



Financial Statements

December 31, 2018 and 2017



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CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Governing Board of
Charlottesville Area Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the Charlottesville Area Community Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal controls 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. Those standards require that we plan and perform the audits 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 controls 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 Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink, appearing to read "Keiter", with a long, sweeping horizontal stroke extending to the right.

September 16, 2019
Glen Allen, Virginia

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statements of Financial Position
December 31, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash	\$ 3,266,835	\$ 1,048,131
Investments, at fair value	176,874,418	172,891,238
Contributions receivable	1,082,805	5,116,333
Notes receivable	20,128	20,163
Beneficial interests in trusts	22,847,139	22,589,229
Real estate	7,000	7,000
Property and equipment, net of accumulated depreciation of \$91,088 and \$88,064, respectively	<u>12,357</u>	<u>13,467</u>
Total assets	<u>\$ 204,110,682</u>	<u>\$ 201,685,561</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 25,840	\$ 27,061
Grants payable	4,505,526	5,047,681
Annuity payable	4,381	4,381
Agency funds payable	16,994,816	18,764,522
Liability for amounts held in trust for others	<u>16,315</u>	<u>14,566</u>
Total liabilities	<u>21,546,878</u>	<u>23,858,211</u>
Net assets:		
Without donor restrictions:		
Board advised	14,266,510	15,231,130
Field of interest	5,417,918	3,163,584
Designated	6,012,300	6,273,629
Scholarships	9,325,637	8,253,213
Donor and committee advised	<u>124,563,687</u>	<u>122,174,222</u>
Total net assets without donor restrictions	<u>159,586,052</u>	<u>155,095,778</u>
With donor restrictions:		
Beneficial interest in trusts	22,917,752	22,671,572
Principal gift held in perpetuity	<u>60,000</u>	<u>60,000</u>
Total net assets with donor restrictions	<u>22,977,752</u>	<u>22,731,572</u>
Total net assets	<u>182,563,804</u>	<u>177,827,350</u>
Total liabilities and net assets	<u>\$ 204,110,682</u>	<u>\$ 201,685,561</u>

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statement of Activities Year Ended December 31, 2018, with Summarized Financial Information for 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Totals	2017 Totals
Revenues, gains (losses), and support:				
Contributions and agency receipts	\$ 26,765,868	\$ -	\$ 26,765,868	\$ 19,065,882
Gifts in-kind	52,384	-	52,384	55,384
Less: amounts for agency receipts	<u>1,657,439</u>	<u>-</u>	<u>1,657,439</u>	<u>2,206,926</u>
Total contributions	25,160,813	-	25,160,813	16,914,340
Dividends and interest, net of fees	2,418,294	-	2,418,294	1,913,271
Net realized investment gains	1,146,258	-	1,146,258	3,527,322
Net unrealized investment (losses) gains	(6,702,187)	-	(6,702,187)	13,676,146
Change in value of split interest agreements (trusts)	-	1,205,537	1,205,537	253,728
Fee income	180,717	-	180,717	161,512
Other income	<u>6,776</u>	<u>-</u>	<u>6,776</u>	<u>62,793</u>
Total revenues, gains (losses), and support	<u>22,210,671</u>	<u>1,205,537</u>	<u>23,416,208</u>	<u>36,509,112</u>
Net assets released from restrictions	<u>959,357</u>	<u>(959,357)</u>	-	-
Expenses:				
Program:				
Grants and distributions	18,319,354	-	18,319,354	14,391,173
Less: distributions from agency funds	<u>1,457,456</u>	<u>-</u>	<u>1,457,456</u>	<u>733,635</u>
Total grants	16,861,898	-	16,861,898	13,657,538
Program expenses other than grants	<u>968,492</u>	<u>-</u>	<u>968,492</u>	<u>1,015,306</u>
Total program	17,830,390	-	17,830,390	14,672,844
General administration	779,877	-	779,877	658,501
Fundraising	<u>69,487</u>	<u>-</u>	<u>69,487</u>	<u>53,557</u>
Total expenses	<u>18,679,754</u>	<u>-</u>	<u>18,679,754</u>	<u>15,384,902</u>
Change in net assets	4,490,274	246,180	4,736,454	21,124,210
Net assets, beginning of year	<u>155,095,778</u>	<u>22,731,572</u>	<u>177,827,350</u>	<u>156,703,140</u>
Net assets, end of year	<u>\$ 159,586,052</u>	<u>\$ 22,977,752</u>	<u>\$ 182,563,804</u>	<u>\$ 177,827,350</u>

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and support:			
Contributions and agency receipts	\$ 19,065,882	\$ -	\$ 19,065,882
Gifts in-kind	55,384	-	55,384
Less: amounts for agency funds	2,206,926	-	2,206,926
Total contributions	16,914,340	-	16,914,340
Dividends and interest, net of fees	1,913,271	-	1,913,271
Net realized investment gains	3,527,322	-	3,527,322
Net unrealized investment gains	13,676,146	-	13,676,146
Change in value of split interest agreements (trusts)	-	253,728	253,728
Fee income	161,512	-	161,512
Other income	62,793	-	62,793
Total revenues, gains, and support	36,255,384	253,728	36,509,112
Net assets released from restrictions	921,950	(921,950)	-
Expenses:			
Program:			
Grants and distributions	14,391,173	-	14,391,173
Less: distributions from agency funds	733,635	-	733,635
Total grants	13,657,538	-	13,657,538
Program expenses other than grants	1,015,306	-	1,015,306
Total program	14,672,844	-	14,672,844
General administration	658,501	-	658,501
Fundraising	53,557	-	53,557
Total expenses	15,384,902	-	15,384,902
Change in net assets	21,792,432	(668,222)	21,124,210
Net assets, beginning of year	133,303,346	23,399,794	156,703,140
Net assets, end of year	\$ 155,095,778	\$ 22,731,572	\$ 177,827,350

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statement of Functional Expenses
Year Ended December 31, 2018, with Summarized Financial Information for 2017

	Program	General	Fundraising	2018 Total	2017 Total
	Services	Administration			
Grant expense	\$ 16,861,898	\$ -	\$ -	\$ 16,861,898	\$ 13,657,538
Salaries, wages, and employee benefits	566,518	480,645	15,727	1,062,890	1,123,530
Fund expense reimbursement	184,674	92,337	30,779	307,790	168,843
Communications and public relations	61,738	49,390	12,348	123,476	62,870
Occupancy	54,825	54,865	979	110,669	110,057
Office supplies, printing, and publications	33,503	29,652	5,129	68,284	28,851
Special events	20,397	16,318	4,079	40,794	96,866
Professional fees	5,861	34,124	-	39,985	74,520
Miscellaneous	14,481	14,260	258	28,999	18,814
Banking and credit card fees	15,965	201	-	16,166	30,237
Computer services	8,837	6,785	158	15,780	5,182
Depreciation	1,693	1,300	30	3,023	3,737
Taxes	-	-	-	-	3,857
	<u>\$ 17,830,390</u>	<u>\$ 779,877</u>	<u>\$ 69,487</u>	<u>\$ 18,679,754</u>	<u>\$ 15,384,902</u>

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	General Administration	Fundraising	Total
Grant expense	\$ 13,657,538	\$ -	\$ -	\$ 13,657,538
Salaries, wages, and employee benefits	689,347	415,374	18,809	1,123,530
Fund expense reimbursement	101,306	50,653	16,884	168,843
Occupancy	58,943	50,140	974	110,057
Special events	48,433	38,746	9,687	96,866
Professional fees	23,570	50,950	-	74,520
Communications and public relations	30,930	25,754	6,186	62,870
Banking and credit card fees	30,139	98	-	30,237
Office supplies, printing, and publications	15,610	12,542	699	28,851
Miscellaneous	9,202	9,460	152	18,814
Computer services	3,135	1,995	52	5,182
Taxes	2,430	1,350	77	3,857
Depreciation	2,261	1,439	37	3,737
	<u>\$ 14,672,844</u>	<u>\$ 658,501</u>	<u>\$ 53,557</u>	<u>\$ 15,384,902</u>

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Statements of Cash Flows Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 4,736,454	\$ 21,124,210
Adjustments to reconcile change in net assets to net cash from operating activities:		
Realized gain on investments	(1,146,258)	(3,527,322)
Unrealized loss (gain) on investments	6,702,187	(13,676,146)
Change in value of split interest agreements	(1,205,537)	(253,728)
Depreciation	3,023	3,737
Collection of interests in trusts	947,627	924,226
Changes in assets and liabilities:		
Contributions receivable	4,033,528	(5,116,333)
Accounts payable	(1,221)	2,364
Grants payable	(542,155)	(883,555)
Agency funds payable	(1,769,706)	4,016,823
Held in trust for others	1,749	4,189
Net cash provided by operating activities	11,759,691	2,618,465
Cash flows from investing activities:		
Purchase of property and equipment	(1,913)	(11,307)
Sale of investments	30,734,087	100,478,633
Purchases of investments	(40,273,196)	(102,479,960)
Collections from notes receivables	35	12,273
Net cash used in investing activities	(9,540,987)	(2,000,361)
Net change in cash	2,218,704	618,104
Cash, beginning of year	1,048,131	430,027
Cash, end of year	\$ 3,266,835	\$ 1,048,131

See accompanying notes to the financial statements.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements

1. Nature of Organization:

Charlottesville Area Community Foundation (the "Foundation") is a non-stock corporation organized under the laws of the Commonwealth of Virginia. The mission of the Foundation is to improve the quality of life in the city of Charlottesville and surrounding counties of Albemarle, Buckingham, Fluvanna, Greene, Louisa, Nelson and Orange. The Foundation makes grants to support partner agencies working to address community challenges and opportunities. The Foundation also works with donors to fulfill their philanthropic interests and conduct tax efficient charitable giving.

2. Summary of Significant Accounting Policies:

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

The financial statements are presented in accordance with FASB guidance, which establishes standards for financial statements issued by nonprofit organizations. It required that net assets and related revenue and expenses be classified in two classes of net assets – net assets without donor restrictions and net assets with donor restrictions based upon the existence or absence of donor-imposed restrictions. A definition and description of each net asset class follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist of assets whose use is not subject to donor-imposed restrictions. Net assets without donor restrictions include: 1) Revenues and expenses of the primary operations of the Foundation 2) Donor-restricted contributions, sponsorships and grants whose restrictions are met in the same reporting period 3) Board designated funds as assessed by the Governing Board for use of the Foundation's discretionary grants program and to partially support administrative operations.

Board designated funds include board advised funds, field of interest funds, designated funds, scholarship funds, and donor and committee advised funds. Board advised funds are used for grant making, administrative expenses, and discretionary spending based on spending policies established by the Governing Board. Field of interest and designated funds are reserved for the use of awarding grants to community organizations serving a particular field of interest as identified by donors or to serve for the use of providing supporting gifts to a nonprofit that is specified by donors. Scholarship funds support individuals in their pursuit of educational opportunities in accordance with donor-defined award criteria, with scholarship distributions, paying the funds directly to an educational institution. Donor and committee advised funds are those funds where a donor or group of donors wish to be actively involved in the choice of grant recipients and have ongoing involvement by recommending gifts to address needs in the Charlottesville area and elsewhere.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued:

Net Assets With Donor Restrictions— Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include donor-imposed stipulations for specific operating purposes. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, whereby the donor stipulates that they may be maintained permanently by the Foundation to use all or part of the income earned on any related investments for general or specific purposes, in accordance with the conditions of each specific donation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

Cash: The Foundation considers cash in demand deposits, money market accounts and other highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, except for those short-term investments managed as part of long-term investment strategies. Thus, cash in operating accounts is included in the statements of financial position as cash and other cash and equivalents are included in investments. The balances in these accounts at times may exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the statements of activities. Investment income, gains, and losses are reported as increases or decreases in net assets with or without donor restrictions based upon donor or time restrictions. Donated investments are recorded at their fair value on the date of the contribution.

Contributions Receivable: The Foundation had \$1,082,805 in contributions made by donors during 2018 that were not collected by December 31, 2018. All of these amounts were received in January 2019. The Foundation had \$5,116,333 in contributions made by donors during 2017 that were not collected by December 31, 2017. All of these amounts were received in January 2018.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Beneficial Interests in Trusts: The Foundation has been named the beneficiary of several charitable remainder trusts and charitable lead trusts. Contribution revenue based on the present value of the expected benefits was recognized as being with donor restrictions in the years the trusts were funded due to the implied time restrictions. The lead trusts make distributions to the Foundation for the term of the trust. The remainder trusts make distributions to other beneficiaries for the term of the trust or life of the grantor and the Foundation will receive the remaining amount of the trust assets at termination. The Foundation holds the assets for one of the remainder trusts, but the assets of the other trusts are held by external trustees. Assets held by the Foundation in a charitable remainder trust as of December 31, 2018 and 2017 totaled \$86,928 and \$96,909, respectively, and are reported in investments at fair value in the statements of financial position. On an annual basis, the Foundation reviews the need to revalue the liability to make distributions to the beneficiary based on actuarial assumptions. The present value of the estimated future benefits was calculated using a discount rate ranging from 3.6% to 6.0% in 2018 and ranging from 2.6% to 6.0% in 2017.

Property and Equipment: The Foundation capitalized all acquisitions of property and equipment in excess of \$750 during 2018 and 2017. Property and equipment are stated at cost less accumulated depreciation. Depreciation of the property and equipment is computed using the straight-line method over a period of 3 to 7 years. Depreciation expense was \$3,023 for 2018 and \$3,737 for 2017.

Agency Obligations: The Foundation accepts assets from unaffiliated nonprofit organizations (“agencies”) that name themselves or their affiliates as the beneficiaries of the funds created. In accordance with generally accepted accounting principles, a liability has been established for the fair value of the funds and no contribution revenue was recognized for the period in which the agency funds are received.

Support and Revenue Recognition: The Foundation reports contributions received as unrestricted support, except for agency funds received, which are reported as a liability and one fund which was received with the stipulation that the principal be permanently invested, which is reported as with donor restrictions. The bylaws and fund agreements of the Foundation include a Variance Provision giving the Governing Board the power to vary the use of funds. While the Foundation attempts to meet the desires of the donors or advisors, the Foundation reserves the right to modify any recommended distributions from funds if, in the sole judgment of the Foundation’s Board, such distributions become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or if a distribution requested by a donor would result in use of funds contrary to the intent originally understood. Based on the Variance Provision, almost all contributions received by the Foundation are reported as support without donor restrictions, except for assets related to charitable lead and remainder trusts, which are classified as support with donor restrictions due to the time restrictions on the assets, and the one fund which the donor restricted for the principal to be invested permanently and only the income is available for distributions.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Support and Revenue Recognition, Continued: Charitable remainder trusts and charitable lead trusts are reported as support with donor restrictions until collected. When a time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received.

Contributed Services: Many individuals volunteer their time by assisting with committee assignments and donor relations, but these services do not meet the criteria for recognition as contributed services under GAAP.

Advertising: Advertising costs of \$123,476 for 2018 and \$62,870 or 2017, are expensed as incurred.

Functional Allocation of Expenses: The costs of providing support to fundholders, component funds, local charities and nonprofits have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among various functional areas. Costs related to personnel are allocated amongst functions based upon the percent of time each employee spends performing each function as defined by their position. Occupancy costs have been allocated based on the percent of time each employee spends performing each function as defined by their position. All other non-grant costs have been allocated among program, general administration, and fundraising on the basis of the activity benefited based on management's estimates.

Grants: Grants are recorded as expenses in the year they are approved by the Board when the probability of not meeting any grant conditions is remote.

Income Taxes: The Foundation is exempt from income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes on exempt income included in the accompanying financial statements. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Income Tax Uncertainties: The Foundation follows the FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the Foundation's tax position and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Foundation is not currently under audit by any tax jurisdiction.

Newly Adopted Accounting Standards: In August 2016, the FASB issued ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*" (Topic 958). The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all not-for-profits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. The Foundation has adopted this ASU as of and for the year ended December 31, 2018, with the presentation shown retrospectively.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which modifies the disclosure requirements for fair value measurements and is effective for years beginning after December 15, 2019, with early adoption permitted. The major change is that a rollforward for Level 3 fair value measurements is not required for nonpublic entities, instead required disclosure is limited to transfers into and out of Level 3 of the fair value hierarchy and purchase and issues of Level 3 assets and liabilities. The Foundation has adopted this ASU as of and for the year ended December 31, 2018, with the presentation shown retrospectively.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Accounting Standard Update: In June 2018, the FASB issued ASU No. 2018-08, “Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made”, which presents a new methodology for determining whether a grant contribution or contribution received or made by a not-for-profit entity should be accounted for as an exchange transaction or as a contribution. This new standard is effective for fiscal years beginning after December 31, 2018, for entities receiving contributions and fiscal years beginning after December 31, 2019, for entities providing contributions, with early adoption permitted. The Foundation is currently evaluating the reporting and economic implications of the new standard.

Subsequent Events: Management has evaluated subsequent events through September 16, 2019, the date the financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying financial statements.

3. Fair Value Measurements:

The Foundation has adopted FASB guidance on fair value measurements. The provisions of the guidance provides a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

3. Fair Value Measurements, Continued:

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Money market: Valued at the cash balance.

Equity securities, EFTs, and mutual funds: Valued at closing prices reported on the active market on which the individual securities are traded.

Government bonds, corporate bonds, and bond index funds: Valued at quoted market prices of similar investments in active markets or quoted prices for identical or similar instruments in inactive markets.

Strategy funds, and hedge funds: Valued at the net asset value ("NAV") of shares held at year-end as determined by general partners of the funds.

Real estate: Valued using recent assessments or listing prices for real estate currently being marketed.

Beneficial interest in trusts: Valued using the fair value of underlying assets of the trust as an estimate for the present value of the expected future cash flows discounted at 3.6% to 6.0% for 2018 and 2.6% to 6.0% for 2017.

Grants payable: Valued at the sum of future payables adjusted to the present value using a discount rate of 3.6% during 2018 and 2.6% during 2017.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

3. Fair Value Measurements, Continued:

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment money market accounts	\$ 8,442,665	\$ -	\$ -	\$ 8,442,665
Marketable equity securities and ETFs:				
Consumer discretionary	7,264,648	-	-	7,264,648
Consumer staples	2,400,468	-	-	2,400,468
Energy	2,177,618	-	-	2,177,618
Financials	8,242,244	-	-	8,242,244
Healthcare	5,555,976	-	-	5,555,976
Industrials	6,966,823	-	-	6,966,823
Information technology	12,162,085	-	-	12,162,085
Materials	2,120,736	-	-	2,120,736
Telecommunication services	1,412,559	-	-	1,412,559
Utilities	464,435	-	-	464,435
International	20,434,657	-	-	20,434,657
Other	463,329	-	-	463,329
Marketable equity mutual funds:				
Domestic mutual funds	14,191,030	-	-	14,191,030
International mutual funds	10,061,669	-	-	10,061,669
Marketable debt securities:				
Domestic mutual funds	78,237	-	-	78,237
International mutual funds	10,321	-	-	10,321
Corporate bonds	-	36,363,536	-	36,363,536
Government obligations	-	10,919,414	-	10,919,414
International obligations	-	290,601	-	290,601
Real asset funds	-	1,679,453	-	1,679,453
Real estate holdings	-	-	7,000	7,000
Notes receivable	-	-	20,128	20,128
Beneficial interests in trusts	-	-	22,847,139	22,847,139
Total assets in the fair value hierarchy	<u>\$ 102,449,500</u>	<u>\$ 49,253,004</u>	<u>\$ 22,874,267</u>	174,576,771
Investments measured at NAV (a)				<u>25,171,914</u>
Total assets at fair value				<u>\$ 199,748,685</u>
Liabilities:				
Grants payable	\$ -	\$ 4,505,526	\$ -	\$ 4,505,526
Annuity payable	-	4,381	-	4,381
Agency funds payable	-	16,994,816	-	16,994,816
Liability under trust agreement	-	16,315	-	16,315
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 21,521,038</u>	<u>\$ -</u>	<u>\$ 21,521,038</u>

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

3. Fair Value Measurements, Continued:

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Investment money market accounts	\$ 12,668,725	\$ -	\$ -	\$ 12,668,725
Marketable equity securities and ETFs:				
Consumer discretionary	6,820,861	-	-	6,820,861
Consumer staples	2,707,174	-	-	2,707,174
Energy	3,406,442	-	-	3,406,442
Financials	6,067,986	-	-	6,067,986
Healthcare	5,749,592	-	-	5,749,592
Industrials	5,868,191	-	-	5,868,191
Information technology	10,913,377	-	-	10,913,377
Materials	1,672,808	-	-	1,672,808
Telecommunication services	1,422,062	-	-	1,422,062
Utilities	842,151	-	-	842,151
International	17,957,673	-	-	17,957,673
Other	322,215	-	-	322,215
Marketable equity mutual funds:				
Domestic mutual funds	14,595,506	-	-	14,595,506
International mutual funds	9,446,654	-	-	9,446,654
Marketable debt securities:				
Domestic mutual funds	65,667	-	-	65,667
International mutual funds	13,237	-	-	13,237
Corporate bonds	-	42,168,883	-	42,168,883
Government obligations	-	5,743,124	-	5,743,124
Real asset funds	-	1,764,267	-	1,764,267
Real estate holdings	-	-	7,000	7,000
Notes receivable	-	-	20,163	20,163
Beneficial interests in trusts	-	-	22,589,229	22,589,229
Total assets in the fair value hierarchy	<u>\$ 100,540,321</u>	<u>\$ 49,676,274</u>	<u>\$ 22,616,392</u>	172,832,987
Investments measured at NAV (a)				<u>22,674,643</u>
Total assets at fair value				<u>\$ 195,507,630</u>
Liabilities:				
Grants payable	\$ -	\$ 5,047,681	\$ -	\$ 5,047,681
Annuity payable	-	4,381	-	4,381
Agency funds payable	-	18,764,522	-	18,764,522
Liability under trust agreement	-	14,566	-	14,566
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 23,831,150</u>	<u>\$ -</u>	<u>\$ 23,831,150</u>

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

3. Fair Value Measurements, Continued:

(a) In accordance of FASB guidance ASU 2015-07, certain investments that were measured using NAV per share as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position and consist of investments in the limited partnership of Bluestem, alternative investments, and a Real Estate Investment Trust. The investment in the limited partnership of Bluestem is subject to a revolving three year lockup period requiring 90 day written notice for withdrawal.

There were no changes in level 3 classifications during 2018 and 2017.

4. Grants Payable:

The Foundation's Board approved multi-year grants and scholarships payable in future years. Commitments for grants and scholarships outstanding as of December 31, 2018 are generally due as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 2,013,601
2020	834,500
2021	381,500
2022	318,000
2023	68,000
Thereafter	<u>1,703,750</u>
Total undiscounted commitments	5,319,351
Less: present value discounting	<u>813,825</u>
Total	<u>\$ 4,505,526</u>

The Foundation used a rate of 3.6% at December 31, 2018 to discount to present value its grants payable.

5. Net Assets With Donor Restrictions:

Net assets with donor restrictions result from the implied time restriction related to the future interests in trust totaling \$22,917,752 as of December 31, 2018 and \$22,671,572 as of December 31, 2017. The amounts released from restrictions were \$959,357 for 2018 and \$921,950 for 2017.

Net assets with donor restrictions of \$60,000 consist of the historic gift amount of one fund where assets are to be held in perpetuity. The income from these net assets is expendable.

CHARLOTTESVILLE AREA COMMUNITY FOUNDATION

Notes to Financial Statements, Continued

6. Retirement Plan:

The Foundation offers an optional salary deferral plan for employees. There was no Foundation contribution to the plan during 2018 or 2017.

7. Fundraising Expenses:

The Foundation pays for certain fundraising activity expenditures of various community foundation funds for which the Foundation is reimbursed from the funds. The Foundation was reimbursed for expenses such as meals, conferences, meetings, and printing. The fundraising expense reimbursement amounted to \$307,790 for 2018 and \$168,843 for 2017.

8. Leases:

The Foundation leases office space and equipment under operating leases that expire through December 2020. Future minimum payments under operating lease obligations consisted of the following at December 31, 2018:

<u>Year</u>	<u>Amount</u>
2019	\$ 19,457
2020	<u>24,000</u>
Total	<u>\$ 43,457</u>

Total operating lease expense was \$64,384 for 2018 and 2017. Lease expense for 2018 and 2017 includes gifts in-kind of \$52,384 and \$55,384 related to office space lease, respectively.

9. Liquidity and Availability of Financial Assets:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, are funded primarily through administrative fees assessed on component fund balances. An administrative endowment also supports operating expenditures allowing for spending of 4.5% (in 2019) of the three year semi-annual average balance. The administrative endowment totaled \$6,188,613 at December 31, 2018 and \$6,528,793 at December 31, 2017. In addition the Foundation maintains approximately \$200,000 in bank accounts for day-to-day expenditures and monthly payroll.

The Foundation generally uses the assets held for donor advised funds for grant making based on donor recommendations although those funds are not donor-restricted.