| Contributions receivable | Discounted cash flow | Present value discount | .5% - 3.4% |
| | | Allowance for uncollectible contributions | 10% |
| Beneficial interest in perpetual trusts | Discounted cash flow | Present value discount | 3% - 10% |
| | | Participant payment range | 5% - 10% |

The tables below set forth a summary of changes in the fair value of the Agencies' level 3 investment assets for the year ended June 30:

| | Contributions Receivable | Beneficial Interest In Perpetual Trusts |
|---|---|---|
| Balance, June 30, 2016 | $ 29,970,994 | 12,832,022 |
| New pledges received | 20,023,259 | - |
| Pledge collections | (7,455,232) | - |
| Bad debt losses and other pledge adjustments | (4,927,520) | - |
| Change in fair value | 74,937 | - |
| Unrealized gains | - | 1,404,539 |
| Trust distributions | - | (983,708) |
| Purchases, issuances, and settlements | - | 370,652 |
| Balance, June 30, 2017 | **37,686,438** | **13,623,505** |
| New pledges received | **3,521,382** | **-** |
| Pledge collections | **(20,564,231)** | **-** |
| Bad debt recoveries and other pledge adjustments | **245,816** | **-** |
| Change in fair value | **393,732** | **-** |
| Unrealized gains | **-** | **1,126,411** |
| Trust distributions | **-** | **(565,897)** |
| Purchases, issuances, and settlements | **-** | **225,504** |
| Balance, June 30, 2018 | **$ 21,283,137** | **$ 14,409,523** |

In general, a significant increase or decrease in the assumptions used in the unobservable inputs listed above would result in a directionally similar change in the fair value measurement.

## 8. Property and Equipment

Property and equipment consist of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| Furniture and fixtures | **$ 1,146,629** | $ 1,010,126 |
| Accumulated depreciation | **(822,728)** | (762,701) |
| Property and equipment, net | **$ 323,901** | $ 247,425 |

## 9. Long-Term Debt

Long-term debt consists of the following as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from $5,000,000 to $22,475,000, commencing 2021 through 2037. | **$ 10,000,000** | $ 10,000,000 |
| Fixed Rate Educational Facilities Revenue Bonds, Series 2016, payable in varying installments from $4,370,000 to $25,860,000, commencing 2031 through 2037. | **36,230,000** | 36,230,000 |
| Bond premiums, net | **511,112** | 698,884 |
| | **$ 46,741,112** | $ 46,928,884 |

Effective July 15, 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated July 13, 2006. The bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed in three series, Series 2006A-1 ($5,000,000) and 2006A-2 ($5,000,000), 2006B ($10,000,000), and 2006C ($22,475,000), and interest was converted to a fixed rate on each series.

Effective June 1, 2016, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to issue and sell Educational Facilities Revenue Refunding Bonds, Series 2016. The proceeds of the Bonds were used to establish an escrow account which will refund and defease the Series 2006B and 2006C bonds, including the redemption premium, accrued interest thereon, and to finance the costs of issuance of the 2016 Series bonds. The 2006B and 2006C bonds will be redeemed on June 1, 2019. In connection with the refunding and defeasance, the Agencies recognized a loss on extinguishment of debt totaling $2,856,240 for the year ended June 30, 2016, comprised primarily of the interest that will be paid from the escrow account on the 2006B and 2006C bonds until their redemption.

Series 2006A-1 bears interest of 4.25%; Series 2006A-2 bears interest at 5.0%. The 2016 bonds bear fixed interest of 3.0% (on $30,230,000 of principal) and 4.0% (on $6,000,000 of principal). Interest payments are due each June 1 and December 1.

The principal payment of $10,000,000 on Series 2006A-1 and 2006A-2 is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets. Management believes the fair value of long-term debt at June 30, 2018 and 2017 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling $1,132,290 at June 30, 2018 and 2017, are being amortized over the life of the loan using the effective interest method. Amortization of the premiums totaled $187,772 and $182,982 for 2018 and 2017, respectively.

## 10. Net Assets

Net assets consist of the following as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Unrestricted: | | |
| Quasi endowment funds, net of amounts held for future operations and financial aid | **$ 61,966,475** | $ 53,199,309 |
| Charitable gift annuity agreements | **861,240** | 725,370 |
| | **62,827,715** | 53,924,679 |
| Temporarily restricted: | | |
| Amounts restricted for future operations and accumulated endowment investment return, net of amounts spent | **182,613,482** | 165,207,304 |
| Charitable gift annuity and trust agreements | **8,149,127** | 7,453,870 |
| Contributions receivable | **12,373,243** | 16,422,933 |
| | **203,135,852** | 189,084,107 |
| Permanently restricted: | | |
| Endowment principal | **202,821,532** | 178,839,459 |
| Charitable gift annuity and trust agreements | **74,606** | 61,107 |
| Contributions receivable | **8,909,894** | 21,263,505 |
| | **211,806,032** | 200,164,071 |
| Total net assets | **$ 477,769,599** | $ 443,172,857 |

Temporarily restricted net assets are expendable for general operations, financial aid, and operations, maintenance and acquisition of property and equipment.

Permanently restricted net assets are restricted in perpetuity, the income from which is expendable to support general operations, financial aid and professorships.

## 11. Net Assets Released from Restrictions

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for the years ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Scholarships | **$ 4,488,426** | $ 4,719,023 |
| Instruction and academic support | **4,889,110** | 3,967,552 |
| Intercollegiate athletics | **3,270,329** | 1,333,675 |
| Physical plant | **309,902** | 319,496 |
| Other purposes | **810,895** | 1,034,230 |
| | **$ 13,768,662** | $ 11,373,976 |

## 12. Retirement Plan

The Agencies participate in the VMI Affiliated Organizations' Retirement Plan (Retirement Plan) which is a defined contribution plan. All full-time employees are eligible to participate and may contribute a percentage of their compensation. The Agencies' contribution is determined each year at the Agencies' sole discretion. For 2018 and 2017, the Agencies contributed to each eligible participant 8% of the participant's compensation. Additionally, a matching contribution up to 4% is available to eligible participants. Retirement plan expense totaled $339,530 and $307,282 for 2018 and 2017, respectively.

## 13. Functional Expenses

A breakdown of expenses by function for year ended June 30 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Program | **$ 19,666,149** | $ 18,978,015 |
| Management and general | **2,725,246** | 2,082,910 |
| Fundraising | **3,530,033** | 3,537,811 |
| | **$ 25,921,428** | $ 24,598,736 |

## 14. Endowment Funds

The Agencies' endowment consists of approximately 600 individual funds held in permanently restricted funds. The endowment includes only donor-restricted endowment funds. These funds were established for a variety of purposes. As required by U.S. GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds (UPMIFA) law as adopted by the state legislature. Virginia's version of UPMIFA was enacted during 2008. The Boards have interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agencies classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agencies in a manner consistent with the standard of prudence prescribed by the state UPMIFA law.

A summary of the activity in endowment funds for the years ended June 30 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2016 | $ - | $ 27,613,868 | $ 176,423,401 | $ 204,037,269 |
| Investment return: | | | | |
| Investment income, net | - | 1,760,602 | - | 1,760,602 |
| Net realized and unrealized gains | - | 24,416,233 | - | 24,416,233 |
| Total investment return | - | 26,176,835 | - | 26,176,835 |
| Contributions | - | - | 23,714,767 | 23,714,767 |
| Appropriation for expenditure | - | (10,228,913) | - | (10,228,913) |
| Actuarial change | - | - | 25,903 | 25,903 |
| Endowment net assets, June 30, 2017 | **-** | **43,561,790** | **200,164,071** | **243,725,861** |
| Investment return: | | | | |
| Investment income, net | **-** | **3,327,247** | **-** | **3,327,247** |
| Net realized and unrealized gains | **-** | **17,510,297** | **-** | **17,510,297** |
| Total investment return | **-** | **20,837,544** | **-** | **20,837,544** |
| Contributions | **-** | **-** | **11,657,591** | **11,657,591** |
| Appropriation for expenditure | **-** | **(11,463,183)** | **-** | **(11,463,183)** |
| Actuarial change | **-** | **-** | **(15,630)** | **(15,630)** |
| Endowment net assets, June 30, 2018 | **$ -** | **$ 52,936,151** | **$ 211,806,032** | **$ 264,742,183** |

In accordance with state UPMIFA law, the Agencies consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Agencies and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Agencies and (7) the investment policies of the Agencies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Agencies to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature should be reported in unrestricted net assets. There were no deficiencies as of June 30, 2018 and 2017.

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For 2018 and 2017, the Board approved spending formula for the endowment provided for an annual spending rate of 4.8% of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less that the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

***The VMI Alumni Agencies***

***Supplementary Information***

***Year Ended June 30, 2018***

**The VMI Alumni Agencies**
**Combining Statement of Financial Position**
**June 30, 2018, with Comparative Totals for June 30, 2017**

| | VMI Foundation, Incorporated, and Subsidiary | VMI Alumni Agencies Board, Incorporated | VMI Keydet Club, Incorporated | The VMI Alumni Association | Eliminations | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $ 16,590,603 | $ (7,070,197) | $ 1,772,335 | $ 480,551 | $ - | **$ 11,773,292** | $ 17,912,568 |
| Current portion of contributions receivable | 6,360,783 | 452,908 | 3,284,786 | - | - | **10,098,477** | 20,231,909 |
| Current portion of note receivable | 106,672 | - | - | - | - | **106,672** | 116,315 |
| Due from (to) other entities | 3,577,738 | (2,937,738) | (640,000) | - | - | **-** | - |
| Other assets | 2,439,617 | - | 33,447 | 33,049 | (2,325,036) | **181,077** | 213,109 |
| Total current assets | 29,075,413 | (9,555,027) | 4,450,568 | 513,600 | (2,325,036) | **22,159,518** | 38,473,901 |
| Noncurrent assets: | | | | | | | |
| Contributions receivable, less current portion | 5,654,009 | - | 5,530,651 | - | - | **11,184,660** | 17,454,529 |
| Note receivable, less current portion | - | - | - | - | - | **-** | 107,417 |
| Investments held by trustees | 342,067,109 | 74,425,698 | 56,848,503 | - | - | **473,341,310** | 417,552,460 |
| Investments, other | 17,022,680 | 820,341 | 389,939 | - | - | **18,232,960** | 16,602,136 |
| Cash surrender value of life insurance | 3,232,314 | 1,653,070 | 467,332 | - | - | **5,352,716** | 6,024,732 |
| Property and equipment, net | 309,822 | - | - | 14,079 | - | **323,901** | 247,425 |
| Total assets | $ 397,361,347 | $ 67,344,082 | $ 67,686,993 | $ 527,679 | $ (2,325,036) | **$ 530,595,065** | $ 496,462,600 |
| **LIABILITIES AND NET ASSETS** | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued expenses | $ 519,386 | $ (966,775) | $ 1,096,745 | $ 110,460 | $ - | **$ 759,816** | $ 977,708 |
| Current portion of trust and annuity obligations | 561,612 | 53,260 | 15,467 | - | - | **630,339** | 682,345 |
| Total current liabilities | 1,080,998 | (913,515) | 1,112,212 | 110,460 | - | **1,390,155** | 1,660,053 |
| Noncurrent liabilities: | | | | | | | |
| Trust and annuity obligations, less current portion | 4,652,721 | 41,478 | - | - | - | **4,694,199** | 4,700,806 |
| Bonds payable | - | 49,066,148 | - | - | (2,325,036) | **46,741,112** | 46,928,884 |
| | 5,733,719 | 48,194,111 | 1,112,212 | 110,460 | (2,325,036) | **52,825,466** | 53,289,743 |
| Net assets | 391,627,628 | 19,149,971 | 66,574,781 | 417,219 | - | **477,769,599** | 443,172,857 |
| Total liabilities and net assets | $ 397,361,347 | $ 67,344,082 | $ 67,686,993 | $ 527,679 | $ (2,325,036) | **$ 530,595,065** | $ 496,462,600 |

**See independent auditors' report.**

**The VMI Alumni Agencies**
**Combining Statement of Activities**
**Year Ended June 30, 2018, with Comparative Totals for Year Ended June 30, 2017**

| | VMI Foundation, Incorporated, and Subsidiary | VMI Alumni Agencies Board, Incorporated | VMI Keydet Club, Incorporated | The VMI Alumni Association | Eliminations | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Amounts raised on behalf of VMI | $ 19,287,384 | $ 863,629 | $ 4,473,393 | $ - | $ - | **$ 24,624,406** | $ 48,971,666 |
| Investment income and other revenue, net | (2,065,192) | (393,872) | 157,127 | 32,310 | 3,801,000 | **1,531,373** | 792,670 |
| Actuarial gain (loss) on trust and annuity obligations | (497,453) | 106,652 | (12,365) | - | - | **(403,166)** | (586,294) |
| Administrative fees | 4,099,765 | 577,735 | - | 1,436,050 | (6,086,050) | **27,500** | 30,000 |
| Total revenues | 20,824,504 | 1,154,144 | 4,618,155 | 1,468,360 | (2,285,050) | **25,780,113** | 49,208,042 |
| Expenses: | | | | | | | |
| Amounts remitted directly to and on behalf of VMI, undesignated: | | | | | | | |
| Athletic scholarships | - | 300,000 | 1,487,324 | - | - | **1,787,324** | 2,667,709 |
| Undesignated aid | 1,486,278 | 100,000 | - | - | - | **1,586,278** | 1,603,262 |
| Debt service | - | 1,421,628 | - | - | - | **1,421,628** | 1,423,232 |
| Moody Hall operations | - | - | - | 31,513 | - | **31,513** | 135,798 |
| New cadet recruiting | - | - | - | 89,789 | - | **89,789** | 120,475 |
| Placement | - | - | - | 15,961 | - | **15,961** | 21,791 |
| Total amounts remitted directly to VMI and to others on behalf of VMI, undesignated | 1,486,278 | 1,821,628 | 1,487,324 | 137,263 | - | **4,932,493** | 5,972,267 |

| | VMI Foundation, Incorporated, and Subsidiary | VMI Alumni Agencies Board, Incorporated | VMI Keydet Club, Incorporated | The VMI Alumni Association | Eliminations | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Expenses (continued): | | | | | | | |
| Amounts remitted directly to and on behalf of VMI, designated: | | | | | | | |
| Scholarships | 4,398,388 | 3,036 | 87,002 | - | - | **4,488,426** | 4,719,023 |
| Faculty awards | 28,800 | - | - | - | - | **28,800** | 96,600 |
| Professional chairs | 573,400 | - | - | - | - | **573,400** | 485,050 |
| Instruction | 1,652,558 | - | - | - | - | **1,652,558** | 1,569,179 |
| Student services | 5,790 | - | - | - | - | **5,790** | 6,150 |
| Insurance premiums | 108,361 | 2,102 | 40,980 | - | - | **151,443** | 133,419 |
| Cadet awards | 37,100 | - | - | - | - | **37,100** | 25,464 |
| Academic support | 287,320 | - | - | - | - | **287,320** | 260,342 |
| Public support | 605,566 | - | - | - | - | **605,566** | 157,595 |
| Library | 42,630 | - | - | - | - | **42,630** | 44,970 |
| Intercollegiate athletics | 39,890 | 603,933 | 2,626,506 | - | - | **3,270,329** | 1,333,675 |
| Trust distributions | 85,695 | 5,633 | 2,300 | - | - | **93,628** | 83,874 |
| Physical plant | 227,342 | 82,560 | - | - | - | **309,902** | 319,496 |
| Jackson Hope | 1,655,946 | - | - | - | - | **1,655,946** | 950,358 |
| Other | 715,566 | 1,700 | - | - | - | **717,266** | 1,322,202 |
| Total amounts remitted directly to VMI and to others on behalf of VMI, designated | 10,464,352 | 698,964 | 2,756,788 | - | - | **13,920,104** | 11,507,397 |
| Total amounts remitted directly to VMI and to others on behalf of VMI | 11,950,630 | 2,520,592 | 4,244,112 | 137,263 | - | **18,852,597** | 17,479,664 |

**The VMI Alumni Agencies**
**Combining Statement of Activities**
**Year Ended June 30, 2018, with Comparative Totals for Year Ended June 30, 2017** **(Continued)**

| | VMI Foundation, Incorporated, and Subsidiary | VMI Alumni Agencies Board, Incorporated | VMI Keydet Club, Incorporated | The VMI Alumni Association | Eliminations | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Cost of operations: | | | | | | | |
| Personnel | 3,084,515 | - | 745,071 | 700,959 | - | **4,530,545** | 4,445,605 |
| Office | 992,375 | 43,280 | 54,945 | 113,768 | - | **1,204,368** | 1,217,764 |
| Special functions | 9,514 | - | 189,296 | - | - | **198,810** | 234,689 |
| Alumni review | - | - | - | 254,995 | - | **254,995** | 312,342 |
| Travel and entertainment | 113,224 | - | 67,010 | 62,194 | - | **242,428** | 211,316 |
| Administrative fee to Foundation | - | 601,000 | 248,000 | - | (849,000) | **-** | - |
| Chapter promotions | - | - | - | 66,902 | - | **66,902** | 44,704 |
| Alumni activities | - | - | - | 168,169 | - | **168,169** | 113,821 |
| Alumni association | 1,436,050 | - | - | - | (1,436,050) | **-** | - |
| Campaign expenses | 339,161 | - | - | - | - | **339,161** | 353,861 |
| Other | 58,185 | - | - | 5,268 | - | **63,453** | 184,970 |
| Total cost of operations | 6,033,024 | 644,280 | 1,304,322 | 1,372,255 | (2,285,050) | **7,068,831** | 7,119,072 |
| Total expenses | 17,983,654 | 3,164,872 | 5,548,434 | 1,509,518 | (2,285,050) | **25,921,428** | 24,598,736 |
| Change in net assets before net realized and unrealized gains on investments | 2,840,850 | (2,010,728) | (930,279) | (41,158) | - | **(141,315)** | 24,609,306 |
| Net realized and unrealized gains on investments | 25,155,329 | 5,587,243 | 3,995,485 | - | - | **34,738,057** | 47,609,364 |
| Change in net assets | 27,996,179 | 3,576,515 | 3,065,206 | (41,158) | - | **34,596,742** | 72,218,670 |
| Net assets, beginning of year | 363,631,449 | 15,573,456 | 63,509,575 | 458,377 | - | **443,172,857** | 370,954,187 |
| Net assets, end of year | $ 391,627,628 | $ 19,149,971 | $ 66,574,781 | $ 417,219 | $ - | **$ 477,769,599** | $ 443,172,857 |

***The VMI Alumni Agencies***

***Investments Held by Trustees Financial Statements***

***Year Ended June 30, 2018***

## Statement of Assets, Liabilities, and Equity of Participating Entities

**June 30, 2018**

| | |
|---|---|
| **ASSETS** | |
| Investments, at fair value: | |
| Cash and cash equivalents | $ 10,561,444 |
| Fixed income | 60,130,001 |
| Equities | 226,116,297 |
| Private equities | 75,868,338 |
| Master limited partnerships | 18,666,723 |
| Absolute return funds | 81,998,507 |
| Total assets | $ 473,341,310 |
| | |
| **NET ASSETS OF PARTICIPATING ENTITIES** | |
| VMI Foundation, Incorporated | $ 342,067,109 |
| VMI Alumni Agencies Board, Incorporated | 74,425,698 |
| VMI Keydet Club, Incorporated | 56,848,503 |
| Net assets | $ 473,341,310 |

**VMI Investment Holdings, LLC**
**Investments Held by Trustees Financial Statements**
**Statement of Investments**
**June 30, 2018**

| | Cash and Cash Equivalents | Fixed Income | Equities | Private Equities | Master Limited Partnerships | Absolute Return Funds | Total Investments, at Cost | Total Investments, at Fair Value |
|---|---|---|---|---|---|---|---|---|
| Investment managers: | | | | | | | | |
| SSGA Russell 3000 | $ - | $ - | $ 57,289,511 | $ - | $ - | $ - | $ 57,289,511 | $ 112,646,367 |
| BDC Portfolio | - | 17,714,170 | - | - | - | - | 17,714,170 | 17,105,321 |
| Causeway International Value Fund | - | - | 15,049,072 | - | - | - | 15,049,072 | 15,934,614 |
| TCW Core Fixed Income | - | 29,077,668 | - | - | - | - | 29,077,668 | 27,624,576 |
| Various managers | - | 15,229,628 | 51,874,172 | 53,543,195 | 16,770,872 | 62,225,317 | 199,643,184 | 271,063,986 |
| Vanguard Real Estate Investment Trust | - | - | 14,508,994 | - | - | - | 14,508,994 | 18,405,002 |
| Dreyfus Government Cash Fund | 10,561,444 | - | - | - | - | - | 10,561,444 | 10,561,444 |
| Total cost basis | $ 10,561,444 | $ 62,021,466 | $ 138,721,749 | $ 53,543,195 | $ 16,770,872 | $ 62,225,317 | $ 343,844,043 | |
| Fair value | $ 10,561,444 | $ 60,130,001 | $ 226,116,297 | $ 75,868,338 | $ 18,666,723 | $ 81,998,507 | | $ 473,341,310 |

**VMI Investment Holdings, LLC**
**Investments Held by Trustees Financial Statements**
**Statement of Activity and Changes in Equity of Participating Entities**
**Year Ended June 30, 2018**

| | VMI Foundation, Incorporated, and Subsidiary | VMI Alumni Agencies Board, Incorporated | VMI Keydet Club, Incorporated | Total |
|---|---|---|---|---|
| Additions: | | | | |
| Income earned | $ 3,231,397 | $ 791,074 | $ 560,757 | $ 4,583,228 |
| Additional investment | 24,000,000 | - | 7,000,000 | 31,000,000 |
| Net realized and unrealized gains on investments | 24,075,681 | 5,465,779 | 3,909,855 | 33,451,315 |
| Transfers of prior year contributions | 15,000,000 | - | (15,000,000) | - |
| Total additions | 66,307,078 | 6,256,853 | (3,529,388) | 69,034,543 |
| Deductions: | | | | |
| Withdrawals | 6,000,000 | 1,800,000 | 1,740,000 | 9,540,000 |
| Fees | 2,701,718 | 593,985 | 409,990 | 3,705,693 |
| Total deductions | 8,701,718 | 2,393,985 | 2,149,990 | 13,245,693 |
| Excess (deficit) of additions over deductions | 57,605,360 | 3,862,868 | (5,679,378) | 55,788,850 |
| Net assets of participating entities, beginning of year | 284,461,749 | 70,562,830 | 62,527,881 | 417,552,460 |
| Net assets of participating entities, end of year | $ 342,067,109 | $ 74,425,698 | $ 56,848,503 | $ 473,341,310 |

# Note to Investments Held by Trustees Financial Statements

## 1. Significant Accounting Policies

Accounting policies of the VMI Investment Holdings, LLC considered to be significant are described below:

VMI Investment Holdings, LLC, which is comprised of representatives of each equity participant, is responsible for management of the funds. The following were equity participants during fiscal year 2018:

VMI Foundation, Incorporated and Subsidiary

VMI Alumni Agencies Board, Incorporated

VMI Keydet Club, Incorporated

On July 1, 1984, certain assets of the above entities were combined into a single portfolio; each entity was assigned an ownership interest in the portfolio based upon the fair market value of the assets contributed at that date. BNY Mellon, N.A. serves as custodian of VMI Investment Holding, LLC's assets.

Marketable securities are recorded at fair market value at the end of the year (see Note 4 of the combined financial statements). All other investments are recorded at cost as the date of acquisition.

In determining fair value, the VMI Investment Holdings, LLC uses the "market value unit method" whereby each participating entity acquires or disposes of units on the basis of the per-unit market value at the beginning of the month within which the transaction takes place. Income is allocated monthly to the participating entities based upon their respective ownership units.

Cash and cash equivalents include cash in banks and securities with maturities of three months or less.