# VENTURE PHILANTHROPY PARTNERS, INC.

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

MARCH 31, 2013 AND 2012

**VENTURE PHILANTHROPY PARTNERS, INC.**

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

**MARCH 31, 2013 AND 2012**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Venture Philanthropy Partners, Inc. (VPP), which comprise the statement of financial position as of March 31, 2013, and the related statements of activities and changes in net assets, and of cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Venture Philanthropy Partners, Inc. as of March 31, 2013, and the changes in its unrestricted net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The 2012 financial statements of VPP were audited by other auditors who combined with BDO USA, LLP in 2012. Their report, dated September 12, 2012, expressed an unmodified opinion on those statements.

BDO USA, LLP

McLean, Virginia
September 24, 2013

**VENTURE PHILANTHROPY PARTNERS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**MARCH 31, 2013 AND 2012**

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 4,797,344 | $ 811,489 |
| Certificates of deposit | - | 1,600,394 |
| Accrued interest receivable | 59,001 | 168,702 |
| Accounts receivable and prepaid expenses | 404,993 | 183,349 |
| Pledges receivable | 1,953,291 | 2,624,705 |
| Total current assets | 7,214,629 | 5,388,639 |
| Pledges receivable | 1,817,910 | 1,825,630 |
| Property and equipment, net | 146,045 | 29,053 |
| Investments | 12,161,947 | 19,231,316 |
| Total assets | $ 21,340,531 | $ 26,474,638 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 501,807 | $ 270,609 |
| Deferred rent | 155,240 | 6,132 |
| Total current liabilities | 657,047 | 276,741 |
| Net assets | | |
| Unrestricted | 18,392,250 | 24,032,700 |
| Temporarily restricted | 2,291,234 | 2,165,197 |
| Total net assets | 20,683,484 | 26,197,897 |
| Total liabilities and net assets | $ 21,340,531 | $ 26,474,638 |

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, 2013 AND 2012**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenues | | | | | | |
| Contributions | $ 2,588,662 | $ 1,636,725 | $ 4,225,387 | $ 2,838,780 | $ 814,954 | $ 3,653,734 |
| Investment income | 117,265 | - | 117,265 | 210,392 | - | 210,392 |
| Net assets released from restrictions | 1,510,688 | (1,510,688) | - | 3,525,676 | (3,525,676) | - |
| Total revenue | 4,216,615 | 126,037 | 4,342,652 | 6,574,848 | (2,710,722) | 3,864,126 |
| Expenses | | | | | | |
| Program services: | | | | | | |
| Grant program expenses | 5,859,292 | - | 5,859,292 | 4,602,108 | - | 4,602,108 |
| Investment practice | 2,081,945 | - | 2,081,945 | 1,773,743 | - | 1,773,743 |
| Strategic communications, investor relations and field-building | 1,007,526 | - | 1,007,526 | 1,012,776 | - | 1,012,776 |
| Management and general | 426,016 | - | 426,016 | 231,731 | - | 231,731 |
| Fundraising | 482,286 | - | 482,286 | 249,369 | - | 249,369 |
| Total expenses | 9,857,065 | - | 9,857,065 | 7,869,727 | - | 7,869,727 |
| Changes in net assets | (5,640,450) | 126,037 | (5,514,413) | (1,294,879) | (2,710,722) | (4,005,601) |
| Net assets, beginning of year | 24,032,700 | 2,165,197 | 26,197,897 | 25,327,579 | 4,875,919 | 30,203,498 |
| Net assets, end of year | $ 18,392,250 | $ 2,291,234 | $ 20,683,484 | $ 24,032,700 | $ 2,165,197 | $ 26,197,897 |

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

**VENTURE PHILANTHROPY PARTNERS, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED MARCH 31, 2013 AND 2012**

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Changes in net assets | $ (5,514,413) | $ (4,005,601) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 47,510 | 46,050 |
| Amortization of premium on investments | 216,862 | 394,945 |
| Net realized and unrealized loss (gain) on investments | 19,520 | (78,257) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable, net of discount and reserves | 679,134 | 3,345,707 |
| Accrued interest receivable | 109,701 | (167,769) |
| Accounts receivable and prepaid expenses | (221,644) | (8,220) |
| Accounts payable and accrued expenses | 231,198 | 93,215 |
| Deferred rent | 149,108 | 1,202 |
| Total adjustments | 1,231,389 | 3,626,873 |
| Net cash used in operating activities | (4,283,024) | (378,728) |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (1,321,316) | (15,552,738) |
| Proceeds from sale of investments | 8,154,303 | 2,556,537 |
| Purchases of certificates of deposit | (200,000) | (14,600,394) |
| Proceeds from certificates of deposits maturities | 1,800,393 | 15,500,000 |
| Purchases of property and equipment | (164,501) | (2,127) |
| Net cash provided by (used in) investing activities | 8,268,879 | (12,098,722) |
| Increase (decrease) in cash and cash equivalents | 3,985,855 | (12,477,450) |
| Cash and cash equivalents, beginning of the year | 811,489 | 13,288,939 |
| Cash and cash equivalents, end of the year | $ 4,797,344 | $ 811,489 |
| **Supplemental disclosure of cash flow information:** | | |
| Donated securities | $ 10,329 | $ 292,952 |

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

## 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 low income 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; Senator Mark Warner; 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 low income youth and families in the community, with funds fully deployed by the end of 2009.

VPP has raised over $47 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 $21.8 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 the organization 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 also supports 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, 2013 and 2012, disbursements were made to the following investment partners for the specific purposes as noted:

| | 2013 | 2012 |
|---|---|---|
| Year Up<br>Multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT investment | $ 1,225,871 | $ 1,610,001 |
| KIPP DC<br>Multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT investment | 2,549,626 | 1,523,774 |
| Latin American Youth Center<br>Funding for youthCONNECT investment | 485,838 | 429,395 |
| Urban Alliance<br>Funding for business planning, multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT investment | 743,030 | 426,347 |
| College Summitt<br>Multi-year commitments to fund organizational capacity elements of their strategic planning initiatives and youthCONNECT investment | 290,341 | 291,471 |
| Metro TeenAIDS<br>Funding for youthCONNECT investment | 339,587 | 321,120 |

***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.

VPP 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.

**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, 2013 and 2012 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, 2013, 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, 2013, 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 $224,438, 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.

**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, at times, balances may exceed federally insured limits. VPP has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured through December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage reverted to $250,000 per depositor at each financial institution, and the Organization's non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at March 31, 2013 approximate $4.4 million. 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 an agency of the federal government. For the years ended March 31, 2013 and 2012, there was one grantor that accounted for 38% and 39% of total revenue, respectively. As of March 31, 2013 and 2012, one grantor accounted for 73% and 91% 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, 2013 financial statements for subsequent events through September 24, 2013, 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 2013 financial statements have been reclassified to conform to the 2012 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:

| | 2013 | 2012 |
|---|---|---|
| Investments | $ 12,131,494 | $ 19,177,040 |
| Unrealized gain on investments | 30,453 | 54,276 |
| | $ 12,161,947 | $ 19,231,316 |

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

| | 2013 | 2012 |
|---|---|---|
| Interest income | $ 353,647 | $ 527,080 |
| Amortization of premium on investments | (216,862) | (394,945) |
| Net realized/unrealized (loss) gain on investments | (19,520) | 78,257 |
| | $ 117,265 | $ 210,392 |

**NOTE 3 - PROPERTY AND EQUIPMENT**

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

| | 2013 | 2012 |
|---|---|---|
| Furniture and fixtures | $ 41,107 | $ 67,812 |
| Leasehold improvements | 128,476 | 65,872 |
| Computer equipment | 33,194 | 35,796 |
| | 202,777 | 169,480 |
| Less: accumulated depreciation and amortization | (56,732) | (140,427) |
| | $ 146,045 | $ 29,053 |

Depreciation and amortization expense totaled $47,510 and $46,050 for the years ended March 31, 2013 and 2012, respectively.

**NOTE 4 - PLEDGES RECEIVABLE**

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

| | 2013 | 2012 |
|---|---|---|
| Less than one year | $ 1,953,291 | $ 2,624,705 |
| One to five years | 2,390,312 | 2,934,757 |
| Total | 4,343,603 | 5,559,462 |
| Less: present value discount | (172,402) | (209,127) |
| Less: reserve for uncollectible pledges | (400,000) | (900,000) |
| Total pledges receivable | $ 3,771,201 | $ 4,450,335 |

Pledges receivable in 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.

The following table sets forth by level, within the fair value hierarchy, VPP's assets at fair value:

| | As of March 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 4,797,344 | $ - | $ - | $ 4,797,344 |
| Certificates of deposit | | - | - | - |
| Fixed income securities | | | | |
| Short-term bonds | - | 12,161,947 | - | 12,161,947 |
| Corporate bonds | - | - | - | - |
| International bonds | - | - | - | - |
| Total | $ 4,797,344 | $ 12,161,947 | $ - | $ 16,959,291 |

| | As of March 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| 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 | - | 2,219,930 | - | 2,219,930 |
| Total | $ 2,411,884 | $ 19,231,316 | $ - | $ 21,643,200 |

**Fair Value of Investment in Entities that Use Net Asset Value (NAV)**

The major categories of VPP's investment that are valued at net asset value or its equivalent, including general information related to each category, are as follows at March 31:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Fair Value | | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
| Managed income fund (a) | $ 6,643,124 | $ | 0 | Immediate | None |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Fair Value | | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
| Managed income fund (a) | $ 5,313,856 | $ | 0 | Immediate | None |

(a) VPP holds investments in a Managed Income Fund (the Fund) that mainly invests in investment grade, U.S. dollar denominated short-term fixed and floating rate debt securities. As part of its principal investment strategy, the Fund may invest in corporate securities, asset-backed securities and high quality money market instrucments such as commercial paper, certificates of deposit, time deposits, deposit notes and bank notes. The Fund may also invest in U.S. Treasury securities, securities issued or guaranteed by the U.S. government or its agencies and instrumentalities, securities issued or guaranteed by supranational organizations; securities issued or guaranteed by foreign governments, repurchase agreements, and Rule 144A securities. All securities will be U.S. dollar-denominated although they may be issued by a foreign corporation, or a foreign government or its agencies and instrumentalities.

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

During the years ended March 31, 2013 and 2012, VPP reported $2.3 and $2.2 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, 2013 are available for the following purposes: $2,091,234 for time, $100,000 to support the work of the Investment Practice Team, and $100,000 for youthConnect.

**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 up to a maximum of $1,000 per year, as defined by the Plan agreement. During the years ended March 31, 2013 and 2012, VPP recorded contributions of $59,236 and $8,877, respectively.

## NOTE 8 - LEASES

VPP leases office facilities in Washington, D.C., under a noncancelable operating lease commitment which expires in August 2019. As of March 31, 2013, the following is a schedule by year of the future minimum lease payments required under this operating lease:

| Years ending March 31 | |
|---|---|
| 2014 | 192,000 |
| 2015 | 198,000 |
| 2016 | 205,000 |
| 2017 | 213,000 |
| 2018 | 220,000 |
| Thereafter | 325,000 |
| | $ 1,353,000 |

Rent expense related to noncancelable operating leases aggregated $190,879 and $221,429 for the years ended March 31, 2013 and 2012, respectively.

## NOTE 9 - 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, 2013, and 2012, the total amount conditionally pledged was approximately $5.3 million and $5.6 million, respectively.

## NOTE 10 - RELATED PARTY TRANSACTIONS

VPP recorded pledges receivable of $794,259 and $895,370 due from members of the Board of Directors during the years ended March 31, 2013 and 2012, respectively.

**VENTURE PHILANTHROPY PARTNERS, INC.**

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

**YEAR ENDED MARCH 31, 2013**

Tel: 703-893-0600
Fax: 703-893-2766
**www.bdo.com**

8405 Greensboro Drive
Suite 700
McLean, VA 22102

# 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*

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

We have audited 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, the financial statements of Venture Philanthropy Partners, Inc. (VPP), which comprise the statement of financial position as of March 31, 2013, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered VPP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of VPP'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 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 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 material weaknesses or significant deficiencies. 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 VPP's financial statements are free from 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*.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
September 24, 2013

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McLean, VA 22102

# 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

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

## Report on Compliance for the Major Federal Program

We have audited Venture Philanthropy Partners, Inc.'s (VPP's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on VPP's major federal program for the year ended March 31, 2013. VPP'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 laws, regulations, contracts, and grants applicable to each of its federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for VPP'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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of VPP's compliance.

### *Opinion on the Major Federal Program*

In our opinion, VPP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2013.

**Report on Internal Control Over Compliance**

Management of VPP 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 VPP's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

McLean, Virginia
September 24, 2013

**VENTURE PHILANTHROPY PARTNERS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED MARCH 31, 2013**

| Federal Grantor/Pass-through Grantor | Grant Number | CFDA Number | Expenditures |
|---|---|---|---|
| SIF-Geographic Youth - youthCONNECT | 10SIHDC002 | 94.019 | $ 1,646,504 |

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, 2013**

## 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.

## 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 statement of activities and change in net assets.

| | |
|---|---|
| Total per the Schedule | $ 1,646,504 |
| Add: non-federal grants | 2,535,250 |
| Add: other non-federal revenue | 43,513 |
| Total contribution revenue per the statement of activities and changes in net assets | $ 4,225,267 |

## 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 | $ 1,183,086 |

**VENTURE PHILANTHROPY PARTNERS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED MARCH 31, 2013**

## 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: | Unmodified | | | |
| 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, 2013**

## SECTION II - FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported during the 2013 audit.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs reported during the 2013 audit.

**VENTURE PHILANTHROPY PARTNERS, INC.**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED MARCH 31, 2013**

There were no audit findings or questioned costs reported for the year ended March 31, 2012.