

**Vanguard Charitable Endowment Program**

**Financial Statements**

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



## Report of Independent Auditors

To the Board of Trustees of Vanguard Charitable Endowment Program

We have audited the accompanying financial statements of Vanguard Charitable Endowment Program (the "Company"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and of cash flows for the years then ended.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard Charitable Endowment Program as of June 30, 2018 and 2017, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PRICEWATERHOUSECOOPERS LLP

August 30, 2018

**Vanguard Charitable Endowment Program**  
**Statements of Financial Position**

	As of June 30,	
	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 32,703,932	\$ 20,087,408
Investments; at market value	8,576,175,536	7,260,940,841
Dividends receivable	4,949,444	3,144,985
Receivable for securities sold	31,038,875	4,872,418
Computer equipment and related software, net	1,781,148	3,425,285
Other assets	15,316,788	180,844
<b>Total Assets</b>	<b>\$ 8,661,965,723</b>	<b>\$ 7,292,651,781</b>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 10,644,391	\$ 5,233,005
Payable for securities purchased	33,919,802	4,078,997
Grants payable	-	2,274,160
<b>Total Liabilities</b>	44,564,193	11,586,162
Unrestricted Net Assets	8,617,401,530	7,281,065,619
<b>Total Liabilities and Net Assets</b>	<b>\$ 8,661,965,723</b>	<b>\$ 7,292,651,781</b>

The accompanying notes are an integral part of these financial statements.

**Vanguard Charitable Endowment Program**  
**Statements of Activities**

	<b>For the Years Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
Donor contributions	\$ 1,762,454,882	\$ 1,546,748,309
Investment income	182,571,391	139,618,014
Net realized and unrealized gains (losses) on investments	394,458,598	602,442,702
Contribution of goods and services	612,655	1,094,056
<b>Total Revenues</b>	<b>2,340,097,526</b>	<b>2,289,903,081</b>
<b>Grants and expenses</b>		
Grants to charitable organizations	988,294,822	758,219,664
Management and general expenses	2,631,541	2,257,701
Program expenses	10,985,337	10,046,618
Fundraising expenses	1,849,915	1,482,980
<b>Total Grants and Expenses</b>	<b>1,003,761,615</b>	<b>772,006,963</b>
Increase in unrestricted net assets	1,336,335,911	1,517,896,118
Unrestricted Net Assets, beginning of year	7,281,065,619	5,763,169,501
<b>Unrestricted Net Assets, end of year</b>	<b>\$ 8,617,401,530</b>	<b>\$ 7,281,065,619</b>

The accompanying notes are an integral part of these financial statements.

**Vanguard Charitable Endowment Program**  
**Statements of Cash Flows**

	<b>For the Years Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Increase in unrestricted net assets	\$ 1,336,335,911	\$ 1,517,896,118
Adjustments to reconcile increase in unrestricted net assets to net cash		
Decrease in grants payable	(2,274,160)	(915,383)
Increase in other assets	(15,135,944)	(162,238)
Increase in dividends receivable	(1,804,459)	(813,351)
Increase in accounts payable and accrued expenses	5,411,386	3,757,978
Depreciation and amortization	1,644,137	1,507,125
Net realized and unrealized (gains) losses on investments	(394,458,598)	(602,442,702)
Net cash provided by operating activities	<u>929,718,273</u>	<u>918,827,547</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of investments	966,838,340	741,169,539
Purchases of investments	(1,887,614,437)	(1,681,868,497)
Increase in payable for securities purchased	29,840,805	3,691,627
(Increase) decrease in receivable for securities sold	(26,166,457)	17,577,381
Purchases of computer equipment and related software	-	(1,605,975)
Net cash used in investing activities	<u>(917,101,749)</u>	<u>(921,035,925)</u>
<b>Cash flows from financing activities:</b>		
Payment of long-term payable	-	(600,000)
Net cash used in financing activities	<u>-</u>	<u>(600,000)</u>
Net Increase (decrease) in cash and cash equivalents	12,616,524	(2,808,378)
Cash and cash equivalents, beginning of year	20,087,408	22,895,786
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 32,703,932</b></u>	<u><b>\$ 20,087,408</b></u>

The accompanying notes are an integral part of these financial statements.

## **Vanguard Charitable Endowment Program Notes to Financial Statements**

### **Note 1 - Organization and Operations:**

The Vanguard Charitable Endowment Program ("Vanguard Charitable") is an independent charitable organization that is organized and operated for the purpose of supporting and increasing philanthropy. Vanguard Charitable is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity under Section 509(a)(1) of the Internal Revenue Code.

Donors to Vanguard Charitable may contribute to its donor-advised fund, Vanguard Charitable's Philanthropic Impact Fund or the Sustainable Disaster-Recovery Fund. All gifts are irrevocable and unconditional and therefore become the exclusive property of Vanguard Charitable. Through the donor-advised fund, assets are invested in a choice of fourteen investment pools ("Pools"). Thirteen pools are comprised of mutual funds offered by The Vanguard Group, Inc. ("Vanguard"), a related party, in addition to one pool offered by The Investment Fund for Foundations ("TIFF"). The composition of the Pools is determined by the Board of Trustees of Vanguard Charitable ("Trustees"). Vanguard Charitable has granted donors the privilege of making grant recommendations to Vanguard Charitable about the distribution of funds from their donor-advised accounts; however, all such recommendations are subject to review and approval by Vanguard Charitable.

Vanguard Charitable provides grants to organizations that operate in seven broad areas: health and human services; culture, religion, arts, and the humanities; children, youth, and families; civic and community affairs; social welfare; the environment and wildlife; and educational and scientific research.

Vanguard Charitable contributes to a defined contribution plan for its employees. Contribution expense for the years ended June 30, 2018 and 2017 was \$461,637 and \$415,465, respectively. These amounts are included in the three functional expense categories (Management, Fundraising and Program) on the Statements of Activities.

### **Related Party Transactions**

Vanguard Charitable has contracted Vanguard to provide certain support services including investment recordkeeping and administrative services. Vanguard provides such services in exchange for a fee. The fees incurred for the years ended June 30, 2018 and 2017 were \$1,797,124 and \$1,563,011, respectively. These fees are included in the three functional expense categories (Management, Fundraising and Program) on the Statements of Activities.

In-kind contributions of professional services received from Vanguard for the years ended June 30, 2018 and 2017 were \$612,655 and \$1,064,723 respectively. These amounts are included in Contribution of Goods and Services on the Statement of Activities.

Vanguard has agreed to provide Vanguard Charitable funding in the form of a non-interest bearing financing arrangement. See Note 4.

## **Vanguard Charitable Endowment Program Notes to Financial Statements**

### **Note 2 - Summary of Significant Accounting Policies:**

#### **Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

#### **Cash and Cash Equivalents**

Vanguard Charitable considers short-term, highly liquid investments with a maturity of three months or less at the time of their purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates fair market value.

#### **Investments**

Transactions in the underlying mutual funds ("Funds") of the Pools are accounted for on the trade date. The cost used in determining realized gains and losses on sales of the Funds' shares is on the basis of specific identification. The daily Net Asset Value ("NAV") of each Fund is valued at the NAV determined as of the close of the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date.

Authoritative guidance on fair value measurements and disclosure under GAAP requires that the fair value of investments be presented in a hierarchy that prioritizes the inputs to valuation technique used to measure fair value. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value investments are not necessarily an indication of the risk associated with investing in those investments.

Level 1 – Quoted prices in active markets for identical investments as of the reporting date.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) as of the reporting date. In accordance with authoritative guidance, the fair value of investments that permit redemptions quarterly or more frequently are generally classified as Level 2.

Level 3 – Significant unobservable inputs. Generally, investments with unexpired lock-up periods or that permit redemptions less frequently than quarterly, are classified as Level 3.

Considering that the Pools are not separate legal entities, but serve as vehicles to hold investments in one or more underlying mutual funds, Vanguard Charitable has determined that it is appropriate to look through the Pools for purposes of classifying the investments in the fair value hierarchy. For the years ended June 30, 2018 and 2017, all of the Funds that underlie each Pool are classified as Level 1 investments because the NAVs constitute quoted prices in an active market.

## **Vanguard Charitable Endowment Program Notes to Financial Statements**

### **Note 2 - Summary of Significant Accounting Policies (continued):**

#### **Computer Equipment and Related Software**

Computer equipment is recorded at cost at date of acquisition and software is recorded at cost at in-service date. Equipment and related software costs for the years ended June 30, 2018 and 2017 were \$0 and \$1,605,975 respectively and is included in Computer equipment and related software, net in the Statement of Financial Position. For items placed in service, depreciation expense is computed using the straight-line method over the asset's estimated three year useful life. Depreciation expense on computer equipment and software for the years ended June 30, 2018 and 2017 was \$1,644,137 and \$1,507,125 respectively and is included in Program expenses in the Statement of Activities.

#### **Donor Contributions**

All gifts are subject to acceptance by Vanguard Charitable. Contribution revenue is recorded when Vanguard Charitable accepts an 'in good order' unconditional promise to give from a donor.

#### **Grants**

Grants are recorded as an expense and must be authorized by the Trustees and Vanguard Charitable management under methods approved by the Trustees for payment.

#### **Unrestricted Net Assets**

Vanguard Charitable's net assets, including the donor-advised fund, the Philanthropic Impact Fund, and the Sustainable Disaster-Recovery Fund, are unrestricted and as such are free from donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets and expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, respectively. Unrestricted net assets are maintained and distributed at the discretion of the Trustees.

## Vanguard Charitable Endowment Program Notes to Financial Statements

### Note 3 - Investments:

Contributions to Vanguard Charitable are allocated to Pools based on input from donors or the Trustees, including:

- **Money Market Pool** seeks to preserve capital and earn income at current money market rates through a target allocation of 100% short-term, high-quality money market instruments
- **Short-Term Bond Pool** seeks to offer potential for more income than the money market pool through a target allocation of 100% investment-grade and government short-term bonds
- **Gift Preservation Pool** seeks to preserve principal while earning current income through a target allocation of 50% money market funds and 50% short-term bond funds
- **Conservative Growth Pool** seeks returns through a target allocation of 60% bond funds and 40% stock funds, including small-, mid-, and large-cap growth and value stocks
- **Total Bond Pool** seeks to provide consistent, competitive returns with moderate risk through a target allocation of 100% bond funds
- **Moderate Growth Pool** seeks to provide growth of capital and a reasonable level of current income through a target allocation of 55% stock funds and 45% bond funds
- **Total U.S. Stock Pool** seeks to track the performance of a benchmark index that measures the investment return through a target allocation of 100% U.S. stocks
- **Growth Pool** seeks to provide growth of capital through a target allocation of 80% stock funds and 20% bond funds
- **Total Equity Pool** seeks to provide growth of capital through a target allocation of 100% stock funds
- **Total International Stock Pool** seeks to track the performance of a benchmark index that measures the investment return through a target allocation of 100% stocks issued by companies located in Europe, the Pacific region and emerging market countries
- **European Stock Pool** seeks to provide low-cost exposure to the European stock markets through a target allocation of 100% stocks investing in developed markets across the European region
- **Pacific Stock Pool** seeks to provide low-cost exposure to companies in developed countries of the Pacific region through a target allocation of 100% stocks throughout the area
- **Emerging Markets Stock Pool** seeks to provide a low-cost way to gain equity exposure to emerging markets through a target allocation of 100% stocks issued by companies in emerging market countries
- **TIFF Multi-Asset Pool** seeks to produce a total return that, over a majority of market cycles, exceeds inflation plus 5% per annum, by investing in a globally diversified portfolio of equity oriented, diversifying strategies (hedge fund and others), and fixed income securities.

Other than TIFF, the Pools are not separate funds or legal entities. Donors have no legal or beneficial interest in assets maintained in the Pools, including TIFF. Income earned by investments in a particular Pool is retained and reinvested within that Pool.

**Vanguard Charitable Endowment Program  
Notes to Financial Statements**

**Note 3 – Investments (continued):**

<u><b>Total Investments</b></u>	<u><b>As of June 30,</b></u>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
<u><b>The Vanguard Group Inc.</b></u>		
Money Market Pool	\$ 604,065,270	\$ 525,630,661
Short-Term Bond Pool	359,753,819	294,345,987
Gift Preservation Pool	615,722,817	587,216,239
Conservative Growth Pool	344,503,889	288,313,361
Total Bond Pool	294,077,358	203,345,461
Moderate Growth Pool	1,316,157,861	1,213,970,432
Total U.S. Stock Pool	1,269,082,863	932,794,594
Growth Pool	1,956,935,698	1,720,833,738
Total Equity Pool	1,115,353,595	969,133,996
Total International Stock Pool	420,852,400	305,538,051
European Stock Pool	58,645,014	42,007,616
Pacific Stock Pool	31,304,174	22,054,344
Emerging Markets Stock Pool	117,235,423	87,319,956
<u><b>The Investment Fund for Foundations</b></u>		
Multi-Asset Pool	72,485,355	68,436,405
<b>Total Investments</b>	<u><u><b>\$ 8,576,175,536</b></u></u>	<u><u><b>\$ 7,260,940,841</b></u></u>

## **Vanguard Charitable Endowment Program Notes to Financial Statements**

### **Note 4 - Long-Term Payable:**

Vanguard has agreed to provide funding to Vanguard Charitable in the form of an interest-free financing arrangement of up to \$6,500,000. The financing arrangement is provided on an unsecured basis and the timing of the repayment is at the discretion of the Trustees. On June 30, 2018 and 2017, the balance of Vanguard Charitable's payable to Vanguard totaled \$0 and \$0, respectively. Vanguard Charitable recorded interest expense of \$0 and \$29,333, for the years ended June 30, 2018 and 2017, respectively. A corresponding amount was reported as contributed goods and services from Vanguard in the Statement of Activities based on an estimated market interest rate of 5.00% for both years ended June 30, 2018 and 2017. Vanguard Charitable paid \$600,000 to Vanguard on June 22, 2017 which brought the value of the long-term payable at June 30, 2017 to \$0. The estimated fair value of the long term-payable at June 30, 2017 was \$0.

### **Note 5 - Net Assets Released for Administrative Fee:**

Vanguard Charitable charges an administrative fee to all donor-advised accounts. The base fee is an annual charge of 0.60% of the net assets of the Pools and is wrapped in with investment income on these related financial statements. Accounts with amounts exceeding the \$500,000 level may be eligible for reduced administrative fees. Accounts with balances less than \$15,000 are charged an additional annual maintenance fee of \$250.

The administrative fee is accrued daily and reduces the net asset values of the Pools held in the donor-advised accounts. These administrative fees are then transferred monthly to the operating account. The administrative fee was \$21,268,421 and \$17,050,125 for the years ended June 30, 2018 and 2017, respectively and is included in Investment income on the Statement of Activities. The administrative fee assessed is used to pay the operating expenses of Vanguard Charitable.

### **Note 6 - Income Taxes:**

Vanguard Charitable has made no provision for federal income taxes for the years ended June 30, 2018 and 2017 since it has received a tax determination letter, dated May 3, 2002, from the Internal Revenue Service classifying it as a public charity exempt from federal income tax. Management has noted no uncertain tax positions and has concluded no provision is required.

### **Note 7 – Subsequent Events:**

Vanguard Charitable has determined that no material events or transactions occurred through August 30, 2018 that would require recognition or disclosure in these financial statements.