

**VIRGINIA COMMONWEALTH UNIVERSITY
SCHOOL OF ENGINEERING FOUNDATION**

FINANCIAL REPORT

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees

Virginia Commonwealth University School of Engineering Foundation
Richmond, Virginia

We have audited the accompanying statement of financial position of Virginia Commonwealth University School of Engineering Foundation as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 financial statements and, in our report dated September 10, 2008, except for Note 8, which is February 27, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Commonwealth University School of Engineering Foundation as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 8, subsequent to the issuance of the Foundation's 2008 financial statements and our report thereon dated September 10, 2008, we became aware that those financial statements did not correctly reflect the liability associated with an interest rate swap agreement as of June 30, 2008. In our original report we expressed an unqualified opinion on the 2008 financial statements, and our opinion on the revised statements, as expressed herein, remains unqualified.

Mitchell, Wiggins & Company, LLP

Richmond, Virginia
September 9, 2009

**VIRGINIA COMMONWEALTH UNIVERSITY SCHOOL OF ENGINEERING
FOUNDATION**

STATEMENT OF FINANCIAL POSITION

June 30, 2009, with Comparative Totals as of June 30, 2008

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2009	2008
Cash and cash equivalents	\$ 7,070,893	\$ 4,686,568	\$ 6,694,373	\$ 18,451,834	\$ 10,114,912
Contributions receivable, less allowance for uncollectible receivables 2009 \$58,865; 2008 \$140,081	716,388	-	3,149,167	3,865,555	9,198,689
Investments	47,039,014	1,258,016	771,430	49,068,460	67,709,631
Interfund obligations	(351,473)	(103,953)	455,426	-	-
Cash surrender value of life insurance	1,376,728	-	-	1,376,728	1,226,339
Bond issuance costs, net of accumulated amortization 2009 \$262,548; 2008 \$204,496	869,635	-	-	869,635	927,687
Real estate, net of accumulated depreciation 2009 \$11,654,022; 2008 \$9,357,432	57,343,660	-	-	57,343,660	59,640,250
Land	3,112,659	-	-	3,112,659	1,057,317
Deposits on future property acquisitions	-	-	-	-	2,051,812
Total assets	\$ 117,177,504	\$ 5,840,631	\$ 11,070,396	\$ 134,088,531	\$ 151,926,637

(Continued)

**VIRGINIA COMMONWEALTH UNIVERSITY SCHOOL OF ENGINEERING
FOUNDATION**

**STATEMENT OF FINANCIAL POSITION (Continued)
June 30, 2009, with Comparative Totals as of June 30, 2008**

LIABILITIES AND NET ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2009	2008
Liabilities					
Accounts payable	\$ 130,997	\$ -	\$ -	\$ 130,997	\$ 55,616
Accrued interest payable	126,606	-	-	126,606	130,740
Due to Virginia Commonwealth University	68,549,258	-	-	68,549,258	67,090,731
Deposits held for Virginia Commonwealth University	-	4,465,982	-	4,465,982	4,371,218
Accrued contributions to Virginia Commonwealth University	36,085,934	-	-	36,085,934	37,453,624
Other liabilities	12	-	-	12	13
Total liabilities	104,892,807	4,465,982	-	109,358,789	109,101,942
Net Assets	12,284,697	1,374,649	11,070,396	24,729,742	42,824,695
Total liabilities and net assets	\$ 117,177,504	\$ 5,840,631	\$ 11,070,396	\$ 134,088,531	\$ 151,926,637

See Notes to Financial Statements.

**VIRGINIA COMMONWEALTH UNIVERSITY SCHOOL OF ENGINEERING
FOUNDATION**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009, with Comparative Totals for the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2009	2008
Operating revenue:					
Contributions	\$ 2,076,561	\$ 428,068	\$ 762,703	\$ 3,267,332	\$ 8,138,896
Noncash contributions, equipment	-	1,464,577	-	1,464,577	65,743
Rental income	3,156,396	-	-	3,156,396	2,249,221
Miscellaneous	-	-	-	-	12,250
Net assets released from restrictions	35,158,431	(35,158,431)	-	-	-
Total operating revenue	40,391,388	(33,265,786)	762,703	7,888,305	10,466,110
Operating expenses:					
Distributions to and in support of Virginia Commonwealth University	2,724,949	-	-	2,724,949	1,836,082
Contribution to Virginia Commonwealth University	1,367,690	-	-	1,367,690	26,119,767
Depreciation and amortization	2,354,642	-	-	2,354,642	1,645,250
Interest expense	1,532,250	-	-	1,532,250	1,345,004
Life insurance expense, net	144,237	-	-	144,237	144,555
Professional fees	26,517	-	-	26,517	39,852
Other expenses	6,306	-	-	6,306	5,715
Bad debt expense	1,377,700	-	1,200	1,378,900	560,502
Loss on sale of property	-	-	-	-	5,309
Total expenses	9,534,291	-	1,200	9,535,491	31,702,036
Operating changes in net assets	30,857,097	(33,265,786)	761,503	(1,647,186)	(21,235,926)
Other changes in net assets:					
Investment loss	(11,631,085)	(2,118,156)	-	(13,749,241)	15,604,465
Unrealized loss on interest rate swap agreement	(2,698,526)	-	-	(2,698,526)	(2,730,149)
Net asset reclassification based on recently enacted endowment legislation	-	2,981,417	(2,981,417)	-	-
Changes in net assets	16,527,486	(32,402,525)	(2,219,914)	(18,094,953)	(8,361,610)
Net assets (deficit), beginning	(4,242,789)	33,777,174	13,290,310	42,824,695	51,186,305
Net assets, ending	\$ 12,284,697	\$ 1,374,649	\$ 11,070,396	\$ 24,729,742	\$ 42,824,695

See Notes to Financial Statements.

**VIRGINIA COMMONWEALTH UNIVERSITY SCHOOL OF ENGINEERING
FOUNDATION**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2009**

Cash Flows From Operating Activities	
Changes in net assets	\$ (18,094,953)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation	2,296,590
Amortization	58,052
Unrealized loss on interest rate swap agreement	2,698,526
Net realized losses on investment transactions	2,265,957
Net unrealized losses on investments	11,697,570
Permanently restricted contributions	(762,703)
Changes in operating assets and liabilities:	
Decrease in assets:	
Contributions receivable	3,372,774
Increase (decrease) in liabilities:	
Accounts payable	75,381
Accrued interest payable	(4,134)
Deposits held for Virginia Commonwealth University	94,764
Accrued contributions to Virginia Commonwealth University	(1,367,690)
Net cash provided by operating activities	<u>2,330,134</u>
Cash Flows From Investing Activities	
Purchase of investment securities	(221,506)
Proceeds from sale of investments	4,899,150
Increase in other assets	(3,530)
Increase in cash surrender value of life insurance	(150,389)
Net cash provided by investing activities	<u>4,523,725</u>
Cash Flows From Financing Activities	
Receipt of permanently restricted contributions	2,723,063
Payments to Virginia Commonwealth University under financing agreements	(1,240,000)
Net cash provided by financing activities	<u>1,483,063</u>
Increase in cash and cash equivalents	8,336,922
Cash and cash equivalents, beginning	<u>10,114,912</u>
Cash and cash equivalents, ending	<u>\$ 18,451,834</u>
Supplemental Disclosures of Cash Flow Information	
Cash payments for interest	<u>\$ 1,536,384</u>
Noncash contribution of equipment and subsequent disbursement to Virginia Commonwealth University	<u>\$ 1,464,577</u>

See Notes to Financial Statements.

VIRGINIA COMMONWEALTH UNIVERSITY SCHOOL OF ENGINEERING FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Virginia Commonwealth University School of Engineering Foundation, “the Foundation,” organized May 16, 1995, is a Virginia corporation which functions as a nonprofit charitable foundation solely to assist and support Virginia Commonwealth University. The Foundation is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

The sole purpose of the Foundation is to provide financial and other support to the School of Engineering for the benefit of Virginia Commonwealth University. All expenses incurred by the Foundation support this activity and are, therefore, deemed to be program service expenses.

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

Basis of accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial statement presentation: Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net asset classes are summarized as follows:

The unrestricted net asset class includes the general assets and liabilities of the Foundation. Revenue and support received by the Foundation without explicit donor restrictions that specify how the donated asset must be used or maintained are reported as unrestricted to the Foundation. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Trustees to support the Foundation's purpose and operations.

The temporarily restricted net asset class includes funds available for support of the Foundation's activities, which are expendable only for purposes specified by the donor or within a specific period. When a restriction expires either with the passage of time or by actions of the Foundation, temporarily restricted net assets are released and reclassified to unrestricted net assets. Temporarily restricted net assets at June 30, 2009, consist of contributions restricted by donor designation to support individual departments and specific initiatives within the VCU School of Engineering.

NOTES TO FINANCIAL STATEMENTS

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

The permanently restricted net asset class includes assets and related liabilities of the Foundation related to contributions for which the donor has restricted the investment of the gift corpus in perpetuity. The income generated from the investment of the corpus is available for the Foundation's operations in accordance with donor restrictions. Appreciation related to the Foundation permanently restricted net assets, if not specifically restricted otherwise, follows the donor's income restriction and is included in the temporarily restricted net asset class until appropriated. At June 30, 2009, the income from these permanently restricted net assets may be used in support of the VCU School of Engineering including scholarships, endowed chairs and other school-related programs.

Cash and cash equivalents: For purposes of reporting the statement of cash flows, the Foundation includes all cash accounts except funds held by investment managers, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying balance sheet. The Foundation, at times, may have cash in excess of insured limits. The Foundation's cash is in institutions whose credit ratings are monitored by management to minimize the concentration of credit risk. At June 30, 2009, the Foundation had cash balances and cash investments that exceeded insurance limits.

Contributions receivable: Unconditional promises to give that are expected to be collected or paid within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received or paid. Amortization of the discounts is included in contribution revenue or expense. Conditional promises to give are not included in support or expenses until the conditions are substantially met. The Foundation provides an allowance for doubtful accounts equal to estimated pledge defaults. The estimated defaults are based on historical collection experience together with a review of the current status of the existing receivables.

NOTES TO FINANCIAL STATEMENTS

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

Investments: Investments in all debt securities and equity securities with readily determinable market values are recorded at fair market value under the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Alternative investments include investments in limited partnerships and limited liability corporations (hedge funds, private equity and publicly-traded securities). Alternative investment interests are stated at fair value based on the financial statements and other information received from the general partners of such entities. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals. The Foundation believes that the stated value of its alternative investments was a reasonable estimate of its fair value as of June 30, 2009. However, alternative investments are not marketable and some of the alternative investments have underlying investments which do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed for these alternative investments. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements as unrealized gain (loss) on investments. Actual gains or losses are dependent upon the general partners' distributions during the life of each partnership.

Bond issuance costs: Bond issuance costs are being amortized over the corresponding lives of the bonds which are 17 - 24 years.

Real estate: Acquisitions of real estate are recorded at cost or, if donated, at fair market value at the time of donation. Depreciation is provided for properties that are actively rented using the straight-line method at rates adequate to amortize the cost of the property over its estimated useful life. The estimated useful lives of these properties are between 10 to 30 years.

Gifts: The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donations or contributions of land, buildings, equipment and gifts-in-kind are recorded at fair market value when received or pledged, if earlier.

Promises to give: Under the provisions of SFAS No. 116, the Foundation will record as a liability any unconditional promise to give. If the unconditional promise to give is to occur over several fiscal periods, the liability will be measured at its present value.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

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

Measure of operations: The Foundation reports as change in net assets from operations all activities, except for investment income or loss and the change in value of the interest rate swap agreement.

Reclassifications: Certain accounts relating to the prior year have been restated to conform to the current year's presentation. The reclassifications have no effect on the previously reported income or net asset balances.

Note 2. Contributions Receivable

Contributions receivable as of June 30, 2009, are expected to be received as follows:

Receivable in less than one year	\$ 2,957,740
Receivable in one to five years	1,075,715
	<u>4,033,455</u>
Less discount	(109,035)
Less allowance for uncollectible receivables	(58,865)
	<u>\$ 3,865,555</u>

Discount rates of between 1.26% to 5.83% were used in determining the present value of the contributions receivable.

Note 3. Investments

Assets of various funds are pooled for investment purposes. Equity of individual funds in the pooled investments is maintained using the "market value method." Under the market value method, units of participation are assigned when dollars enter the pool based upon the most recently determined market value of units. The market value of units of participation is calculated monthly.

Pooled assets at June 30, 2009, are summarized below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Gross Unrealized Gains</u>
Alternative investments	\$ 28,477,002	\$ 49,068,460	\$ (256,834)	\$ 20,848,292

The number of units of participation in the pooled investments at June 30, 2009, was 1,529,213.02 with a \$32.087393 value per unit.

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments (Continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest income	\$ 131,304	\$ 82,982	\$ -	\$ 214,286
Realized losses	(2,263,378)	(2,579)	-	(2,265,957)
Net unrealized losses	(9,499,011)	(2,198,559)	-	(11,697,570)
Total investment loss	\$ (11,631,085)	\$ (2,118,156)	\$ -	\$ (13,749,241)

Pursuant to its limited partnership agreements as of June 30, 2009, the Foundation had unfunded commitments of approximately \$180,000.

Note 4. Fair Value Measurements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"), which is effective for the Foundation's fiscal year beginning July 1, 2008. FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157" delayed the effective date for one year for all nonrecurring fair value measurements of nonfinancial assets and liabilities. As a result, the Foundation's adoption of SFAS No. 157, effective July 1, 2008, is currently limited to financial assets and liabilities measured at fair value on a recurring basis.

SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS 157. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The Foundation has no Level 1 assets.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. The Foundation has no Level 2 assets. The Foundation's Level 2 liabilities include approximately a \$4.0 interest rate swap agreement.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Value Measurements (Continued)

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include investments in limited partnerships and limited liability corporations.

The following table presents the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, classified by SFAS No. 157 fair value hierarchy:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>June 30,</u>			
	<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Alternative investments	<u>\$ 49,068,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,068,460</u>
Liabilities				
Interest rate swap	<u>\$ 4,039,258</u>	<u>\$ -</u>	<u>\$ 4,039,258</u>	<u>\$ -</u>

The following table summarizes the Foundation's Level 3 reconciliation by the SFAS 157 standards as of June 30, 2009:

<u>Investments at fair value</u>	<u>Level 3</u>
Balance at July 1, 2008	<u>\$ 67,709,631</u>
Total net realized depreciation included in net income	<u>(2,263,308)</u>
Total net unrealized loss included in net income	<u>(11,697,570)</u>
Purchase of portfolio investments	<u>218,857</u>
Proceeds from sales, redemptions, and distributions	<u>(4,899,150)</u>
Balance at June 30, 2009	<u>\$ 49,068,460</u>

The amount of total losses for the period included in the statement of activities attributable to the change in unrealized losses relating to assets still held at the reporting date is (\$13,960,878).

The Foundation's other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, contributions receivable, cash surrender value of life insurance, accounts payable, accrued liabilities, deposits held for Virginia Commonwealth University and amounts due to Virginia Commonwealth University for debt service and are reflected in the financial statements at cost. Cost approximates fair value for these items.

NOTES TO FINANCIAL STATEMENTS

Note 5. School of Engineering Project – Phase I

The Foundation entered into a project development and financing agreement with Virginia Commonwealth University for purposes of constructing a facility to house the School of Engineering. Under the terms of this agreement, the Foundation was to construct the facility using funds advanced from a Virginia Commonwealth University bond issue. Upon completion of the facility, the two parties entered into a lease whereby the Foundation would lease the property to Virginia Commonwealth University for \$1 annually with Virginia Commonwealth University being responsible for all operating costs. The original lease term began August 1998 and terminates on May 1, 2021. The lessee has the option to renew this lease for three additional consecutive terms of ten, five and five years, respectively. Upon the expiration of the initial lease term or any exercised renewal options, Virginia Commonwealth University may purchase the property from the Foundation at a price equal to the greater of the Foundation's original cost or the Foundation's share of the property's fair market value.

Under the provisions of SFAS No. 116, the Foundation has recorded as a liability an amount equal to the estimated present value of the future rental value of the facility over the initial lease term less the \$1 annual rent payments due under the lease. A discount rate of 5.22% was used in determining the present value of the promise to give. Rental income in the amount of \$1,333,296 for the years ended June 30, 2009, with the corresponding reduction in the present value of the accrued contributions included in the caption, Support to Virginia Commonwealth University. At June 30, 2009, the estimated present value of the future rental value of the facility was \$11,551,338 and is included in the caption, Accrued contributions to Virginia Commonwealth University.

The Foundation also agreed, as a part of the project development and financing agreement, to make annual payments to Virginia Commonwealth University to cover the debt service on the bonds issued by Virginia Commonwealth University. The original bonds issued carried interest rates from 4.60% to 5.75% and matured from 2000-2021. During the year ended June 30, 2004, Virginia Commonwealth University initiated a refunding plan to retire the remaining original bonds. Since the bonds were not callable until May 1, 2006, the bond proceeds were deposited into an escrow account and invested in government securities until such time as the original bonds could be called. These new bonds carry interest rates ranging from 1.50% to 5.00% and mature from 2005-2021. This liability is included on the accompanying statement of financial position under the caption, Due to Virginia Commonwealth University. During the year ended June 30, 2009, principal and interest payments in the amount of \$1,240,000 and \$778,450, respectively, were made to Virginia Commonwealth University under this agreement.

NOTES TO FINANCIAL STATEMENTS

Note 5. School of Engineering Project – Phase I (Continued)

Aggregate principal payments required under the debt service agreement at June 30, 2009, are as follows:

Fiscal Year Ending June 30	
2010	\$ 1,265,000
2011	1,295,000
2012	1,335,000
2013	1,370,000
2014	1,415,000
Thereafter	<u>12,030,000</u>
	<u>\$18,710,000</u>

Note 6. School of Engineering Project – Phase II

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

Under the provisions of SFAS No. 116, the Foundation has recorded as a liability an amount equal to the estimated present value of the future rental value of the facility over the initial lease term less the \$1 annual rent payments due under the lease. A discount rate of 4.56% was used in determining the present value of the promise to give. Rental income in the amount of \$1,823,100 was recorded for the year ended June 30, 2009, with the corresponding reduction in the present value of the accrued contributions included in the caption, Contribution to Virginia Commonwealth University. At June 30, 2009, the estimated present value of the future rental value of the facility was \$24,534,596 and is included in the caption, Accrued contributions to Virginia Commonwealth University.

The Foundation agreed, as a part of the project development and financing agreement, to make annual payments to Virginia Commonwealth University to cover the debt service on the bonds issued by Virginia Commonwealth University. The bonds issued carry a variable interest rate, currently being remarketed in a daily mode. The debt service due to the bond issue is included on the accompanying statement of financial position under the caption, Due to Virginia Commonwealth University. During the year ended June 30, 2009, interest payments in the amount of \$753,800 were made to Virginia Commonwealth University under this agreement.

NOTES TO FINANCIAL STATEMENTS

Note 6. School of Engineering Project – Phase II (Continued)

In conjunction with the issuance of debt, the University entered into a 25-year swap agreement, maturing in 2030. Under the swap, the University is obligated to pay a fixed rate of 3.436% to the swap counterparty in exchange for 67% of the one-month London Interbank Offering Rate. The differential paid or received on the swap agreement is recognized as an adjustment to this liability.

Aggregate principal payments required under the debt service agreement at June 30, 2009, are as follows:

Fiscal Year Ending June 30	
2010	\$ 1,460,000
2011	1,370,000
2012	1,425,000
2013	1,480,000
2014	1,545,000
Thereafter	38,520,000
Swap value, 6/30/2009	4,039,258
	<u>\$49,839,258</u>

Note 7. Endowment

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subjected to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Virginia enacted UPMIFA effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Foundation has adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Trustees has determined that the majority of the permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Foundation's interpretation of UPMIFA, the Foundation has reviewed all of its endowment funds and has reclassified \$2,981,417 from permanently restricted net assets to temporarily restricted net assets.

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment (Continued)

The Foundation's endowment consists of approximately 24 individual funds established for purposes which support the Foundation. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant State Law: The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (455,426)	\$ 1,258,016	\$ 11,070,396	\$ 11,872,986

The following schedule summarizes the net asset composition by type of funds as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (455,426)	\$ 1,258,016	\$ 11,070,396	\$ 11,872,986
Unrestricted funds	12,740,123	-	-	12,740,123
Temporarily restricted funds	-	116,633	-	116,633
Total net assets	\$ 12,284,697	\$ 1,374,649	\$ 11,070,396	\$ 24,729,742

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment (Continued)

The following schedule summarizes the changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 13,290,310	\$ 13,290,310
Net asset reclassification based on change in law	-	2,981,417	(2,981,417)	-
Endowment net assets after reclassification	-	2,981,417	10,308,893	13,290,310
Investment loss:				
Investment income	-	76,987	-	76,987
Net depreciation, realized and unrealized	(455,426)	(1,745,713)	-	(2,201,139)
Total investment loss	(455,426)	(1,668,726)	-	(2,124,152)
Contributions	-	-	762,703	762,703
Appropriation of endowment assets for expenditure	-	(54,675)	-	(54,675)
Other changes:				
Bad debt	-	-	(1,200)	(1,200)
Endowment net assets, end of year	\$ (455,426)	\$ 1,258,016	\$ 11,070,396	\$ 11,872,986

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment (Continued)

A description of the amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of June 30, 2009 is as follows:

Permanently Restricted Net Assets

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

\$ 11,070,396

Total endowment funds classified as permanently restricted net assets

\$ 11,070,396

Temporarily Restricted Net Assets

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

\$ 1,258,016

Total endowment funds classified as temporarily restricted net assets

\$ 1,258,016

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$455,426 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred during the fiscal year ending June 30, 2009.

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to maximize total return over a multi-year period, with a strong emphasis on preservation of capital. Actual returns in any given year may vary from this amount.

NOTES TO FINANCIAL STATEMENTS

Note 7. Endowment (Continued)

Strategies employed for achieving objectives: To satisfy its long term rate-of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through a portfolio that provides diversification from traditional “long equity” holdings. These asset classes include, but are not limited to hedge funds and hedge “fund of funds” that invest in long and short equity holdings, high yield equities and distressed debt. The managers selected for these asset classes must undergo more rigorous due diligence as the accounts are not subject to the same regulatory oversight as traditional securities. Alternative assets may include participation in limited partnership agreements, mutual funds, closed end investment funds, trust agreements, etc., as approved by the Investment Committee.

Spending policy: Foundation has a policy of appropriating for distribution each year up to five (5) percent of the eight-quarter average market value of endowment fund units as of December 31 of the preceding calendar year. In establishing this policy, the Foundation considered the long term expected return on its endowment. This is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

Note 8. Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended June 30, 2008, from which the summarized information was derived.