

BOYS' HOME, INCORPORATED

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Boys' Home, Incorporated
Covington, Virginia:**

We have audited the accompanying statements of financial position of Boys' Home, Inc., as of June 30, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the year ended June 30, 2010. These financial statements are the responsibility of the management of Boys' Home, Inc. Our responsibility is to express an opinion on the financial statements based on our audits. The prior year summarized comparative information has been derived from Boys' Home, Inc.'s 2009 financial statements and, in our report dated October 22, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys' Home, Inc., as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010, in conformity with U.S. generally accepted accounting principles.

Foti, Flynn, Lowen & Company, P. C.

**Roanoke, Virginia
October 19, 2010**

BOYS' HOME, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 100,607 | \$ 83,403 |
| Accounts receivable | 2,183 | 13,268 |
| Unconditional promises to give | - | 405,941 |
| Beneficial interest in trusts - current | <u>265,658</u> | <u>321,493</u> |
| Total current assets | <u>368,448</u> | <u>824,105</u> |
| NON-CURRENT ASSETS: | | |
| Accounts receivable - Boys' loans | 1,080 | 1,080 |
| Beneficial interest in trusts - non-current | 5,641,452 | 6,974,387 |
| Investments | 27,015,781 | 26,376,981 |
| Funds held in reserve | 81,171 | - |
| Other investments | 54,902 | 45,025 |
| Cash - permanently restricted | 5,994 | 5,983 |
| Property and equipment, less accumulated depreciation of \$4,620,515 in 2010 and \$4,441,097 in 2009 | 3,246,650 | 3,420,683 |
| Construction in progress | <u>316,834</u> | <u>23,461</u> |
| Total non-current assets | <u>36,363,864</u> | <u>36,847,600</u> |
| | <u>\$ 36,732,312</u> | <u>\$ 37,671,705</u> |

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| LIABILITIES: | | |
| Current liabilities - | | |
| Accrued expenses | <u>\$ 105,549</u> | <u>\$ 111,691</u> |
| Total current liabilities | <u>105,549</u> | <u>111,691</u> |
| NET ASSETS: | | |
| Unrestricted: | | |
| Undesignated | (70,365) | (68,207) |
| Designated by the Board for: | | |
| Long-term investment | 24,130,898 | 23,840,317 |
| Other | 67,135 | 52,717 |
| Fixed assets | <u>3,391,434</u> | <u>3,272,094</u> |
| Total unrestricted | 27,519,102 | 27,096,921 |
| Temporarily restricted | 5,921,568 | 7,304,363 |
| Permanently restricted | <u>3,186,093</u> | <u>3,158,730</u> |
| Total net assets | <u>36,626,763</u> | <u>37,560,014</u> |
| | <u>\$ 36,732,312</u> | <u>\$ 37,671,705</u> |

BOYS' HOME, INCORPORATED

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> |
|---|----------------------|-----------------------------------|
| SUPPORT AND REVENUE: | | |
| Contributions | \$ 527,768 | \$ 96,477 |
| Tuition | 396,255 | - |
| Interest and dividends | 384,962 | 5,975 |
| Special events | 19,510 | - |
| School lunches | 48,139 | - |
| Other sources | <u>18,641</u> | <u>-</u> |
| | 1,395,275 | 102,452 |
| | | |
| Net gain (loss) on investments | 1,003,564 | - |
| Bequests | 1,272,518 | - |
| Increase (decrease) in funds held in a trust by others | - | (1,123,112) |
| Satisfaction of program restrictions | <u>362,135</u> | <u>(362,135)</u> |
| | | |
| TOTAL SUPPORT AND REVENUE | <u>4,033,492</u> | <u>(1,382,795)</u> |
| | | |
| EXPENSES: | | |
| Program services | 2,921,377 | - |
| General and administrative | 479,939 | - |
| Fund raising | <u>209,995</u> | <u>-</u> |
| | | |
| TOTAL EXPENSES | <u>3,611,311</u> | <u>-</u> |
| | | |
| CHANGE IN NET ASSETS | 422,181 | (1,382,795) |
| | | |
| NET ASSETS, BEGINNING OF YEAR | <u>27,096,921</u> | <u>7,304,363</u> |
| | | |
| NET ASSETS, END OF YEAR | <u>\$ 27,519,102</u> | <u>\$ 5,921,568</u> |

See accompanying notes to financial statements.

**PERMANENTLY
RESTRICTED**

| | <u>2010</u> | <u>2009</u> |
|--------------|---------------|---------------|
| \$ 23,449 | \$ 647,694 | \$ 734,496 |
| - | 396,255 | 398,286 |
| 3,914 | 394,851 | 477,080 |
| - | 19,510 | 13,106 |
| - | 48,139 | 43,848 |
| - | 18,641 | 28,734 |
| <hr/> | <hr/> | <hr/> |
| 27,363 | 1,525,090 | 1,695,550 |
| - | 1,003,564 | (9,261,166) |
| - | 1,272,518 | 419,798 |
| - | (1,123,112) | 969,037 |
| - | - | - |
| <hr/> | <hr/> | <hr/> |
| 27,363 | 2,678,060 | (6,176,781) |
| - | 2,921,377 | 2,963,306 |
| - | 479,939 | 534,761 |
| - | 209,995 | 204,810 |
| <hr/> | <hr/> | <hr/> |
| - | 3,611,311 | 3,702,877 |
| 27,363 | (933,251) | (9,879,658) |
| <hr/> | <hr/> | <hr/> |
| 3,158,730 | 37,560,014 | 47,439,672 |
| <hr/> | <hr/> | <hr/> |
| \$ 3,186,093 | \$ 36,626,763 | \$ 37,560,014 |

BOYS' HOME, INCORPORATED

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (933,251) | \$ (9,879,658) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 180,070 | 187,143 |
| Net (gain) loss on investments | (1,003,564) | 9,261,166 |
| Change in value of trust agreements | 1,123,112 | (969,037) |
| Increase/Decrease in operating assets and liabilities: | | |
| Accounts receivable | 11,085 | 4,676 |
| Unconditional promises to give | 405,941 | (52,618) |
| Accrued expenses | (6,142) | 15,332 |
| Net assets restricted for permanent investment | <u>(27,363)</u> | <u>(8,476)</u> |
| Net cash provided (used) by operating activities | <u>(250,112)</u> | <u>(1,441,472)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash received from trust agreements | 265,658 | 354,812 |
| Purchase of property and equipment | (299,407) | (60,941) |
| Proceeds from sale of investments | 2,828,016 | 2,342,340 |
| Purchase of investments | <u>(2,554,314)</u> | <u>(1,192,487)</u> |
| Net cash provided (used) by investing activities | <u>239,953</u> | <u>1,443,724</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES - | | |
| Net assets restricted for permanent investment | <u>27,363</u> | <u>8,476</u> |
| Net cash provided by financing activities | <u>27,363</u> | <u>8,476</u> |
| NET INCREASE (DECREASE) IN CASH | 17,204 | 10,728 |
| CASH, BEGINNING | <u>83,403</u> | <u>72,675</u> |
| CASH, ENDING | <u>\$ 100,607</u> | <u>\$ 83,403</u> |

See accompanying notes to financial statements.

BOYS' HOME, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

| | <u>PROGRAM SERVICES</u> |
|---|------------------------------------|
| Salaries: | |
| Administrative | \$ 57,190 |
| Professional staff | 570,267 |
| Support staff | 23,725 |
| Technical | 396,599 |
| Employee fringe benefits | 272,244 |
| FICA taxes | 72,451 |
| Bad debts | 5,286 |
| Depreciation | 180,070 |
| Development | 8,547 |
| Professional fees | - |
| Food and beverages | 292,647 |
| Other purchased services | 10,869 |
| Office and computer expense | 4,845 |
| Subscriptions and dues | 554 |
| Educational vocational training | 24,737 |
| Staff training | 1,850 |
| Boys' personal expenses | 63,999 |
| College boys' fees | 19,947 |
| Psychological | 16,473 |
| Scholarships | 384,865 |
| Special projects | 22,225 |
| Farm expenses | 40,366 |
| Equipment and vehicle maintenance | 70,244 |
| Building and grounds maintenance | 68,281 |
| Household furnishings and supplies | 5,156 |
| Insurance | 74,162 |
| Telephone | 13,566 |
| Utilities | 189,146 |
| Miscellaneous | <u>31,066</u> |
| | |
| Total expenses | <u><u>\$ 2,921,377</u></u> |

See accompanying notes to financial statements.

| <u>GENERAL AND ADMINISTRATIVE</u> | <u>FUND RAISING</u> | <u>TOTAL ALL FUNDS</u> | |
|---------------------------------------|-------------------------|------------------------|---------------------|
| | | <u>2010</u> | <u>2009</u> |
| \$ 41,664 | \$ 15,526 | \$ 114,380 | \$ 113,246 |
| - | - | 570,267 | 566,888 |
| 241,477 | 110,681 | 375,883 | 435,709 |
| - | - | 396,599 | 402,198 |
| 73,568 | 32,792 | 378,604 | 361,722 |
| 19,578 | 8,728 | 100,757 | 106,452 |
| - | - | 5,286 | 5,516 |
| - | - | 180,070 | 187,143 |
| - | 42,268 | 50,815 | 51,476 |
| 19,268 | - | 19,268 | 21,952 |
| - | - | 292,647 | 287,305 |
| - | - | 10,869 | 37,560 |
| 16,165 | - | 21,010 | 21,353 |
| 10,869 | - | 11,423 | 9,560 |
| - | - | 24,737 | 29,027 |
| 6,976 | - | 8,826 | 21,093 |
| - | - | 63,999 | 60,106 |
| - | - | 19,947 | 10,462 |
| - | - | 16,473 | 16,530 |
| - | - | 384,865 | 367,243 |
| - | - | 22,225 | 19,252 |
| - | - | 40,366 | 63,220 |
| - | - | 70,244 | 60,878 |
| - | - | 68,281 | 73,980 |
| - | - | 5,156 | 12,237 |
| - | - | 74,162 | 79,951 |
| 11,462 | - | 25,028 | 23,339 |
| 33,270 | - | 222,416 | 213,802 |
| <u>5,642</u> | <u>-</u> | <u>36,708</u> | <u>43,677</u> |
| <u>\$ 479,939</u> | <u>\$ 209,995</u> | <u>\$ 3,611,311</u> | <u>\$ 3,702,877</u> |

BOYS' HOME, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

Boys' Home, Inc. (the Organization) is a non-profit corporation organized under the laws of the Commonwealth of Virginia to provide a spiritual and educational environment for boys in need of shelter and guidance. The Organization is supported primarily through donor contributions and investment income.

Financial statement presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Promises to give due in the next year are recorded at their net realizable value. Promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are made.

Cash and cash equivalents:

For purposes of reporting the statement of cash flows, the Organization includes all cash available on a daily basis.

Accounts receivable

Accounts receivable and unconditional promises to give are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Split-interest agreements:

Boys' Home is the recipient/beneficiary of several irrevocable trust arrangements which are held by others. The related income from these arrangements is recognized as temporarily restricted until the cash is received, at which time it is reclassified as unrestricted. The recorded value of the stream of future revenue associated with these trusts is required to be measured using the present value of future cash receipts. The market value of the pro rata ownership portion of the trusts' assets and/or the annual amount received currently from the trusts is used as a basis and then discounted to present value using a rate of 3.2% to arrive at an approximation of the present value of the future receipts.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Property and equipment:

It is the Organization's policy to capitalize property and equipment in excess of \$750. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method.

Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes:

The Organization is exempt from income taxes under 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

2. RECLASSIFICATIONS:

Certain amounts in the 2009 financial statements have been reclassified to conform with current year presentation.

3. CONCENTRATION OF CREDIT RISK:

The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

4. INVESTMENTS:

Investments at June 30 are comprised of the following:

| | <u>2010</u> | <u>2009</u> |
|-------------------------|----------------------|----------------------|
| Cash & cash equivalents | \$ 2,038,091 | \$ 7,616,785 |
| Mutual funds | 11,652,533 | 6,782,840 |
| Fixed income | 3,779,441 | 3,871,211 |
| Alternative investments | <u>9,545,716</u> | <u>8,106,145</u> |
| | <u>\$ 27,015,781</u> | <u>\$ 26,376,981</u> |

Boys' Home paid approximately \$99,000 in investment fees to various financial institutions for the year ended June 30, 2010. This amount is included in interest and dividends on the Statement of Activities.

5. FAIR VALUE MEASUREMENTS:

Assets and liabilities are measured at fair value which is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, standards establish a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 Inputs - Inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs - Unobservable inputs in which there is little or no market data, which requires management to develop their assumptions.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

5. FAIR VALUE MEASUREMENTS - (Continued):

Fair value of assets measured on a recurring basis at June 30, 2010 are as follows:

| <u>Description</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Total</u> |
|-------------------------------|---|--|-----------------------------|
| Investments | \$ 27,015,781 | \$ - | \$ 27,015,781 |
| Beneficial interest in trusts | <u>-</u> | <u>5,907,110</u> | <u>5,907,110</u> |
| Total | <u>\$ 27,015,781</u> | <u>\$ 5,907,110</u> | <u>\$ 32,922,891</u> |

Fair value of assets measured on a recurring basis at June 30, 2009 are as follows:

| <u>Description</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Total</u> |
|-------------------------------|---|--|-----------------------------|
| Investments | \$ 26,376,981 | \$ - | \$ 26,376,981 |
| Beneficial interest in trusts | <u>-</u> | <u>7,295,880</u> | <u>7,295,880</u> |
| Total | <u>\$ 26,376,981</u> | <u>\$ 7,295,880</u> | <u>\$ 33,672,861</u> |

The change in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ending June 30, 2010 are as follows:

| | |
|--|----------------------------|
| <u>Beneficial interest in trusts</u> | |
| Beginning balance, July 1, 2009 | \$ 7,295,880 |
| Cash received from trusts | (265,658) |
| Change in value of split interest agreements | <u>(1,123,112)</u> |
| Ending balance, June 30, 2010 | <u>\$ 5,907,110</u> |

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

6. UNCONDITIONAL PROMISES TO GIVE:

Following is a summary of unconditional promises to give as of June 30:

| | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------------|
| Receivable in less than one year - Unrestricted | <u>\$ -</u> | <u>\$ 405,941</u> |

7. PROPERTY AND EQUIPMENT:

A summary of property and equipment follows:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|---------------------|---------------------|
| Buildings | \$ 6,443,771 | \$ 6,439,136 |
| Land improvements | 529,355 | 529,355 |
| Fixed equipment | 204,422 | 204,422 |
| Furniture and fixtures | 175,224 | 175,224 |
| Automobiles and trucks | <u>246,177</u> | <u>245,427</u> |
| | 7,598,949 | 7,593,564 |
| Less accumulated depreciation | <u>(4,620,515)</u> | <u>(4,441,097)</u> |
| | 2,978,434 | 3,152,467 |
| Land | <u>268,216</u> | <u>268,216</u> |
| | <u>\$ 3,246,650</u> | <u>\$ 3,420,683</u> |

Construction in progress is comprised of preliminary engineering fees and construction associated with plans of closing the lagoon and connecting with the Alleghany County sewer system. The total cost of this project is estimated to be \$375,000 and expected to be completed in late 2010.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

8. ACCRUED EXPENSES:

Accrued expenses consist of the following:

| | <u>2010</u> | <u>2009</u> |
|----------------------|-------------------|-------------------|
| Accrued payroll | \$ 30,896 | \$ 28,097 |
| Accrued vacation pay | 42,264 | 44,964 |
| Boys' personal money | 26,594 | 24,356 |
| Deferred revenue | 6,750 | 15,750 |
| Other | <u>(955)</u> | <u>(1,476)</u> |
| | <u>\$ 105,549</u> | <u>\$ 111,691</u> |

9. UNDESIGNATED NET ASSETS:

Undesignated net assets consist of the following:

| | <u>2010</u> | <u>2009</u> |
|-----------------------------------|--------------------|--------------------|
| Cash | \$ 31,922 | \$ 29,136 |
| Accounts receivable | 2,183 | 13,268 |
| Accounts receivable - Boys' loans | 1,080 | 1,080 |
| Accrued expenses | <u>(105,550)</u> | <u>(111,691)</u> |
| | <u>\$ (70,365)</u> | <u>\$ (68,207)</u> |

10. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods:

| | <u>2010</u> | <u>2009</u> |
|-----------------------|---------------------|---------------------|
| College expenses | \$ 1,549 | \$ 1,549 |
| Periods after June 30 | 5,907,110 | 7,295,880 |
| Other | <u>12,909</u> | <u>6,934</u> |
| | <u>\$ 5,921,568</u> | <u>\$ 7,304,363</u> |

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

11. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets are as follows and are classified based on the restricted purpose:

| | <u>2010</u> | <u>2009</u> |
|-----------------|---------------------|---------------------|
| Scholarships | \$ 2,678,804 | \$ 2,651,441 |
| Farm operations | <u>507,289</u> | <u>507,289</u> |
| | <u>\$ 3,186,093</u> | <u>\$ 3,158,730</u> |

12. ENDOWMENTS:

The Organization's endowments consist of individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Boys' Home, Inc. has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

12. ENDOWMENTS - (Continued):

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking flexibility to meet unanticipated demands and changing environments. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an absolute return equal to the rate of inflation, measured by the CPI plus 5% annually (over a rolling three year time horizon). Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current year (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equities investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of drawing 5% annually based on three year average of ending endowment balance. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Trustees. There were no such deficiencies as of June 30, 2010.

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

12. ENDOWMENTS - (Continued):

Net Asset Composition by Type of Endowment Fund as of June 30, 2010:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | \$ - | \$ 2,968,054 | \$ 2,968,054 |
| Board-designated endowment funds | <u>22,124,636</u> | <u>-</u> | <u>22,124,636</u> |
| Total Funds | <u>\$ 22,124,636</u> | <u>\$ 2,968,054</u> | <u>\$ 25,092,690</u> |

Net Asset Composition by Type of Endowment Fund as of June 30, 2009:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | \$ - | \$ 2,944,605 | \$ 2,944,605 |
| Board-designated endowment funds | <u>22,446,230</u> | <u>-</u> | <u>22,446,230</u> |
| Total Funds | <u>\$ 22,446,230</u> | <u>\$ 2,944,605</u> | <u>\$ 25,390,835</u> |

Changes in Endowment net assets for year ending June 30, 2010:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 22,446,230 | \$ 2,944,605 | \$ 25,390,835 |
| Investment return: | | | |
| Interest and dividends | 360,069 | - | 360,069 |
| Realized losses | (10,049) | - | (10,049) |
| Unrealized gains | 986,981 | - | 986,981 |
| Withdraws | (1,687,995) | - | (1,687,995) |
| Contributions | <u>29,400</u> | <u>23,449</u> | <u>52,849</u> |
| Endowment net assets, end of year | <u>\$ 22,124,636</u> | <u>\$ 2,968,054</u> | <u>\$ 25,092,690</u> |

BOYS' HOME, INCORPORATED

NOTES TO FINANCIAL STATEMENTS - (Continued)

13. BOYS' SUPPORT:

The normal daily billing rate for all residents is \$20.00. A Scholarship Fund expense account is charged with monthly support of privately placed boys whose families cannot pay.

The following is a schedule of boys' support for the year ended June 30, 2010:

| | |
|----------------------|------------------|
| Gross tuition | \$ 396,255 |
| Scholarships | <u>(384,865)</u> |
| Net tuition received | <u>\$ 11,390</u> |

14. FUNCTIONAL ALLOCATION OF EXPENSES:

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

15. RENTAL INCOME:

The Organization leases approximately eight acres of land to Alleghany Asphalt & Construction, Inc. under an operating lease with a term of fifty years, expiring December 31, 2053. Minimum annual rent on the land is \$9,000 per year. In addition to the annual minimum rent, the lessee agrees to pay an additional "royalty" rent of fifty cents per ton for every ton of asphalt in excess of 15,000 tons produced and sold.

Minimum future rentals at June 30 are as follows:

| <u>Year Ended</u> | <u>Amount</u> |
|---------------------|---------------|
| 2011 | \$ 9,000 |
| 2012 | 9,000 |
| 2013 | 9,000 |
| 2014 | 9,000 |
| 2015 | 9,000 |
| 2016 and thereafter | 346,500 |

16. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 19, 2010, the date on which the financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

**The Board of Trustees
Boys' Home, Inc.
Covington, Virginia**

Our audit was made for the purpose of forming an opinion on the basic financial statements of Boys' Home, Inc. taken as a whole. The accompanying schedules on Pages 18-19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Foti, Flynn, Lowen & Company, P. C.

**Roanoke, Virginia
October 19, 2010**

BOYS' HOME, INCORPORATED

SCHEDULE OF CASH

JUNE 30, 2010

Unrestricted:

Undesignated:

| | |
|------------------------------------|---------------|
| Petty cash | \$ 1,500 |
| BB&T Bank - | |
| Checking account | 9,128 |
| Highlands Community Bank: | |
| Checking account | 3,512 |
| Payroll account | 1,027 |
| Wachovia Bank, N.A.: | |
| Checking account | 16,225 |
| Susie E. Lorraine Memorial account | <u>537</u> |
| | <u>31,929</u> |

Board designated:

BB&T Bank:

| | |
|------------------------------|---------------|
| Ambassadors' account | 11,552 |
| Executive Director's account | 5,410 |
| Boy Scouts' account | 12,189 |
| Tannehill Farm account | 7,727 |
| Stellar One - | |
| Emergency account | <u>30,257</u> |
| | <u>67,135</u> |

Temporarily restricted:

BB&T Bank -

| | |
|-----------------------------|--------------|
| Hilda Dent Memorial account | <u>1,549</u> |
| | <u>1,549</u> |

Permanently restricted:

Wachovia Bank, N.A. -

| | |
|------------------------------------|--------------|
| Susie E. Lorraine Memorial account | 3,873 |
| Stellar One - | |
| William Smith Memorial account | <u>2,121</u> |
| | <u>5,994</u> |

Total cash \$ 106,607

BOYS' HOME, INCORPORATED

SCHEDULE OF INVESTMENTS

JUNE 30, 2010

MUTUAL FUNDS & OTHER EQUITIES:

| | | |
|--|-----------------------|----------------------|
| Aberdeen Emerging Markets Fund | \$ 1,057,732 | |
| Catawba Capital Management | 111,074 | |
| Global Equity Allocation Fund | 9,915,854 | |
| Milton S. Mayes Account | 78,024 | |
| Sidney Howell Bernard Memorial Fund | 236,479 | |
| Tannehill Farm Account | <u>253,370</u> | |
| | | \$ 11,652,533 |

EQUITY ALTERNATIVES:

| | | |
|--|-------------------------|------------------|
| Collins Capital Diversified Offshore Fund | 711,701 | |
| Forester Diversified Fund Limited | 2,052,340 | |
| P2 Capital Fund Limited | 1,112,008 | |
| Lighthouse Diversified Fund Limited | 1,912,984 | |
| Ironwood Partners II Fund Limited | 37,652 | |
| Pointer Offshore Limited | 2,249,076 | |
| Silver Creek Low Volatility Fund | <u>1,469,955</u> | |
| | | 9,545,716 |

FIXED INCOME:

| | | |
|--------------------------------------|-------------------------|------------------|
| Catawba Capital Management | 2,428,949 | |
| Global Equity Allocation Fund | 140,793 | |
| Milton S. Mayes Account | <u>1,209,699</u> | |
| | | 3,779,441 |

CASH & EQUIVALENTS:

| | | |
|--|-----------------------|-------------------------|
| Catawba Capital Management | 9,497 | |
| Eleanor B. Coburn Building Fund | 51,627 | |
| Franklin Templeton Investments | 633 | |
| Lazard Asset Management | 73 | |
| Lillian Pritchett Memorial Fund | 38,565 | |
| Milton S. Mayes Account | 4,867 | |
| Rachel B. Stevens Memorial Fund | 57,611 | |
| Second Century Account | 1,476,252 | |
| Sidney Howell Bernard Memorial Fund | 2,878 | |
| Tannehill Farm Account | 164,770 | |
| Vanguard Prime Money Market Fund | <u>231,318</u> | |
| | | <u>2,038,091</u> |

Total investments **\$ 27,015,781**

Allocation:

| | |
|-------------------------------|-------------------------|
| Board designated | \$ 24,047,727 |
| Permanently restricted | <u>2,968,054</u> |

\$ 27,015,781