MitchellWiggins

CERTIFIED PUBLIC ACCOUNTANTS

Virginia Home for Boys and Girls and Subsidiary

Consolidated Financial Statements

September 30, 2017 and 2016

Virginia Home for Boys and Girls and Subsidiary

Table of Contents

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, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Organization, as of and for the year ended September 30, 2016, were audited by other auditors whose report dated January 25, 2017, expressed an unmodified opinion on those statements.

Mitchell Wiggins

Richmond, Virginia
January 4, 2018

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Financial Position
September 30, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash and cash equivalents	**$ 564,471**	$ 948,172
Accounts receivable		
Public and private placements, net of allowance of $5,000 for 2017 and 2016	**507,365**	394,035
Other accounts receivable	**11,168**	13,331
Pledges receivable, current portion	**106,382**	213,000
Accrued investment income	**14,944**	18,592
Prepaid expenses	**45,279**	54,850
Total current assets	**1,249,609**	1,641,980
Property and Equipment		
Buildings and improvements	**10,072,336**	10,082,315
Land	**1,315,201**	1,315,201
Land improvements	**962,276**	947,567
Furniture and equipment	**513,674**	514,042
Computer equipment and software	**353,423**	364,096
Vehicles	**359,502**	359,502
	13,576,412	13,582,723
Accumulated depreciation	**(7,083,141)**	(6,743,036)
Total property and equipment, net	**6,493,271**	6,839,687
Other Assets		
Beneficial interest in trusts	**1,656,408**	1,741,925
Investments, at fair value	**24,425,315**	22,198,395
Pledges receivable, net of current portion and discount	**211,400**	147,000
Note receivable	**456,029**	436,976
Total other assets	**26,749,152**	24,524,296
Total assets	**$34,492,032**	$33,005,963

(continued)

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Financial Position (continued)
September 30, 2017 and 2016

Liabilities and Net Assets	**2017**	2016
Current Liabilities		
Line of credit	**$ 1,000,000**	$ 705,000
Current portion of long-term debt	**50,390**	49,178
Accounts payable	**162,945**	244,905
Accrued expenses	**89,634**	101,975
Deferred revenue	**-**	650
Total current liabilities	**1,302,969**	1,101,708
Long-Term Liabilities		
Long-term debt, net of current portion	**82,872**	133,265
Total liabilities	**1,385,841**	1,234,973
Net Assets		
Unrestricted	**30,431,206**	29,238,444
Temporarily restricted	**1,680,094**	1,593,057
Permanently restricted	**994,891**	939,489
Total net assets	**33,106,191**	31,770,990
Total liabilities and net assets	**$34,492,032**	$33,005,963

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 Home	$ 1,761,668	$ -	$ -	$ 1,761,668
John G. Wood School	1,512,214	-	-	1,512,214
Clinical	160,382	-	-	160,382
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 restrictions	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 Statements of Activities
Year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenue and Support				
Program revenue				
Group home	$ 2,071,002	$ -	$ -	$ 2,071,002
John G. Wood School	1,269,563	-	-	1,269,563
Clinical	186,466	-	-	186,466
Other program	31,849	-	-	31,849
Philanthropy	1,029,180	633,410	-	1,662,590
Rent income	341,098	-	-	341,098
Net assets released from restrictions	799,577	(758,290)	(41,287)	-
Total revenue and support	5,728,735	(124,880)	(41,287)	5,562,568
Expenses				
Program services	5,500,097	-	-	5,500,097
Management and general	675,730	-	-	675,730
Fundraising	582,704	-	-	582,704
Total expenses	6,758,531	-	-	6,758,531
Change in net assets before other income (expense)	(1,029,796)	(124,880)	(41,287)	(1,195,963)
Other Income (Expense)				
Investment income	426,914	18,256	-	445,170
Investment fees	(57,977)	-	-	(57,977)
Realized loss on investments	(692,263)	-	-	(692,263)
Unrealized gain on investments	1,464,537	-	-	1,464,537
Gain on disposal of assets	7,342	-	-	7,342
Depreciation	(408,961)	-	-	(408,961)
Bad debt	(24,317)	-	-	(24,317)
Change in beneficial interest in trusts	-	78,412	74,554	152,966
Total other income (expense)	715,275	96,668	74,554	886,497
Change in net assets	(314,521)	(28,212)	33,267	(309,466)
				-
Net assets, beginning	29,552,965	1,621,269	906,222	32,080,456
Net assets, ending	$ 29,238,444	$ 1,593,057	$ 939,489	$ 31,770,990

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			
	Teaching Family Homes	**J. G. Wood School**	**Therapeutic Resources**	**Intensive Care Coordination**	**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**
Advertising	**-**	**-**	**-**	**-**	**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 Statement of Functional Expenses
Year ended September 30, 2016

	Program Services						Supporting Services			
	Teaching Family Homes	J. G. Wood School	Therapeutic Resources	Intensive Care Coordination	Other	Total	Management and General	Fundraising	Total	Total
Personnel Expenses										
Salaries	$1,463,097	$ 982,116	$ 271,161	$ 38,112	$ 712,816	$3,467,302	$ 472,490	$ 267,788	$ 740,278	$4,207,580
Payroll taxes	129,108	85,877	20,774	3,038	57,348	296,145	34,277	19,688	53,965	350,110
Benefits	168,108	74,575	42,691	5,864	82,326	373,564	42,696	11,381	54,077	427,641
Miscellaneous	25	3,587	178	(5)	21,769	25,554	255	344	599	26,153
Hiring and recruiting	-	-	-	-	40,757	40,757	-	-	-	40,757
Total personnel expenses	1,760,338	1,146,155	334,804	47,009	915,016	4,203,322	549,718	299,201	848,919	5,052,241
Direct program expenses	202,943	109,369	22,003	-	23,589	357,904	-	-	-	357,904
Philanthropy expense	181	-	30	-	-	211	-	79,538	79,538	79,749
Special events	-	-	-	-	-	-	-	80,764	80,764	80,764
Operating Expenses										
Utilities	60,827	65,316	4,500	4,190	43,517	178,350	5,737	3,663	9,400	187,750
Building and grounds	19,050	29,342	2,923	517	82,545	134,377	1,290	108	1,398	135,775
Office	10,908	10,928	2,330	1,373	13,594	39,133	6,482	4,853	11,335	50,468
Computer expenses	25,135	31,303	4,822	1,931	68,031	131,222	13,857	2,068	15,925	147,147
Vehicle	17,271	486	1,000	-	4,225	22,982	40	-	40	23,022
Insurance	62,364	58,292	10,733	2,238	37,095	170,722	15,051	7,584	22,635	193,357
Advertising	-	-	-	-	81,219	81,219	69	-	69	81,288
Travel	5,329	7,206	11,655	61	26,188	50,439	5,242	1,862	7,104	57,543
Other administration expense	6,728	238	2,383	-	120,867	130,216	60,551	103,063	163,614	293,830
Other expenses	-	-	-	-	-	-	17,693	-	17,693	17,693
Total operating expenses	207,612	203,111	40,346	10,310	477,281	938,660	126,012	123,201	249,213	1,187,873
Total expenses	$2,171,074	$1,458,635	$ 397,183	$ 57,319	$1,415,886	$5,500,097	$ 675,730	$ 582,704	$1,258,434	$6,758,531

See Notes to Consolidated Financial Statements

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Cash Flows
Years ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	**$ 1,335,201**	$ (309,466)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	**398,476**	408,961
Accrued interest added to note receivable	**(19,053)**	(18,256)
Change in value of trusts and annuities	**(128,430)**	(152,966)
Loss (gain) on disposal of assets	**14,510**	(7,342)
Realized (gain) loss on investments	**(416,202)**	692,263
Unrealized (gain) on investments	**(2,134,515)**	(1,464,537)
Changes in operating assets		
Accounts receivable	**(111,167)**	194,066
Pledges receivable	**42,218**	(324,995)
Accrued investment income	**3,648**	8,604
Prepaid expenses	**9,571**	1,125
Changes in operating liabilities		
Accounts payable	**(81,960)**	123,714
Accrued expenses	**(12,341)**	(127,852)
Deferred revenue	**(650)**	(4,350)
Net cash (used in) operating activities	**(1,100,694)**	(981,031)
Cash Flows from Investing Activities		
Purchase of investments	**(7,958,315)**	(9,545,539)
Proceeds from sale of investments	**8,282,112**	10,438,112
Payments from beneficial interest in trusts	**213,947**	265,393
Proceeds from sale of property and equipment	**-**	9,900
Purchase of property and equipment	**(66,570)**	(303,315)
Net cash provided by investing activities	**471,174**	864,551

(continued)

Virginia Home for Boys and Girls and Subsidiary

Consolidated Statements of Cash Flows (continued)
Years ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Financing Activities		
Net borrowings on line of credit	**295,000**	**45,000**
Principal borrowings from long-term debt	**-**	**160,108**
Principal payments on long-term debt	**(49,181)**	**(37,822)**
Net cash provided by financing activities	**245,819**	167,286
Net change in cash and cash equivalents	**(383,701)**	50,806
Cash and cash equivalents, beginning	**948,172**	897,366
Cash and cash equivalents, ending	**$ 564,471**	$ 948,172
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 22,667**	$ 17,693

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 Richmond, 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 provides comprehensive child and family services to the community, including residential Teaching Family homes, alternative educational programs, clinical and counseling services, and community based services for at-risk children and families.

The six Teaching Family homes, licensed by the Department of Social Services, are the heart of VHBG's campus services, and offer family-style living for boys and girls ages 11-17 using the highly successful Teaching Family Model, emphasizing the development of positive social and independent living skills and healthy family relationships to support lifelong success. VHBG also operates the John G. Wood School, an accredited alternative day school which serves boys and girls, grades K-12, including residents of VHBG and students from the surrounding greater Richmond community. The John G. Wood School offers the Vocational Education Partnership Program, which complements its traditional educational programs with Career and Technical Education (CTE) curricula, helping young adults develop skills to achieve and maintain employment. VHBG's Therapeutic Resources services include intensive-in-home and home-based counseling and mentoring, and individual, family, and group outpatient therapy to help families address problems within their own homes rather than through placement outside the home. VHBG is a leader in providing a comprehensive system of care for serving the needs of youth and families through its innovative Intensive Care Coordination program, which delivers services and support to families and children to ensure family success.

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.

Note 2. Significant Accounting Policies (continued)

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. General contributions that are restricted by the donor are reported as increases in unrestricted net assets if the donor restrictions expire in the fiscal year in which the contributions are recognized.

- 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, 2017 and 2016, 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. Cash and cash equivalents does not include amounts that are part of managed investments. These amounts are included with investments on the statements of financial position.

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. There were no amounts in excess of insured limits at September 30, 2017 and 2016.

Note 2. Significant Accounting Policies (continued)

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, 2017 and 2016. 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.

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

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance removes the requirement to make certain disclosures and categorize with the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The Organization elected to early adopt the provision of Update No. 2015-07 during 2017 and applied the provisions of the update retrospectively.

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, 2017 and 2016.

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.

Note 2. Significant Accounting Policies (continued)

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.

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, 2017 and 2016.

Management has concluded that the Organization had no significant financial exposure to uncertain tax positions as of September 30, 2017 and 2016. The tax years ending on or after September 30, 2014 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, 2017 and 2016.

Note 2. Significant Accounting Policies (continued)

Donated services
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.

Functional expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the supplemental schedule 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.

Advertising costs
The Organization expenses advertising costs as they are incurred. Advertising expense was $83,840 and $81,288 for 2017 and 2016, respectively.

Reclassifications
Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation.

Note 3. Pledges Receivable

Pledges receivable at September 30, 2017 and 2016 consist of the following:

	2017	2016
Due in less than one year	$ 106,382	$ 213,000
Due in one to five years	227,400	159,000
Discount on pledges receivable	(16,000)	(12,000)
	$ 317,782	$ 360,000

The noncurrent pledges receivable are shown net of a discount of $16,000 and $12,000 at September 30, 2017 and 2016, 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, 2017 and 2016, the balance of the note receivable and accrued interest was $456,029 and $436,976, respectively.

Note 5. Investments

Investments as of September 30, 2017 and 2016, are summarized as follows:

	2017	2016
Investment funds	$ 524,937	$ -
Mutual funds	15,673,165	14,237,517
Hedge funds	2,908,874	3,323,563
Fixed income securities	3,531,269	3,188,542
Hard assets	482,551	331,941
Real estate and infrastructure	1,304,519	1,116,832
	$ 24,425,315	$ 22,198,395

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.

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, 2017 and 2016 are as follows:

	2017	2016
Charitable remainder trusts	$ 86,554	$ 91,704
Charitable lead trusts	574,963	710,732
Perpetual trusts	994,891	939,489
	$ 1,656,408	$ 1,741,925

Note 6. Beneficial Interest in Trusts (continued)

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

	2017	2016
Charitable remainder trusts	2.38% - 2.86%	1.74% - 2.33%
Charitable lead trusts	1.89% - 2.65%	1.27% - 2.03%

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, 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 classification of investments by level within the valuation hierarchy as of September 30, 2016 is as follows:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
Investment funds	$ -	$ -	$ -	$ -
Mutual funds:				
Domestic cap	7,359,297	7,359,297	-	-
International	5,754,424	5,754,424	-	-
Emerging markets	1,123,796	1,123,796	-	-
Fixed income securities:				
Income funds	-	-	-	-
Total return bonds	779,788	779,788	-	-
Investment management	616,833	616,833	-	-
Total bond market index	792,758	792,758	-	-
Managed income	999,163	999,163	-	-
US Tips ETFs	-	-	-	-
Hard assets	331,941	331,941	-	-
	17,758,000	17,758,000	-	-
Investments measured at net asset value	4,440,395	-	-	-
Total investments	22,198,395	17,758,000	-	-
Beneficial interests in:				
Charitable remainder trusts	91,704	-	-	91,704
Charitable lead trust	710,732	-	-	710,732
Perpetual trusts	939,489	-	-	939,489
Total beneficial interests	$1,741,925	$ -	$ -	$1,741,925

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, 2017 and 2016:

Note 7. Fair Value Measurements (continued)

	Fair Value Measurements at Report Date Using Significant Unobservable Inputs (Level 3)		
	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

	Fair Value Measurements at Report Date		
	Beneficial Interests		
Year ended September 30, 2016	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts
Balance at September 30, 2015	$ 128,398	$ 819,732	$ 906,222
Change in value	(36,694)	115,106	74,554
Distributions	-	(224,106)	(41,287)
Balance at September 30, 2016	$ 91,704	$ 710,732	$ 939,489

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, 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	$ -		

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 $1,000,000. Interest accrues at a rate of London Interbank Offered Rate (LIBOR) plus 1.75% (2.98% at September 30, 2017). Subsequent to year end the Organization obtained an extension of the maturity date to March 23, 2018. Interest only is due monthly. All principal and accrued interest is due and payable on March 23, 2018. The line of credit is secured by cash and cash equivalents held with the bank. At September 30, 2017 and 2016, the outstanding balance on the line of credit was $1,000,000 and $705,000, respectively.

Note 9. Notes Payable

Notes payable consist of the following as of September 30:

	2017	2016
Note payable, bank, due $1,601 monthly including interest at 3.65%, due February 2019, secured by two vehicles	$ 24,957	$ 42,884
Notes payable, bank, due $1,382 monthly including interest at 3.75%, due January 2021, secured by two vehicles	51,879	66,206
Notes payable, financing company, due $1,412 monthly including interest at 0%, due February 2019, secured by four vehicles	56,426	73,353
	$ 133,262	$ 182,443
Total shown on consolidated statements of financial position as:		
Due currently	$ 50,390	$ 49,178
Due after one year	82,872	133,265
	$ 133,262	$ 182,443

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

2018	$ 50,390
2019	38,804
2020	32,993
2021	11,075
	$ 133,262

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 contribution to the Plan for 2017 and 2016 was $48,911 and $43,941, 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, 2017 and 2016:

	2017	2016
Temporarily Restricted		
Beneficial interest in trusts	$ 661,517	$ 802,436
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	33,309
Capital Campaign	456,029	436,976
Comprehensive Campaign	379,710	200,000
Operating Gifts	35,000	120
	$ 1,680,094	$ 1,593,057
Permanently Restricted		
Beneficial interest in perpetual trusts	$ 994,891	$ 939,489

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. 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 2017 and 2016 was $305,815 and $296,908, respectively.

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

2018	$ 314,990
2019	324,439
2020	334,172
2021	344,198
2022	354,523
Thereafter	550,437
	$ 2,222,759

Note 14. Operating Leases

The Organization leases office and computer equipment under operating leases with terms expiring between September 2018 and June 2020. Lease expense was $23,010 and $25,512 for 2017 and 2016, respectively. Future minimum lease payments are as follows:

2018	$ 18,659
2019	11,102
2020	1,233
2021	-
	$ 30,994

Note 15. Subsequent Events

Management has evaluated subsequent events through January 4, 2018, the date which the financial statements were available for issue.