

**AUDITED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULE
AND REPORTS REQUIRED BY
OMB CIRCULAR A-133**

**VENTURE PHILANTHROPY
PARTNERS, INC.**

MARCH 31, 2012 AND 2011

VENTURE PHILANTHROPY PARTNERS, INC.

AUDITED FINANCIAL STATEMENTS WITH SUPPLEMENTAL SCHEDULE AND
REPORTS REQUIRED BY OMB CIRCULAR A-133

MARCH 31, 2012 AND 2011

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to the Financial Statements	5 - 13
Supplemental Schedule and Reports Required by OMB Circular A-133	
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 <i>Government Auditing Standards</i>	14 - 15
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each of the Major Programs and on Internal Control Over Compliance in Accordance With OMB Circular A-133	16 - 17
Schedule of Expenditures of Federal Awards	18
Notes to the Schedule of Expenditures of Federal Awards	19
Schedule of Findings and Questioned Costs	20 - 21
Schedule of Prior Audit Findings	22



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Venture Philanthropy Partners, Inc.
Washington, D.C.

We have audited the accompanying statement of financial position of Venture Philanthropy Partners, Inc. (VPP) as of March 31, 2012, and the related statements of activities and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of VPP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended March 31, 2011 were audited by other auditors, whose report dated October 5, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Venture Philanthropy Partners, Inc. as of March 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012 on our consideration of Venture Philanthropy Partners, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended March 31, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
September 12, 2012

VENTURE PHILANTHROPY PARTNERS, INC.

STATEMENTS OF FINANCIAL POSITION

MARCH 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 811,489	\$ 13,288,939
Certificates of deposit	1,600,394	2,500,000
Accrued interest receivable	168,702	933
Accounts receivable and prepaid expenses	183,349	175,129
Pledges receivable	2,624,705	4,612,030
Total current assets	5,388,639	20,577,031
Pledges receivable	1,825,630	3,184,012
Property and equipment, net	29,053	72,976
Investments	19,231,316	6,551,803
Total assets	\$ 26,474,638	\$ 30,385,822
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 270,609	\$ 177,394
Deferred rent	6,132	4,930
Total current liabilities	276,741	182,324
Net assets		
Unrestricted	23,532,700	24,827,579
Temporarily restricted	2,665,197	5,375,919
Total net assets	26,197,897	30,203,498
Total liabilities and net assets	\$ 26,474,638	\$ 30,385,822

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

VENTURE PHILANTHROPY PARTNERS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Contributions	\$ 2,838,780	\$ 814,954	\$ 3,653,734	\$ 2,205,350	\$ 1,786,981	\$ 3,992,331
Investment income	210,392	-	210,392	395,392	-	395,392
Net assets released from restrictions	<u>3,525,676</u>	<u>(3,525,676)</u>	<u>-</u>	<u>5,110,000</u>	<u>(5,110,000)</u>	<u>-</u>
Total revenue	<u>6,574,848</u>	<u>(2,710,722)</u>	<u>3,864,126</u>	<u>7,710,742</u>	<u>(3,323,019)</u>	<u>4,387,723</u>
Expenses						
Program services:						
Grant program expenses	4,602,108	-	4,602,108	1,906,847	-	1,906,847
Investment practice	1,773,743	-	1,773,743	1,609,570	-	1,609,570
Strategic communications, investor relations and field-building	1,012,776	-	1,012,776	737,276	-	737,276
Management and general	231,731	-	231,731	510,386	-	510,386
Fundraising	<u>249,369</u>	<u>-</u>	<u>249,369</u>	<u>373,329</u>	<u>-</u>	<u>373,329</u>
Total expenses	<u>7,869,727</u>	<u>-</u>	<u>7,869,727</u>	<u>5,137,408</u>	<u>-</u>	<u>5,137,408</u>
Changes in net assets	(1,294,879)	(2,710,722)	(4,005,601)	2,573,334	(3,323,019)	(749,685)
Net assets, beginning of year	<u>24,827,579</u>	<u>5,375,919</u>	<u>30,203,498</u>	<u>22,254,245</u>	<u>8,698,938</u>	<u>30,953,183</u>
Net assets, end of year	<u>\$ 23,532,700</u>	<u>\$ 2,665,197</u>	<u>\$ 26,197,897</u>	<u>\$ 24,827,579</u>	<u>\$ 5,375,919</u>	<u>\$ 30,203,498</u>

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

VENTURE PHILANTHROPY PARTNERS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Changes in net assets	\$ (4,005,601)	\$ (749,685)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	46,050	18,516
Amortization of premium on investments	394,945	2,388
Net realized and unrealized gain on investments	(78,250)	(129,386)
Changes in operating assets and liabilities:		
Pledges receivable, net of discount and reserves	3,345,707	1,737,378
Accrued interest receivable	(167,769)	23,615
Accounts receivable and prepaid expenses	(8,220)	(162,626)
Accounts payable and accrued expenses	93,215	138,892
Deferred rent	<u>1,202</u>	<u>682</u>
Total adjustments	<u>3,626,880</u>	<u>1,629,459</u>
Net cash (used in) provided by operating activities	<u>(378,721)</u>	<u>879,774</u>
Cash flows from investing activities:		
Purchases of investments	(15,552,738)	(7,571,635)
Proceeds from sales of investments	2,556,530	15,214,568
Purchases of certificates of deposit	(14,600,394)	(4,250,000)
Proceeds from certificates of deposits	15,500,000	6,750,000
Purchases of property and equipment	<u>(2,127)</u>	<u>(69,032)</u>
Net cash (used in) provided by investing activities	<u>(12,098,729)</u>	<u>10,073,901</u>
(Decrease) increase in cash and cash equivalents	(12,477,450)	10,953,675
Cash and cash equivalents, beginning of the year	<u>13,288,939</u>	<u>2,335,264</u>
Cash and cash equivalents, end of the year	<u>\$ 811,489</u>	<u>\$ 13,288,939</u>
Supplemental disclosure of cash flow information:		
Donated securities	<u>\$ 292,952</u>	<u>\$ 707,168</u>

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

VENTURE PHILANTHROPY PARTNERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Venture Philanthropy Partners, Inc. (VPP) was incorporated on May 23, 2000, in the State of Delaware. VPP, a nonprofit philanthropic investment organization, provides growth capital and strategic assistance to build, strengthen, and scale high potential nonprofit organizations serving children and youth of low-income families in the National Capital Region.

VPP invests significant dollars and augments those funds with strategic, non-financial resources to help strong nonprofit leaders grow proven programs to serve more children and youth. In addition, VPP joins with other organizations nationwide to inspire philanthropists, corporate and nonprofit leaders, and public policy-makers to help increase the effectiveness and the flow of capital, talent, and other resources to high-performing nonprofit organizations meeting the core needs of children.

VPP was launched in June 2000 by Mario Morino, the founder of the Morino Institute and co-founder of Legent Corporation; Mark Warner, who became Governor of Virginia in 2002; and Raul Fernandez, founder of Proxicom. Together they brought together other technology and business leaders to invest approximately \$31 million in VPP's first fund, to produce social, rather than financial, returns. VPP's first fund was committed to a dozen organizations serving youth and families in the community, with funds fully deployed by the end of 2009.

VPP has raised over \$44 million for its second fund from individuals, foundations, corporations and the federal government to invest additional capital in nonprofits and to finance VPP's own programmatic and non-programmatic operations. To date, VPP has made multi-year commitments of capital to six nonprofit organizations in its second portfolio totaling \$15.7 million.

In July of 2010, the Social Innovation Fund (SIF), administered by the Corporation for National and Community Service, awarded VPP \$6 million over three years. Venture Philanthropy Partners was one of eleven organizations nationally awarded SIF grants as part of its inaugural portfolio. VPP's "youthCONNECT" investment is a pioneering collaboration of government, private philanthropy, nonprofit organizations, and evaluators to dramatically improve opportunities for low-income youth, ages 14-24, in the National Capital Region.

The Internal Revenue Service (IRS) has determined that VPP is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and is therefore exempt from federal income taxation. In November 2006, VPP was approved by the IRS for a change in classification as a public charity from a supporting organization to the Community Foundation for the National Capital Region (Community Foundation) under Section 509(a)(3) to a publicly-supported organization under section 509(a)(1).

Program costs

VPP's expenses are categorized in the following three segments in support of its mission:

Grant Program Expenses

VPP provides philanthropic investments to organizations (investment partners) for the purpose of helping high-quality nonprofit organizations impact the lives of more children and youth. VPP disburses funds to investment partners to provide financial support to help leaders build and strengthen VPP behind their programs, often referred to as "organizational capacity." VPP supports this type of capacity with large-scale, multi-year funding.

VPP's youthCONNECT investment supports specific programmatic elements of nonprofit organizations to provide education, social services and job training to low-income youth ages 14-24. youthCONNECT will

also support the collaboration of this portfolio of organizations to demonstrate greater impact in the National Capital Region through collective action.

During the years ended March 31, 2012 and 2011, disbursements were made to the following investment partners for the specific purposes as noted:

	<u>2012</u>	<u>2011</u>
Year Up		
Multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT initiative	\$ 1,610,001	\$ 1,275,898
KIPP DC		
Multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT initiative	1,523,774	450,544
Heads Up		
Funding to support planning initiative for long term sustainability of the program	-	39,476
Latin American Youth Center		
Funding for youthCONNECT initiative	429,395	75,310
Urban Alliance		
Funding for youthCONNECT initiative	426,347	29,529
College Summitt		
Funding for youthCONNECT initiative	291,471	29,660
Metro TeenAIDS		
Funding for youthCONNECT initiative	321,120	6,430

Investment Practice

An important element and distinction of the work of VPP is its approach to identifying, selecting and engaging its investment partners. The VPP team, consisting of people with experience in management development and building organizations, is responsible for sourcing candidates, evaluating prospective organizations for investment, and supporting them for the duration of the investment partnership.

The VPP team works directly with its investment partners to serve as a combination of strategic advisor, executive coach, change agent, funder, board member and consultant with the goal of helping great leaders build stronger, more effective organizations.

Strategic Communications, Investor Relations, and Field-building

A key element to the strategy of extending the impact of the work of VPP is to capture, codify, and share the lessons and experiences of VPP's philanthropic work with an extended community of philanthropists and practitioners. VPP devotes specific resources to formalizing and sharing its investment practice, approach, and processes.

VPP coalesces the individuals, families, foundations, and corporate supporters into a community of donors, committed to making their philanthropy and civic engagement more effective. VPP creates venues for engagement and exchange – to build a community of investors committed to advance their own philanthropy and shared interests.

VPP publishes reports and provides research for the benefit of those who are involved in the nonprofit sector as service providers and philanthropists. These reports survey the fields of venture philanthropy and high-engagement grant-making, address critical issues facing the nonprofit sector, and offer new research and resources to advance management practices in the sector.

The significant accounting policies followed by VPP are described below.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

Revenue recognition

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

Contributions are recorded at fair value, which is net of estimated uncollectible amounts. VPP uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions, including multi-year pledges, to be received after one year are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Donated securities

Donated securities are recorded at their fair value at the date of the gift.

Grant revenue

VPP receives grant funding from a federal agency. Revenue is recognized only to the extent of expenditures under the terms of the grant. Grant awards not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by VPP.

Other revenue

Other revenues are recognized when earned.

Cash equivalents

VPP considers all highly liquid instruments with original maturities of three months or less to be cash equivalents, excluding cash equivalents held temporarily for long-term investment purposes by investment custodians.

Certificates of deposit

Certificates of deposit are carried at amortized cost plus accrued interest, which approximates fair value. These certificates may be redeemed on demand and therefore, management believes they bear minimal risk.

Pledges receivable

Unconditional pledges are recognized as contribution revenue in the period committed and as an asset. A reserve for doubtful accounts is made for uncollectible contributions based on management's judgment after analysis of creditworthiness of the donors, past collection experience, and other relevant factors. Uncollectible pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flow. VPP uses a discounting model that is consistent with industry guidelines. The discount rate for the fiscal years ending March 31, 2012 and 2011 is the risk adjusted rate as required by fair value measurement standards. For 2008 and prior fiscal years, the discount rate was derived from the market value of the U.S. Treasury Bond risk free borrowing rate. As of March 31, 2012 the discount rates, which remain constant for the life of the pledge, range from 2.46% to 5.00% for total pledges outstanding.

Property and equipment

VPP's policy is to capitalize property and equipment purchases in excess of \$500. Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets of three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the underlying assets or the terms of the related lease.

Investments

VPP records investments at fair value. Interest and dividend income is accounted for on the accrual basis. Unrealized gains and losses are included in the changes in unrestricted net assets in the accompanying statements of activities and changes in net assets.

Net assets

VPP groups net assets into the following two classes:

Unrestricted Net Assets - Unrestricted net assets generally result from net revenues derived from unrestricted contributions, investment income and other net inflows of assets whose use by VPP is not limited by donor-imposed restrictions.

Temporarily Restricted Net Assets - Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by VPP is limited by donor-imposed stipulations that expire by passage of time or through fulfillment of the stipulations.

Management and general expenses

For the year ending March 31, 2011, an adjustment was made to the reserve for uncollectible pledges consistent with management's estimate related to the collectability of future pledges. This adjustment amounted to \$270,000, and is reported as a reduction to management and general expense. There was no such adjustment made to the reserve for uncollectible pledges during 2012. During the years ending March 31, 2012 and 2011, management engaged a consulting firm to conduct a strategic planning process for VPP. Consulting fees related to this project are reported as management and general expense.

Functional allocation of expenses

The costs of providing VPP's programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the activities benefited.

Income taxes

VPP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from District of Columbia franchise tax under applicable tax regulations. VPP is not a private Organization pursuant to section 509(a)(1) of the IRC.

In accordance with authoritative guidance issued by the Financial Accounting Standards Board (the FASB), VPP recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. To the extent that the final tax outcome of any such matters is different than any amounts recorded, such differences would impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. With few exceptions, VPP is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended March 31, 2008 and prior. Management has evaluated VPP's tax positions and has concluded that VPP has taken no material uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Concentrations of credit risk and major grantor

VPP's assets that are exposed to credit risk consist primarily of cash and cash equivalents, long-term investments, accounts receivable and pledges receivable. Cash and cash equivalents balances are maintained at high-quality financial institutions and VPP believes the credit risk related to these cash and cash equivalents balances is minimal. VPP invests its excess cash and cash equivalents, and maintains its investments with high-quality financial institutions. VPP performs yearly evaluations of these institutions for relative credit standing. Management regularly monitors the composition and maturities of investments. VPP limits the amount of credit exposure to any one financial institution. Accounts receivable consist primarily of amounts due from the Corporation for National Community Service (CNCS). For the year ended March 31, 2012, CNCS accounted for 41% of total revenue. As of March 31, 2012 and 2011, CNCS accounted for 91% and 98% of accounts receivable, respectively. Pledges receivable consist mainly of amounts due from individuals and foundations. Historically, VPP has not experienced significant losses related to accounts and pledges receivable and, therefore, believes that the credit risk related to these receivables is minimal.

Subsequent events

VPP has evaluated its March 31, 2012 financial statements for subsequent events through September 12, 2012, the date the financial statements were available to be issued. VPP is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications have no effect on the previously reported changes in net assets.

NOTE 2 - INVESTMENTS

As of March 31, investments consist of the following:

	<u>2012</u>	<u>2011</u>
Investments	\$ 19,177,040	\$ 6,569,247
Unrealized gain (loss) on investments	<u>54,276</u>	<u>(17,444)</u>
	<u>\$ 19,231,316</u>	<u>\$ 6,551,803</u>

Investment income is comprised of the following for the years ended March 31:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 527,080	\$ 268,394
Amortization of premium on investments	(394,945)	(2,388)
Net realized/unrealized gain on investments	<u>78,257</u>	<u>129,386</u>
	210,392	395,392
Less: investment expenses	<u>(738)</u>	<u>(1,722)</u>
	<u>\$ 209,654</u>	<u>\$ 393,670</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of March 31:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 67,812	\$ 66,845
Leasehold improvements	65,872	65,872
Computer equipment	<u>35,796</u>	<u>39,490</u>
	169,480	172,207
Less: accumulated depreciation and amortization	<u>(140,427)</u>	<u>(99,231)</u>
	<u>\$ 29,053</u>	<u>\$ 72,976</u>

Depreciation and amortization expense totaled \$46,050 and \$18,516 for the years ended March 31, 2012 and 2011, respectively.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable are summarized below net of the allowance for doubtful accounts and discounts to net present value:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 2,624,705	\$ 4,612,030
One to five years	<u>2,934,757</u>	<u>4,443,093</u>
Total	<u>5,559,462</u>	<u>9,055,123</u>
Less: present value discount	(209,127)	(359,081)
Less: reserve for uncollectible pledges	<u>(900,000)</u>	<u>(900,000)</u>
Total pledges receivable	<u>\$ 4,450,335</u>	<u>\$ 7,796,042</u>

Pledges receivable less than one year are reported as the current portion of total pledges receivable. The long term portion of pledges receivable represents commitments greater than one year, net of the present value discount and reserve for uncollectible pledges.

NOTE 5 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most

advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

VPP reports certain investments using the net asset value per share as determined by investment managers under the so called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require VPP to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

VPP’s assets and liabilities recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs in (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.
- **Level 3** - Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Level 3 also includes practical expedient investments with notice periods for redemption of more than 90 days.

The following section describes the valuation methodologies VPP uses to measure its assets at fair value.

Investments

In general, and where applicable, VPP uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets are not available to determine fair value, then VPP uses quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2. VPP’s Level 3 assets primarily include certain investments in real estate interests, other business entities, and other alternatives. Real estate investments and investments in privately-held entities are reported at the fair value of the investment as determined by the most recent appraisal or prices used in current transactions. VPP values its interest in other business entities and other alternatives using significant unobservable inputs including information from fund managers or general partners based on quoted market prices, if available, or other valuation methods. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Unobservable inputs used in these models are significant to the fair value of the investments.

The following table sets forth by level, within the fair value hierarchy, the valuation of VPP's financial instruments as of March 31, 2012:

	<u>Total</u>	<u>Active Markets For Identical Assets (Level 1)</u>	<u>Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Financial assets:				
Cash and cash equivalents	\$ 811,490	\$ 811,490	\$ -	\$ -
Certificates of deposit	1,600,394	1,600,394	-	-
Fixed income securities				
Short term bonds	13,052,686	-	13,052,686	-
Corporate bonds	3,958,700	-	3,958,700	-
International bonds	<u>2,219,930</u>	<u>-</u>	<u>2,219,930</u>	<u>-</u>
Total	<u>\$ 21,643,200</u>	<u>\$ 2,411,884</u>	<u>\$ 19,231,316</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the valuation of VPP's financial instruments as of March 31, 2011:

	<u>Total</u>	<u>Active Markets For Identical Assets (Level 1)</u>	<u>Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Financial assets:				
Cash and cash equivalents	\$ 13,288,939	\$ 13,288,939	\$ -	\$ -
Certificates of deposit	2,500,000	2,500,000	-	-
Fixed income securities				
Short term bonds	1,338,191	-	1,338,191	-
Corporate bonds	2,140,251	-	2,140,251	-
International bonds	<u>3,073,361</u>	<u>-</u>	<u>3,073,361</u>	<u>-</u>
Total	<u>\$ 22,340,742</u>	<u>\$ 15,788,939</u>	<u>\$ 6,551,803</u>	<u>\$ -</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

During the years ended March 31, 2012 and 2011, VPP reported \$2.7 and \$5.4 million, respectively of temporarily restricted net assets related to time and purpose restrictions for multi-year pledges to be received in future periods. Temporarily restricted net assets at March 31, 2012 are available for the following purposes: \$2,200,197 for time, \$250,000 to support the work of the Investment Practice Team, and \$215,000 for Baseline Research.

NOTE 7 - BENEFIT PLAN

VPP employees are eligible to participate in a 401(k) plan after their first 90 days of employment. Under the Plan, VPP will match half of the employee's contribution amount to a maximum of \$1,000 per year, as defined by the Plan agreement. During the years ended March 31, 2012 and 2011, VPP recorded contributions of \$8,877 and \$9,267, respectively.

NOTE 8 - LEASES

VPP leases office facilities in Washington, D.C., under a noncancelable operating lease commitment that initially expired in June 2012. During the year, VPP entered into an operating lease commitment for a

new lease in the same building which expires in August 2019. As of March 31, 2012, the following is a schedule by year of the future minimum lease payments required under this operating lease:

Years ending December 31,

2013	\$	196,000
2014		193,000
2015		200,000
2016		207,000
2017		214,000
Thereafter		<u>551,000</u>
		<u>\$ 1,561,000</u>

Rent expense related to noncancelable operating leases aggregated \$221,429 and \$171,015 for the years ended March 31, 2012 and 2011, respectively.

NOTE 10 - GRANTS PAYABLE

In accordance with authoritative guidance issued by the FASB, conditional promises to give are not recognized as expenses until the conditions are substantially met.

VPP has entered into several conditional promises to give to local organizations supporting VPP's mission. At such time when agreed-upon milestones have been met, VPP will recognize the related contribution expense. As of March 31, 2012, and 2011, the total amount conditionally pledged was approximately \$5.6 million and \$7.9 million, respectively.

VENTURE PHILANTHROPY PARTNERS, INC.

**SUPPLEMENTAL SCHEDULE AND
REPORTS REQUIRED BY
OMB CIRCULAR A-133**

YEAR ENDED MARCH 31, 2012



**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
Venture Philanthropy Partners, Inc.
Washington, D.C.

We have audited the financial statements of Venture Philanthropy Partners, Inc. (VPP) as of and for the year ended March 31, 2012, and have issued our report thereon dated September 12, 2012. We conducted our audit 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 Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of VPP is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered VPP's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VPP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VPP's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VPP's 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
September 12, 2012



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Venture Philanthropy Partners, Inc.
Washington, D.C.

Compliance

We have audited the compliance of Venture Philanthropy Partners, Inc. (VPP) with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of VPP's major federal programs for the year ended March 31, 2012. VPP's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of VPP's management. Our responsibility is to express an opinion on VPP's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 VPP'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. Our audit does not provide a legal determination on VPP's compliance with those requirements.

In our opinion, VPP complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012.

Internal Control Over Compliance

Management of VPP is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered VPP's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 VPP'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Argy, Wiltse & Robinson, P.C.

McLean, Virginia
September 12, 2012

VENTURE PHILANTHROPY PARTNERS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2012

<u>Federal Grantor/Pass-through Grantor</u>	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
SIF-Geographic Youth - YouthCONNECT	10SIHDC002	94.019	<u>\$ 1,506,324</u>

See independent auditor's report and notes to the schedule of expenditures of federal awards.

VENTURE PHILANTHROPY PARTNERS, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED MARCH 31, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs entered into directly and via pass through between Venture Philanthropy Partners, Inc. and agencies and departments of the federal government. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Expenses are recognized as incurred using the cost accounting principles contained in the U.S. Federal Acquisition Regulations. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement. Moreover, expenses include a portion of costs associated with general activities (indirect costs) which are allocated to federal awards under negotiated formulas referred to as indirect cost rates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule was prepared using the accrual basis of accounting. However, for federal awards provided by VPP to subrecipients, the federal awards are deemed to be expended by VPP when the funds are disbursed to subrecipients.

NOTE 3 - RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

The following schedule is a reconciliation of total expenditures as shown on the Schedule to the revenue shown on the accompanying consolidated statement of activities and change in net assets.

Total per the Schedule	\$ 1,506,324
Add: non-federal grants	2,000,212
Add: other non-federal revenue	<u>147,198</u>
 Total contribution revenue per the statement of activities and changes in net assets	 \$ <u>3,653,734</u>

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, federal awards provided to subrecipients are as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
SIF - Geographic Youth - YouthCONNECT	94.019	\$ <u>1,015,804</u>

VENTURE PHILANTHROPY PARTNERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2012

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X No

Identification of major program:

Agreement Number	Name of Federal Program or Cluster
94.019	SIF - Geographic Youth - YouthCONNECT

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

VENTURE PHILANTHROPY PARTNERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED MARCH 31, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported during the 2012 audit.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs reported during the 2012 audit.

VENTURE PHILANTHROPY PARTNERS, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2012

VPP was not subject to an audit under OMB Circular A-133 for the year ended March 31, 2011.