

Vanguard Charitable Endowment Program

Financial Statements

**For the Years Ended
June 30, 2020 and 2019**



Report of Independent Auditors

To the Board of Trustees of Vanguard Charitable Endowment Program

We have audited the accompanying financial statements of Vanguard Charitable Endowment Program (the "Company"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard Charitable Endowment Program as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PRICEWATERHOUSECOOPERS LLP

September 17, 2020

Vanguard Charitable Endowment Program
Statements of Financial Position

	As of June 30,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 26,363,829	\$ 46,888,403
Investments; at market value	10,776,853,539	9,977,242,514
Investments held for sale; at market value	9,185,908	-
Dividends receivable	4,408,602	6,595,836
Receivable for securities sold	17,748,429	10,226,474
Computer equipment and related software, net	-	137,011
Other assets	2,883,943	3,110,534
	\$ 10,837,444,250	\$ 10,044,200,772
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 15,409,837	\$ 18,535,482
Payable for securities purchased	19,015,841	14,556,894
	34,425,678	33,092,376
Net Assets Without Donor Restrictions	10,803,018,572	10,011,108,396
	\$ 10,837,444,250	\$ 10,044,200,772

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

Vanguard Charitable Endowment Program
Statements of Activities

	For the Years Ended June 30,	
	2020	2019
Revenues		
Donor contributions	\$ 2,088,348,628	\$ 1,901,890,599
Investment income	229,747,393	227,923,039
Net realized and unrealized gains on investments	202,508,604	412,391,561
Contribution of goods and services	1,309,554	1,227,458
Total Revenues	<u>2,521,914,179</u>	<u>2,543,432,657</u>
Grants and Expenses		
Grants to charitable organizations	1,709,260,600	1,129,675,017
Management and general expenses	3,867,574	4,590,916
Program expenses	14,610,609	13,569,405
Fundraising expenses	2,265,220	1,890,453
Total Grants and Expenses	<u>1,730,004,003</u>	<u>1,149,725,791</u>
Increase in Net Assets Without Donor Restrictions	791,910,176	1,393,706,866
Net Assets Without Donor Restrictions, beginning of year	10,011,108,396	8,617,401,530
Net Assets Without Donor Restrictions, end of year	<u><u>\$ 10,803,018,572</u></u>	<u><u>\$ 10,011,108,396</u></u>

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

Vanguard Charitable Endowment Program
Statements of Cash Flows

	For the Years Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 791,910,176	\$ 1,393,706,866
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Non-cash contributions of securities	(104,548,997)	(194,558,075)
Decrease in other assets	226,591	12,206,254
Decrease (increase) in dividends receivable	2,187,234	(1,646,392)
(Decrease) increase in accounts payable and accrued expenses	(3,125,645)	7,891,091
Depreciation and amortization	137,011	1,644,137
Net realized and unrealized gains on investments	(202,508,604)	(412,391,561)
Net cash provided by operating activities	<u>484,277,766</u>	<u>806,852,320</u>
Cash flows from investing activities:		
Proceeds from the sale of contributed securities	95,363,089	194,558,075
Proceeds from the sale of investments	1,683,302,205	1,106,795,064
Purchases of investments	(2,280,404,626)	(2,095,470,481)
Increase (decrease) in payable for securities purchased	4,458,947	(19,362,908)
(Increase) decrease in receivable for securities sold	(7,521,955)	20,812,401
Net cash used in investing activities	<u>(504,802,340)</u>	<u>(792,667,849)</u>
Net Increase in cash and cash equivalents	(20,524,574)	14,184,471
Cash and cash equivalents, beginning of year	46,888,403	32,703,932
Cash and cash equivalents, end of year	<u><u>\$ 26,363,829</u></u>	<u><u>\$ 46,888,403</u></u>

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

Vanguard Charitable Endowment Program Notes to Financial Statements

Note 1 - Organization and Operations:

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

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

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

Vanguard Charitable contributes to a defined contribution plan for its employees. Contribution expense for the years ended June 30, 2020 and 2019 was \$666,055 and \$607,231, respectively. These amounts are included in the three functional expense categories (Management, Fundraising and Program) on the Statements of Activities. See "Functional Allocation of Expenses" in Note 2 for details of allocation.

Related Party Transactions

Vanguard Charitable has contracted Vanguard to provide certain support services including investment recordkeeping and administrative services. Vanguard provides such services in exchange for a fee. The fees incurred for the years ended June 30, 2020 and 2019 were \$2,428,809 and \$1,947,808 respectively. These fees are included in the three functional expense categories (Management, Fundraising and Program) on the Statements of Activities. See "Functional Allocation of Expenses" in Note 2 for details of allocation.

In-kind contributions of professional services received from Vanguard for the years ended June 30, 2020 and 2019 were \$1,309,554 and \$1,227,458 respectively. These amounts are included in Contribution of Goods and Services on the Statement of Activities.

Vanguard has agreed to provide Vanguard Charitable funding in the form of a non-interest bearing financing arrangement. See Note 5.

Basis of Accounting

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

Vanguard Charitable Endowment Program Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies:

Functional Allocation of Expenses

Vanguard Charitable allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, head count, and estimates made by management.

Cash and Cash Equivalents

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

Investments

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

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

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

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

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

Computer Equipment and Related Software

Computer equipment is recorded at cost at date of acquisition and software is recorded at cost at in-service date. Equipment and related software costs for the years ended June 30, 2020 and 2019 were \$0 and are included in Computer equipment and related software, net in the Statement of Financial Position. For items placed in service, depreciation expense is computed using the straight-line method over the asset's estimated three year useful life. Depreciation expense on computer equipment and software for the years ended June 30, 2020 and 2019 was \$137,011 and \$1,644,137 respectively and is included in Program expenses in the Statement of Activities.

Donor Contributions

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

Vanguard Charitable Endowment Program Notes to Financial Statements

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

Grants

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

Net Assets Without Donor Restrictions

Vanguard Charitable's net assets without donor restrictions, including the donor-advised fund, the Philanthropic Impact Fund, and the Sustainable Disaster-Recovery Fund, are unrestricted and as such are free from donor-imposed stipulations. Revenues are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, respectively. Net assets without donor restrictions are maintained and distributed at the discretion of the Trustees.

Note 3 - Investments:

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

- **Money Market Pool** seeks to provide income while maintaining liquidity and a stable share price. Invests primarily in U.S. government agency obligations.
- **Short-Term Bond Pool** seeks current income with limited price volatility and provides exposure to short-term, investment grade fixed income securities.
- **Conservative Growth Pool** seeks to provide current income and low to moderate capital appreciation through a target allocation of 60% bond funds and 40% stock funds.
- **Total Bond Pool** seeks to provide broad exposure to the investment-grade U.S. bond market.
- **Moderate Growth Pool** seeks to provide growth of capital and a reasonable level of current income through a target allocation of roughly 60-65% stock and 35-40% bonds.
- **Total U.S. Stock Pool** seeks to provide exposure to large-, mid-, and small-cap equities diversified across growth and value styles.
- **Growth Pool** seeks to provide capital appreciation and some current income through a target allocation of 80% stocks and 20% bonds.
- **Total Equity Pool** seeks to provide growth of capital through a 100% allocation to U.S. and international stocks.
- **Total International Stock Pool** seeks to provide broad exposure across developed and emerging non-U.S. equity markets.
- **European Stock Pool** targets European common stocks and is diversified across developed markets.
- **Pacific Stock Pool** targets Pacific-region common stocks.
- **Emerging Markets Stock Pool** targets emerging markets common stocks.
- **Total Income Pool** seeks to provide current income and some capital appreciation through a target allocation of 20% stocks and 80% bonds.
- **Total International Bond Pool** seeks to provide a diversified portfolio of U.S. dollar hedged, high-quality international bonds.
- **Balanced Index Pool** seeks capital appreciation, current income, and long-term growth of income.
- **Wellington Pool** seeks long-term capital appreciation and reasonable current income, with moderate risk.
- **ESG U.S. Stock Pool** seeks to track the performance of a benchmark index that measures the investment return of large-, mid-, and small-capitalization stocks of U.S. companies, while adhering to certain environmental, social, and corporate governance criteria.

Vanguard Charitable Endowment Program Notes to Financial Statements

Note 3 – Investments (continued):

- **ESG International Stock Pool** Seeks to track the performance of a benchmark index that measures the investment return of large-, mid-, and small-capitalization companies located in developed and emerging markets outside of the United States, while adhering to certain environmental, social, and corporate governance criteria.
- **ESG Global Equity Pool** seeks to provide exposure to U.S. and International stocks screened for certain environmental, social, and corporate governance criteria through a targeted, professionally rebalanced allocation of 70% U.S. and 30% International equity.
- **TIFF Multi-Asset Pool** seeks to produce a total return that, over a majority of market cycles, exceeds inflation plus 5% per annum, by investing in a globally diversified portfolio of equity oriented, diversifying strategies (hedge fund and others), and fixed income securities.

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

Considering that the Pools are not separate legal entities, but serve as vehicles to hold investments in one or more underlying mutual and exchange traded funds, Vanguard Charitable has determined that it is appropriate to look through the Pools for purposes of classifying the investments in the fair value hierarchy. For the years ended June 30, 2020 and 2019, all of the Funds that underlie each Pool are classified as Level 1 investments because the NAVs constitute quoted prices in an active market.

In addition to the Pools, Vanguard Charitable holds Investments (non-pooled) to support its operations. Investments include Vanguard Funds which seek to provide current income while maintaining limited price volatility by investing primarily in corporate bonds, pooled consumer loans, fixed income securities and U.S. government bonds. Investments (non-pooled) are classified as Level 1 investments because the Funds' NAVs constitute quoted prices in active markets.

The following tables summarize the Level within the fair value hierarchy at which Vanguard Charitable's investments and other financial instruments are measured at June 30, 2020 and 2019:

<u>at June 30, 2020</u>	Total	Level 1	Level 2	Level 3
Investments: Mutual Funds	\$ 10,776,853,539	\$ 10,776,853,539	\$ -	\$ -
Investments Held for Sale: Private Equity	9,185,908	-	-	9,185,908
Total	\$ 10,786,039,447	\$ 10,776,853,539	\$ -	\$ 9,185,908
<u>at June 30, 2019</u>				
Investments: Mutual Funds	\$ 9,977,242,514	\$ 9,977,242,514	\$ -	\$ -
Total	\$ 9,977,242,514	\$ 9,977,242,514	\$ -	\$ -

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

Note 3 – Investments (continued):

<u>Total Investments</u>	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>The Vanguard Group Inc.</u>		
Money Market Pool	\$ 1,246,161,472	\$ 918,565,534
Short-Term Bond Pool	589,595,336	556,954,389
Conservative Growth Pool	571,729,687	500,215,056
Total Bond Pool	568,799,451	423,964,465
Moderate Growth Pool	1,437,227,899	1,417,148,416
Total U.S. Stock Pool	1,566,143,282	1,467,082,179
Growth Pool	1,495,007,248	1,746,719,659
Total Equity Pool	1,281,010,500	1,244,236,925
Total International Stock Pool	433,821,884	433,590,044
European Stock Pool	50,897,296	68,337,242
Pacific Stock Pool	23,854,356	29,694,695
Emerging Markets Stock Pool	132,289,695	137,895,898
Income Pool	516,043,490	469,526,923
Total International Bond Pool	24,867,635	16,022,333
Balanced Pool	59,013,672	25,912,510
Wellington Pool	88,406,072	28,485,788
ESG Domestic ETF Pool	333,642,664	209,580,524
ESG International ETF Pool	250,389,526	203,140,806
ESG Global ETF Pool	26,969,151	13,894,139
Investments (non-pooled)	25,973,926	-
<u>The Investment Fund for Foundations</u>		
Multi-Asset Pool	55,009,297	66,274,989
Total Investments	<u>\$ 10,776,853,539</u>	<u>\$ 9,977,242,514</u>

Vanguard Charitable Endowment Program Notes to Financial Statements

Note 4 – Investments Held for Sale:

At June 30, 2020, Vanguard Charitable held contributed private equity investments of \$9,185,908 which were received during the fiscal year and had not been sold. These investments held for sale are classified as Level 3 investments in the fair value hierarchy.

Certain contributed assets may have a restriction as to resale, which typically does not exceed one year. These investments with a restriction are reported at fair value and are included in net assets without donor restrictions since they are not subject to donor- imposed stipulations.

Note 5 - Long-Term Payable:

Vanguard has agreed to provide funding to Vanguard Charitable in the form of an interest-free financing arrangement of up to \$6,500,000. The financing arrangement is provided on an unsecured basis and the timing of the repayment is at the discretion of the Trustees. The estimated fair value of the long term-payable at June 30, 2020 was \$0.

Note 6 - Net Assets Released for Administrative Fee:

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

The administrative fee is accrued daily and reduces the net asset values of the Pools held in the donor-advised accounts. These administrative fees are then transferred monthly to the operating account. The administrative fee was \$25,958,395 and \$22,879,953 and for the years ended June 30, 2020 and 2019, respectively and is included in Investment income on the Statement of Activities. The administrative fee assessed is used to pay the operating expenses of Vanguard Charitable.

Note 7 - Income Taxes:

Vanguard Charitable has made no provision for federal income taxes for the years ended June 30, 2020 and 2019 since it has received a tax determination letter, dated May 3, 2002, from the Internal Revenue Service classifying it as a public charity exempt from federal income tax. Vanguard Charitable does pay federal income tax on unrelated business income related to certain contributions of illiquid assets. Management has noted no uncertain tax positions and has concluded no provision is required.

Note 8 – Subsequent Events:

Vanguard Charitable has determined that no material events or transactions occurred through September 17, 2020 that would require recognition or disclosure in these financial statements.