

**Vanguard Charitable Endowment Program**

**Financial Statements**

**For the Years Ended  
June 30, 2017 and 2016**



## **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, 2017 and 2016, 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, 2017 and 2016, 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

September 25, 2017

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

	As of June 30,	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 20,087,408	\$ 22,895,786
Investments, at value	7,260,940,841	5,717,799,181
Dividends receivable	3,144,985	2,331,634
Receivable for securities sold	4,872,418	22,449,799
Computer equipment and related software, net	3,425,285	3,326,435
Other assets	180,844	18,606
<b>Total Assets</b>	<b>\$ 7,292,651,781</b>	<b>\$ 5,768,821,441</b>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 5,233,005	\$ 1,475,027
Payable for securities purchased	4,078,997	387,370
Grants payable	2,274,160	3,189,543
Long-term payable	-	600,000
<b>Total Liabilities</b>	11,586,162	5,651,940
Unrestricted Net Assets	7,281,065,619	5,763,169,501
<b>Total Liabilities and Net Assets</b>	<b>\$ 7,292,651,781</b>	<b>\$ 5,768,821,441</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>2017</b>	<b>2016</b>
<b>Revenues</b>		
Donor contributions	\$ 1,546,748,309	\$ 1,278,868,232
Investment income	139,618,014	113,750,680
Net realized and unrealized gains (losses) on investments	602,442,702	(69,865,176)
Contribution of goods and services	1,094,056	1,238,967
<b>Total Revenues</b>	<b>2,289,903,081</b>	<b>1,323,992,703</b>
<b>Grants and expenses</b>		
Grants to charitable organizations	758,219,664	704,539,167
Management and general expenses	2,257,701	3,825,147
Program expenses	10,046,618	7,274,827
Fundraising expenses	1,482,980	1,214,435
<b>Total Grants and Expenses</b>	<b>772,006,963</b>	<b>716,853,576</b>
Increase in unrestricted net assets	1,517,896,118	607,139,127
Unrestricted Net Assets, beginning of year	5,763,169,501	5,156,030,374
<b>Unrestricted Net Assets, end of year</b>	<b>\$ 7,281,065,619</b>	<b>\$ 5,763,169,501</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>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Increase in unrestricted net assets	\$ 1,517,896,118	\$ 607,139,127
Adjustments to reconcile increase in unrestricted net assets to net cash		
Increase (decrease) in grants payable	(915,383)	146,497
(Increase) decrease in other assets	(162,238)	3,371
Increase in dividends receivable	(813,351)	(519,246)
Increase in accounts payable and accrued expenses	3,757,978	369,239
Depreciation and amortization	1,507,125	-
Net realized and unrealized (gains) losses on investments	(602,442,702)	69,865,176
	<u>918,827,547</u>	<u>677,004,164</u>
Net cash provided by operating activities		
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of investments	741,169,539	690,064,128
Purchases of investments	(1,681,868,497)	(1,332,807,138)
Increase (decrease) in payable for securities purchased	3,691,627	(553,184)
(Increase) decrease in receivable for securities sold	17,577,381	(20,116,700)
Purchases of computer equipment and related software	(1,605,975)	(3,326,435)
	<u>(921,035,925)</u>	<u>(666,739,329)</u>
Net cash used in investing activities		
<b>Cash flows from financing activities:</b>		
Payment of long-term payable	(600,000)	(300,000)
	<u>(600,000)</u>	<u>(300,000)</u>
Net cash used in financing activities		
	(2,808,378)	9,964,835
Net Increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning of year	22,895,786	12,930,951
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 20,087,408</b></u>	<u><b>\$ 22,895,786</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 and another commingled fund of funds offered by The Investment Fund for Foundations ("TIFF"). In June 2016, all assets in the commingled fund of funds were redeemed. 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, 2017 and 2016 was \$415,465 and \$448,381, 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, 2017 and 2016 were \$1,563,011 and \$1,546,896, 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, 2017 and 2016 were \$1,064,723 and \$1,195,217 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 accounting principles 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

Fund transactions 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. As a practical expedient, Vanguard Charitable is permitted, under authoritative guidance, to estimate fair value of an investment in an investment company at the measurement date using reported net asset value (NAV). Adjustment is required if Vanguard Charitable expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with GAAP. The Trustees have determined that Investments are valued at fair market value based on current NAV, which is their fair value. 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. However, in accordance with Accounting Standards Update 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, Vanguard Charitable has not classified its investments in a fair value hierarchy as they are valued based on current NAV as a practical expedient.

#### 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, 2017 and 2016 were \$1,605,975 and \$3,326,435 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, 2017 and 2016 was \$1,507,125 and \$0 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.

## Vanguard Charitable Endowment Program Notes to Financial Statements

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

#### **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.

#### **Fair Value of Long-Term Payable**

The fair value of the long-term payable is estimated using discounted cash flow analyses based on current financing rates for similar instruments.

## 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 equities, fixed income instruments, Real Estate Investment Trusts, commodities and other 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>Total Investments</u>	<u>As of June 30,</u>	
	<u>2017</u>	<u>2016</u>
<b><u>The Vanguard Group Inc.</u></b>		
Money Market Pool	\$ 525,630,661	\$ 421,952,223
Short-Term Bond Pool	294,345,987	225,271,874
Gift Preservation Pool	587,216,239	505,762,779
Conservative Growth Pool	288,313,361	309,231,758
Total Bond Pool	203,345,461	182,531,468
Moderate Growth Pool	1,213,970,432	902,868,159
Total U.S. Stock Pool	932,794,594	684,448,277
Growth Pool	1,720,833,738	1,313,131,393
Total Equity Pool	969,133,996	777,651,680
Total International Stock Pool	305,538,051	224,563,906
European Stock Pool	42,007,616	24,702,661
Pacific Stock Pool	22,054,344	12,951,774
Emerging Markets Stock Pool	87,319,956	62,553,620
<b><u>The Investment Fund for Foundations</u></b>		
Multi-Asset Pool	68,436,405	70,177,609
<b>Total Investments</b>	<b>\$ 7,260,940,841</b>	<b>\$ 5,717,799,181</b>

## **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, 2017 and 2016, the balance of Vanguard Charitable's payable to Vanguard totaled \$0 and \$600,000, respectively. Vanguard Charitable recorded interest expense of \$29,333 and \$43,750, for the years ended June 30, 2017 and 2016, 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, 2017 and 2016. 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, 2016 was \$529,801.

### **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 \$17,050,125 and \$14,475,039 for the years ended June 30, 2017 and 2016, 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 and, when approved by the Trustees, the long-term payable to Vanguard.

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

Vanguard Charitable has made no provision for federal income taxes for the years ended June 30, 2017 and 2016 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 as a result of its analysis for open tax years and has concluded no provision is required.

### **Note 7 – Subsequent Events:**

Vanguard Charitable has determined that no material events or transactions occurred through September 25, 2017 that would require recognition or disclosure in these financial statements.