MitchellWiggins

CERTIFIED PUBLIC ACCOUNTANTS

Virginia Home for Boys and Girls and Subsidiary

Consolidated Financial Statements

September 30, 2018 and 2017

Virginia Home for Boys and Girls and Subsidiary

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Mitchell Wiggins
Certified Public Accountants

Independent Auditor's Report

To the Board of Governors
Virginia Home for Boys and Girls
& Subsidiary
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Home for Boys and Girls and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 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 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 the Organization as of September 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell Wiggins

Richmond, Virginia
January 23, 2019

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Financial Position
September 30, 2018 and 2017

Assets	**2018**	2017
Current Assets		
Cash and cash equivalents	**$ 1,478,623**	$ 564,471
Accounts receivable		
Public and private placements, net of allowance of $5,000 for 2018 and 2017	**503,614**	507,365
Other accounts receivable	**6,977**	11,168
Pledges receivable, current portion	**172,980**	106,382
Accrued investment income	**11,032**	14,944
Prepaid expenses	**44,276**	45,279
Total current assets	**2,217,502**	1,249,609
Property and Equipment		
Buildings and improvements	**9,874,722**	10,072,336
Land	**1,315,201**	1,315,201
Land improvements	**1,062,184**	962,276
Furniture and equipment	**642,018**	513,674
Computer equipment and software	**286,800**	353,423
Vehicles	**362,674**	359,502
	13,543,599	13,576,412
Accumulated depreciation	**(7,289,550)**	(7,083,141)
Total property and equipment, net	**6,254,049**	6,493,271
Other Assets		
Beneficial interest in trusts	**1,151,538**	1,656,408
Investments, at fair value	**23,808,597**	24,425,315
Pledges receivable, net of current portion and discount	**141,800**	211,400
Note receivable	**475,911**	456,029
Total other assets	**25,577,846**	26,749,152
Total assets	**$34,049,397**	$34,492,032

(continued)

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Financial Position (continued)
September 30, 2018 and 2017

Liabilities and Net Assets	**2018**	2017
Current Liabilities		
Line of credit	**$ 1,157,715**	$ 1,000,000
Current portion of long-term debt	**38,758**	50,390
Accounts payable	**101,326**	162,945
Accrued expenses	**94,954**	89,634
Deferred revenue	**29,938**	-
Total current liabilities	**1,422,691**	1,302,969
Long-Term Liabilities		
Long-term debt, net of current portion	**44,094**	82,872
Total liabilities	**1,466,785**	1,385,841
Net Assets		
Unrestricted	**30,004,458**	30,431,206
Temporarily restricted	**1,565,421**	1,680,094
Permanently restricted	**1,012,733**	994,891
Total net assets	**32,582,612**	33,106,191
Total liabilities and net assets	**$ 34,049,397**	$ 34,492,032

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Activities
Year ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue and Support				
Program revenue				
Group Care Services	$ 1,654,847	$ -	$ -	$ 1,654,847
John G. Wood School	1,612,917	-	-	1,612,917
Clinical	128,571	-	-	128,571
Independent Living Arrangement	87,949	-	-	87,949
Other program	250	-	-	250
Philanthropy	896,573	1,191,968	-	2,088,541
Rent income	347,176	-	-	347,176
Net assets released from restrictions	979,381	(938,483)	(40,898)	-
Total revenue and support	5,707,664	253,485	(40,898)	5,920,251
Expenses				
Program services	5,576,875	-	-	5,576,875
Management and general	798,713	-	-	798,713
Fundraising	466,340	-	-	466,340
Total expenses	6,841,928	-	-	6,841,928
Change in net assets before other income (expense)	(1,134,264)	253,485	(40,898)	(921,677)
Other Income (Expense)				
Investment income	469,330	19,882	-	489,212
Investment fees	(71,105)	-	-	(71,105)
Realized gain on investments	1,363,004	-	-	1,363,004
Unrealized loss on investments	(636,416)	-	-	(636,416)
Loss on disposal of assets	(25,062)	-	-	(25,062)
Depreciation	(392,235)	-	-	(392,235)
Bad debt	-	-	-	-
Change in beneficial interest in trusts	-	(388,040)	58,740	(329,300)
Total other income (expense)	707,516	(368,158)	58,740	398,098
Change in net assets	(426,748)	(114,673)	17,842	(523,579)
Net assets, beginning	30,431,206	1,680,094	994,891	33,106,191
Net assets, ending	$30,004,458	$1,565,421	$ 1,012,733	$32,582,612

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Activities
Year ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue and Support				
Program revenue				
Group Care Services	$ 1,761,668	$ -	$ -	$ 1,761,668
John G. Wood School	1,512,214	-	-	1,512,214
Clinical	160,382	-	-	160,382
Independent Living Arrangement	-	-	-	-
Other program	1,000	-	-	1,000
Philanthropy	1,034,460	435,926	-	1,470,386
Rent income	354,295	-	-	354,295
Net assets released from	440,969	(395,619)	(45,350)	-
Total revenue and support	5,264,988	40,307	(45,350)	5,259,945
Expenses				
Program services	5,334,971	-	-	5,334,971
Management and general	751,990	-	-	751,990
Fundraising	459,508	-	-	459,508
Total expenses	6,546,469	-	-	6,546,469
Change in net assets before other income (expense)	(1,281,481)	40,307	(45,350)	(1,286,524)
Other Income (Expense)				
Investment income	396,018	19,052	-	415,070
Investment fees	(58,248)	-	-	(58,248)
Realized gain on investments	416,202	-	-	416,202
Unrealized gain on investments	2,134,515	-	-	2,134,515
Loss on disposal of assets	(14,510)	-	-	(14,510)
Depreciation	(398,476)	-	-	(398,476)
Bad debt	(1,258)	-	-	(1,258)
Change in beneficial interest in trusts	-	27,678	100,752	128,430
Total other income (expense)	2,474,243	46,730	100,752	2,621,725
Change in net assets	1,192,762	87,037	55,402	1,335,201
Net assets, beginning	29,238,444	1,593,057	939,489	31,770,990
Net assets, ending	$ 30,431,206	$ 1,680,094	$ 994,891	$ 33,106,191

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statement of Functional Expenses
Year ended September 30, 2018

	Program Services						Supporting Services			
	Group Care Services	**John G. Wood School**	**Therapeutic Resources**	**Independent Living Arrangement**	**Other**	**Total**	**Management and General**	**Fundraising**	**Total**	**Total**
Personnel Expenses										
Salaries	**$ 1,460,614**	**$ 1,097,057**	**$ 285,004**	**$ 71,710**	**$ 680,159**	**$3,594,544**	**$ 497,879**	**$ 239,974**	**$ 737,853**	**$ 4,332,397**
Payroll taxes	**124,466**	**96,186**	**23,527**	**5,786**	**57,696**	**307,661**	**38,632**	**21,015**	**59,647**	**367,308**
Benefits	**165,815**	**104,311**	**41,058**	**5,947**	**99,828**	**416,959**	**38,622**	**10,395**	**49,017**	**465,976**
Miscellaneous	**49**	**1,461**	**485**	**51**	**11,009**	**13,055**	**88**	**50**	**138**	**13,193**
Hiring and recruiting	**-**	**-**	**-**	**-**	**32,918**	**32,918**	**-**	**-**	**-**	**32,918**
Total personnel expenses	**1,750,944**	**1,299,015**	**350,074**	**83,494**	**881,610**	**4,365,137**	**575,221**	**271,434**	**846,655**	**5,211,792**
Direct program expenses	**144,284**	**119,859**	**17,495**	**9,775**	**3,617**	**295,030**	**-**	**10**	**10**	**295,040**
Philanthropy expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**79,090**	**79,090**	**79,090**
Special events	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,231**	**31,231**	**31,231**
Operating Expenses										
Utilities	**60,517**	**77,176**	**3,463**	**9,754**	**34,509**	**185,419**	**5,133**	**3,650**	**8,783**	**194,202**
Building and grounds	**10,691**	**39,453**	**2,601**	**2,265**	**74,151**	**129,161**	**545**	**44**	**589**	**129,750**
Office	**8,983**	**11,575**	**2,827**	**2,227**	**10,879**	**36,491**	**6,514**	**5,394**	**11,908**	**48,399**
Computer expenses	**48,267**	**35,002**	**7,075**	**6,287**	**68,131**	**164,762**	**18,563**	**4,915**	**23,478**	**188,240**
Vehicle	**12,410**	**875**	**3,901**	**617**	**6,429**	**24,232**	**-**	**181**	**181**	**24,413**
Insurance	**54,180**	**43,413**	**10,184**	**2,202**	**29,893**	**139,872**	**11,312**	**5,478**	**16,790**	**156,662**
Marketing	**-**	**-**	**-**	**-**	**78,548**	**78,548**	**-**	**2,012**	**2,012**	**80,560**
Travel	**13,916**	**6,099**	**6,014**	**572**	**20,362**	**46,963**	**3,821**	**3,722**	**7,543**	**54,506**
Other administration expense	**-**	**-**	**-**	**-**	**111,000**	**111,000**	**145,081**	**59,179**	**204,260**	**315,260**
Other expenses	**-**	**-**	**-**	**260**	**-**	**260**	**32,523**	**-**	**32,523**	**32,783**
Total operating expenses	**208,964**	**213,593**	**36,065**	**24,184**	**433,902**	**916,708**	**223,492**	**84,575**	**308,067**	**1,224,775**
Total expenses	**$ 2,104,192**	**$ 1,632,467**	**$ 403,634**	**$ 117,453**	**$ 1,319,129**	**$5,576,875**	**$ 798,713**	**$ 466,340**	**$ 1,265,053**	**$ 6,841,928**

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statement of Functional Expenses
Year ended September 30, 2017

	Program Services						Supporting Services			
	Group Care Services	John G. Wood School	Therapeutic Resources	Independent Living Arrangement	Other	Total	Management and General	Fundraising	Total	Total
Personnel Expenses										
Salaries	$1,473,897	$ 1,064,335	$ 277,385	$ -	$ 642,897	$3,458,514	$ 532,152	$ 174,765	$ 706,917	$4,165,431
Payroll taxes	125,283	88,493	20,555	-	49,166	283,497	38,389	15,045	53,434	336,931
Benefits	167,374	98,341	43,677	-	81,370	390,762	50,633	6,711	57,344	448,106
Miscellaneous	2,104	4,179	1,005	-	18,444	25,732	306	1,292	1,598	27,330
Hiring and recruiting	-	-	-	-	23,899	23,899	-	-	-	23,899
Total personnel expenses	1,768,658	1,255,348	342,622	-	815,776	4,182,404	621,480	197,813	819,293	5,001,697
Direct program expenses	157,182	98,316	21,243	-	5,271	282,012	-	-	-	282,012
Philanthropy expense	-	-	156	-	807	963	-	72,570	72,570	73,533
Special events	-	-	-	-	-	-	-	67,529	67,529	67,529
Operating Expenses										
Utilities	55,009	72,684	3,365	-	35,779	166,837	5,925	3,419	9,344	176,181
Building and grounds	12,648	36,152	4,422	-	73,759	126,981	1,664	-	1,664	128,645
Office	9,911	10,387	3,068	-	10,994	34,360	6,332	3,502	9,834	44,194
Computer expenses	26,246	24,371	4,267	-	56,941	111,825	12,711	2,641	15,352	127,177
Vehicle	15,485	288	3,104	-	3,959	22,836	-	29	29	22,865
Insurance	63,456	59,084	10,699	-	33,950	167,189	16,929	6,428	23,357	190,546
Marketing	-	-	-	-	83,431	83,431	-	409	409	83,840
Travel	12,747	5,441	6,532	-	15,161	39,881	4,836	1,601	6,437	46,318
Other administration expense	95	-	54	-	116,103	116,252	59,446	103,567	163,013	279,265
Other expenses	-	-	-	-	-	-	22,667	-	22,667	22,667
Total operating expenses	195,597	208,407	35,511	-	430,077	869,592	130,510	121,596	252,106	1,121,698
Total expenses	$2,121,437	$ 1,562,071	$ 399,532	$ -	$1,251,931	$5,334,971	$ 751,990	$ 459,508	$1,211,498	$6,546,469

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Cash Flows
Years ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	**$ (523,579)**	$ 1,335,201
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in)		
Depreciation	**392,235**	398,476
Accrued interest added to note receivable	**(19,882)**	(19,053)
Change in value of trusts and annuities	**329,300**	(128,430)
Loss on disposal of assets	**25,062**	14,510
Realized (gain) on investments	**(1,363,004)**	(416,202)
Unrealized (gain) loss on investments	**636,416**	(2,134,515)
Noncash in-kind contribution	**(125,000)**	-
Changes in operating assets		
Accounts receivable	**7,942**	(111,167)
Pledges receivable	**3,002**	42,218
Accrued investment income	**3,912**	3,648
Prepaid expenses	**1,003**	9,571
Changes in operating liabilities		
Accounts payable	**(61,619)**	(81,960)
Accrued expenses	**5,320**	(12,341)
Deferred revenue	**29,938**	(650)
Net cash and cash equivalents (used in) operating activities	**(658,954)**	(1,100,694)
Cash Flows from Investing Activities		
Purchase of investments	**(10,865,927)**	(7,958,315)
Proceeds from sale of investments	**12,209,233**	8,282,112
Payments from beneficial interest in trusts	**175,570**	213,947
Purchase of property and equipment	**(53,075)**	(66,570)
Net cash and cash equivalents provided by investing activities	**1,465,801**	471,174

(continued)

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Cash Flows (continued)
Years ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Financing Activities		
Net borrowings on line of credit	**157,715**	295,000
Principal payments on long-term debt	**(50,410)**	(49,181)
Net cash and cash equivalents provided by financing activities	**107,305**	245,819
Net change in cash and cash equivalents	**914,152**	(383,701)
Cash and cash equivalents, beginning	**564,471**	948,172
Cash and cash equivalents, ending	**$ 1,478,623**	$ 564,471
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 32,523**	$ 22,667
Supplemental Disclosure of Noncash Investing Activities		
Acquisition of property and equipment:		
Cost	**$ 178,075**	$ 66,570
In-kind contribution of property and equipment	**(125,000)**	-
Cash paid for purchase of property and equipment	**$ 53,075**	$ 66,570

See Notes to Consolidated Financial Statements

Note 1. Nature and Mission of the Organization

Virginia Home for Boys and Girls (VHBG) is a private, non-sectarian, nonprofit organization that was founded in 1846 and is located in Henrico, Virginia. Virginia Home for Boys and Girls Foundation (the Foundation), a directly controlled subsidiary of Virginia Home for Boys and Girls, holds and manages investments on behalf of VHBG. Virginia Home for Boys and Girls and its subsidiary, the Virginia Home for Boys and Girls Foundation, are collectively referenced as the "Organization" herein.

VHBG's mission is to help children across Virginia with emotional and behavioral health concerns by facilitating the healing process using a teaching-family approach. The trauma-informed care children receive in our group homes, independent living apartments, John G. Wood School, and therapeutic resource center restores hope to them and their families who then find the courage to thrive. Our programs (Group Care Services, Independent Living Arrangement (ILA), John G. Wood (JGW) School (specialized K-12 education), and Therapeutic Resources) all incorporate the teaching of coping skills. VHBG's 30+ acre campus is nestled in a park-like setting and includes a fellowship hall, dining hall, picnic shelter, and recreational facilities (a gymnasium, playing fields, outdoor swimming pool, an indoor recreation room with weight equipment and game tables). Whether a child lives on campus or commutes, VHBG looks and feels like the safe neighborhood anyone would want to live in.

VHBG is accredited by the Teaching Family Association to use the highly successful evidence-based Teaching-Family Model of care in the group homes. Trained Teaching-Parents use this model with a goal to help children transition to foster care, adoption, or back to their biological family. VHBG is licensed by the Virginia Department of Social Services (VA-DSS) to provide group care services for up to 60 youth. Each of VHBG's six group homes can house up to eight boys or girls, ages 11-17, and contain all the elements one would expect in any home. Youth learn to develop skills associated with frustration tolerance, anger and/or aggression management, healthy decision-making, conflict resolution, and age-appropriate living. VHBG is currently operating four of these group homes.

For youth who age out of foster or group care services, VHBG is licensed by the VA-DSS to provide a highly individualized ILA for up to 12 males and females ages 17-21. VHBG has four townhouses that can accommodate up to eight people and two ranchers that can accommodate up to four people. By offering housing and support services, youth learn to achieve success as independent adults. VHBG is currently operating four ILA housing units.

VHBG's specialized K-12 school, John G. Wood (JGW), is just the right size to teach students with emotional and behavioral health challenges that impact their academic success. Small student-teacher ratios accommodate individual learning styles with a goal to transition students back to their public school as soon as possible. Some residents of VHBG's group homes attend JGW in addition to students who commute from multiple localities in the Richmond region. JGW is licensed to serve up to 60 students by the Virginia DOE, is

Note 1. Nature and Mission of the Organization (continued)

accredited by VAISEF, and aligned with Virginia SOLs. Teachers and trained behavior coaches incorporate the Teaching-Family model into the curriculum. Students take a full range of academic courses that include Career and Technical Education classes, online courses, and electives with the ability to earn or work toward a Standard, Alternative, or General Education Diploma (GED). Students get physical activity through the use of a gymnasium, playing fields, swing set equipment, and indoor recreation room. JGW also offers self-contained classrooms for grades 6-12 and extended school year during the summer. VHBG provides a continuum of therapeutic resources to meet the needs of the youth served on campus (in group homes, independent living apartments, and school), as well as those residing in surrounding communities. VHBG's licensed clinicians and mentors provide services that are individually tailored and trauma-informed. Services include individual, group, and family therapies; and counseling, mentoring, and psychiatric care. Services are strengthened through coordination with an on-campus registered nurse. For youth residing off campus and their families, the following services are offered: outpatient counseling (beginning at age 5), intensive in-home counseling (beginning at age 5), home-based counseling (beginning at age 5), and mentoring (ages 11-21).

VHBG is primarily supported through placement fees, donor contributions, grants, and distributions from investments as directed by the Foundation Board.

Note 2. Significant Accounting Policies

Basis of accounting
The consolidated financial statements of the Organization are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Principles of consolidation
The accompanying consolidated financial statements include the accounts of VHBG and its subsidiary, the Foundation. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of presentation
Under current accounting standards generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classes are summarized as follows:

- Unrestricted net assets include board designated and other unrestricted funds. The unrestricted funds include revenue and expenses used currently for the general operations of the Organization.

Note 2. Significant Accounting Policies (continued)

- Temporarily restricted net assets include contributions restricted by donor designation. When a donor restriction expires either with the passage of time or by actions of the Organization, temporarily restricted net assets are reclassified to unrestricted net assets released from restriction.

- Permanently restricted net assets include contributions subject to donor imposed stipulations that they be maintained permanently by the Organization, the income from which is expendable in accordance with the conditions of each specific donation. At September 30, 2018 and 2017, permanently restricted net assets consist of the Organization's beneficial interest in perpetual trusts.

Cash and cash equivalents
The Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Concentration of credit risk
The Organization's financial assets potentially subject to credit risk include cash and cash equivalents, investments, and trade receivables. At times, the Organization may have cash and cash equivalents at a financial institution in excess of insured limits. The Organization places its cash and cash equivalents with high credit quality financial institutions.

Investments
Investments in all debt securities and equity securities are stated at fair value based on quoted market prices. Alternative investments include investments in limited partnerships and limited liability corporations (hedge funds, private equity, and publicly-traded securities). Alternative investment interests are stated at fair value based on the financial statements and other information received from the general partners of such entities. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals. The Organization believes that the stated value of its alternative investments was a reasonable estimate of its fair value as of September 30, 2018 and 2017. However, alternative investments are not marketable and some of the alternative investments have underlying investments that do not have quoted market values. The estimated value is subject to uncertainty and could differ had a ready market existed for these alternative investments. Such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements as unrealized gain (loss) on investments.

Note 2. Significant Accounting Policies (continued)

Investments received by gift are recorded at fair value on the earlier of the date received or pledged.

Allowance for doubtful accounts
The Organization extends unsecured credit in the ordinary course of its activities related to public and private placements. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collection. Receivables are charged against the allowance when deemed to be uncollectible. The allowance was $5,000 at September 30, 2018 and 2017.

Pledges receivable
Pledges receivable are recorded at net realizable value if expected to be collected within one year and at present value of their estimated future cash flows if expected to be collected in more than one year. The discounts on amounts to be collected in more than one year are computed using the greater of 5% or the Organization's incremental borrowing rate.

Property and equipment
Acquisitions of property and equipment are recorded at cost. Donated items are recorded at fair market value at the date of contribution. Depreciation is computed using the straight-line method and provided over the estimated useful life of each class of depreciable assets as follows:

Buildings	7 - 40 years
Building improvements	7 - 40 years
Land improvements	7 - 20 years
Furniture, equipment, computer equipment, and software	3 - 7 years
Vehicles	5 years

Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. Betterments and renewals are capitalized.

Beneficial interest in trusts
Accounting principles generally accepted in the United States of America require that not-for-profit beneficiaries of perpetual trusts record, as a contribution and an asset, the present value of the estimated future cash receipts to be received from the trusts, over the lives of the trusts. Due to the perpetual nature of these trusts, their future cash flows cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the fair market value of the trusts' assets. Changes in the trusts' fair market value are recorded as restricted gains or losses in the consolidated statements of activities. In the event of a termination of a trust and distribution of trust assets, final distributions of trust assets are treated as releases from restricted net assets.

Note 2. Significant Accounting Policies (continued)

Income taxes
The Organization is exempt from Federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. The Organization had no unrelated business income during the years ended September 30, 2018 and 2017.

Management has concluded that the Organization had no significant financial exposure to uncertain tax positions as of September 30, 2018 and 2017. The tax years ending on or after September 30, 2015 remain subject to examination by taxing authorities.

The Organization includes penalties and interest assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the years ended September 30, 2018 and 2017.

Donated services and other
VHBG receives a significant amount of donated services from unpaid volunteers who assist in program services, fundraising, and special projects. Donated services are not recognized as contributions in the Organization's consolidated financial statements since the recognition criteria under accounting standards were not met. VHBG also receives donated property and equipment. These assets are capitalized at their fair market value on the date of the donation.

Functional expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted and functions served.

Use of estimates
The preparation of consolidated 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 consolidated financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Marketing costs
The Organization expenses marketing costs as they are incurred. Marketing expense was $80,560 and $83,840 for 2018 and 2017, respectively.

Note 3. Pledges Receivable

Pledges receivable at September 30, 2018 and 2017 consist of the following:

	2018	2017
Due in less than one year	$ 172,980	$ 106,382
Due in one to five years	158,800	227,400
Discount on pledges receivable	(17,000)	(16,000)
	$ 314,780	$ 317,782

The noncurrent pledges receivable are shown net of a discount of $17,000 and $16,000 at September 30, 2018 and 2017, respectively. The discounts were determined using an interest rate of 5%.

Note 4. Note Receivable

In 2004, in connection with a capital campaign, the Organization received, as a contribution, a note receivable. The note receivable has a face value of $250,000 with an interest rate of 4.36%. The unpaid balance of the note and all accrued interest thereon is due and payable in full on the earlier of August 30, 2023, or twelve months after the death of the donor and his wife. At September 30, 2018 and 2017, the balance of the note receivable and accrued interest was $475,911 and $456,029, respectively.

Note 5. Investments

Investments as of September 30, 2018 and 2017, are summarized as follows:

	2018	2017
Investment funds	$ 1,035,533	$ 524,937
Mutual funds	15,958,034	15,673,165
Hedge funds	1,499,347	2,908,874
Fixed income securities	3,528,476	3,531,269
Hard assets	492,207	482,551
Real estate and infrastructure	1,295,000	1,304,519
	$ 23,808,597	$ 24,425,315

Note 6. Beneficial Interest in Trusts

The Organization is the beneficiary of various charitable trusts that are managed by third-party trustees. The contribution portion of these trusts is recognized as revenue when the Organization has the unconditional right to receive benefits under the agreements. During the term of the agreements, any changes in actuarial assumptions are recognized as “change in beneficial interest in trusts” in the consolidated statements of activities.

Note 6. Beneficial Interest in Trusts (continued)

The Organization is the beneficiary of two charitable remainder trusts, two charitable lead trusts, and four perpetual trusts. The Organization's beneficial interests in these trusts as of September 30, 2018 and 2017 are as follows:

	2018	2017
Charitable remainder trusts	$ 79,638	$ 86,554
Charitable lead trusts	59,167	574,963
Perpetual trusts	1,012,733	994,891
	$ 1,151,538	$ 1,656,408

The beneficial interests in the charitable remainder trusts and charitable lead trusts were calculated using the following discount rates:

	2018	2017
Charitable remainder trusts	3.10% - 3.20%	2.38% - 2.86%
Charitable lead trusts	0.00% - 3.10%	1.89% - 2.65%

Note 7. Fair Value Measurements

U.S. GAAP has established a framework for measuring fair value and defined the required disclosures about fair value instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Note 7. Fair Value Measurements (continued)

The classification of investments by level within the valuation hierarchy as of September 30, 2018 is as follows:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
Investment funds	$ 1,035,533	$ 1,035,533	$ -	$ -
Mutual Funds				
Domestic cap	8,285,802	8,285,802	-	-
International	6,401,485	6,401,485	-	-
Emerging markets	1,270,747	1,270,747	-	-
Fixed Income Securities				
Income funds	-	-	-	-
Total return bonds	597,143	597,143	-	-
Investment management	-	-	-	-
Total bond market index	735,980	735,980	-	-
Managed income	1,306,146	1,306,146	-	-
US Tips ETFs	889,207	889,207	-	-
Hard assets	492,207	492,207	-	-
	21,014,250	21,014,250	-	-
Investments measured at net asset value	2,794,347	-	-	-
Total investments	$ 23,808,597	$ 21,014,250	$ -	$ -
Beneficial Interests In				
Charitable remainder trusts	$ 79,638	$ -	$ -	$ 79,638
Charitable lead trust	59,167	-	-	59,167
Perpetual trusts	1,012,733	-	-	1,012,733
Total beneficial interests	$ 1,151,538	$ -	$ -	$ 1,151,538

Note 7. Fair Value Measurements (continued)

The classification of investments by level within the valuation hierarchy as of September 30, 2017 is as follows:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
Investment funds	$ 524,937	$ 524,937	$ -	$ -
Mutual Funds				
Domestic cap	7,315,558	7,315,558	-	-
International	7,001,595	7,001,595	-	-
Emerging markets	1,356,012	1,356,012	-	-
Fixed Income Securities				
Income funds	278,596	278,596	-	-
Total return bonds	617,933	617,933	-	-
Investment management	304,098	304,098	-	-
Total bond market index	921,297	921,297	-	-
Managed income	699,861	699,861	-	-
US Tips ETFs	709,483	709,483	-	-
Hard assets	482,552	482,552	-	-
	20,211,922	20,211,922	-	-
Investments measured at net asset value	4,213,393	-	-	-
Total investments	$ 24,425,315	$ 20,211,922	$ -	$ -
Beneficial Interests In				
Charitable remainder trusts	$ 86,554	$ -	$ -	$ 86,554
Charitable lead trust	574,964	-	-	574,964
Perpetual trusts	994,890	-	-	994,890
Total beneficial interests	$ 1,656,408	$ -	$ -	$ 1,656,408

Note 7. Fair Value Measurements (continued)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2018 and 2017:

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)		
	Beneficial Interests		
Year ended September 30, 2018	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts
Balance at September 30, 2017	$ 86,554	$ 574,963	$ 994,891
Change in value	(6,916)	(381,124)	58,740
Distributions	-	(134,672)	(40,898)
Balance at September 30, 2018	$ 79,638	$ 59,167	$ 1,012,733

	Fair Value Measurements at Report Date		
	Beneficial Interests		
Year ended September 30, 2017	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts
Balance at September 30, 2016	$ 91,704	$ 710,732	$ 939,489
Change in value	(5,150)	32,828	100,752
Distributions	-	(168,597)	(45,350)
Balance at September 30, 2017	$ 86,554	$ 574,963	$ 994,891

Note 7. Fair Value Measurements (continued)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at September 30, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligibile)	Redemption Notice Period
Long/short hedge fund	$ 479,348	$ -	Quarterly	45 days
Long/short hedge fund	232,511	-	Quarterly	45 days
Long/short hedge fund	266,132	-	Monthly	2 days
Private equity fund	18,063	-	Quarterly	90 days
Private equity fund	447,959	-	N/A	N/A
Private equity fund	55,334	941,176	N/A	N/A
Real estate fund	830,151	-	N/A	N/A
Real estate fund	464,849	-	N/A	N/A
	$ 2,794,347	$ 941,176		

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at September 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligibile)	Redemption Notice Period
Global equity fund	$ 278,509	$ -	Monthly	45 days
Long/short hedge fund	9,210	-	Quarterly	90 days
Long/short hedge fund	466,557	-	Quarterly	45 days
Long/short hedge fund	400,485	-	Quarterly	45 days
Long/short hedge fund	248,324	-	Monthly	2 days
Long/short hedge fund	307,500	-	Monthly	60 days
Private equity fund	391,816	-	N/A	N/A
Private equity fund	349,507	-	Quarterly	90 days
Private equity fund	456,965	-	N/A	N/A
Real estate fund	428,652	-	N/A	N/A
Real estate fund	466,222	-	N/A	N/A
Real estate fund	409,646	-	N/A	N/A
	$ 4,213,393	$ -		

Note 7. Fair Value Measurements (continued)

Global equity funds
Funds focused on private equity investments primarily in foreign markets, including emerging markets.

Long/short hedge funds
Funds that can invest long and short, primarily in common stocks. Fund managers may invest in value, growth, or event-driven equity opportunities and typically are not restricted by market capitalization, industry sector, or geography. Leverage may be utilized, which can magnify changes in the values of the underlying securities.

Private equity funds
Funds focused on growth in equity, buyout opportunities, or distressed debt. These investments are not readily redeemable; however, a secondary market does exist. Distributions normally are received through the liquidation of the underlying assets in the fund.

Real estate funds
Funds focused on real estate assets primarily located in the United States. These investments are not redeemable. Instead, distributions are received through the liquidation of the underlying assets in the fund.

Note 8. Line of Credit

The Organization has a revolving working capital line of credit with a bank not to exceed $1,200,000. Interest accrues at a rate of London Interbank Offered Rate (LIBOR) plus 1.75% (3.86% at September 30, 2018). Interest only is due monthly. All principal and accrued interest is due and payable on March 22, 2019. The line of credit is secured by cash and cash equivalents held with the bank. At September 30, 2018 and 2017, the outstanding balance on the line of credit was $1,157,715 and $1,000,000, respectively.

In September 2018, the Organization signed a new line of credit agreement with TowneBank, with the purpose of refinancing the current line. The line of credit has a limit of $1,200,000 and is unsecured. The line carries a tiered interest rate based on the Organization’s average operating deposits with the lender. Based on the operating deposits, the rate will float between LIBOR plus 1.5% and LIBOR plus 1.75% (3.86% at September 30, 2018). Interest only is due monthly. At September 30, 2018, the outstanding balance on this line of credit was $0. During October 2018, the original line of credit was closed and the outstanding balance was transferred to the Towne Bank line.

Note 9. Long-Term Debt

Long-term debt consists of the following as of September 30:

	2018	2017
Note payable, bank, due $1,601 monthly including interest at 3.65%, due February 2019, secured by two vehicles	$ 6,355	$ 24,957
Notes payable, bank, due $1,382 monthly including interest at 3.75%, due January 2021, secured by two vehicles	36,999	51,879
Notes payable, financing company, due $1,412 monthly including interest at 0%, due February 2019, secured by four vehicles	39,498	56,426
	$ 82,852	$ 133,262

Total shown on consolidated statements of financial position as:		
Due currently	$ 38,758	$ 50,390
Due after one year	44,094	82,872
	$ 82,852	$ 133,262

The aggregate maturities of long-term debt for future years ending September 30, are as follows:

2019	$ 38,758
2020	32,993
2021	11,101
	$ 82,852

Note 10. Retirement Plan

The Organization sponsors a 403(b) retirement savings plan for its employees. The Plan is an individual account plan which allows employees to make voluntary contributions on a pretax basis. If an employee makes such a contribution, the Plan provides for the organization to make a matching contribution to the participant's account in the amount of 50% of the first 4% of eligible pay contributed by the participant. Additionally, the Organization may elect to contribute up to 6% of eligible pay to each participant's account. The Organization's contributions to the Plan for 2018 and 2017 were $46,126 and $48,911, respectively.

Note 11. Related-Party

The Organization employs professional services from a law firm where a member of the Foundation Board is a partner. Transactions with this law firm are at arms-length terms similar to those with other (unrelated) vendors of the Organization.

Note 12. Restricted Net Assets

The net assets of the Organization are restricted as follows at September 30, 2018 and 2017:

	2018	2017
Temporarily Restricted		
Beneficial interest in trusts	$ 138,804	$ 661,517
Higher Education scholarships	21,822	21,822
Betsy Wade Chinnis scholarship	20,030	20,030
Glock-Goodwin Extended Education scholarships	14,451	14,451
Alger Higher Education scholarships	38,913	38,913
Independent Living Program home purchase	25,000	25,000
Independent Living Program	-	27,622
Capital Campaign	475,912	456,029
Comprehensive Campaign	675,761	379,710
Operating Gifts	154,728	35,000
	$ 1,565,421	$ 1,680,094
Permanently Restricted		
Beneficial interest in perpetual trusts	$ 1,012,733	$ 994,891

Note 13. Rent Income

The Organization leases a 1.289 acre tract of land to Asbury Automotive North Carolina Real Estate Holdings LLC, located on W. Broad Street, for use as a surface parking lot. The basis of this property is $737,433. In March 2014, VHBG entered into a new lease agreement to lease several additional tracts of improved and unimproved land totaling 7.695 acres to Asbury Automotive North Carolina Real Estate Holdings LLC, under a 10-year agreement expiring in April of 2024. The lease includes a renewal option to extend the term of the lease for four additional periods of five years each after the expiration of the initial term. Rent is adjusted 3% annually. Rent income for the W. Broad Street lease for 2018 and 2017 was $314,990 and $305,815, respectively.

Note 13. Rent Income (continued)

Future minimum rental income for fiscal years ending September 30, is as follows:

2019	$ 324,439
2020	334,172
2021	344,198
2022	354,523
2023	365,159
Thereafter	185,278
	$ 1,907,769

Note 14. Operating Leases

The Organization leases office and computer equipment under operating leases with terms expiring between June 2019 and June 2020. Lease expense was $17,061 and $23,010 for 2018 and 2017, respectively. Future minimum lease payments are as follows:

2019	$ 11,102
2020	1,233
	$ 12,335

Note 15. Subsequent Events

Management has evaluated subsequent events through January 23, 2019, the date which the financial statements were available for issue.