



CONSOLIDATED FINANCIAL REPORT

(In Accordance with the Requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)

JUNE 30, 2021



**VIRGINIA TECH FOUNDATION, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT
**(In Accordance with the Requirements of Title 2 U.S Code of Federal
Regulations (CFR) Part 200, Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Awards)**

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Directors
Virginia Tech Foundation, Inc. and Subsidiaries
Blacksburg, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Tech Foundation, Inc. and Subsidiaries (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Virginia Tech Foundation, Inc. and Subsidiaries' preparation and fair presentation of the consolidated 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 Foundation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Tech Foundation, Inc. and Subsidiaries as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Your Success is Our Focus

Report on Summarized Comparative Information

We have previously audited the Foundation's consolidated financial statements as of and for the year ended June 30, 2020, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2021, on our consideration of Virginia Tech Foundation, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Tech Foundation, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2021 (With Comparative Totals for June 30, 2020)

(Dollars in Thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 120,417	\$ 108,101
Restricted cash and cash equivalents	41,800	67,151
Total cash and cash equivalents	162,217	175,252
Trade accounts and interest receivable	15,718	7,640
Inventories	1,172	1,490
Prepaid expenses and other assets	8,464	5,964
Short-term investments (Note 3)	90,835	52,234
Contributions receivable (Note 2)	183,436	151,364
Notes receivable and deeds of trust (Note 6)	23,091	23,844
Long-term investments (Note 3)	1,740,491	1,427,016
Irrevocable trusts held by others	5,839	5,183
Vintage and other collection items	7,004	6,431
Net investment in direct financing leases (Note 9)	74,405	76,227
Land, buildings, and equipment, net (Note 4)	367,931	330,793
Deferred tax asset (Note 8)	3,378	-
Other assets, net	3,622	2,400
Total assets	\$ 2,687,603	\$ 2,265,838
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,909	\$ 10,197
Deferred revenue and other liabilities	17,654	11,984
Annuity obligations	6,783	6,239
Liabilities under trust agreements	25,595	22,504
Notes payable (Note 6)	7,836	8,507
Bonds payable (Note 7)	320,148	336,217
Agency deposits held in trust (Note 5)	570,833	459,300
Deferred tax liability (Note 8)	-	2,454
Total liabilities	957,758	857,402
NET ASSETS (Note 16)		
Without donor restrictions	358,512	300,947
With donor restrictions	1,371,333	1,107,489
Total net assets	1,729,845	1,408,436
Total liabilities and net assets	\$ 2,687,603	\$ 2,265,838

The Notes to Consolidated Financial Statements are an integral part of these statements.

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

June 30, 2021 (With Comparative Totals for June 30, 2020)

(Dollars in Thousands)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, NET GAINS, AND OTHER SUPPORT				
Contributions	\$ 8,215	\$ 168,736	\$ 176,951	\$ 163,473
Investment income	5,987	6,836	12,823	13,097
Rental income	42,389	2,008	44,397	41,726
Hotel revenues	11,185	-	11,185	17,892
Golf course revenues	1,627	-	1,627	1,357
Other income	9,156	9,342	18,498	20,630
Change in fair value of interest rate swaps (Note 7)	531	-	531	(115)
Net gains (losses) on investments	9,976	189,272	199,248	(47,881)
Net assets released from restrictions (Note 16)	120,493	(120,493)	-	-
Total revenues, net gains, and other support	<u>209,559</u>	<u>255,701</u>	<u>465,260</u>	<u>210,179</u>
EXPENSES				
Program services				
Instruction and academic programs	19,674	-	19,674	25,450
Research programs	8,050	-	8,050	7,047
Public service programs	5,961	-	5,961	5,910
Scholarships	32,775	-	32,775	33,634
Grants to University for capital outlay	13,709	-	13,709	17,991
Other University programs	17,637	-	17,637	23,408
Hotel costs	7,194	-	7,194	10,387
Golf course costs	1,993	-	1,993	1,959
Total program services	<u>106,993</u>	<u>-</u>	<u>106,993</u>	<u>125,786</u>

(Continued)

The Notes to Consolidated Financial Statements are an integral part of these statements.

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

June 30, 2021 (With Comparative Totals for June 30, 2020)

(Dollars in Thousands)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
EXPENSES (CONTINUED)				
Supporting services				
Corporate Research Center costs	\$ 17,858	\$ -	\$ 17,858	\$ 16,383
Fundraising	10,878	-	10,878	14,234
Management and general	12,392	-	12,392	14,568
Hotel management and general	7,189	-	7,189	9,211
Golf course management and general	469	-	469	491
Total supporting services	48,786	-	48,786	54,887
Total expenses (Note 17)	155,779	-	155,779	180,673
Change in valuation of split-interest agreements	-	(8,143)	(8,143)	(754)
Loss on extinguishment of debt	1,646	-	1,646	2,125
Total expenses, change in valuation of split-interest agreements, and loss on extinguishment of debt	157,425	(8,143)	149,282	182,044
Change in net assets before income taxes	52,134	263,844	315,978	28,135
Income tax (benefit) expense (Note 8)	(5,431)	-	(5,431)	1,029
CHANGE IN NET ASSETS	57,565	263,844	321,409	27,106
NET ASSETS				
Beginning	300,947	1,107,489	1,408,436	1,381,330
Ending	\$ 358,512	\$ 1,371,333	\$ 1,729,845	\$ 1,408,436

The Notes to Consolidated Financial Statements are an integral part of these statements.

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ 321,409	\$ 27,106
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,013	11,603
Loss on extinguishment of debt	1,646	2,125
Net losses (gains) on investments	(199,248)	47,881
Contributions restricted for long-term investment	(51,240)	(39,358)
In-kind contributions of land, buildings, and equipment	-	(39,074)
Contributions of securities	(17,510)	(29,087)
Deferred income taxes	(5,832)	257
(Increase) decrease in:		
Trade accounts and interest receivable	(8,078)	(2,060)
Inventories	318	138
Prepaid expenses and other assets	(2,500)	340
Contributions receivable	(32,072)	1,436
Vintage and other collection items	(573)	(630)
Increase (decrease) in:		
Accounts payable and accrued expenses	(246)	(418)
Deferred revenue and other liabilities	(7,038)	(2,854)
Annuity obligations	544	(942)
Agency deposits held in trust	111,533	13,207
Net cash provided by (used in) operating activities	122,126	(10,330)
INVESTING ACTIVITIES		
Purchases of land, buildings, and equipment	(44,222)	(30,371)
Purchases of investments	(5,604,526)	(3,760,651)
Proceeds from sales and maturities of investments	5,479,053	3,715,584
Collections of notes receivable and deeds of trust	1,748	712
Advances on notes receivable and deeds of trust	(995)	(2,060)
(Increase) decrease in deposits with trustees	(11,073)	1,657
(Increase) decrease in irrevocable trusts held by others	(656)	2,469
Payments received on net investment in direct financing leases	9,713	9,688
Net cash used in investing activities	(170,958)	(62,972)

(Continued)

The Notes to Consolidated Financial Statements are an integral part of these statements.

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

	2021	2020
FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term investment	\$ 51,240	\$ 39,358
Proceeds from borrowings on bonds payable	1,104	134,496
Proceeds from borrowings on notes payable	2,090	2,004
Payments for bond issuance costs	(405)	(1,160)
Principal payments on bonds payable	(20,567)	(17,731)
Principal payments on notes payable	(756)	(1,014)
Increase (decrease) in liabilities under trust agreements	3,091	(1,434)
	35,797	154,519
Net cash provided by financing activities	35,797	154,519
(Decrease) increase in cash and cash equivalents	(13,035)	81,217
CASH AND CASH EQUIVALENTS		
Beginning	175,252	94,035
Ending	\$ 162,217	\$ 175,252
SUPPLEMENTAL DISCLOSURES		
Cash payments for interest, net of amounts capitalized: 2021, \$3,522; 2020, \$2,021	\$ 7,139	\$ 7,288
Income taxes paid during the year	\$ 989	\$ 710
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Noncash assets received as contributions	\$ -	\$ 39,074
Purchases of land, buildings, and equipment included in accounts payable and accrued expenses	\$ 1,152	\$ 2,194
Establishment of right-of-use assets	\$ 5,330	\$ -
Establishment of lease liabilities	\$ 5,388	\$ -
Bonds payable incurred to refund existing bonds	\$ 45,230	\$ 31,870

The Notes to Consolidated Financial Statements are an integral part of these statements.

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization

The purpose of Virginia Tech Foundation, Inc. (VTF) is to receive, invest, and manage private funds given for the support of Virginia Polytechnic Institute and State University (“Virginia Tech” or the “University”) and to foster and promote the growth, progress, and general welfare of the University. VTF has various wholly-owned subsidiaries including, but not limited to, Virginia Tech Corporate Research Center, Inc. (VTCRC) and Virginia Tech Real Estate Foundation, Inc. (VTREF). A complete listing of the entities directly or indirectly owned by the Foundation is shown in the supplemental schedules.

VTCRC was organized solely for the benefit of the University and VTF. VTCRC is to engage in any and all activities and business incident to ownership, development, and operation of a research center in support of University programs, and owns several wholly-owned subsidiaries that provide services to VTCRC and its tenants.

VTREF was organized solely for the benefit of the University and VTF. VTREF is to engage in any and all matters pertaining to certain real property for the benefit of the University. VTREF has a number of wholly-owned subsidiaries that own, develop, operate, and manage various parcels of real estate. These entities include, but are not limited to, H. R. Foundation, Inc. (HRF) and Hotel Roanoke, LLC (HRLLC), a Virginia limited liability company, dba The Hotel Roanoke. These two entities were established to renovate and refurbish The Hotel Roanoke (the “Hotel”) and operate and manage the 331-room Hotel. HRF owns a 72% interest in the voting rights of HRLLC, and the remaining 28% interest in the voting rights is held by VTREF.

Principles of consolidation

The consolidated financial statements include the financial statements of Virginia Tech Foundation, Inc. and its wholly-owned subsidiaries (collectively, the “Foundation”). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of financial statement presentation

The accompanying consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and in accordance with the provisions of accounting principles generally accepted in the United States of America (GAAP) applicable to not-for-profit organizations.

The accompanying consolidated financial statements present information regarding the Foundation’s financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported in two classes as follows:

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions. These net assets may be designated for specific purposes by action of the Board of Directors (the “Board”) or may otherwise be limited by contractual agreements with outside parties. Board-designated endowment funds are not subject to donor restrictions and are included in net assets without donor restrictions. Revenues, gains, and losses that are not net assets with donor restrictions are included in this classification. Expenses are reported as decreases in this classification.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

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

Basis of financial statement presentation (Continued)

Net assets with donor restrictions are net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Use of estimates

The preparation of consolidated financial statements in conformity with 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comparative financial information

The consolidated statement of activities and changes in net assets includes summarized comparative information in total, but not by net asset class, for the year ended June 30, 2020. As a result, the prior year comparative information presented does not include sufficient detail to constitute a presentation of a complete set of financial statements in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Cash and cash equivalents

The Foundation considers short-term liquid investments purchased with original maturities of three months or fewer to be cash equivalents. At June 30, 2021 and 2020, cash equivalents of \$151,475 and \$169,301, respectively, consisted primarily of U.S. treasury securities, government agency discount notes, collateralized repurchase agreements, Federal Deposit Insurance Corporation (FDIC) insured bank deposits, and government money market funds. During the year, the Foundation's bank deposits may exceed federally insured limits; however, the Foundation has not experienced losses in such accounts and does not believe it is exposed to any significant risk.

Cash and cash equivalents of permanent endowment funds held until suitable long-term investment opportunities are identified are included in long-term investments on the consolidated statement of financial position.

Restricted cash and cash equivalents on the consolidated statement of financial position includes unspent bond proceeds restricted for construction of facilities in support of the University. In addition, 8% of total gross Hotel revenues during each fiscal year are restricted for Hotel furniture, fixtures, and equipment replacement or building improvement expenditures. Cash and cash equivalents restricted for this purpose have also been separately recorded in the accompanying consolidated statement of financial position as restricted cash and cash equivalents.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

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

Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Foundation's best estimate of the amount of probable credit losses in the Foundation's existing accounts receivable. The Foundation determines the allowance based on historical write-off experience and overall economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. At June 30, 2021 and 2020, the Foundation determined an allowance for doubtful accounts was not necessary. The Foundation does not have any off-balance-sheet credit exposure related to its customers.

Inventories

Inventories consisting primarily of livestock, golf pro shop merchandise, and Hotel beverage items are stated at the lower of cost or net realizable value. The cost of livestock inventories is determined using the specific identification method. The cost of golf pro shop merchandise and Hotel inventories is determined using the first-in, first-out method.

Impairment of notes receivable and deeds of trust

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note receivable or deed of trust to be impaired when it is probable that the Foundation will be unable to collect all amounts due according to the contractual terms of the note agreement. When a note or deed of trust is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the effective interest rate. Impairment losses are included in the allowance for impaired notes receivable or deed of trust through a charge to bad debt expense. Cash receipts on impaired notes or deed of trust receivables are applied to reduce the principal amount of such notes or receivables until the principal has been recovered and are recognized as interest income thereafter. For the years ended June 30, 2021 and 2020, the Foundation recognized no impairment losses on notes receivable and deeds of trust.

Investments

Investments in marketable debt and equity securities are reported at fair value based on quoted market prices. Other investments, such as investments in real estate, interests in internally managed trusts, joint venture agreements, venture capital funds, partnership interests, and equity securities in closely held companies are reported at net asset value (NAV) as determined by investment managers. In accordance with fair value guidance, NAV is used as a practical expedient to estimate the fair value of these funds. The Foundation reviews and evaluates the NAVs provided by investment managers and agrees with the valuation assumptions and methods used in determining NAV. Because these alternative investments are not readily marketable, their estimated fair value is subject to additional uncertainty, and therefore, values realized upon disposition may vary significantly from currently reported estimated fair values. Investments in real estate held for sale are valued at the purchase price or fair value at the date of the gift, if received as a donation, and subsequently reviewed for impairment.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

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

Investments (Continued)

The Foundation's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated financial statements.

Purchases and sales of investments are recorded on the trade date. Realized and unrealized gains and losses on investments as well as dividends, interest, and other investment income are reported as follows:

- Increases or decreases in net assets with donor restrictions if donor stipulations of the assets require that they be added to the principal of an endowment fund to be held in perpetuity, if the donor stipulations of the assets received impose restrictions on the use of the income, or as required by law;
- Increases or decreases in net assets without donor restrictions in all other cases.

Irrevocable trusts held by others

Irrevocable trusts held by others represents the Foundation's interest in trust funds managed outside the Foundation in which the Foundation is named as an irrevocable beneficiary of the assets or has the irrevocable right to receive income earned on the assets. These assets are measured at estimated fair value, where practicable, net of the present value of the estimated future benefits to be distributed to the other designated beneficiary or beneficiaries over the trust's term.

Vintage and other collection items

Vintage and other collection items are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost, if acquired by purchase, or at estimated fair value at the date of donation, if contributed by a donor. Certain of the Foundation's physical assets are exhaustible and are used to provide a service. Accordingly, buildings and equipment are reflected net of accumulated depreciation. Depreciation is computed on the straight-line method based on estimated useful lives of 20 to 40 years for buildings and five to 10 years for equipment.

Interest is normally expensed as incurred, except when it is incurred in conjunction with major capital additions, and then it is capitalized as part of the asset cost. The amounts of interest capitalized are determined by applying current interest rates to the funds required to finance the construction, net of interest earned, on bond proceeds held by the trustee. Net interest costs capitalized during the years ended June 30, 2021 and 2020 totaled \$3,522 and \$2,021, respectively.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

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

Long-lived assets

Long-lived assets, such as buildings and equipment, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Foundation first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. Assets to be disposed of would be presented separately in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. For the years ended June 30, 2021 and 2020, the Foundation recognized impairment losses of \$400 and \$-0-, respectively.

Income taxes

VTCRC and HRF are taxable corporations. VTF and all other entities included in these consolidated financial statements are not generally subject to income taxes under present tax laws.

Income taxes for VTCRC and HRF are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the change in net assets in the period that includes the enactment date.

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has analyzed filing positions in the federal and state jurisdictions where it is required to file income tax returns, and no reserves for uncertain tax positions, nor interest and penalties, have been recorded in these consolidated financial statements. The only periods subject to examination are the 2018 through 2020 tax years.

Derivative instruments

The Foundation has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. The Foundation's interest rate swap agreements are recognized as either assets, included in prepaid expenses and other assets, or liabilities, included in deferred revenue and other liabilities in the consolidated statement of financial position at their respective fair values. Changes in the fair value of the derivatives are recorded in the consolidated statement of activities and changes in net assets.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

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

Revenue recognition

Contributions

Contributions of cash and other assets, including unconditional promises to give or contributions receivable, are recognized as contribution revenue without donor restrictions or with donor restrictions depending on the existence or nature of donor stipulations. Contributions designated for future periods or restricted by the donor for a specific purpose are reported as contributions with donor restrictions.

Contributions of long-lived assets with no donor-imposed time restrictions are reported as contributions without donor restrictions. Contributions of cash and other assets restricted to the acquisition of long-lived assets are reported as revenues in net assets with donor restrictions. Those restrictions are considered to be released when the long-lived assets are placed in service.

Unconditional promises to give that are expected to be collected in future years are recorded at fair value (pursuant to the Fair Value Option included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*), which is determined by discounting the estimated future cash flows at rates that reflect, among other things, market interest rates and the contributors' overall credit standing. The discounts on those amounts are computed using estimated discount rates at the measurement date applicable to the years in which the promises to give are expected to be received.

Conditional promises to give are not recognized until the conditions are substantially met.

Recognition of Hotel Revenues

The Hotel has performance obligations to provide accommodations and other ancillary services to guests. As compensation for such goods and services, the Hotel is typically entitled to a fixed nightly fee for an agreed upon period and additional fixed fees for any ancillary services purchased. These fees are generally payable at the time the hotel guest checks out of the Hotel. The Hotel generally satisfies the performance obligations over time, and recognizes the revenue from room sales and other ancillary guest services on a daily basis as the rooms are occupied and the services are rendered.

HRLLC is required to collect certain taxes and fees from customers on behalf of government agencies and remit these back to the applicable governmental agencies on a periodic basis. These taxes and fees are legal assessments on the customer and HRLLC has a legal obligation to act as a collection agent. Because HRLLC does not retain these taxes and fees, such amounts are accounted for on a net basis and, therefore, are excluded from revenues in the consolidated statement of activities and changes in net assets.

Recognition of Rental Income

In general, the Foundation commences rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. Contractual rental revenue is reported on a straight-line basis, in all material respects, over the terms of the respective leases. The impact of the straight-line rent adjustment is not material to the Foundation's consolidated financial statements. Rental income receivable is included in trade accounts and interest receivable on the consolidated statement of financial position. Tenant credit risk is mitigated by the high quality of the Foundation's existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution, and consistent monitoring of the Foundation's portfolio to identify potential problem tenants.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 1. **Description of Organization and Summary of Significant Accounting Policies (Continued)**

Revenue recognition (Continued)

Recognition of Rental Income (Continued)

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with guidance in FASB ASC 605-45, *Principal Agent Considerations*. ASC 605-45 requires that these reimbursements be recorded on a gross basis, as the Foundation is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the suppliers, and has credit risk.

Recognition of Golf Course Revenues

The Foundation's golf course revenues are derived from sources such as charges to guests for greens fees and cart rentals, food and beverage sales, sales of pro shop merchandise, and meeting and banquet room revenue. Golf course revenues are recognized as earned.

Functional allocation of expenses

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and occupancy, which are recorded by individual project or asset and assigned to a program or support function based on the project's purpose or actual use of the asset.

Accounting pronouncements adopted in the current year

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which replaces most existing lease guidance. In July 2018, the FASB issued the new transition method and practical expedient to simplify the application of the new leasing standard. ASU 2016-02, as amended, requires that lessees recognize all leases (other than leases with a term of 12 months or fewer) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria as well as the lessor accounting model in which lessors may avoid separating lease and associated non-lease components within a contract if certain criteria are met. If elected, lessors will be able to aggregate non-lease components that otherwise would be accounted for under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with the associated lease component if the following conditions are met: (1) the timing and pattern of transfer for the non-lease component and the associated lease component are the same and (2) the stand-alone lease component would be classified as an operating lease if accounted for separately. The Foundation adopted the provisions of ASU 2016-02, as amended, effective July 1, 2020.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

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

Accounting pronouncements adopted in the current year (Continued)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the existing disclosure requirements relating to fair value measurements. ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, modifies disclosures for investments that are valued based on NAV, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements. ASU 2018-13 is applicable to all entities that are required, under GAAP, to make disclosures about recurring or nonrecurring fair value measurements. The Foundation adopted the provisions of ASU 2018-13 effective July 1, 2020.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, which amends the definition of the term “collections” by aligning it with the definition used in the *Code of Ethics for Museums of the American Alliance of Museums* and requires enhanced disclosures for collections. The Foundation adopted the provisions of ASU 2019-03 effective July 1, 2020.

Future accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which introduces new guidance for the accounting for expected credit losses on financial instruments measured at amortized cost at the end of each reporting period rather than recognizing the credit losses when it is probable that the loss has been incurred in accordance with current guidance. ASU 2016-13 requires the measurement of all expected credit losses for financial assets based on historical experience, current conditions, and reasonable supportable forecasts. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. The Foundation is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and disclosures.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which introduces new guidance for the presentation and disclosure of nonfinancial asset contributions. ASU 2020-07 requires the presentation of contributed nonfinancial assets as a separate line item on the statement of activities and changes in net assets. The new guidance also requires the disclosure of contributed nonfinancial assets by type, whether those assets were utilized during the reporting period, and a description of any donor-imposed restrictions associated with the contributed nonfinancial assets. Disclosure of the Foundation’s valuation techniques and inputs used to arrive at fair value are also necessary. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. The Foundation is currently assessing the impact that ASU 2020-07 will have on its consolidated financial statements and disclosures.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 2. Contributions Receivable

The following summarizes unconditional promises to give at June 30:

	2021	2020
Receivable in less than one year	\$ 67,273	\$ 51,977
Receivable in one to five years	73,259	57,804
Receivable in more than five years	54,460	58,077
Total contributions receivable, gross	194,992	167,858
Discount to reduce estimated future cash flows to fair value and allowance for uncollectible contributions receivable	(11,556)	(16,494)
Contributions receivable, measured at fair value	\$ 183,436	\$ 151,364

The discount rates ranged from 0.14% to 2.05% at June 30, 2021 and 0.30% to 2.20% at June 30, 2020. As of June 30, 2021 and 2020, the Foundation is unaware of any conditional promises to give.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 3. Investments

Investments by type of security at June 30 are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Short-term:				
Corporate debt securities	\$ 39,510	\$ 39,496	\$ 23,482	\$ 23,869
U.S. government treasuries	44,800	44,780	20,161	20,220
U.S. government agencies	6,619	6,559	7,938	8,145
Total short-term	90,929	90,835	51,581	52,234
Long-term:				
Cash and cash equivalents	49,254	49,975	89,046	88,842
U.S. government treasuries	17,191	17,356	29,346	29,454
U.S. government agencies	9,911	10,118	12,836	13,024
State, county, and municipal securities	95	97	97	99
Equity securities	200,391	219,739	116,428	122,280
Hedge funds	158,651	235,607	212,334	253,490
Private real assets	128,945	91,432	100,377	67,429
Private credit	161,854	167,190	170,329	172,335
Private equity	187,736	221,036	152,922	144,429
Public equity alternative investments	186,174	299,172	197,600	262,784
Corporate bonds	20,161	22,908	16,620	18,930
Corporate debt securities	192,088	217,804	114,474	124,566
Mortgage receivable	4,488	4,496	4,845	4,605
Foreign securities	145,327	147,353	91,497	85,395
Real estate	35,730	36,208	38,900	39,354
Total long-term	1,497,996	1,740,491	1,347,651	1,427,016
Total investments	\$ 1,588,925	\$ 1,831,326	\$ 1,399,232	\$ 1,479,250

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 3. Investments (Continued)

The overall investment objective of the Foundation is to invest its operating funds in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities, and to invest its endowed funds in a manner that maintains the purchasing power of the endowment. The Foundation diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions, such as asset allocation and spending, are authorized by the Board's Investment Committee, which oversees the Foundation's investment program in accordance with established guidelines.

In addition to traditional equity and fixed-income securities, the Foundation may also hold shares or units in traditional institutional funds, as well as in alternative investment funds involving hedged strategies, private equity, and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges, and other instruments, and are valued accordingly. Private equity funds primarily employ buyout and venture capital strategies. Real asset funds generally hold interests in public real estate investment trusts (REITs), public natural resource equities, private commercial real estate, and private natural resources such as power plants and oil and gas companies. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable public earnings multiples, projected cash flows, recent sale prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Foundation's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

As of June 30, 2021 and 2020, long-term investments included investment assets held in internally managed trust funds with carrying values totaling \$58,869 and \$47,784, respectively. At June 30, 2021 and 2020, unspent bond proceeds of \$31,614 and \$38,522, respectively, invested in U.S. government treasuries, were included in short-term investments. These proceeds are restricted for investment in land and building development.

The Foundation is required by Maryland state law to maintain segregated assets for all annuities issued in an amount at least equal to the sum of its outstanding deferred giving arrangements, liability discounted to present value. As of June 30, 2021 and 2020, the Foundation had recorded annuity obligations of \$6,783 and \$6,239, respectively. As of June 30, 2021 and 2020, the Foundation had separately invested cash reserves of \$13,975 and \$12,406, respectively, and had met its minimum reserve requirement under Maryland state law.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 3. Investments (Continued)

The following summarizes changes in relationships between cost and fair value of investments during 2021:

	Fair Value	Cost	Net Gains
June 30, 2021	\$ 1,831,326	\$ 1,588,925	\$ 242,401
June 30, 2020	1,479,250	1,399,232	80,018
Unrealized net gain for the year, including net gain on agency deposits held in trust of \$60,772			162,383
Realized net gain for the year, including net gain on agency deposits held in trust of \$47,036			144,673
Total net gain for the year, including net gain on agency deposits held in trust of \$107,808			\$ 307,056

The following summarizes changes in relationships between cost and fair value of investments during 2020:

	Fair Value	Cost	Net Gains
June 30, 2020	\$ 1,479,250	\$ 1,399,232	\$ 80,018
June 30, 2019	1,458,776	1,291,097	167,679
Unrealized net loss for the year, including net loss on agency deposits held in trust of \$33,750			(87,661)
Realized net gain for the year, including net loss on agency deposits held in trust of \$1,411			4,619
Total net loss for the year, including net loss on agency deposits held in trust of \$35,161			\$ (83,042)

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 4. Land, Buildings, and Equipment

The following is a summary of land, buildings, and equipment at cost, less accumulated depreciation, at June 30:

	2021	2020
Land	\$ 128,394	\$ 125,417
Buildings	286,375	281,808
Equipment and other	57,854	56,786
Construction in progress	49,060	12,383
	521,683	476,394
Less accumulated depreciation	(153,752)	(145,601)
Land, buildings, and equipment, net	\$ 367,931	\$ 330,793

Depreciation expense recorded in 2021 and 2020 totaled \$11,049 and \$11,469, respectively.

As of June 30, 2021, outstanding contractual commitments for projects under construction approximated \$62,892.

Note 5. Agency Deposits Held in Trust

Under an agreement between the University and the Foundation, the Foundation serves as agent in connection with the investment, management, and administration of the Pratt Estate Funds. Under a similar agreement, the Foundation also serves as agent for the investment and management of other University non-general funds to assist the University in its goal of achieving enhanced earnings. In addition, the Foundation serves as agent and maintains investments for the Virginia Tech Alumni Association, Inc., Virginia Tech Services, Inc., and certain other associations.

The following is a summary of agency deposits held in trust at June 30:

	2021	2020
University – Pratt estate	\$ 49,605	\$ 41,411
University – VT investments	385,101	324,664
University – other	66,059	35,584
Virginia Tech Alumni Association, Inc.	5,173	4,353
Virginia Tech Services, Inc.	4,212	5,181
Other	60,683	48,107
Total agency deposits held in trust	\$ 570,833	\$ 459,300

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 6. Notes Payable and Notes Receivable

Notes Payable

The following is a summary of outstanding notes payable at June 30:

	2021	2020
VTF notes payable:		
Unsecured revolving line of credit note payable with total availability of \$100,000 due August, 1, 2021, plus variable interest at one-month LIBOR plus 0.4% (0.500% and 0.571% as of June 30, 2021 and 2020, respectively). Subsequent to June 30, 2021, an agreement was entered into to extend the maturity date to November 2, 2021.	\$ 3,972	\$ 4,728
Unsecured note payable issued April 15, 2020 under the Paycheck Protection Program (PPP) bearing interest at 1% with principal and interest payments deferred for the first six months after the loan is disbursed. Loan proceeds may only be used for payroll costs, interest on covered mortgage obligations, covered rent obligations, and covered utility payments incurred during the period of March 1 to December 31, 2020. The Foundation intends to use the entire loan for qualifying expenses. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses as described in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Full forgiveness of the note was granted on March 11, 2021.	-	84
Unsecured note payable issued March 30, 2021 as part of the extended federal COVID-19 relief program (PPP) administered by the SBA. Loan proceeds may only be used for payroll costs, interest on covered mortgage obligations, covered rent obligations, covered utility payments, worker protection costs related to COVID-19, and certain supplier costs and operating expenses incurred during the 24 week period after the loan disbursement date. The note bears interest at 1% with principal and interest payments deferred for 10 months following the 24 week covered period. The Foundation intends to use the entire loan for qualifying expenses. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses.	363	-

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 6. Notes Payable and Notes Receivable (Continued)

	2021	2020
HRLLC notes payable:		
Unsecured note payable issued April 15, 2020 under the PPP bearing interest at 1% with principal and interest payments deferred for the first six months after the loan is disbursed. Loan proceeds may only be used for payroll costs, interest on covered mortgage obligations, covered rent obligations, and covered utility payments incurred during the period of March 1 to December 31, 2020. The Foundation intends to use the entire loan for qualifying expenses. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses as described in the CARES Act. Full forgiveness of the note was granted on March 31, 2021.	\$ -	\$ 1,920
Unsecured note payable issued February 19, 2021 as a second draw PPP loan issued as part of the extended federal COVID-19 relief program administered by the SBA. Loan proceeds may only be used for payroll costs, interest on covered mortgage obligations, covered rent obligations, covered utility payments, worker protection costs related to COVID-19, and certain supplier costs and operating expenses incurred during the 24 week period after the loan disbursement date. The note bears interest at 1% with principal and interest payments deferred for 10 months following the 24 week covered period. The Foundation intends to use the entire loan for qualifying expenses. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses.	1,726	-
HRF notes payable:		
Unsecured note payable upon the sale of the Hotel and repayment of all debt of the Hotel and HRF.	<u>1,775</u>	<u>1,775</u>
Total notes payable	<u>\$ 7,836</u>	<u>\$ 8,507</u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 6. Notes Payable and Notes Receivable (Continued)

The aggregate annual maturities of notes payable for each of the five years and thereafter subsequent to June 30, 2021 are as follows:

Year ending June 30,		
2022	\$	4,025
2023		575
2024		575
2025		576
2026		310
Upon the sale of the Hotel and repayment of all debt of the Hotel and HRF		<u>1,775</u>
Total	\$	<u><u>7,836</u></u>

Notes receivable

During 2003, the Foundation used proceeds from borrowings on notes payable totaling \$13,800 to provide a loan to an unrelated party through a promissory note receivable. The unrelated party used the proceeds to purchase the University Mall building located in Blacksburg, Virginia. The promissory note receivable, which requires interest payments only until maturity, earned interest at a fixed rate of 6.18% through June 30, 2013 and 6.96% thereafter through June 30, 2023, the maturity date. The promissory note receivable is secured by a first deed of trust in the real property of the University Mall, as well as the assignment of leases, rents, and security agreements.

Note 7. Bonds Payable

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2011A) and Taxable Revenue and Refunding Bonds (Series 2011B) dated November 17, 2011. Proceeds were used to refinance all or a portion of the outstanding Series 2000, Series 2005, Series 2009A, and Series 2009B bonds and two notes payable, retire certain interest rate swaps, and finance the construction of several commercial facilities and other facilities to be used in support of the University. The original Series 2011A and Series 2011B bonds, which bear a weighted average fixed interest rate of 3.69% and 4.03%, respectively, have annual serial and sinking fund maturities beginning June 1, 2012 and concluding June 1, 2039 in varying amounts ranging from \$1,505 to \$5,200. The Series 2017A and Series 2017B bonds, as further described below, refunded portions of the Series 2011A bonds. The Series 2019A and Series 2019B, as further described below, refunded portions of the Series 2011B bonds. The Series 2020A bonds refunded the remaining 2011A bonds. The Series 2011B bonds currently have a final maturity of 2022.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 7. Bonds Payable (Continued)

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Tax-Exempt Revenue and Refunding Bonds (Series 2012A) and Taxable Revenue and Refunding Bonds (Series 2012B) dated December 1, 2012. Proceeds were used to refinance a portion of the outstanding Series 2009B bonds and to finance the construction of several facilities to be used in support of the University. During 2014, an additional \$1,817 was borrowed on the Series 2012B bonds to finance the construction of a facility to be used in support of the University. The Series 2012A bonds, which bear a fixed interest rate of 1.99%, have monthly payments of principal and interest beginning February 1, 2013 and concluding June 1, 2022. The Series 2012B bonds bore a variable interest rate of LIBOR plus 125 basis points (1.44% at June 30, 2013), until the final advance date of October 1, 2013 and thereafter bear a fixed interest rate of 3.05%, have monthly interest commencing on February 1, 2013, and have monthly payments of principal and interest beginning November 1, 2013 and concluding on January 1, 2033. The Series 2012B bonds are subject to mandatory tender on December 27, 2022 at the bondholder's option.

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2013A) and Taxable Revenue and Refunding Bonds (Series 2013B) dated October 30, 2013. Proceeds were used to finance the construction of several commercial facilities and several facilities to be used in support of the University. The bonds, which bear a weighted average fixed interest rate of 3.95% and 3.87%, respectively, have annual serial and sinking fund maturities beginning June 1, 2014 and concluding June 1, 2038 in varying amounts ranging from \$280 to \$4,010. At June 30, 2021 and 2020, unspent bond proceeds of \$308 and \$308, respectively, were included in restricted cash and cash equivalents. The Series 2020A bonds, as further described below, refunded portions of the Series 2013A and 2013B bonds. The unrefunded portion of the Series 2013A and 2013B bonds currently have a final maturity of 2024.

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2017A) and Taxable Revenue and Refunding Bonds (Series 2017B) dated May 17, 2017. Proceeds were used to refinance all or a portion of the outstanding Series 2009A, Series 2010A, Series 2010B, and Series 2011A bonds, refinance a VTREF note payable, and renovate a facility used in support of the University. The Series 2017A and 2017B bonds, which bear a weighted average fixed interest rate of 2.93% and 3.43%, respectively, have annual serial and sinking fund maturities beginning June 1, 2018 and concluding June 1, 2039 in varying amounts ranging from \$580 to \$4,670.

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue and Refunding Bonds (Series 2017C) dated May 17, 2017. Proceeds were used to refinance all of the outstanding Series 2005 bonds and the remaining portion of the Series 2009A bonds. The Series 2017C bonds, which bear a variable interest rate calculated as 65% of one-month LIBOR plus 0.407%, have annual serial maturities beginning June 1, 2018 and concluding June 1, 2027 in varying amounts ranging from \$1,340 to \$3,380.

The Foundation is obligated under a Promissory Note with Union Bank and Trust (Series 2017D) dated December 19, 2017. Proceeds were used to finance the construction of several facilities to be used in support of the University. The Promissory Note, which bears a fixed interest rate of 3.7%, has annual serial maturities beginning October 1, 2019 and concluding October 1, 2037 in varying amounts ranging from \$115 to \$825. At June 30, 2021 and 2020, unspent bond proceeds of \$4 and \$5, respectively, were included in restricted cash and cash equivalents.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 7. Bonds Payable (Continued)

During the year ended June 30, 2017, the Foundation used the proceeds from the Series 2017 bond issuances to refinance all of its Industrial Development Authority of Montgomery County, Virginia Variable Rate Revenue Bonds Series 2005 and Industrial Development Authority of Montgomery County, Virginia Revenue Bonds Series 2009A bonds in the amounts of \$12,065 and \$16,495, respectively. The Foundation also partially refunded \$44,190 of its Series 2010A, \$5,620 of its Series 2010B, and \$14,515 of its Series 2011A bonds as well. The Foundation defeased or partially refunded these bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased or partially refunded bonds are not reflected in the Foundation's consolidated financial statements.

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Revenue Bonds (Series 2019A) and Taxable Revenue and Refunding Bonds (Series 2019B) dated November 5, 2019. Proceeds will be used to finance costs related to the acquisition, construction, and equipping of certain facilities, funding capitalized interest, refinancing all or a portion of the outstanding Series 2010B and Series 2011B bonds, and paying certain costs of issuance. The Series 2019A and 2019B bonds, which bear a weighted average fixed interest rate of 2.54% and 3.06%, respectively, have annual serial and sinking fund maturities beginning June 1, 2020 and concluding June 1, 2044 in varying amounts ranging from \$60 to \$7,615. At June 30, 2021 unspent bond proceeds of \$40,406 and \$31,614 are included in restricted cash and cash equivalents and short-term investments, respectively. At June 30, 2020 unspent bond proceeds of \$65,874 and \$38,522 are included in restricted cash and cash equivalents and short-term investments, respectively.

The Foundation refunded the remaining \$4,355 of its Series 2010B and partially refunded \$27,515 of its Series 2011B bonds. The Foundation defeased or partially refunded these bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased or partially refunded bonds are not reflected in the Foundation's consolidated financial statements. In connection with these bond transactions, the Foundation recorded a loss on early extinguishment of debt of \$2,125 in the consolidated statement of activities and changes in net assets for the year ended June 30, 2020.

The Foundation is obligated under the Economic Development Authority of Montgomery County, Virginia Taxable Revenue and Refunding Bonds (Series 2020A) dated July 7, 2020. Proceeds will be used to finance costs related to the acquisition, construction, and equipping of certain facilities; refinance all or a portion of the outstanding Series 2011A, Series 2013A and Series 2013B bonds; and pay certain costs of issuance. The Series 2020A bonds, which bear a weighted average fixed interest rate of 2.24%, have annual serial maturities beginning June 1, 2021 and concluding June 1, 2038 in varying amounts ranging from \$565 to \$4,625.

The Foundation refunded the remaining \$29,150 of its Series 2011A, partially refunded \$13,170 of its Series 2013A, and partially refunded \$6,575 of its 2013B bonds. The Foundation defeased or partially refunded these bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased or partially refunded bonds are not reflected in the Foundation's consolidated financial statements. In connection with these bond transactions, the Foundation recorded a loss on early extinguishment of debt of \$2,953 in the consolidated statement of activities and changes in net assets for the year ended June 30, 2021.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 7. Bonds Payable (Continued)

Principal amounts outstanding for bonds payable and the related unamortized premium amounts where applicable at June 30 are as follows:

	2021	2020
Bond series:		
Series 2011A	\$ -	\$ 29,795
Series 2011B	2,190	4,625
Series 2012A	80	605
Series 2012B	4,710	5,019
Series 2013A	1,880	14,055
Series 2013B	5,045	13,860
Series 2017A	35,520	36,565
Series 2017B	38,580	40,435
Series 2017C	11,065	14,445
Series 2017D	10,670	11,115
Series 2019A	52,900	52,960
Series 2019B	99,640	103,215
Series 2020A	49,320	-
Unamortized premium on Series 2011A	-	477
Unamortized premium on Series 2013A	130	480
Unamortized premium on Series 2017A	2,042	2,368
Unamortized premium on Series 2019A	9,377	9,397
Unamortized discount on Series 2019B	(685)	(685)
Unamortized bond issuance costs	(2,316)	(2,514)
	\$ 320,148	\$ 336,217
Total bonds payable		

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 7. Bonds Payable (Continued)

The aggregate annual maturities of bonds payable for each of the next five years and thereafter subsequent to June 30, 2021, are as follows:

Year ending June 30,		
2022	\$	22,409
2023		20,686
2024		19,834
2025		19,380
2026		26,632
Thereafter		213,523
Total	\$	322,464

Total interest expense incurred in the aggregate related to notes payable and bonds payable during the years ended June 30, 2021 and 2020 totaled \$7,139 and \$7,288, respectively.

Interest rate swaps

Effective September 1, 2005, the Foundation entered into an interest rate swap agreement (Swap 1) with a lending institution. This agreement was based on the principal balances of the Series 2001A and Series 2002A bond issues, which were refinanced by the Series 2005 bonds and more recently by the Series 2017C bonds. The Foundation participates as a fixed rate payer with a fixed rate of 3.265% for a 17-year term ending June 1, 2022. The lending institution participates as a floating rate payer with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA of 0.05889% and 0.12843% at June 30, 2021 and 2020, respectively.

Effective September 1, 2006, the Foundation entered into an interest rate swap agreement (Swap 2) with a lending institution. This agreement was based on the principal balances of the Series 2005 bond issue, which were refinanced by the Series 2017C bonds. The Foundation participates as a fixed rate payer with a fixed rate of 3.21300% ending June 1, 2025. The lending institution participates as a floating rate payer with a floating interest rate, which is calculated based on the weighted average of 70% of USD-LIBOR-BBA of 0.05945% and 0.12922% at June 30, 2021 and 2020, respectively.

Effective March 14, 2007, the Foundation entered into an interest rate swap agreement (Swap 3) with a lending institution. This agreement was based on the principal balances of the Series 2007 bond issue, which were refinanced by the Series 2009 bonds and more recently by the 2017C bonds. The Foundation participates as a fixed rate payer with a fixed rate of 3.737% ending June 1, 2027. The lending institution participates as a floating rate payer with a floating interest rate, which is calculated based on the weighted average of SIFMA Municipal Swap Index, of 0.03133% and 0.11933% at June 30, 2021 and 2020, respectively.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 7. Bonds Payable (Continued)

Interest rate swaps (Continued)

The following table summarizes the fair values of the Foundation's interest rate swaps at June 30 and changes in the fair values of those swaps during the years ended June 30:

	2021	2020
Interest rate swap liability:		
Swap 1	\$ 1	\$ 53
Swap 2	260	413
Swap 3	893	1,219
Total, measured at fair value	\$ 1,154	\$ 1,685
Change in fair value of interest rate swap:		
Swap 1	\$ 52	\$ 41
Swap 2	153	(49)
Swap 3	326	(107)
Total gain (loss)	\$ 531	\$ (115)

Note 8. Income Taxes

As discussed in Note 1, VTCRC and HRF are taxable corporations. VTF and subsidiaries other than VTCRC and HRF are not generally subject to income taxes under present tax laws; however, an income tax liability may result from unrelated business income, which has been considered in the determination of income tax (benefit) for the years ended June 30, 2021 and 2020.

Income tax (benefit) expense attributable to the change in net assets before income taxes is as follows:

	Current	Deferred	Total
2021:			
Federal	\$ 179	\$ (4,803)	\$ (4,624)
State	269	(1,076)	(807)
Total	\$ 448	\$ (5,879)	\$ (5,431)
2020:			
Federal	\$ 518	\$ 224	\$ 742
State	253	34	287
Total	\$ 771	\$ 258	\$ 1,029

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 8. Income Taxes (Continued)

Reported income tax (benefit) expense differed from the amounts computed by applying the U.S. federal income tax rate to the combined change in net assets before income taxes, as a result of the following:

	2021	2020
Computed “expected” income tax expense on pretax income	\$ (4,099)	\$ 751
Increase (decrease) in income taxes resulting from:		
Remeasurement of deferred taxes	(555)	10
State income tax expense, net of federal benefit	(925)	169
Other, net	148	99
Reported income tax (benefit) expense	\$ (5,431)	\$ 1,029

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30 are presented below:

	2021	2020
Deferred tax assets		
Deferred revenue	\$ 561	\$ 396
Unrelated business income NOL carryforward	5,509	-
Other	69	65
Total deferred tax assets	6,139	461
Deferred tax liabilities		
Land, buildings, and equipment, principally due to differences in depreciation and capital gain recognition	(2,094)	(2,202)
Other	(667)	(713)
Total deferred tax liabilities	(2,761)	(2,915)
Net deferred tax asset (liability)	\$ 3,378	\$ (2,454)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and loss carryforwards and tax credits become utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on management’s assessment, management believes it is more likely than not that the Foundation will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 8. Income Taxes (Continued)

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. The TCJA contains significant changes to corporate taxation, including (i) the reduction of the corporate tax rate from 35% to 21%, (ii) the acceleration of tax depreciation for certain business assets, (iii) the repeal of the domestic production deduction, (iv) additional limitations on the deductibility of interest expense, and (v) expanded limitations on executive compensation. The key impact of the TCJA on the Foundation's consolidated financial statements was the remeasurement of deferred tax assets and liabilities to the new corporate tax rate. In order to calculate the effects of the new corporate tax rate on the Foundation's deferred tax balances, ASC 740, *Income Taxes*, required the remeasurement of the Foundation's deferred tax balances as of the enactment date of the TCJA based on the rates at which the balances are expected to reverse in the future. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The Foundation has reviewed these provisions and the potential impact and concluded the enactment of the TCJA will not have a material effect on the operations of the Foundation.

Note 9. Leases

Operating leases – Foundation as lessor

The Foundation rents facilities to unrelated third parties, as well as various University departments and other University-related entities. For the year ended June 30, 2021, rental income of \$23,606, \$1,121, and \$-0-, was earned from the University, Virginia Tech Applied Research Corporation (VTARC), and Virginia Tech Intellectual Properties, Inc. (VTIP), respectively. For the year ended June 30, 2020, rental income of \$23,543, \$1,100, and \$-0-, was earned from the University, VTARC, and VTIP, respectively. In addition, the Foundation provides facilities for the use of various University departments at no charge or below market rates to the University. The fair value rental for this property in excess of actual rental income received totaled \$4,185 and \$4,604 for the years ended June 30, 2021 and 2020, respectively, and is included in rental income and other University programs expense in the accompanying consolidated statement of activities and changes in net assets.

Future minimum lease payments receivable under facility leases as of June 30, 2021 are as follows:

	<u>Related Parties</u>	<u>Other</u>	<u>Total</u>
Year ending June 30,			
2022	\$ 16,843	\$ 8,949	\$ 25,792
2023	12,805	5,095	17,900
2024	10,468	4,014	14,482
2025	2,539	2,648	5,187
2026	1,992	2,261	4,253
Thereafter	5,005	11,725	16,730
Total	<u>\$ 49,652</u>	<u>\$ 34,692</u>	<u>\$ 84,344</u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 9. Leases (Continued)

Direct financing leases

During fiscal year 2003, the Foundation entered into two master lease agreements with the University for the lease of two buildings. As of July 1, 2021, the annual payments under the lease agreements totaled \$862, which will increase by 2% annually over the previous year amount. The lease agreements terminate in fiscal year 2023, at which time the title to the buildings will transfer to the University.

During fiscal year 2009, the Foundation entered into two master lease agreements with the University for the lease of a building. As of July 1, 2021, the annual payments under the lease agreements totaled \$1,967. The lease agreements terminate in fiscal year 2029.

During fiscal year 2013, the Foundation entered into two master lease agreements with the University for the lease of a building and parking garage. As of July 1, 2021, the annual payments under the lease agreements totaled \$3,816. The lease agreements terminate in fiscal year 2036.

During fiscal year 2014, the Foundation entered into a master lease agreement with the University for the lease of a building. As of July 1, 2021, the annual payments under the lease agreement totaled \$65. The lease agreement terminates in fiscal year 2044.

During fiscal year 2015, the Foundation entered into a master lease agreement with the University for the lease of a building. As of July 1, 2021, the annual payments under the lease agreement totaled \$976. The lease terminates in fiscal year 2038.

During fiscal year 2016, the Foundation entered into a master lease agreement with the University for the lease of land. As of July 1, 2021, the annual payments under the lease agreement totaled \$35. The lease terminates in fiscal year 2036.

During fiscal year 2017, the Foundation entered into a master lease agreement with the University for the lease of land. As of July 1, 2021, the annual payments under the lease agreement totaled \$102. The lease terminates in fiscal year 2037.

During fiscal year 2019, the Foundation entered into two master lease agreements with the University for the lease of two buildings. As of July 1, 2021, the annual payments under the two lease agreements totaled \$295 and \$1,143. The lease agreements terminate in fiscal year 2039.

During fiscal year 2020, the Foundation entered into two master lease agreements with the University for the lease of two buildings. As of July 1, 2021, the annual payments under the two lease agreements totaled \$226 and \$143. The lease agreements terminate in fiscal year 2040 and fiscal year 2027, respectively.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 9. Leases (Continued)

Direct financing leases (Continued)

Future minimum lease payments receivable under these leases as of June 30, 2021 are as follows:

	Related Parties	Other	Total
Year ending June 30,			
2022	\$ 9,843	\$ -	\$ 9,843
2023	9,311	-	9,311
2024	8,997	-	8,997
2025	9,003	-	9,003
2026	9,009	-	9,009
Thereafter	78,117	1,768	79,885
Net minimum future lease receipts	124,280	1,768	126,048
Less unearned income	50,522	1,121	51,643
Net investment in direct financing leases	\$ 73,758	\$ 647	\$ 74,405

Leases – Foundation as lessee

The Foundation elected the optional transition method provided by the FASB in ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, and as a result, has not restated its financial statements for prior periods presented. The Foundation has elected the package of practical expedients upon transition which allowed the Foundation to retain the lease classification for any leases that existed prior to adoption, to not reassess whether any contracts entered into prior to adoption are leases, and to not reassess initial direct costs for any leases that existed prior to adoption.

The Foundation leases various buildings. The terms of these leases range from 1 to 11 years for operating leases and from 3 to 15 years for finance leases, expiring on various dates from 2021 to 2031. Annual payments under these agreements range from \$2 to \$145 for finance leases and \$1 to \$320 for operating leases. Rent expense under these leases amounted to \$166 for finance leases and \$1,144 for operating leases for the year ended June 30, 2021.

The Foundation leases various land. The terms of these leases range from 3 to 12 years for operating leases and from 74 to 78 years for finance leases, expiring at various dates from 2023 to 2098. Annual payments under these agreements were \$39 for finance leases and range from \$35 to \$89 for operating leases. Rent expense under these leases amounted to \$67 for finance leases and \$126 for operating leases for the year ended June 30, 2021.

The Foundation leases various equipment. The terms of these leases range from 2 to 5 years for both operating and finance leases, expiring at various dates from 2022 to 2026. Annual payments under these agreements range from \$1 to \$170 for finance leases and \$1 to \$49 for operating leases. Rent expense under these leases amounted to \$14 for finance leases and \$68 for operating leases for the year ended June 30, 2021.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 9. Leases (Continued)

Leases – Foundation as lessee (Continued)

The Foundation's lease contracts may include options to extend or terminate the lease. The Foundation exercises judgment to determine the term of those leases when such options are present and include such options in the calculation of the lease term when it is reasonably certain that it will exercise those options.

The Foundation includes contract lease components in its determination of lease payments, while non-lease components of the contracts, such as taxes, insurance, and common area maintenance, are expensed as incurred. At commencement, right-of-use assets and lease liabilities are measured at the present value of future lease payments over the lease term. The Foundation uses its incremental borrowing rate based on information available at the time of lease commencement to measure the present value of future payments.

Operating lease expense is recognized on a straight-line basis over the lease term. Short term leases with an initial term of 12 months or fewer are expensed as incurred. The Foundation's short term leases have month-to-month terms.

At June 30, 2021 right-of-use assets were \$3,006 for operating leases and \$2,324 for finance leases and lease liabilities were \$3,046 for operating leases and \$2,342 for finance leases. Right-of-use assets and right-of-use liabilities are reflected on the statement of financial position as land, buildings, and equipment and deferred revenue and other liabilities, respectively.

The weighted average remaining lease term was 63 months for operating leases and 406 months for finance leases and the weighted average discount rate was 0.53% for operating leases and 1.45% for finance leases as of June 30, 2021.

The Foundation's future payments due under operating leases reconciled to the lease liability are as follows:

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
Year ending June 30,			
2022	\$ 1,088	\$ 247	\$ 1,335
2023	910	198	1,108
2024	639	199	838
2025	208	198	406
2026	38	201	239
Thereafter	210	2,191	2,401
Total undiscounted lease payments	3,093	3,234	6,327
Present value discount	(47)	(892)	(939)
Total lease liability	<u>\$ 3,046</u>	<u>\$ 2,342</u>	<u>\$ 5,388</u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 9. Leases (Continued)

Leases – Foundation as lessee (Continued)

For the fiscal year ended June 30, 2021, cash paid for lease liabilities totaled \$1,216 for operating leases and \$372 for finance leases and right-of-use assets obtained in exchange for new lease liabilities totaled \$3,006 for operating leases and \$2,324 for finance leases.

Note 10. Other Related Party Transactions

Since January 1, 2016, the Hotel has been operated and managed by The Benchmark Management Company, Inc. (BMC). Under the provisions of The Hotel Roanoke, a Curio Hotel, Management Agreement dated November 20, 2015, BMC receives management fees equal to 2% of the Hotel's gross revenues for the first 12 months and 2.5% thereafter, and an incentive fee equal to 10% of the amount by which net operating income exceeds net operating income, as defined, for the 12-month period prior to January 1, 2016. In addition, BMC receives support and service fees in an amount determined in the budget for any services provided by BMC that enhance and/or support the property not to exceed 1.5% of gross revenues. The management agreement expires in November 2025. Management fees incurred under this agreement totaled \$280 and \$447 for the years ended June 30, 2021 and 2020, respectively. Shared services fees were \$90 and \$268 for the years ended June 30, 2021 and 2020, respectively of which a portion was allocated to the Conference Center in accordance with the deed of easements agreement.

On October 15, 1994, HRLLC entered into a catering agreement with the Commission in which the Commission granted HRLLC the exclusive right and privilege to perform and provide catering services to the Conference Center for a period of 10 years from the date the Conference Center opened. The agreement was subsequently amended to extend the service period, most recently with an amendment in September 2018 to extend the agreement to September 30, 2021. Pursuant to the agreement, the Commission receives 12% of gross banquet and catering food and beverage revenue. For the years ended June 30, 2021 and 2020, Hotel costs included \$57 and \$372, respectively, for fees incurred under this agreement.

On September 28, 1994, HRLLC and the Commission entered into a deed of easements agreement, subsequently amended on October 18, 2002, which states that conference service fees are generated through the use of meeting rooms in both facilities. Therefore, conference service fees shall be shared by the Commission and HRLLC in an equitable proportion. Under the amended agreement, HRLLC receives 16% of conference service fees. For the years ended June 30, 2021 and 2020, Hotel revenues included \$5 and \$131, respectively, from the Commission for the Hotel's portion of conference service fees. In addition, the Hotel paid the Commission \$100 and \$366 for the years ended June 30, 2021 and 2020, respectively, for public room rental.

The Board of Directors of Virginia Tech Services, Inc. may determine to transfer to the Foundation or the University any surplus funds for allocation and use by the University as the President and Board of Visitors deem appropriate. Included in other income of donor-restricted funds for the years ended June 30, 2021 and 2020 were contributions of \$500 and \$1,000, respectively, from Virginia Tech Services, Inc., which were included in accounts receivable at June 30, 2021 and 2020.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 10. Other Related Party Transactions (Continued)

Effective July 1, 2010, the Foundation entered into an agreement with certain Virginia Tech affiliated corporations to manage and participate in a modified self-funding health insurance plan. Each corporation makes monthly contributions to the plan, which are used to pay claims expense. The Foundation purchased aggregate stop loss insurance with the aggregate stop loss limit based on a percentage of annual estimated claims expense. The aggregate limits as of June 30, 2021 covered total paid claims in excess of 85.31% of the expected liability, and the specific stop loss insurance covered the amount of claims paid with respect to a single individual in excess of \$100. As of June 30, 2021, the Foundation held \$1,862, net of claims incurred but not paid, as excess funds due back to the other corporations that will be used to offset contributions for the next fiscal year.

Note 11. Employee Benefits

Retirement benefits are provided for all full-time personnel through a fully funded, immediately vested, defined contribution retirement plan with Teacher's Insurance and Annuity Association (TIAA). For employees hired on or before July 1, 2010, the Foundation contributes 12.57% of regular salary for all full-time employees. For employees hired after July 1, 2010, the Foundation contributes 10.67% of regular salary for all full-time employees. For the years ended June 30, 2021 and 2020, the Foundation contributed \$675 and \$678, respectively.

Note 12. Fair Value Measurements and Fair Value Options

Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Cash and Cash Equivalents, Trade Accounts and Interest Receivable, Accounts Payable, and Accrued Expenses

The carrying amount approximates fair value because of the short maturity of these instruments.

Contributions Receivable

Fair value is determined by discounting the estimated future cash flows at rates that reflect, among other things, market interest rates and the contributors' overall credit standing (Note 2).

Notes Receivable and Deeds of Trust

The carrying amount approximates fair value because the carrying amount is calculated by discounting scheduled cash flows through the estimated due dates using an estimated market discount rate, as well as being reduced for estimated amounts deemed uncollectible.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value of financial instruments (Continued)

Investments and Irrevocable Trusts Held by Others

The fair values of marketable equity and debt securities are determined using quoted market prices at the reporting date multiplied by the quantity held. The fair values of other investments without a readily determinable fair value such as hedge fund investments, private equity and venture capital, natural resources, and real estate investments are determined based on the investment's NAV of shares or units held by the Foundation at the reporting date as a practical expedient for estimated fair value. The various NAVs are based on valuations provided by external investment managers (Note 3).

Annuity Obligations and Liabilities under Trust Agreements

The fair value of annuity obligations and liabilities under trust agreements is estimated using discounted cash flows based on an estimated market discount rate, and approximates the carrying amount.

Interest Rate Swap Agreements

The fair value of the interest rate swap agreements is determined using pricing models developed based on the swap index rate and other observable market data, adjusted to reflect nonperformance risk of both the counterparty and the Foundation (Note 7).

Fair value hierarchy

ASC Topic 820 establishes a three-tier 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) and lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

The fair values of the Foundation's corporate debt securities and state, county, and municipal securities are obtained from a third-party pricing service provider. The fair values provided by the pricing service provider are estimated using pricing models, where the inputs to those models are based on observable market inputs including credit spreads and broker-dealer quotes, among other inputs. The Foundation classifies the prices obtained from the pricing services within Level 2 of the fair value hierarchy because the underlying inputs are directly observable from active markets. However, the pricing models used do entail a certain amount of subjectivity and, therefore, differing judgments in how the underlying inputs are modeled could result in different estimates of fair value.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value hierarchy (Continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value hierarchy (Continued)

The following table presents assets and liabilities that were measured at fair value on a recurring basis at June 30, 2021:

	<u>Total</u>	<u>Fair Value Measurements at the Reporting Date Using</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV*</u>
Assets:					
Contributions receivable	\$ 183,436	\$ -	\$ -	\$ 183,436	\$ -
Short-term investments:					
Corporate debt securities	39,496	39,496	-	-	-
U.S. government treasuries	44,780	44,780	-	-	-
U.S. government agencies	6,559	6,559	-	-	-
Total short-term investments	90,835	90,835	-	-	-
Long-term investments:					
Cash and cash equivalents	49,975	49,237	738	-	-
U.S. government treasuries	17,356	1,221	16,135	-	-
U.S. government agencies	10,118	10,118	-	-	-
State, county, and municipal securities	97	-	97	-	-
Equity securities	219,739	219,739	-	-	-
Hedge funds	235,607	580	-	-	235,027
Private real assets	91,432	-	-	-	91,432
Private credit	167,190	-	288	-	166,902
Private equity	221,036	-	-	-	221,036
Private equity alternative investments	299,172	-	-	-	299,172
Corporate bonds	22,908	22,908	-	-	-
Corporate debt securities	217,804	146,474	70,221	1,109	-
Mortgage receivable	4,496	4,496	-	-	-
Foreign securities	147,353	131,711	-	-	15,642
Real estate	36,208	-	-	36,208	-
Total long-term investments	1,740,491	586,484	87,479	37,317	1,029,211
Irrevocable trusts held by others	5,839	-	-	5,839	-
Total	\$ 2,020,601	\$ 677,319	\$ 87,479	\$ 226,592	\$ 1,029,211
Liabilities:					
Interest rate swaps	\$ (1,154)	\$ -	\$ (1,154)	\$ -	\$ -
Total	\$ (1,154)	\$ -	\$ (1,154)	\$ -	\$ -

*Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value hierarchy (Continued)

The following table presents assets and liabilities that were measured at fair value on a recurring basis at June 30, 2020:

	<u>Total</u>	<u>Fair Value Measurements at the Reporting Date Using</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV*</u>
Assets:					
Contributions receivable	\$ 151,364	\$ -	\$ -	\$ 151,364	\$ -
Short-term investments:					
Corporate debt securities	23,869	23,869	-	-	-
U.S. government treasuries	20,220	20,220	-	-	-
U.S. government agencies	8,145	8,145	-	-	-
Total short-term investments	52,234	52,234	-	-	-
Long-term investments:					
Cash and cash equivalents	88,842	57,421	31,421	-	-
U.S. government treasuries	29,454	29,454	-	-	-
U.S. government agencies	13,024	13,024	-	-	-
State, county, and municipal securities	99	-	99	-	-
Equity securities	122,280	122,280	-	-	-
Hedge funds	253,490	5,640	-	-	247,850
Private real assets	67,429	-	-	-	67,429
Private credit	172,335	-	3	-	172,332
Private equity	144,429	-	-	-	144,429
Private equity alternative investments	262,784	-	-	-	262,784
Corporate bonds	18,930	18,930	-	-	-
Corporate debt securities	124,566	84,772	38,083	1,711	-
Mortgage receivable	4,605	10	4,595	-	-
Foreign securities	85,395	73,436	-	-	11,959
Real estate	39,354	-	-	39,354	-
Total long-term investments	1,427,016	404,967	74,201	41,065	906,783
Irrevocable trusts held by others	5,183	-	-	5,183	-
Total	<u>\$ 1,635,797</u>	<u>\$ 457,201</u>	<u>\$ 74,201</u>	<u>\$ 197,612</u>	<u>\$ 906,783</u>
Liabilities:					
Interest rate swaps	\$ (1,685)	\$ -	\$ (1,685)	\$ -	\$ -
Total	<u>\$ (1,685)</u>	<u>\$ -</u>	<u>\$ (1,685)</u>	<u>\$ -</u>	<u>\$ -</u>

*Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value hierarchy (Continued)

The following table presents the Foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in FASB ASC 820 for the years ended June 30, 2021 and 2020:

	<u>Contributions Receivable</u>	<u>Long-Term Investments</u>	<u>Irrevocable Trusts Held By Others</u>	<u>Total</u>
Balance at June 30, 2019	\$ 152,800	\$ 40,339	\$ 7,652	\$ 200,791
Net losses on investments	-	(8,143)	(69)	(8,212)
Contributions	39,858	9,330	-	49,188
Proceeds from sales	-	(461)	(2,400)	(2,861)
Collections	(41,294)	-	-	(41,294)
Balance at June 30, 2020	151,364	41,065	5,183	197,612
Net (losses) gains on investments	-	(1,514)	1,065	(449)
Contributions	162,439	426	-	162,865
Proceeds from sales	-	(2,660)	(409)	(3,069)
Collections	(130,367)	-	-	(130,367)
Balance at June 30, 2021	<u>\$ 183,436</u>	<u>\$ 37,317</u>	<u>\$ 5,839</u>	<u>\$ 226,592</u>

The following table summarizes the Foundation's investments in entities that calculate NAV as a practical expedient to estimate fair value as of June 30, 2021, as well as liquidity and funding commitments:

	<u>Fair Value</u>	<u>Uncalled Commitments</u>	<u>Remaining Life</u>	<u>Redemption Frequency</u>	<u>Trade to Settlement Terms</u>	<u>Redemption Notice Period</u>
Public equity funds (a)	\$ 81,529	\$ -	N/A	≤ Quarterly	5 – 15 days	30 – 90 days
Public equity funds (b)	231,430	7,236	N/A	> Quarterly	5 – 15 days	30 – 180 days
Hedge funds (c)	32,746	-	N/A	≤ Quarterly	5 – 15 days	30 – 90 days
Hedge funds (c)	202,034	-	N/A	> Quarterly	5 – 15 days	30 – 90 days
Private credit funds (d)	138,547	35,208	1 – 10 years	N/A	N/A	N/A
Private equity funds (e)	222,165	61,722	1 – 10 years	N/A	N/A	N/A
Private real assets funds (f)	120,759	65,279	1 – 10 years	N/A	N/A	N/A
	<u>\$ 1,029,210</u>	<u>\$ 169,445</u>				

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 12. Fair Value Measurements and Fair Value Options (Continued)

Fair value hierarchy (Continued)

- (a) The amount represents funds that invest in publicly traded equity securities and can be liquidated at the end of each quarter or more frequently. There are currently no restrictions on redemption of these investments. The managers directly invest primarily in long equity securities and, at times, opportunistically invest in short equity securities. Management seeks to achieve a return in excess of an appropriate equity benchmark such as the MSCI ACWI.
- (b) The amount represents funds that invest in publicly traded equity securities and can be liquidated at times longer than the end of a quarter. The longest time to liquidation is 42 months. There are currently no restrictions on redemption of these investments. The managers directly invest primarily in long equity securities and, at times, opportunistically invest in short equity securities. Management seeks to achieve a return in excess of an appropriate equity benchmark such as the MSCI ACWI.
- (c) The amount represents investments in funds that invest in hedge fund strategies such as long/short, event-driven, and global macro. Management of the funds seeks to achieve an annualized return that is at least 7% in excess of the 91-day U.S. Treasury Bill rate. The funds invest both long and short equity and fixed income securities, and there is no restriction on the types of securities and financial instruments they are allowed to invest in.
- (d) The amount represents investments in funds that invest in credit related securities and have a liquidity structure similar to private equity. These investments can never be redeemed from the funds, and it is estimated that the underlying assets of the fund will be liquidated over the next one to 10 years.
- (e) The amount represents investments in funds that invest in private equity in buyouts and venture capital, both domestically and internationally. The allocation to buyouts is 96% and to venture capital 4%. Uncalled commitments are approximately \$46,542 to buyouts and \$15,180 to venture capital. These investments can never be redeemed from the funds, and it is estimated that the underlying assets of the fund will be liquidated over the next one to 10 years.
- (f) The amount represents investments in funds that invest in private real assets in real estate and natural resources, primarily domestically. The allocation to real estate is 65% and to natural resources 35%. Uncalled commitments are approximately \$49,398 to real estate and \$15,881 to natural resources. These investments can never be redeemed from the funds, and it is estimated that the underlying assets of the fund will be liquidated over the next one to 10 years.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 13. Availability and Liquidity

The following represents the Foundation's financial assets at June 30:

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 162,217	\$ 175,252
Trade accounts and interest receivable	15,718	7,640
Short-term investments	90,835	52,234
Contributions receivable, net	183,436	151,364
Notes receivable and deeds of trust	23,091	23,844
Long-term investments	1,740,491	1,427,016
Total financial assets	2,215,788	1,837,350
Less amounts not available to be used within one year:		
Endowment net assets, excluding Board-designated endowment funds of \$28,498 and \$22,747, respectively	(1,555,221)	(1,219,043)
Investments restricted for land, buildings, and equipment	(31,614)	(38,522)
Internally managed trust funds	(58,869)	(47,784)
Investments not convertible to cash within next 12 months	(93,589)	(92,052)
Contributions receivable collectible beyond one year	(116,163)	(99,387)
Notes receivable and deeds of trust collectible beyond one year	(22,602)	(23,367)
	(1,878,058)	(1,520,155)
Financial assets available to meet general expenditures over the next fiscal year	\$ 337,730	\$ 317,195

The Foundation had ample liquidity with financial assets available at June 30, 2021 totaling \$337,730, which exceeds annual operating expenses for the years ended June 30, 2021 and 2020 and estimated operating expenses for the next fiscal year. To help manage unanticipated liquidity needs, the Foundation's liquid assets are invested in high quality, short-term investments with Standish Mellon (average quality of AA+ and duration of 1.78 years) and Merganser Capital Management (average quality of AA+ and duration of 0.134 years). The Foundation also has a committed line of credit in the amount of \$100,000 that it could draw upon. As of June 30, 2021, the balance on this line of credit was \$3,972, leaving \$96,028 available for operations. The operating funds investment policy is approved by the Foundation's Investment Committee.

Note 14. Business Concentrations

The Foundation uses numerous managers and funds to diversify its investment portfolio and minimize market risk. As of June 30, 2021 and 2020, there were no significant concentrations of market risk that would result from the nature of the Foundation's investments or from a lack of diversity of industry, currency, or geographic location.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 14. Business Concentrations (Continued)

For the years ended June 30, 2021 and 2020, one individual donor and three individual donors accounted for approximately 11% and 36% of contributions, respectively. One individual donor accounted for more than 10% of contributions for the year ended June 30, 2021. Two individual donors accounted for more than 5% of contributions and one individual donor accounted for more than 10% of contributions for the year ended June 30, 2020. As of June 30, 2021 and 2020, the Foundation had contributions receivable from three individual donors and no contributions receivable from a single donor in excess of 5% of total contributions receivable, respectively.

Note 15. Endowment

The Foundation's endowment consists of 3,968 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA" or the "Act") as the prudent 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 Foundation classifies 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 of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable, at the time the accumulation is added to the fund.

Also included in net assets with donor restrictions is accumulated appreciation on donor-restricted "true" endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by the Act, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift. Agency deposits held in trust as described in Note 5 are included in the following tables as net assets with donor restrictions.

In accordance with the Act, the Foundation considers 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 purpose of the Foundation 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 Foundation.
7. The investment policies of the Foundation.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 15. Endowment (Continued)

Interpretation of relevant law (Continued)

Endowment net assets consisted of the following at June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Total donor-restricted endowment funds	\$ -	\$ 1,555,221	\$ 1,555,221
Total Board-designated endowment funds	28,498	-	28,498
Total endowed net assets	\$ 28,498	\$ 1,555,221	\$ 1,583,719

Endowment net assets consisted of the following at June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Total donor-restricted endowment funds	\$ -	\$ 1,219,043	\$ 1,219,043
Total Board-designated endowment funds	22,747	-	22,747
Total endowed net assets	\$ 22,747	\$ 1,219,043	\$ 1,241,790

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 15. Endowment (Continued)

Interpretation of relevant law (Continued)

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 25,507	\$ 1,233,188	\$ 1,258,695
Investment return:			
Investment income	157	12,143	12,300
Net depreciation	(1,829)	(104,810)	(106,639)
Total investment return	(1,672)	(92,667)	(94,339)
Contributions	-	69,307	69,307
Agency deposits	-	68,655	68,655
Severances	-	(4,215)	(4,215)
Appropriation of endowment assets for expenditure and agency withdrawals	(1,088)	(55,225)	(56,313)
Endowment net assets, June 30, 2020	22,747	1,219,043	1,241,790
Investment return:			
Investment income	345	14,917	15,262
Net appreciation	6,494	286,521	293,015
Total investment return	6,839	301,438	308,277
Contributions	-	73,535	73,535
Agency deposits	-	23,816	23,816
Severances	-	(2,820)	(2,820)
Appropriation of endowment assets for expenditure and agency withdrawals	(1,088)	(59,791)	(60,879)
Endowment net assets, June 30, 2021	<u>\$ 28,498</u>	<u>\$ 1,555,221</u>	<u>\$ 1,583,719</u>

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 15. Endowment (Continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2021 and 2020, funds with fair value of \$8,850 and \$625,587 and an original gift value of \$9,298 and \$684,548, were “underwater” by or had deficiencies of \$448 and \$58,961, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board. These deficiencies and subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as changes in net assets with donor restrictions.

Return objectives and risk parameters

The Foundation has adopted a spending and investment policy for endowment assets that attempts to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The majority of endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as governed by the Foundation’s Investment Committee, the endowment assets are invested in a manner that is intended to produce investment performance that exceeds a benchmark composed of 60% of the Morgan Stanley All Country World Index, 30% of the Barclays Capital Global Aggregate Bond Index USD Hedged, and 10% of the FTSE EPRA/NAREIT Global Real Estate Index, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to grow by inflation, as measured by the CPI. Real growth in any given year may vary.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places emphasis on investments in equities, fixed income, and real assets strategies in a 60-30-10 ratio to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

In an effort to maintain the endowment’s purchasing power, the payout rate for program support is adjusted annually to reflect the change in the CPI over the preceding calendar year. A 12-quarter average of endowment values is used to smooth out the unit values when determining if program spending falls within the current year approved range of 3% – 4.4%. Without this moving average, the beneficiaries of the endowments would be vulnerable to increased volatility in the capital markets. In establishing the spending policy, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending and investment policy to allow its endowment to maintain its purchasing power over time, by growing at a rate equal to inflation plus programmatic spending and related endowment management and administrative fees. Additional growth is anticipated through new gifts and excess investment returns.

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 16. Net Assets

Net assets as of June 30 consisted of the following:

	2021	2020
Without donor restrictions:		
Investment in property and equipment, net of debt	\$ 86,844	\$ 492
Board-designated endowment funds	28,498	22,747
Amounts to be used for future operations	243,170	277,708
Total net assets without donor restrictions	358,512	300,947
With donor restrictions:		
Subject to expenditure for specific purposes and time:		
Instruction, scholarships, and academic support	625,352	420,805
Property and equipment	28	105
Annuity and life income agreements	9,310	7,430
	634,690	428,340
Endowment funds restricted in perpetuity	650,667	595,898
Other restricted funds restricted in perpetuity	57,277	55,064
Annuity and life income agreements	28,699	28,187
	736,643	679,149
Total net assets with donor restrictions	1,371,333	1,107,489
Total net assets	\$ 1,729,845	\$ 1,408,436

Net assets are released from donor restrictions when expenses are incurred to satisfy the restricted purpose or by the occurrence of other events as specified by donors. During the year ended June 30, 2021, restrictions were satisfied as follows:

Financial aid	\$ 22,894
Program support	84,592
Buildings and equipment	13,007
	\$ 120,493

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 17. Expenses by Natural Classification

	Program Services							
	Instruction and Academic Programs	Research Programs	Public Service Programs	Scholarships	Grants to University for Capital Outlay	Other University Programs	Hotel Costs	Golf Course Costs
Salaries	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ 256	\$ -	\$ 501
Employee benefits and payroll taxes	-	-	-	4	-	50	-	93
Tuition	-	-	-	33,352	-	-	-	-
Legal fees	44	-	-	-	-	31	-	-
Accounting fees	-	-	-	-	-	-	-	-
Advertising	58	10	-	-	-	603	-	-
Office expenses	533	32	166	3	2	1,089	-	407
Information technology	59	1	-	-	-	6	-	-
Occupancy	79	4	3	-	33	1,727	-	-
Travel	83	4	44	-	6	27	-	-
Conferences	110	9	19	10	-	30	-	-
Interest	14	-	-	-	8	1,241	-	10
Depreciation	84	-	-	7	206	1,773	-	318
Insurance	51	-	6	-	-	770	-	30
Independent and professional services	983	473	44	5	103	598	-	53
Taxes	12	2	-	-	-	14	-	4
Miscellaneous expenses	897	123	15	(993)	1	1,091	-	125
Meals and entertainment	178	29	10	-	-	140	-	-
Annuity payments	-	-	-	-	-	32	-	-
Professional memberships	241	8	-	-	-	45	-	25
Public relations	621	3	65	-	12	291	-	-
Other University operating support	1,711	148	324	36	12,953	5,518	-	-
University equipment purchases	503	109	41	-	61	63	-	-
University sponsored research	3,318	4,492	65	337	65	36	-	-
Non-monetary support to programs	845	-	1,231	-	-	2	-	-
Utilities	25	-	1	-	-	111	-	63
University salary and wage support	9,069	2,600	272	-	225	1,176	-	-
Repairs and maintenance	145	-	33	8	34	913	-	302
Other equipment rentals	11	3	3	-	-	4	-	62
Radio station costs	-	-	3,619	-	-	-	-	-
Hotel costs	-	-	-	-	-	-	7,194	-
Hotel administrative and general	-	-	-	-	-	-	-	-
Total expenses	\$ 19,674	\$ 8,050	\$ 5,961	\$ 32,775	\$ 13,709	\$ 17,637	\$ 7,194	\$ 1,993

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
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Note 17. Expenses by Natural Classification (Continued)

	Supporting Services					2021 Total	2020 Total
	Corporate Research Center Costs	Fundraising	Management and General	Hotel Management and General	Golf Course Management and General		
Salaries	\$ 1,349	\$ -	\$ 4,868	\$ -	\$ 324	\$ 7,304	\$ 7,351
Employee benefits and payroll taxes	475	-	1,141	-	-	1,763	1,650
Tuition	-	-	-	-	-	33,352	33,636
Legal fees	21	-	20	-	-	116	33
Accounting fees	-	-	20	-	-	20	129
Advertising	-	61	7	-	25	764	427
Office expenses	201	833	191	-	9	3,466	3,170
Information technology	-	173	68	-	-	307	261
Occupancy	2,363	6	(2,541)	-	-	1,674	1,907
Travel	3	46	28	-	-	241	2,963
Conferences	7	3	6	-	2	196	145
Interest	1,974	-	3,108	-	-	6,355	7,043
Depreciation	4,201	5	2,170	-	77	8,841	9,197
Insurance	106	2	197	-	-	1,162	890
Independent and professional services	1,557	1,141	889	-	24	5,870	7,476
Taxes	1	-	4	-	-	37	62
Miscellaneous expenses	667	419	587	-	-	2,932	5,134
Meals and entertainment	5	8	5	-	-	375	4,055
Annuity payments	-	-	-	-	-	32	32
Professional memberships	7	28	20	-	-	374	356
Public relations	12	303	6	-	8	1,321	1,548
Other University operating support	-	7	3	-	-	20,700	31,596
University equipment purchases	-	448	-	-	-	1,225	1,389
University sponsored research	-	536	-	-	-	8,849	7,184
Non-monetary support to programs	-	-	-	-	-	2,078	1,696
Utilities	2,350	2	496	-	-	3,048	3,049
University salary and wage support	-	6,838	113	-	-	20,293	23,027
Repairs and maintenance	2,559	-	984	-	-	4,978	3,437
Other equipment rentals	-	19	2	-	-	104	210
Radio station costs	-	-	-	-	-	3,619	2,022
Hotel costs	-	-	-	-	-	7,194	10,387
Hotel administrative and general	-	-	-	7,189	-	7,189	9,211
Total expenses	\$ 17,858	\$ 10,878	\$ 12,392	\$ 7,189	\$ 469	\$ 155,779	\$ 180,673

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VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 18. Hotel Revenues

Hotel revenues primarily include room rentals, food and beverage sales, parking, rent, telephone, retail sales, and other customer related revenues, which are accounted for in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Hotel revenues of \$11,185 and \$17,892 for the years ended June 30, 2021 and 2020, respectively, have performance obligations that are satisfied at a point in time. These services are primarily sold to overnight guests, patrons of the Hotel’s restaurant and café, and organizations hosting events and conferences at the Hotel and/or the Conference Center adjacent to the Hotel.

For performance obligations related to the various revenue streams, control transfers to the customer and HRLLC recognizes revenue at the time goods and services are provided. Room revenue of \$7,520 and \$10,558 for the years ended June 30, 2021 and 2020, respectively, are recognized at the time of occupancy, which is when the customer obtains control through occupancy of the room. Food and beverage revenue of \$3,306 and \$6,699 for the years ended June 30, 2021 and 2020, respectively, includes catering services provided for Conference Center functions and other events, and is recognized at the time food and beverage is provided to the customer. All other revenues, including parking, rent, telephone, and retail sales, are recognized at the time goods are sold or services are provided.

Contracts with customers for events and conferences to be held at the Hotel and/or Conference Center may include variable consideration in the form of discounts or price concessions based on anticipated revenue to be earned through room rentals and catering services. All such contracts include a guarantee of anticipated revenues in which customers are contractually obligated to pay HRLLC the difference between total anticipated revenue stated in the contract and the amount of services actually provided should actual services provided be less than anticipated. As the performance obligations related to these contracts are satisfied at a point in time, and as these contracts include a guarantee of a minimum amount of anticipated revenue, there is little uncertainty associated with the variable consideration offered resulting in revenues recorded net of discounts and price concessions at the time services are provided.

Contract liabilities includes advance deposits for conferences and events to be held at the Hotel and/or catering services to be provided and are reflected on the consolidated statement of financial position as accounts payable and accrued expenses. Contract receivables are reflected on the consolidated statement of financial position as trade accounts and interest receivable.

Contract assets and liabilities consisted of the following at June 30:

	2021	2020	2019
Trade accounts receivable	\$ 222	\$ 40	\$ 388
Advance deposits	616	516	452

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2021 (With Comparative Totals for June 30, 2020) (Dollars in Thousands)

Note 19. Contingencies

Estimated losses from loss contingencies are accrued by a charge to income when information available indicates that it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the consolidated financial statements when it is at least reasonably possible that a loss may be incurred and that the loss could be material. In management's opinion, the Foundation is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, change in net assets, and/or liquidity of the Foundation.

Note 20. COVID-19 Outbreak

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closing of non-essential businesses. While the closings were temporary, there has been a change in the environment in how businesses and organizations operate along with the implementation of various safety protocols.

In an effort to mitigate the potential financial impact as a result of the COVID-19 outbreak, and in order to ensure a continued ability to pay employees, The River Course, LLC, a wholly-owned subsidiary of the Foundation, and HRLLC applied for and received \$84 and \$1,920, respectively, in April 2020 in loan assistance through the Paycheck Protection Program (PPP) administered by the United States Small Business Administration (SBA) as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). PPP loan funds must be used to maintain compensation costs and employee headcount and other qualifying expenses (mortgage interest, rent, and utilities) incurred between March 1 and December 31, 2020. The amount received is recognized in the consolidated statement of financial position as notes payable at June 30, 2020. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses as described in the CARES Act. Full forgiveness of both loans was granted in March 2021 and is reflected in the statement of activities as an offset to loss on extinguishment of debt for the year ended June 30, 2021.

HRLLC applied for and received a second draw PPP loan on February 19, 2021 for \$1,726. WVTF Radio Station, a division of the Foundation, also applied for and received a PPP loan on March 30, 2021 for \$363. These unsecured notes were issued as part of the extended federal COVID-19 relief program administered by the SBA. Loan proceeds may only be used for payroll costs, interest on covered mortgage obligations, covered rent obligations, covered utility payments, worker protection costs related to COVID-19, and certain supplier costs and operating expenses incurred during the 24 week period after the loan disbursement date. The notes bears interest at 1% with principal and interest payments deferred for 10 months following the 24 week covered period. Under the terms of the PPP, certain amounts may be forgiven if proceeds are used for qualifying expenses. The amounts received are recognized in the consolidated statement of financial position as notes payable at June 30, 2021. The Foundation intends to use the entire loan for qualifying expenses. Upon notice of forgiveness, the amount forgiven will be recorded as gain on extinguishment of debt in fiscal year 2022.

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 (With Comparative Totals for June 30, 2020)
(Dollars in Thousands)

Note 20. COVID-19 Outbreak (Continued)

The Foundation is not able to estimate the effects of the COVID-19 outbreak on its financial condition, liquidity, or results of operations for fiscal year 2022 given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread.

Note 21. Subsequent Events

The Foundation has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2021 consolidated financial statements through September 23, 2021, the date the consolidated financial statements were available to be issued.

In August 2021, the HRLLC second draw PPP loan issued as part of the extended federal COVID-19 relief program administered by the SBA was forgiven in full.

In September 2021, the VTF PPP loan issued as part of the extended federal COVID-19 relief program administered by the SBA was forgiven in full.

Virginia Tech Foundation, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Financial Assistance/ Student Loans Advanced</u>
U.S. Department of Commerce:		
Public Works and Economic Adjustment Assistance Program:		
Public Works	11.300	<u>\$ 769,617</u>
Total U.S. Department of Commerce		<u><u>\$ 769,617</u></u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Virginia Tech Foundation, Inc. and Subsidiaries (the “Foundation”) and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. The Foundation’s major program is the Public Works and Economic Adjustment Assistance Program.

Note 2. Summary of Significant Accounting Policies for Expenditures of Federal Awards

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Foundation elected not to use the 10% de minimis indirect cost rate.



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Virginia Tech Foundation, Inc. and Subsidiaries
Blacksburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Virginia Tech Foundation, Inc. and Subsidiaries (the “Foundation”), which comprise the consolidated statements of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 23, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia
September 23, 2021

UNIFORM GUIDANCE REQUIREMENTS



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Virginia Tech Foundation, Inc. and Subsidiaries
Blacksburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited Virginia Tech Foundation, Inc. and Subsidiaries' (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2021. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Blacksburg, Virginia
September 23, 2021

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2021

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the consolidated financial statements of Virginia Tech Foundation, Inc. and Subsidiaries.
2. **No significant deficiencies** relating to the audit of the consolidated financial statements were reported in the Independent Auditor's Report over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the consolidated financial statements of Virginia Tech Foundation, Inc. and Subsidiaries were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program of Virginia Tech Foundation, Inc. and Subsidiaries expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as a major program includes:

11.300 Public Works and Economic Adjustment Assistance Program

8. The **threshold** for distinguishing Types A and B programs was **\$750,000**.
9. **Virginia Tech Foundation, Inc. and Subsidiaries was not determined to be a low-risk auditee.**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

SUPPLEMENTARY SCHEDULES

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 1

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION

June 30, 2021

(Dollars in thousands)

	VTF ¹	VTCRC ²	VTREF AND SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
ASSETS					
Cash and cash equivalents	\$ 87,706	\$ 3,957	\$ 28,754	\$ -	\$ 120,417
Restricted cash and cash equivalents	40,728	-	1,072	-	41,800
Trade accounts and interest receivable	14,498	621	599	-	15,718
Inventories	1,119	14	39	-	1,172
Prepaid expenses and other assets	7,280	47	1,137	-	8,464
Short-term investments	90,303	532	-	-	90,835
Contributions receivable	183,436	-	-	-	183,436
Notes receivable and deeds of trust	22,762	50	279	-	23,091
Long-term investments	1,740,491	1,092	-	(1,092)	1,740,491
Irrevocable trusts held by others	5,839	-	-	-	5,839
Vintage and other collection items	6,995	-	9	-	7,004
Net investment in direct financing leases	33,877	13	40,515	-	74,405
Land, buildings, and equipment, net	220,892	11,799	164,267	(29,027)	367,931
Deferred tax asset	5,509	74	(2,205)	-	3,378
Other assets, net	3,250	23	349	-	3,622
Investment in subsidiaries	89,617	-	-	(89,617)	-
Notes receivable from subsidiaries	147,572	-	-	(147,572)	-
Due from subsidiaries	2,240	-	693	(2,933)	-
Total assets	<u>\$ 2,704,114</u>	<u>\$ 18,222</u>	<u>\$ 235,508</u>	<u>\$ (270,241)</u>	<u>\$ 2,687,603</u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 1

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION

June 30, 2021

(Dollars in thousands)

	VTF ¹	VTCRC ²	VTREF AND SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 5,174	\$ 1,954	\$ 1,781	\$ -	\$ 8,909
Deferred revenue and other liabilities	43,003	2,370	2,400	(30,119)	17,654
Annuity obligations	6,783	-	-	-	6,783
Liabilities under trust agreements	25,595	-	-	-	25,595
Notes payable	4,335	-	3,501	-	7,836
Bonds payable	320,148	-	-	-	320,148
Agency deposits held in trust	570,833	-	-	-	570,833
Deferred tax liability	-	-	-	-	-
Notes payable to a parent company	-	219	147,353	(147,572)	-
Due to parent company	(1,602)	685	3,850	(2,933)	-
	<u>974,269</u>	<u>5,228</u>	<u>158,885</u>	<u>(180,624)</u>	<u>957,758</u>
NET ASSETS					
Without donor restrictions	358,512	-	62,107	(62,107)	358,512
Common stock	-	15	-	(15)	-
Additional paid-in capital	-	5,369	9,848	(15,217)	-
Retained earnings	-	7,610	-	(7,610)	-
	<u>358,512</u>	<u>12,994</u>	<u>71,955</u>	<u>(84,949)</u>	<u>358,512</u>
With donor restrictions	<u>1,371,333</u>	<u>-</u>	<u>4,668</u>	<u>(4,668)</u>	<u>1,371,333</u>
Total net assets	<u>1,729,845</u>	<u>12,994</u>	<u>76,623</u>	<u>(89,617)</u>	<u>1,729,845</u>
Total liabilities and net assets	<u>\$ 2,704,114</u>	<u>\$ 18,222</u>	<u>\$ 235,508</u>	<u>\$ (270,241)</u>	<u>\$ 2,687,603</u>

¹VTF includes The Ferrari Foundation, The River Course, LLC, and VT Technology Assets, LLC

²VTCRC includes VT Knowledgeworks, LLC and Tech Center LLC

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION

Year Ended June 30, 2021

(Dollars in thousands)

	VTF ³		VTCRC ⁴		VTREF AND SUBSIDIARIES		ELIMINATIONS	CONSOLIDATED TOTALS
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			
REVENUES, NET GAINS, AND OTHER SUPPORT								
Contributions	\$ 8,215	\$ 168,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,951
Investment income	12,974	6,836	241	3	-	(7,231)	12,823	
Rental income	23,619	2,008	5,543	15,974	-	(2,747)	44,397	
Hotel revenues	-	-	-	11,185	-	-	11,185	
Golf course revenues	1,627	-	-	-	-	-	1,627	
Other income	6,417	9,342	1,535	1,959	-	(755)	18,498	
Change in fair value of interest rate swaps	531	-	-	-	-	-	531	
Net gains on investments	9,976	189,272	-	-	-	-	199,248	
Net assets released from restrictions	120,493	(120,493)	-	-	-	-	-	
Income from subsidiaries	9,348	-	-	-	-	(9,348)	-	
Total revenues, net gain, and other support	193,200	255,701	7,319	29,121	-	(20,081)	465,260	
EXPENSES								
Program services								
Instruction and academic programs	19,674	-	-	-	-	-	19,674	
Research programs	8,050	-	-	-	-	-	8,050	
Public service programs	5,961	-	-	-	-	-	5,961	
Scholarships	32,775	-	-	-	-	-	32,775	
Grants to University for capital outlay	13,709	-	-	-	-	-	13,709	
Other University programs	17,637	-	-	-	-	-	17,637	
Hotel costs	-	-	-	7,204	-	(10)	7,194	
Golf course costs	1,993	-	-	-	-	-	1,993	
Total program services	99,799	-	-	7,204	-	(10)	106,993	

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION
Year Ended June 30, 2021
(Dollars in thousands)

	VTF ³		VTCRC ⁴	VTREF AND SUBSIDIARIES		ELIMINATIONS	CONSOLIDATED TOTALS
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		
EXPENSES (CONTINUED)							
Supporting services							
Corporate Research Center costs	\$ 12,684	\$ -	\$ 5,413	\$ -	\$ -	\$ (239)	\$ 17,858
Fundraising	10,878	-	-	-	-	-	10,878
Management and general	14,314	-	-	8,564	-	(10,486)	12,392
Hotel management and general	-	-	-	7,189	-	-	7,189
Golf course management and general	469	-	-	-	-	-	469
Total supporting services	38,345	-	5,413	15,753	-	(10,725)	48,786
Total expenses	138,144	-	5,413	22,957	-	(10,735)	155,779
Change in valuation of split-interest agreements	-	(8,143)	-	-	-	-	(8,143)
Loss on extinguishment of debt	2,869	-	-	(1,223)	-	-	1,646
Total expenses, change in valuation of split-interest agreements, and loss on extinguishment of debt	141,013	(8,143)	5,413	21,734	-	(10,735)	149,282
Change in net assets before income taxes	52,187	263,844	1,906	7,387	-	(9,346)	315,978
Income tax expense	(5,378)	-	490	(543)	-	-	(5,431)
Change in net assets	57,565	263,844	1,416	7,930	-	(9,346)	321,409
Net assets at beginning of year	300,947	1,107,489	12,028	61,497	4,668	(78,193)	1,408,436
Distribution from VTCRC to VTF	-	-	(450)	-	-	450	-
Distribution from VTF to VTREF	-	-	-	2,927	-	(2,927)	-
Distribution from VTREF to VTF	-	-	-	(399)	-	399	-
Net assets at end of year	\$ 358,512	\$ 1,371,333	\$ 12,994	\$ 71,955	\$ 4,668	\$ (89,617)	\$ 1,729,845

³VTF includes The Ferrari Foundation, The River Course, LLC, and VT Technology Assets, LLC

⁴VTCRC includes VT Knowledgeworks, LLC and Tech Center LLC

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 3

VTREF AND SUBSIDIARIES CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION

June 30, 2021

(Dollars in thousands)

	VTREF ⁵	HRF	HRLLC	ELIMINATIONS	VTREF AND SUBSIDIARIES
ASSETS					
Cash and cash equivalents	\$ 14,040	\$ 11,727	\$ 2,987	\$ -	\$ 28,754
Restricted cash and cash equivalents	-	-	1,072	-	1,072
Trade accounts and interest receivable	353	341	246	(341)	599
Notes receivable	279	-	-	-	279
Inventories	-	-	39	-	39
Prepaid expenses and other assets	344	539	254	-	1,137
Vintage and other collection items	5	4	-	-	9
Net investment in direct financing leases	40,515	-	-	-	40,515
	<u>55,536</u>	<u>12,611</u>	<u>4,598</u>	<u>(341)</u>	<u>72,404</u>
Land, buildings, and equipment					
Land	41,651	5,305	1,289	(5,028)	43,217
Building	79,961	29,566	3,739	10,249	123,515
Leasehold improvements	-	-	10,249	(10,249)	-
Furniture, fixtures, and equipment	1,688	1,555	12,631	-	15,874
Construction in progress	36,688	-	3,571	-	40,259
	<u>159,988</u>	<u>36,426</u>	<u>31,479</u>	<u>(5,028)</u>	<u>222,865</u>
Less accumulated depreciation	<u>20,829</u>	<u>21,433</u>	<u>16,336</u>	<u>-</u>	<u>58,598</u>
	<u>139,159</u>	<u>14,993</u>	<u>15,143</u>	<u>(5,028)</u>	<u>164,267</u>
Other assets, net	349				349
Deferred tax asset	-	(2,205)	-	-	(2,205)
Investment in subsidiaries	30,178	809	-	(30,987)	-
Notes receivable from subsidiaries	3,738	-	-	(3,738)	-
Due from subsidiaries	1,350	-	-	(657)	693
	<u>1,350</u>	<u>-</u>	<u>-</u>	<u>(657)</u>	<u>693</u>
Total assets	<u>\$ 230,310</u>	<u>\$ 26,208</u>	<u>\$ 19,741</u>	<u>\$ (40,751)</u>	<u>\$ 235,508</u>

(Continued)

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 3

VTREF AND SUBSIDIARIES CONSOLIDATING SCHEDULE OF FINANCIAL POSITION INFORMATION

June 30, 2021

(Dollars in thousands)

	VTREF ⁵	HRF	HRLLC	ELIMINATIONS	VTREF AND SUBSIDIARIES
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 84	\$ -	\$ 1,697	\$ -	\$ 1,781
Deferred revenue and other liabilities	2,400	-	5,315	(5,315)	2,400
Notes payable	-	1,774	1,727	-	3,501
Notes payable to parent company	147,353	-	3,738	(3,738)	147,353
Due to parent company	3,850	657	54	(711)	3,850
	<u>153,687</u>	<u>2,431</u>	<u>12,531</u>	<u>(9,764)</u>	<u>158,885</u>
NET ASSETS					
Without donor restrictions	62,107	-	-	-	62,107
Additional paid-in capital	9,848	21,726	(37,526)	15,800	9,848
Retained earnings	-	2,051	44,736	(46,787)	-
	<u>71,955</u>	<u>23,777</u>	<u>7,210</u>	<u>(30,987)</u>	<u>71,955</u>
With donor restrictions	4,668	-	-	-	4,668
	<u>76,623</u>	<u>23,777</u>	<u>7,210</u>	<u>(30,987)</u>	<u>76,623</u>
Total liabilities and net assets	<u>\$ 230,310</u>	<u>\$ 26,208</u>	<u>\$ 19,741</u>	<u>\$ (40,751)</u>	<u>\$ 235,508</u>

⁵VTREF includes VTREF – Foundation Office Building, LLC, Virginia Tech Research Institute, LLC, CS Shopping Center, LLC, Turner Street Project, LLC, CRC Phase II, LLC, ExpandTran, LLC, and VTREF Brokerage, LLC

VIRGINIA TECH FOUNDATION, INC. AND SUBSIDIARIES

SCHEDULE 4

VTREF AND SUBSIDIARIES CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION
Year Ended June 30, 2021
(Dollars in thousands)

	VTREF ⁶		HRF	HRLLC	ELIMINATIONS	VTREF AND SUBSIDIARIES
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS	WITHOUT DONOR RESTRICTIONS		
Revenues, net gains, and other support						
Investment income	\$ 14	\$ -	\$ -	\$ -	\$ (11)	\$ 3
Rental income	15,974	-	341	-	(341)	15,974
Hotel revenues	-	-	-	11,185	-	11,185
Other income	1,959	-	-	-	-	1,959
Income from subsidiaries	(671)	-	(561)	-	1,232	-
Total revenues, net gains, and other support	17,276	-	(220)	11,185	880	29,121
Expenses						
Cost of hotel revenues	-	-	-	5,736	-	5,736
Management and general	3,186	-	18	5,908	(341)	8,771
Depreciation and amortization	2,096	-	758	1,932	-	4,786
Interest	3,664	-	-	11	(11)	3,664
Total expenses	8,946	-	776	13,587	(352)	22,957
Loss on extinguishment of debt	400	-	-	(1,623)	-	(1,223)
Total expenses and loss on extinguishment of debt	9,346	-	776	11,964	(352)	21,734
Change in net assets before income taxes	7,930	-	(996)	(779)	1,232	7,387
Income tax expense	-	-	(543)	-	-	(543)
Change in net assets	7,930	-	(453)	(779)	1,232	7,930
Net assets at beginning of year	61,497	4,668	23,907	7,540	(31,447)	66,165
Contribution from VTREF to HRF	-	-	323	449	(772)	-
Distribution to members for debt service	-	-	-	-	-	-
Distribution from VTF to VTREF	2,927	-	-	-	-	2,927
Distribution from VTREF to VTF	(399)	-	-	-	-	(399)
Net assets at end of year	\$ 71,955	\$ 4,668	\$ 23,777	\$ 7,210	\$ (30,987)	\$ 76,623

⁶VTREF includes VTREF – Foundation Office Building, LLC, Virginia Tech Research Institute, LLC, CS Shopping Center, LLC, Turner Street Project, LLC, CRC Phase II, LLC, ExpandTran, LLC, and VTREF Brokerage, LLC