BOYS' HOME, INCORPORATED

FINANCIAL STATEMENTS

Year Ended June 30, 2012

CONTENTS

Foti, Flynn,
Lowen & Co.

Calculated solutions.

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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, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the year ended June 30, 2012. 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 2011 financial statements and, in our report dated October 20, 2011, 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, 2012 and 2011, and the changes in its net assets and its cash flows for the year ended June 30, 2012, in conformity with U.S. generally accepted accounting principles.

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

Roanoke, Virginia
October 18, 2012

A firm of CPAs and Financial Consultants

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BOYS' HOME, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash	$ 161,773	$ 143,378
Accounts receivable	17,748	14,211
Beneficial interest in trusts - current	321,145	318,512
Total current assets	500,666	476,101
NON-CURRENT ASSETS:		
Accounts receivable - Boys' loans	963	963
Beneficial interest in trusts - non-current	8,958,901	7,122,367
Investments	28,543,776	30,407,220
Funds held in reserve	-	81,226
Other investments	54,902	54,902
Cash - permanently restricted	6,006	6,006
Property and equipment, less accumulated depreciation of $4,711,750 in 2012 and $4,765,614 in 2011	3,471,482	3,613,327
Construction in progress	25,200	-
Total non-current assets	41,061,230	41,286,011
	$ 41,561,896	$ 41,762,112

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES:		
Current liabilities -		
Accrued expenses	$ 94,744	$ 115,449
Total current liabilities	94,744	115,449
NET ASSETS:		
Unrestricted:		
Undesignated	15,728	(15,431)
Designated by the Board for:		
Long-term investment	24,922,670	26,916,345
Other	67,979	56,562
Fixed assets	3,324,632	3,441,277
Total unrestricted	28,331,009	30,398,753
Temporarily restricted	9,584,651	7,822,958
Permanently restricted	3,551,492	3,424,952
Total net assets	41,467,152	41,646,663
	$ 41,561,896	$ 41,762,112

BOYS' HOME, INCORPORATED

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)

	UNRESTRICTED	TEMPORARILY RESTRICTED
SUPPORT AND REVENUE:		
Contributions	$ 663,730	$ 65,456
Tuition	430,481	-
Interest and dividends	606,676	59
Special events	26,246	-
School lunches	42,789	-
Other sources	25,582	-
	1,795,504	65,515
Gain (loss) on sale of property and equipment	(21,536)	-
Net gain (loss) on investments	(1,020,210)	-
Bequests	371,046	-
Increase (decrease) in trusts due to change in interest rates	-	2,160,312
Satisfaction of program restrictions	464,134	(464,134)
TOTAL SUPPORT AND REVENUE	1,588,938	1,761,693
EXPENSES:		
Program services	2,914,341	-
General and administrative	529,539	-
Fund raising	212,802	-
TOTAL EXPENSES	3,656,682	-
CHANGE IN NET ASSETS	(2,067,744)	1,761,693
NET ASSETS, BEGINNING OF YEAR	30,398,753	7,822,958
NET ASSETS, END OF YEAR	$ 28,331,009	$ 9,584,651

See accompanying notes to financial statements.

PERMANENTLY RESTRICTED	2012	2011
$ 126,540	$ 855,726	$ 1,422,096
-	430,481	413,065
-	606,735	373,534
-	26,246	14,801
-	42,789	47,566
-	25,582	16,882
126,540	1,987,559	2,287,944
-	(21,536)	6,489
-	(1,020,210)	4,493,028
-	371,046	160,872
-	2,160,312	1,852,281
-	-	-
126,540	3,477,171	8,800,614
-	2,914,341	3,034,966
-	529,539	537,313
-	212,802	208,435
-	3,656,682	3,780,714
126,540	(179,511)	5,019,900
3,424,952	41,646,663	36,626,763
$ 3,551,492	$ 41,467,152	$ 41,646,663

BOYS' HOME, INCORPORATED

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (179,511)	$ 5,019,900
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Depreciation	172,777	175,072
Net (gain) loss on disposal of property and equipment	21,536	(6,489)
Net (gain) loss on investments	1,020,210	(4,493,028)
Change in value of trust agreements	(2,160,312)	(1,852,281)
Increase/Decrease in operating assets and liabilities:		
Accounts receivable	(3,537)	(11,911)
Accrued expenses	(20,705)	9,900
Net assets restricted for permanent investment	(126,540)	(238,859)
Net cash provided (used) by operating activities	(1,276,082)	(1,397,696)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from trust agreements	321,145	318,512
Proceeds from sale of property and equipment	-	13,232
Purchase of property and equipment	(77,668)	(231,658)
Proceeds from sale of investments	2,273,057	2,607,981
Purchase of investments	(1,348,597)	(1,506,459)
Net cash provided by investing activities	1,167,937	1,201,608
CASH FLOWS FROM FINANCING ACTIVITIES -		
Net assets restricted for permanent investment	126,540	238,859
Net cash provided by financing activities	126,540	238,859
NET INCREASE IN CASH	18,395	42,771
CASH, BEGINNING	143,378	100,607
CASH, ENDING	$ 161,773	$ 143,378

See accompanying notes to financial statements.

BOYS' HOME, INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)

	PROGRAM SERVICES
Salaries:	
Administrative	$ 58,628
Professional staff	650,941
Support staff	2,875
Technical	344,294
Employee fringe benefits	255,904
FICA taxes	76,293
Bad debts	500
Depreciation	172,777
Development	12,328
Professional fees	-
Food and beverages	307,712
Other purchased services	56,719
Office and computer expense	-
Subscriptions and dues	554
Educational vocational training	24,113
Staff training	-
Boys' personal expenses	47,189
College boys' fees	19,813
Psychological	15,966
Scholarships	401,589
Special projects	8,608
Farm expenses	55,252
Equipment and vehicle maintenance	73,825
Building and grounds maintenance	107,994
Household furnishings and supplies	8,829
Insurance	48,837
Telephone	-
Utilities	137,912
Miscellaneous	24,889
Total expenses	$ 2,914,341

See accompanying notes to financial statements.

GENERAL AND ADMINISTRATIVE	FUND RAISING	TOTAL ALL FUNDS 2012	2011
$ 42,714	$ 15,913	$ 117,255	$ 117,255
-	-	650,941	686,244
245,424	116,486	364,785	360,404
-	-	344,294	367,795
69,777	32,062	357,743	391,704
20,803	9,560	106,656	105,073
-	-	500	595
-	-	172,777	175,072
-	38,781	51,109	47,259
19,575	-	19,575	21,839
-	-	307,712	302,103
-	-	56,719	38,367
22,623	-	22,623	21,954
4,697	-	5,251	9,870
-	-	24,113	25,450
15,716	-	15,716	11,948
-	-	47,189	60,020
-	-	19,813	20,003
-	-	15,966	12,119
-	-	401,589	379,671
-	-	8,608	18,697
-	-	55,252	48,237
-	-	73,825	84,229
-	-	107,994	110,714
-	-	8,829	9,482
-	-	48,837	47,489
24,247	-	24,247	25,090
58,950	-	196,862	242,826
5,013	-	29,902	39,205
$ 529,539	$ 212,802	$ 3,656,682	$ 3,780,714

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, 2011, from which the summarized information was derived.

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 1.2% to arrive at an approximation of the present value of the future receipts.

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 2011 financial statements have been reclassified to conform with current year presentation.

3. CONCENTRATION OF CREDIT RISK:

The Organization maintains cash balances at several banks. Amounts in interest bearing accounts and money market deposit accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. Non-interest bearing accounts are fully insured, regardless of the balance for the year ended June 30, 2012.

4. INVESTMENTS:

Investments at June 30 are comprised of the following:

	2012	2011
Cash & cash equivalents	$ 2,082,906	$ 2,218,699
Mutual funds	13,620,001	14,480,326
Fixed income	4,077,553	4,035,427
Alternative investments	8,763,316	9,672,768
	$ 28,543,776	$ 30,407,220

Boys' Home paid approximately $94,000 in investment fees to various financial institutions for the year ended June 30, 2012. 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.

5. FAIR VALUE MEASUREMENTS - (Continued):

Fair value of assets measured on a recurring basis at June 30, 2012 are as follows:

Description	Level 1	Level 2	Level 3	Total
Investments	$ 19,780,460	$ 8,763,316	$ -	$ 28,543,776
Beneficial interest in trusts	-	-	9,280,046	9,280,046
Total	$ 19,780,460	$ 8,763,316	$ 9,280,046	$ 37,823,822

Fair value of assets measured on a recurring basis at June 30, 2011 are as follows:

Description	Level 1	Level 2	Level 3	Total
Investments	$ 20,734,452	$ 9,672,768	$ -	$ 30,407,220
Beneficial interest in trusts	-	-	7,440,879	7,440,879
Total	$ 20,734,452	$ 9,672,768	$ 7,440,879	$ 37,848,099

The Organization recognizes transfers into and out of Levels 1 and 2 at the end of the reporting periods. Transfers from Level 2 to Level 1 were $957,747 and there were no transfers from Level 1 to Level 2 during the year ended June 30, 2012.

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, 2012 are as follows:

Beneficial interest in trusts	
Beginning balance, July 1, 2011	$ 7,440,879
Cash received from trusts	(321,145)
Change in value of split interest agreements	2,160,312
Ending balance, June 30, 2012	$ 9,280,046

6. PROPERTY AND EQUIPMENT:

A summary of property and equipment follows:

	2012	2011
Buildings	$ 6,534,957	$ 6,579,037
Land improvements	918,134	940,681
Fixed equipment	170,098	204,422
Furniture and fixtures	80,466	175,224
Automobiles and trucks	211,361	211,361
	7,915,016	8,110,725
Less accumulated depreciation	(4,711,750)	(4,765,614)
	3,203,266	3,345,111
Land	268,216	268,216
	$ 3,471,482	$ 3,613,327

7. ACCRUED EXPENSES:

Accrued expenses consist of the following:

	2012	2011
Accrued payroll	$ 29,214	$ 35,705
Accrued vacation pay	38,991	45,256
Boys' personal money	24,239	28,567
Deferred revenue	2,250	6,750
Other	50	(829)
	$ 94,744	$ 115,449

8. UNDESIGNATED NET ASSETS:

Undesignated net assets consist of the following:

	2012	2011
Cash	$ 91,761	$ 84,844
Accounts receivable	17,748	14,211
Accounts receivable - Boys' loans	963	963
Accrued expenses	(94,744)	(115,449)
	$ 15,728	$ (15,431)

9. TEMPORARILY RESTRICTED NET ASSETS:

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

	2012	2011
College expenses	$ 2,031	$ 1,970
Periods after June 30	9,280,046	7,440,879
Renovations	289,665	367,200
Other	12,909	12,909
	$ 9,584,651	$ 7,822,958

10. PERMANENTLY RESTRICTED NET ASSETS:

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

	2012	2011
Scholarships	$ 3,044,203	$ 2,917,663
Farm operations	507,289	507,289
	$ 3,551,492	$ 3,424,952

11. 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.

11. ENDOWMENTS - (Continued):

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

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.

11. ENDOWMENTS - (Continued):

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, 2012.

Net Asset Composition by Type of Endowment Fund as of June 30, 2012:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,333,441	$ 3,333,441
Board-designated endowment funds	23,059,710	-	23,059,710
Total Funds	$ 23,059,710	$ 3,333,441	$ 26,393,151

Net Asset Composition by Type of Endowment Fund as of June 30, 2011:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,206,901	$ 3,206,901
Board-designated endowment funds	24,826,422	-	24,826,422
Total Funds	$ 24,826,422	$ 3,206,901	$ 28,033,323

11. ENDOWMENTS - (Continued):

Changes in Endowment net assets for year ending June 30, 2012:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 24,826,422	$ 3,206,901	$ 28,033,323
Investment return:			
Interest and dividends	664,776	-	664,776
Realized losses	(7,747)	-	(7,747)
Unrealized losses	(1,005,225)	-	(1,005,225)
Withdraws and transfers out	(1,485,090)	-	(1,485,090)
Contributions	66,574	126,540	193,114
Endowment net assets, end of year	$ 23,059,710	$ 3,333,441	$ 26,393,151

12. 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, 2012:

Gross tuition	$ 430,481
Scholarships	(401,589)
Net tuition received	$ 28,892

13. 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.

14. 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:

Year Ended	Amount
2013	$ 9,000
2014	9,000
2015	9,000
2016	9,000
2017	9,000
2018 and thereafter	328,500

15. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through October 18, 2012, the date on which the financial statements were available to be issued.