

# **The VMI Alumni Agencies**

---

**Combined Financial Statements and  
Supplementary Information**

**Years Ended June 30, 2019 and 2018**



## **Table of Contents**

<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Combined Financial Statements:</b>	
Combined Statements of Financial Position.....	3
Combined Statements of Activities.....	4
Combined Statements of Cash Flows .....	6
Notes to Combined Financial Statements .....	7
<b>Supplementary Information:</b>	
Combining Statement of Financial Position.....	22
Combining Statement of Activities.....	23
Investments Held by Trustees Financial Statements:	
Statement of Assets, Liabilities, and Equity of Participating Entities.....	26
Statement of Investments.....	27
Statement of Activity and Changes in Equity of Participating Entities.....	28
Note to Investments Held by Trustees Financial Statements .....	29

## 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, 2019 and 2018, 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.



***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, 2019 and 2018, 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.

***Change in Accounting Principle***

As discussed in Note 2 to the combined financial statements, The VMI Alumni Agencies adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to that matter.

***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**  
**October 4, 2019**

**The VMI Alumni Agencies**  
**Combined Statements of Financial Position**  
**June 30, 2019 and 2018**

---

	<b>2019</b>	<b>2018</b>
	(As Adjusted)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,592,410	\$ 11,773,292
Current portion of contributions receivable	8,768,152	10,098,477
Note receivable	106,672	106,672
Other assets	<u>194,451</u>	<u>181,077</u>
Total current assets	<b>27,661,685</b>	22,159,518
Noncurrent assets:		
Contributions receivable, less current portion	9,193,601	11,184,660
Investments held by trustees	492,262,136	473,341,310
Investments, other	18,934,228	18,232,960
Cash surrender value of life insurance	5,466,998	5,352,716
Property and equipment, net	<u>291,048</u>	<u>323,901</u>
Total assets	<b>\$ 553,809,696</b>	<b>\$ 530,595,065</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,488,396	\$ 759,816
Current portion of trust and annuity obligations	<u>619,027</u>	<u>630,339</u>
Total current liabilities	<b>2,107,423</b>	1,390,155
Noncurrent liabilities:		
Trust and annuity obligations, less current portion	4,746,268	4,694,199
Bonds payable	<u>46,556,473</u>	<u>46,741,112</u>
Total liabilities	<b>53,410,164</b>	<b>52,825,466</b>
Net assets:		
Without donor restrictions	62,503,236	62,827,715
With donor restrictions	<u>437,896,296</u>	<u>414,941,884</u>
Total net assets	<b>500,399,532</b>	<b>477,769,599</b>
Total liabilities and net assets	<b>\$ 553,809,696</b>	<b>\$ 530,595,065</b>

**The VMI Alumni Agencies**  
**Combined Statement of Activities**  
**Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues:</b>			
Amounts raised on behalf of VMI	\$ 6,770,013	\$ 17,277,407	\$ 24,047,420
Investment income and other revenue, net	(439,515)	2,840,105	2,400,590
Actuarial loss on trust and annuity obligations	(356,866)	(274,483)	(631,349)
Net assets released from restrictions	13,401,396	(13,401,396)	-
 Total revenues	 19,375,028	 6,441,633	 25,816,661
<b>Expenses:</b>			
Amounts remitted directly to and on behalf of VMI:			
Undesignated	5,512,870	-	5,512,870
Designated	13,538,032	-	13,538,032
Cost of operations	7,558,793	-	7,558,793
 Total expenses	 26,609,695	 -	 26,609,695
 Change in net assets before net realized and unrealized gains on investments	 (7,234,667)	 6,441,633	 (793,034)
 Net realized and unrealized gains on investments	 6,910,188	 16,512,779	 23,422,967
 Change in net assets	 (324,479)	 22,954,412	 22,629,933
 Net assets, beginning of year (as adjusted)	 62,827,715	 414,941,884	 477,769,599
 Net assets, end of year	 \$ 62,503,236	 \$ 437,896,296	 \$ 500,399,532

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

---

	<b>Without Donor Restrictions (As Adjusted)</b>	<b>With Donor Restrictions (As Adjusted)</b>	<b>Total</b>
<b>Revenues:</b>			
Amounts raised on behalf of VMI	\$ 9,170,661	\$ 15,453,745	\$ 24,624,406
Investment income and other revenue, net	1,531,373	-	1,531,373
Actuarial loss on trust and annuity obligations	(128,014)	(275,152)	(403,166)
Administrative fees	27,500	-	27,500
Net assets released from restrictions	<u>13,768,662</u>	<u>(13,768,662)</u>	<u>-</u>
 Total revenues	 <u>24,370,182</u>	 <u>1,409,931</u>	 <u>25,780,113</u>
 <b>Expenses:</b>			
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	<u>7,068,831</u>	<u>-</u>	<u>7,068,831</u>
 Total expenses	 <u>25,921,428</u>	 <u>-</u>	 <u>25,921,428</u>
 Change in net assets before net realized and unrealized gains on investments	 (1,551,246)	 1,409,931	 (141,315)
 Net realized and unrealized gains on investments	 <u>10,454,282</u>	 <u>24,283,775</u>	 <u>34,738,057</u>
 Change in net assets	 8,903,036	 25,693,706	 34,596,742
 Net assets, beginning of year (as adjusted)	 <u>53,924,679</u>	 <u>389,248,178</u>	 <u>443,172,857</u>
 Net assets, end of year (as adjusted)	 <u>\$ 62,827,715</u>	 <u>\$ 414,941,884</u>	 <u>\$ 477,769,599</u>

**The VMI Alumni Agencies**  
**Combined Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

---

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Change in net assets	\$ 22,629,933	\$ 34,596,742
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Contributions restricted for long-term investment	(17,277,407)	(11,657,591)
Depreciation	32,853	60,028
Amortization of bond premiums	(184,639)	(187,772)
Net realized and unrealized gains on investments	(23,422,967)	(34,738,057)
Cash surrender value of life insurance	(114,282)	672,016
Actuarial loss on trust and annuity obligations	631,349	403,166
Change in operating assets and liabilities:		
Contributions receivable	3,321,384	16,403,301
Note receivable	-	117,060
Other assets	(13,374)	32,032
Accounts payable and accrued expenses	728,580	(217,892)
Trust and annuity obligations	<u>16,100</u>	<u>3,680</u>
Net cash (used) provided by operating activities	<u>(13,652,470)</u>	<u>5,486,713</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(136,504)
Purchases of investments	<u>(78,684,302)</u>	<u>(57,918,499)</u>
Proceeds from sales of investments	<u>82,485,175</u>	<u>35,236,882</u>
Net cash provided (used) by investing activities	<u>3,800,873</u>	<u>(22,818,121)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	<u>17,277,407</u>	<u>11,657,591</u>
Payments on trust and annuity obligations	<u>(606,692)</u>	<u>(465,459)</u>
Net cash provided by financing activities	<u>16,670,715</u>	<u>11,192,132</u>
Net increase (decrease) in cash and cash equivalents	<u>6,819,118</u>	<u>(6,139,276)</u>
Cash and cash equivalents, beginning of year	<u>11,773,292</u>	<u>17,912,568</u>
Cash and cash equivalents, end of year	<u>\$ 18,592,410</u>	<u>\$ 11,773,292</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,609,400</u>	<u>\$ 1,609,400</u>

## **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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The combined financial statements report amounts separately by class of assets as follows:

**Net assets without donor restrictions** are free from donor-imposed restrictions. Net assets without donor restrictions 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 restricted by the donors are included in this classification. Expenses are reported as reductions in this classification.

**Net assets with donor restrictions** are subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Agencies or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**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.

**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.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

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 either with or without donor restrictions support, depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. Unconditional promises to give without donor restrictions are recognized as restricted operating revenues unless the donor explicitly stipulates its use to support current period activities due to implied time restrictions.

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 with donor restrictions and a reclassification to net assets without donor restrictions 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 net assets without donor restrictions 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 with donor restrictions 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 \$18,636,509 and \$12,067,511 at June 30, 2019 and 2018, respectively. Concentration of credit risk for investments is limited by the Agencies' policy of diversification of investments.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**Functional expenses**

The Agencies allocate on a functional basis among their various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated by various statistical bases.

**New accounting pronouncement**

During fiscal year 2019, the Agencies adopted ASU No. 2016-14 – *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2018 financial information has been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources. This disclosure has been presented for 2019 as allowed by ASU No. 2016-14. The retrospective application resulted in temporarily restricted net assets of \$203,135,852 and permanently restricted net assets of \$211,806,032 being reported as net assets with donor restrictions and unrestricted net assets of \$62,827,715 being reported as net assets without donor restrictions as of June 30, 2018.

**Subsequent events**

In preparing these combined financial statements, the Agencies have evaluated events and transactions for potential recognition or disclosure through October 4, 2019, the date the combined financial statements were issued.

**3. Contributions Receivable**

Contributions receivable consist of the following as of June 30:

	<b>2019</b>	<b>2018</b>
Unconditional promises to give	\$ 17,961,753	\$ 21,283,137
Current portion	<u>(8,768,152)</u>	<u>(10,098,477)</u>
Contributions receivable	<u><b>\$ 9,193,601</b></u>	<u><b>\$ 11,184,660</b></u>
Gross amounts expected to be collected in:		
Less than one year	\$ 9,893,764	\$ 11,377,121
One to five years	10,769,812	12,645,276
More than five years	<u>32,808</u>	<u>586,418</u>
	<u><b>20,696,384</b></u>	<u><b>24,608,815</b></u>
Discount	(664,993)	(864,797)
Allowance for uncollectible contributions	<u>(2,069,638)</u>	<u>(2,460,881)</u>
Fair value	<u><b>\$ 17,961,753</b></u>	<u><b>\$ 21,283,137</b></u>

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

	<b>2019</b>	<b>2018</b>
Gross contributions receivable, beginning of year	\$ 24,608,815	\$ 43,251,518
New contributions receivable	4,911,270	3,521,382
Payments received	(7,295,587)	(20,564,231)
Write-offs and other adjustments	<u>(1,528,114)</u>	<u>(1,599,854)</u>
Gross contributions receivable, end of year	<u><b>\$ 20,696,384</b></u>	<u><b>\$ 24,608,815</b></u>

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

All contributions receivable are included in net assets with donor restrictions based on donor restrictions or implied time restrictions.

The fair value adjustment for 2019 and 2018 was \$199,804 and \$393,732, respectively, and is included in amounts raised on behalf of VMI in the combined statements of activities. The discount rate for 2019 and 2018 was 2.8% and 3.4%, respectively. No changes in the fair value measurement were attributable to instrument specific credit risk.

At June 30, 2019 and 2018, the Agencies had also received bequests and other intentions of approximately \$164 million. 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 2019 and 2018, approximately 36% and 37%, 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:

	<b>2019</b>	<b>2018</b>
Equities	<b>\$ 256,675,789</b>	52.1%
Private equities	<b>97,758,459</b>	19.9%
Absolute return funds	<b>74,631,009</b>	15.2%
Fixed income	<b>60,111,862</b>	12.2%
Cash and cash equivalents	<b>2,515,500</b>	0.5%
Master limited partnership	<b>569,517</b>	0.1%
	<b><u>\$ 492,262,136</u></b>	<b><u>100%</u></b>
	<b><u>\$ 473,341,310</u></b>	<b><u>100%</u></b>

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.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

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

	<b>2019</b>	<b>2018</b>
Investments, beginning of year	\$ 473,341,310	\$ 417,552,460
Gifts and amounts available for investments	<u>4,000,000</u>	<u>31,000,000</u>
	<u><u>477,341,310</u></u>	<u><u>448,552,460</u></u>
Investment returns:		
Dividends and interest	5,253,709	4,583,228
Net realized and unrealized gains	22,605,366	33,451,315
Investment fees	<u>(3,218,249)</u>	<u>(3,705,693)</u>
Total return on investments held by trustee, net	<u><u>24,640,826</u></u>	<u><u>34,328,850</u></u>
Net disbursements used to fund operations	<u>(9,720,000)</u>	<u>(9,540,000)</u>
Investments, end of year	<u><u>\$ 492,262,136</u></u>	<u><u>\$ 473,341,310</u></u>

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

	<b>2019</b>	<b>2018</b>
Investment return:		
Dividends and interest:		
Investments held by trustees	\$ 5,253,709	\$ 4,583,228
Investments, other	<u>260,544</u>	<u>236,685</u>
Total dividends and interest	<u><u>5,514,253</u></u>	<u><u>4,819,913</u></u>
Net realized and unrealized gains:		
Investments held by trustees	22,605,366	33,451,315
Investments, other	<u>621,581</u>	<u>1,260,557</u>
Total realized and unrealized gains	<u><u>23,226,947</u></u>	<u><u>34,711,872</u></u>
Investment fees	<u>(3,218,249)</u>	<u>(3,705,693)</u>
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	<u>300,606</u>	<u>443,338</u>
Total investment return	<u><u>\$ 25,823,557</u></u>	<u><u>\$ 36,269,430</u></u>
Included in the combined statements of activities as follows:		
Investment income and other revenue, net	\$ 2,400,590	\$ 1,531,373
Net realized and unrealized gains on investments	<u>23,422,967</u>	<u>34,738,057</u>
Investment return	<u><u>\$ 25,823,557</u></u>	<u><u>\$ 36,269,430</u></u>

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**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:

	<b>2019</b>			
	<u>Held by Agent</u>	<u>Held by Foundation</u>	<u>Held in Irrevocable Trusts*</u>	<u>Total at Fair Value**</u>
Equities	\$ 1,170,454	\$ 9	\$ 9,830,825	\$ 11,001,288
Fixed income	4,434	5,891	3,309,563	3,319,888
Real estate	-	3,151,064	-	3,151,064
Alternative investments	-	-	871,333	871,333
Cash and cash equivalents	172,330	792	400,405	573,527
Limited partnerships	-	17,128	-	17,128
Investments, other	<u>\$ 1,347,218</u>	<u>\$ 3,174,884</u>	<u>\$ 14,412,126</u>	<u>\$ 18,934,228</u>

  

	<b>2018</b>			
	<u>Held by Agent</u>	<u>Held by Foundation</u>	<u>Held in Irrevocable Trusts*</u>	<u>Total at Fair Value**</u>
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	<u>\$ 1,331,488</u>	<u>\$ 2,491,949</u>	<u>\$ 14,409,523</u>	<u>\$ 18,232,960</u>

\*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.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

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

	<b>2019</b>	<b>2018</b>
Investments, beginning of year	\$ 18,232,960	\$ 16,602,136
Gifts and amounts available for investment	<u>1,032,935</u>	<u>792,669</u>
	<u><b>19,265,895</b></u>	<u><b>17,394,805</b></u>
Investment returns:		
Dividends and interest	260,544	236,685
Net realized and unrealized gains	<u>621,581</u>	<u>1,260,557</u>
Total return on investments	<u><b>882,125</b></u>	<u><b>1,497,242</b></u>
Amounts appropriated for operations, net transfers to operational accounts and other activity	<u>(1,213,792)</u>	<u>(659,087)</u>
Investments, end of year	<u><b>\$ 18,934,228</b></u>	<u><b>\$ 18,232,960</b></u>

## **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.

	<b>Lock In Fiscal Year</b>	<b>Dollars Committed</b>	<b>Dollars Called To Date</b>	<b>Market Value*</b>
Total funds	2020	\$ 135,276,828	\$ 135,639,986	\$ 3,407,536
Total funds	2021	\$ 5,766,685	\$ 6,188,400	\$ 269,227
Total funds	2022	\$ 25,757,861	\$ 24,462,382	\$ 5,270,326
Total funds	2023	\$ 13,455,599	\$ 12,273,080	\$ 2,186,753
Total funds	2024	\$ 9,611,142	\$ 8,113,915	\$ 2,974,515
Total funds	2025	\$ 31,652,375	\$ 27,588,894	\$ 6,832,650
Total funds	2026	\$ 3,844,457	\$ 2,748,182	\$ 1,192,386
Total funds	2027	\$ 6,535,577	\$ 3,753,467	\$ 3,086,524
Total funds	2028	\$ 16,338,942	\$ 3,375,407	\$ 12,963,535
Total funds	2029	\$ 16,338,942	\$ 3,460,818	\$ 12,878,124

\*Market value may be significantly lower than dollars called to date based on capital returns since initial calls.

## **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.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**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, 2019.

**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 VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

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

	2019			
	Level 1	Level 2	Level 3	Total
Contributions receivable	\$ -	\$ -	\$ 17,961,753	\$ 17,961,753
Equities:				
U.S. Equities	1,170,463	133,872,511	-	135,042,974
Non-U.S. Equities	33,041,318	26,044,741	-	59,086,059
Emerging markets	-	19,668,791	-	19,668,791
Public REITs	20,634,370	-	-	20,634,370
Fixed income securities	48,669,985	-	-	48,669,985
Fixed income funds (a)	-	-	-	11,452,202
Private equities (a)	-	-	-	97,758,459
Emerging markets equity (a)	-	-	-	23,414,058
Absolute return funds (a)	-	-	-	74,631,009
Master limited partnerships (a)	-	-	-	569,517
Limited partnerships (a)	-	-	-	17,128
Beneficial interest in perpetual trusts	-	-	14,412,126	14,412,126
Total assets at fair value	<u>\$103,516,136</u>	<u>\$179,586,043</u>	<u>\$ 32,373,879</u>	<u>\$523,318,431</u>
	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	<u>\$ 92,414,832</u>	<u>\$163,009,595</u>	<u>\$ 35,692,660</u>	<u>\$499,651,667</u>

- (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 VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

The following table sets forth quantitative information about Level 3 fair value measurements at June 30, 2019:

	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range</u>
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:

	<u>Contributions Receivable</u>	<u>Beneficial Interest In Perpetual Trusts</u>
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	 <b>21,283,137</b>	 <b>14,409,523</b>
New pledges received	4,911,270	-
Pledge collections	(7,295,587)	-
Bad debts and other pledge adjustments	(1,136,871)	-
Change in fair value	199,804	-
Unrealized gains	-	530,851
Trust distributions	-	(1,043,436)
Purchases, issuances, and settlements	-	515,188
 Balance, June 30, 2019	 <b>\$ 17,961,753</b>	 <b>\$ 14,412,126</b>

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:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 1,146,629	\$ 1,146,629
Accumulated depreciation	(855,581)	(822,728)
 Property and equipment, net	 <b>\$ 291,048</b>	 <b>\$ 323,901</b>

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**9. Long-Term Debt**

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

	<b>2019</b>	<b>2018</b>
Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in installments of \$5,000,000 in 2021.	\$ 10,000,000	\$ 10,000,000
Fixed Rate Educational Facilities Revenue Refunding 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	<u>326,473</u>	<u>511,112</u>
	<b><u>\$ 46,556,473</u></b>	<b><u>\$ 46,741,112</u></b>

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. Series 2006B and 2006C were redeemed in exchange for the 2016 Fixed Rate Educational Facilities Revenue Refunding Bonds.

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, 2019 and 2018 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling \$1,132,290 at June 30, 2019 and 2018, are being amortized over the life of the loan using the effective interest method.

**10. Net Assets**

Net assets consist of the following as of June 30:

	<b>2019</b>	<b>2018</b>
Without donor restrictions:		
Quasi endowment funds, net of amounts held for future operations and financial aid	\$ 61,526,497	\$ 61,966,475
Charitable gift annuity agreements	<u>976,739</u>	<u>861,240</u>
	<b><u>62,503,236</u></b>	<b><u>62,827,715</u></b>
With donor restrictions:		
Endowment principal and amounts restricted for future operations, and accumulated endowment investment return, net of amounts spent	411,864,453	385,435,014
Charitable gift annuity and trust agreements	<u>8,070,090</u>	<u>8,223,733</u>
Contributions receivable	<u>17,961,753</u>	<u>21,283,137</u>
Total net assets	<b><u>\$ 500,399,532</u></b>	<b><u>\$ 477,769,599</u></b>

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

**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:

	<b>2019</b>	<b>2018</b>
Scholarships	\$ 4,745,629	\$ 4,488,426
Instruction and academic support	4,443,358	4,889,110
Intercollegiate athletics	3,044,590	3,270,329
Physical plant	299,483	309,902
Other purposes	868,336	810,895
	<hr/>	<hr/>
	<b>\$ 13,401,396</b>	<b>\$ 13,768,662</b>

**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 2019 and 2018, 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 \$341,964 and \$339,530 for 2019 and 2018, respectively.

**13. Availability and Liquidity of Financial Assets**

The following represents the Agencies' financial assets at June 30, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 18,592,410
Contributions receivable	17,961,753
Investments held by trustees	492,262,136
Investments, other	<hr/> 18,934,228
Total financial assets	<hr/> 547,750,527
Less amounts not available to be used within one year:	
Quasi endowment funds, net of amounts held for future operations and financial aid	(61,526,497)
Net assets with donor restrictions	<hr/> (437,896,296)
Financial assets available to meet general expenditures over the next twelve months	<hr/> \$ 48,327,734

The Agencies' policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity plan, the Agencies transfer excess cash into pooled investments managed in accordance with their investment policy.

**The VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

#### **14. Functional Expenses**

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

	<b>2019</b>			
	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Grants and allocations	\$ 16,542,616	\$ -	\$ -	\$ 16,542,616
Personnel	1,437,675	1,500,588	1,974,125	4,912,388
Office administration	353,476	423,250	313,022	1,089,748
Other operating expenses	498,129	1,071,440	556,211	2,125,780
Alumni events	222,598	55,649	-	278,247
Professional fees	57,832	129,469	48,854	236,155
Interest	1,282,285	142,476	-	1,424,761
	<b><u>\$ 20,394,611</u></b>	<b><u>\$ 3,322,872</u></b>	<b><u>\$ 2,892,212</u></b>	<b><u>\$ 26,609,695</u></b>

  

	<b>2018</b>			
	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Grants and allocations	\$ 16,349,098	\$ -	\$ -	\$ 16,349,098
Personnel	1,116,397	1,034,216	2,379,933	4,530,546
Office administration	269,345	365,026	318,704	953,075
Other operating expenses	481,620	1,025,930	756,320	2,263,870
Alumni events	160,984	40,246	-	201,230
Professional fees	9,240	117,665	75,076	201,981
Interest	1,279,465	142,163	-	1,421,628
	<b><u>\$ 19,666,149</u></b>	<b><u>\$ 2,725,246</u></b>	<b><u>\$ 3,530,033</u></b>	<b><u>\$ 25,921,428</u></b>

#### **15. Endowment Funds**

The Agencies' endowment consists of approximately 600 individual funds held in donor-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 net assets with donor restrictions (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 VMI Alumni Agencies**  
**Notes to Combined Financial Statements**

---

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

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ _____ -	<u>\$ 243,725,861</u>	<u>\$ 243,725,861</u>
Investment return:			
Investment income, net	- _____	3,327,247	3,327,247
Net realized and unrealized gains	- _____	<u>17,510,297</u>	<u>17,510,297</u>
Total investment return	- _____	<u>20,837,544</u>	<u>20,837,544</u>
Contributions	- _____	11,657,591	11,657,591
Appropriation for expenditure	- _____	(11,463,183)	(11,463,183)
Actuarial change	- _____	<u>(15,630)</u>	<u>(15,630)</u>
Endowment net assets, June 30, 2018	- _____	<u>264,742,183</u>	<u>264,742,183</u>
Investment return:			
Investment income, net	- _____	2,754,147	2,754,147
Net realized and unrealized gains	- _____	<u>12,325,675</u>	<u>12,325,675</u>
Total investment return	- _____	<u>15,079,822</u>	<u>15,079,822</u>
Contributions	- _____	17,277,407	17,277,407
Appropriation for expenditure	- _____	(12,230,559)	(12,230,559)
Actuarial change	- _____	<u>(18,070)</u>	<u>(18,070)</u>
Endowment net assets, June 30, 2019	\$ _____ -	<u>\$ 284,850,783</u>	<u>\$ 284,850,783</u>

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 U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies as of June 30, 2019 and 2018.

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 2019 and 2018, the Board approved spending formula for the endowment provided for an annual spending rate of 4.75% and 4.80%, respectively 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 than 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, 2019***

**The VMI Alumni Agencies**  
**Combining Statement of Financial Position**  
**June 30, 2019, with Comparative Totals for June 30, 2018**

	VMI Foundation, Incorporated, and Subsidiary	VMI Alumni Agencies Board, Incorporated	VMI Keydet Club, Incorporated	The VMI Alumni Association	Eliminations	Total 2019	Total 2018
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 22,031,647	\$ (7,879,119)	\$ 4,098,509	\$ 341,373	\$ -	\$ 18,592,410	\$ 11,773,292
Current portion of contributions receivable	5,799,485	-	2,968,667	-	-	8,768,152	10,098,477
Current portion of note receivable	106,672	-	-	-	-	106,672	106,672
Due from (to) other entities	1,592,842	(717,298)	(875,544)	-	-	-	-
Other assets	2,443,573	15,444	22,324	38,146	(2,325,036)	194,451	181,077
Total current assets	<u>31,974,219</u>	<u>(8,580,973)</u>	<u>6,213,956</u>	<u>379,519</u>	<u>(2,325,036)</u>	<u>27,661,685</u>	<u>22,159,518</u>
Noncurrent assets:							
Contributions receivable, less current portion	4,874,252	-	4,319,349	-	-	9,193,601	11,184,660
Investments held by trustees	357,965,509	76,443,913	57,852,714	-	-	492,262,136	473,341,310
Investments, other	18,151,964	375,206	407,058	-	-	18,934,228	18,232,960
Cash surrender value of life insurance	3,285,918	1,688,325	492,755	-	-	5,466,998	5,352,716
Property and equipment, net	<u>279,943</u>	<u>-</u>	<u>-</u>	<u>11,105</u>	<u>-</u>	<u>291,048</u>	<u>323,901</u>
Total assets	<u>\$ 416,531,805</u>	<u>\$ 69,926,471</u>	<u>\$ 69,285,832</u>	<u>\$ 390,624</u>	<u>\$ (2,325,036)</u>	<u>\$ 553,809,696</u>	<u>\$ 530,595,065</u>
<b>LIABILITIES AND NET ASSETS</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 903,318	\$ (612,497)	\$ 1,058,274	\$ 139,301	\$ -	\$ 1,488,396	\$ 759,816
Current portion of trust and annuity obligations	577,175	26,431	15,421	-	-	619,027	630,339
Total current liabilities	<u>1,480,493</u>	<u>(586,066)</u>	<u>1,073,695</u>	<u>139,301</u>	<u>-</u>	<u>2,107,423</u>	<u>1,390,155</u>
Noncurrent liabilities:							
Trust and annuity obligations, less current portion	4,685,967	60,301	-	-	-	4,746,268	4,694,199
Bonds payable	-	48,881,509	-	-	(2,325,036)	46,556,473	46,741,112
	6,166,460	48,355,744	1,073,695	139,301	(2,325,036)	53,410,164	52,825,466
Net assets	<u>410,365,345</u>	<u>21,570,727</u>	<u>68,212,137</u>	<u>251,323</u>	<u>-</u>	<u>500,399,532</u>	<u>477,769,599</u>
Total liabilities and net assets	<u>\$ 416,531,805</u>	<u>\$ 69,926,471</u>	<u>\$ 69,285,832</u>	<u>\$ 390,624</u>	<u>\$ (2,325,036)</u>	<u>\$ 553,809,696</u>	<u>\$ 530,595,065</u>

**The VMI Alumni Agencies**  
**Combining Statement of Activities**  
**Year Ended June 30, 2019, with Comparative Totals for Year Ended June 30, 2018**

---

	VMI Foundation, Incorporated, and Subsidiary	VMI Alumni Agencies Board, Incorporated	VMI Keydet Club, Incorporated	The VMI Alumni Association	Eliminations	Total 2019	Total 2018
<b>Revenues:</b>							
Amounts raised on behalf of VMI	\$ 17,296,472	\$ 2,610,781	\$ 4,140,167	\$ -	\$ -	\$ 24,047,420	\$ 24,624,406
Investment income and other revenue, net	1,780,711	332,182	260,400	27,297	-	2,400,590	1,531,373
Actuarial loss on trust and annuity obligations	(597,948)	(17,400)	(16,001)	-	-	(631,349)	(403,166)
Administrative fees	(50,000)	2,220,440	50,000	1,113,365	(3,333,805)	-	27,500
<b>Total revenues</b>	<b>18,429,235</b>	<b>5,146,003</b>	<b>4,434,566</b>	<b>1,140,662</b>	<b>(3,333,805)</b>	<b>25,816,661</b>	<b>25,780,113</b>
<b>Expenses:</b>							
Amounts remitted directly to and on behalf of VMI, undesignated:							
Athletic scholarships	-	-	1,986,047	-	-	1,986,047	1,787,324
Undesignated aid	1,609,659	400,000	-	-	-	2,009,659	1,586,278
Debt service	-	1,424,761	-	-	-	1,424,761	1,421,628
Moody Hall operations	-	-	-	11,452	-	11,452	31,513
New cadet recruiting	-	-	-	63,174	-	63,174	89,789
Placement	-	-	-	17,777	-	17,777	15,961
<b>Total amounts remitted directly to VMI and to others on behalf of VMI, undesignated</b>	<b>1,609,659</b>	<b>1,824,761</b>	<b>1,986,047</b>	<b>92,403</b>	<b>-</b>	<b>5,512,870</b>	<b>4,932,493</b>

**The VMI Alumni Agencies**  
**Combining Statement of Activities**  
**Year Ended June 30, 2019, with Comparative Totals for Year Ended June 30, 2018**

**(Continued)**

	VMI Foundation, Incorporated, and Subsidiary	VMI Alumni Agencies Board, Incorporated	VMI Keydet Club, Incorporated	The VMI Alumni Association	Eliminations	Total 2019	Total 2018
<b>Expenses (continued):</b>							
Amounts remitted directly to and on behalf of VMI, designated:							
Scholarships	4,698,199	47,430	-	-	-	<b>4,745,629</b>	4,488,426
Faculty awards	43,230	-	-	-	-	<b>43,230</b>	28,800
Professional chairs	453,305	-	-	-	-	<b>453,305</b>	573,400
Instruction	1,543,572	-	-	-	-	<b>1,543,572</b>	1,652,558
Student services	18,830	-	-	-	-	<b>18,830</b>	5,790
Insurance premiums	86,048	5,150	45,439	-	-	<b>136,637</b>	151,443
Cadet awards	60,192	-	-	-	-	<b>60,192</b>	37,100
Academic support	306,994	-	-	-	-	<b>306,994</b>	287,320
Public support	471,294	-	-	-	-	<b>471,294</b>	605,566
Library	48,360	-	-	-	-	<b>48,360</b>	42,630
Intercollegiate athletics	43,088	539,111	2,462,391	-	-	<b>3,044,590</b>	3,270,329
Trust distributions	89,442	3,615	2,290	-	-	<b>95,347</b>	93,628
Physical plant	218,133	81,350	-	-	-	<b>299,483</b>	309,902
Jackson Hope	1,118,780	-	-	-	-	<b>1,118,780</b>	1,655,946
Leadership	378,800	-	-	-	-	<b>378,800</b>	-
Other	772,989	-	-	-	-	<b>772,989</b>	717,266
Total amounts remitted directly to VMI and to others on behalf of VMI, designated	<b>10,351,256</b>	<b>676,656</b>	<b>2,510,120</b>	-	-	<b>13,538,032</b>	13,920,104
Total amounts remitted directly to VMI and to others on behalf of VMI	<b>11,960,915</b>	<b>2,501,417</b>	<b>4,496,167</b>	<b>92,403</b>	-	<b>19,050,902</b>	18,852,597

**The VMI Alumni Agencies**  
**Combining Statement of Activities**  
**Year Ended June 30, 2019, with Comparative Totals for Year Ended June 30, 2018**

**(Continued)**

	VMI Foundation, Incorporated, and Subsidiary	VMI Alumni Agencies Board, Incorporated	VMI Keydet Club, Incorporated	The VMI Alumni Association	Eliminations	Total 2019	Total 2018
<b>Cost of operations:</b>							
Personnel	1,379,750	2,354,045	445,949	732,644	-	<b>4,912,388</b>	4,530,545
Office	334,446	1,124,492	50,433	98,089	-	<b>1,607,460</b>	1,204,368
Special functions	21,602	4,476	194,012	-	-	<b>220,090</b>	198,810
Alumni review	-	77,995	-	-	-	<b>77,995</b>	254,995
Travel and entertainment	111,547	72,721	37,539	61,804	-	<b>283,611</b>	242,428
Administrative fee to Foundation	1,934,895	-	285,545	-	(2,220,440)	-	-
Chapter promotions	-	-	-	126,563	-	<b>126,563</b>	66,902
Alumni activities	-	-	-	186,394	-	<b>186,394</b>	168,169
Alumni Association	1,113,365	-	-	-	(1,113,365)	-	-
Consulting and campaign expenses	-	119,799	-	-	-	<b>119,799</b>	339,161
Other	6,088	9,744	-	8,661	-	<b>24,493</b>	63,453
 Total cost of operations	 4,901,693	 3,763,272	 1,013,478	 1,214,155	 (3,333,805)	 <b>7,558,793</b>	 7,068,831
 Total expenses	 16,862,608	 6,264,689	 5,509,645	 1,306,558	 (3,333,805)	 <b>26,609,695</b>	 25,921,428
 Change in net assets before net realized and unrealized gains on investments	 1,566,627	 (1,118,686)	 (1,075,079)	 (165,896)	 -	 <b>(793,034)</b>	 (141,315)
 Net realized and unrealized gains on investments	 17,171,090	 3,539,442	 2,712,435	 -	 -	 <b>23,422,967</b>	 34,738,057
 Change in net assets	 18,737,717	 2,420,756	 1,637,356	 (165,896)	 -	 <b>22,629,933</b>	 34,596,742
 Net assets, beginning of year	 391,627,628	 19,149,971	 66,574,781	 417,219	 -	 <b>477,769,599</b>	 443,172,857
 Net assets, end of year	 <b>\$ 410,365,345</b>	 <b>\$ 21,570,727</b>	 <b>\$ 68,212,137</b>	 <b>\$ 251,323</b>	 \$ -	 <b>\$ 500,399,532</b>	 \$ 477,769,599

***The VMI Alumni Agencies***

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

***Year Ended June 30, 2019***

**VMI Investment Holdings, LLC****Investments Held by Trustees Financial Statements****Statement of Assets, Liabilities, and Equity of Participating Entities****June 30, 2019****ASSETS**

Investments, at fair value:

Cash and cash equivalents	\$ 2,515,500
Fixed income	60,111,862
Equities	256,675,789
Private equities	97,758,459
Master limited partnerships	569,517
Absolute return funds	<u>74,631,009</u>
Total assets	<u>\$ 492,262,136</u>

**NET ASSETS OF PARTICIPATING ENTITIES**

VMI Foundation, Incorporated	\$ 357,965,509
VMI Alumni Agencies Board, Incorporated	76,443,913
VMI Keydet Club, Incorporated	<u>57,852,714</u>
Net assets	<u>\$ 492,262,136</u>

**VMI Investment Holdings, LLC**  
**Investments Held by Trustees Financial Statements**  
**Statement of Investments**  
**June 30, 2019**

---

	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	\$ -	\$ -	\$ 72,110,406	\$ -	\$ -	\$ -	\$ 72,110,406	\$ 133,872,511
BDC Portfolio	-	18,667,564	-	-	-	-	18,667,564	18,161,684
Causeway International Value Fund	-	-	14,575,428	-	-	-	14,575,428	14,256,838
TCW Core Fixed Income	-	27,771,013	-	-	-	-	27,771,013	27,696,974
Various managers	-	12,410,676	65,146,558	74,540,742	514,847	53,343,632	205,956,455	275,124,259
Vanguard Real Estate Investment Trust	-	-	15,306,055	-	-	-	15,306,055	20,634,370
Dreyfus Government Cash Fund	2,515,500	-	-	-	-	-	2,515,500	2,515,500
Total cost basis	\$ 2,515,500	\$ 58,849,253	\$ 167,138,447	\$ 74,540,742	\$ 514,847	\$ 53,343,632	\$ 356,902,421	
Fair value	\$ 2,515,500	\$ 60,111,862	\$ 256,675,789	\$ 97,758,459	\$ 569,517	\$ 74,631,009		\$ 492,262,136

**VMI Investment Holdings, LLC****Investments Held by Trustees Financial Statements****Statement of Activity and Changes in Equity of Participating Entities****Year Ended June 30, 2019**

	<b>VMI Foundation, Incorporated, and Subsidiary</b>	<b>VMI Alumni Agencies Board, Incorporated</b>	<b>VMI Keydet Club, Incorporated</b>	<b>Total</b>
<b>Additions:</b>				
Income earned	\$ 3,794,874	\$ 825,399	\$ 633,436	\$ 5,253,709
Net realized and unrealized gains on investments	16,440,297	3,491,469	2,673,600	22,605,366
Contributions	<u>4,000,000</u>	-	-	<u>4,000,000</u>
 Total additions	 <u>24,235,171</u>	 <u>4,316,868</u>	 <u>3,307,036</u>	 <u>31,859,075</u>
<b>Deductions:</b>				
Withdrawals	6,000,000	1,800,000	1,920,000	9,720,000
Fees	<u>2,336,771</u>	<u>498,653</u>	<u>382,825</u>	<u>3,218,249</u>
 Total deductions	 <u>8,336,771</u>	 <u>2,298,653</u>	 <u>2,302,825</u>	 <u>12,938,249</u>
 Excess of additions over deductions	 15,898,400	 2,018,215	 1,004,211	 18,920,826
 Net assets of participating entities, beginning of year	 <u>342,067,109</u>	 <u>74,425,698</u>	 <u>56,848,503</u>	 <u>473,341,310</u>
 Net assets of participating entities, end of year	 <u>\$ 357,965,509</u>	 <u>\$ 76,443,913</u>	 <u>\$ 57,852,714</u>	 <u>\$ 492,262,136</u>

## **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 2019:

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.