

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

**CONSOLIDATED
FINANCIAL STATEMENTS**

September 30, 2015 and 2014

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Activities	5-6
Consolidated Statements of Cash Flows.....	7-8
Notes to Consolidated Financial Statements	9-18
Supplementary Information	
Consolidated Schedules of Functional Expenses	19-22



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Virginia Home for Boys and Girls and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

- Continued -

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Home for Boys and Girls and Subsidiary as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of functional expenses in page 19 - 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Wells Coleman". The signature is written in a cursive, slightly slanted style.

January 20, 2016

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 897,366	\$ 2,419,945
Investments, at fair value	22,318,694	22,499,716
Accounts receivable		
Public and private placements, net	589,428	364,937
Other accounts receivable, net	12,004	21,103
Pledges receivable	35,005	33,492
Accrued investment income	27,196	20,837
Prepaid expenses	<u>55,975</u>	<u>39,109</u>
Total current assets	<u>23,935,668</u>	<u>25,399,139</u>
Property and Equipment		
Buildings and improvements	9,947,603	9,938,355
Land	1,315,201	1,315,201
Land improvements	918,798	918,798
Furniture and equipment	612,883	565,222
Computer equipment and software	426,852	393,287
Vehicles	<u>329,138</u>	<u>292,830</u>
	13,550,475	13,423,693
Accumulated depreciation	<u>(6,602,584)</u>	<u>(6,256,821)</u>
Net property and equipment	<u>6,947,891</u>	<u>7,166,872</u>
Other Assets		
Beneficial interest in trusts	1,854,352	2,300,061
Note receivable	<u>418,720</u>	<u>401,227</u>
Total other assets	<u>2,273,072</u>	<u>2,701,288</u>
Total Assets	<u>\$ 33,156,631</u>	<u>\$ 35,267,299</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
Current Liabilities		
Line of credit	\$ 660,000	\$ 500,000
Current portion of long term debt	17,252	-
Accounts payable	121,191	155,633
Accrued expenses	229,827	179,812
Deferred revenue	<u>5,000</u>	<u>1,860</u>
Total current liabilities	1,033,270	837,305
Long-Term Liabilities		
Long-term debt	<u>42,905</u>	<u>-</u>
Total liabilities	<u>1,076,175</u>	<u>837,305</u>
Net Assets		
Unrestricted	29,552,965	31,325,869
Temporarily restricted	1,621,269	2,097,167
Permanently restricted	<u>906,222</u>	<u>1,006,958</u>
Total net assets	<u>32,080,456</u>	<u>34,429,994</u>
Total Liabilities and Net Assets	<u>\$ 33,156,631</u>	<u>\$ 35,267,299</u>

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenue and Support				
Program revenue:				
Group Home	\$ 1,334,418	\$ -	\$ -	\$ 1,334,418
John G. Wood School	1,166,725	-	-	1,166,725
Clinical	173,496	-	-	173,496
Other program	102,962	-	-	102,962
Philanthropy	1,446,717	386,430	-	1,833,147
Rent income	321,888	-	-	321,888
Net assets released from restrictions	<u>878,307</u>	<u>(842,956)</u>	<u>(35,351)</u>	<u>-</u>
Total revenue and support	<u>5,424,513</u>	<u>(456,526)</u>	<u>(35,351)</u>	<u>4,932,636</u>
Expenses				
Program services	4,924,224	-	-	4,924,224
Management and general	629,149	-	-	629,149
Fundraising	<u>339,639</u>	<u>-</u>	<u>-</u>	<u>339,639</u>
Total expenses	<u>5,893,012</u>	<u>-</u>	<u>-</u>	<u>5,893,012</u>
Change in net assets before other income (expense)	<u>(468,499)</u>	<u>(456,526)</u>	<u>(35,351)</u>	<u>(960,376)</u>
Other Income (Expense)				
Investment income	498,060	17,493	-	515,553
Management fees	(59,866)	-	-	(59,866)
Realized gain on investments	2,519,062	-	-	2,519,062
Unrealized loss on investments	(3,874,611)	-	-	(3,874,611)
Gain on disposal of assets	2,430	-	-	2,430
Depreciation	(383,723)	-	-	(383,723)
Bad debt	(5,757)	-	-	(5,757)
Change in beneficial interest in trusts	<u>-</u>	<u>(36,865)</u>	<u>(65,385)</u>	<u>(102,250)</u>
Total other income (expense)	<u>(1,304,405)</u>	<u>(19,372)</u>	<u>(65,385)</u>	<u>(1,389,162)</u>
Change in net assets	(1,772,904)	(475,898)	(100,736)	(2,349,538)
Net Assets, beginning of year	<u>31,325,869</u>	<u>2,097,167</u>	<u>1,006,958</u>	<u>34,429,994</u>
Net Assets, end of year	<u>\$ 29,552,965</u>	<u>\$ 1,621,269</u>	<u>\$ 906,222</u>	<u>\$ 32,080,456</u>

See accompanying notes to consolidated financial statements.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Revenue and Support				
Program revenue:				
Group Home	\$ 1,226,718	\$ -	\$ -	\$ 1,226,718
John G. Wood School	1,151,935	-	-	1,151,935
Clinical	140,192	-	-	140,192
Other program	134,783	-	-	134,783
Philanthropy	863,378	609,276	-	1,472,654
Rent income	221,711	-	-	221,711
Net assets released from restrictions	545,506	(501,048)	(44,458)	-
Total revenue and support	<u>4,284,223</u>	<u>108,228</u>	<u>(44,458)</u>	<u>4,347,993</u>
Expenses				
Program services	4,350,024	-	-	4,350,024
Management and general	649,152	-	-	649,152
Fundraising	314,205	-	-	314,205
Total expenses	<u>5,313,381</u>	<u>-</u>	<u>-</u>	<u>5,313,381</u>
Change in net assets before other income (expense)	<u>(1,029,158)</u>	<u>108,228</u>	<u>(44,458)</u>	<u>(965,388)</u>
Other Income (Expense)				
Investment income	581,826	16,645	-	598,471
Management fees	(154,041)	-	-	(154,041)
Realized gain on investments	2,616,483	-	-	2,616,483
Unrealized loss on investments	(936,697)	-	-	(936,697)
Loss on disposal of assets	(14,789)	-	-	(14,789)
Depreciation	(396,144)	-	-	(396,144)
Other expenses	(275)	-	-	(275)
Change in beneficial interest in trusts	-	46,276	55,950	102,226
Total other income (expense)	<u>1,696,363</u>	<u>62,921</u>	<u>55,950</u>	<u>1,815,234</u>
Change in net assets	667,205	171,149	11,492	849,846
Net Assets, beginning of year	<u>30,658,664</u>	<u>1,926,018</u>	<u>995,466</u>	<u>33,580,148</u>
Net Assets, end of year	<u>\$ 31,325,869</u>	<u>\$ 2,097,167</u>	<u>\$ 1,006,958</u>	<u>\$ 34,429,994</u>

See accompanying notes to consolidated financial statements.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (2,349,538)	\$ 849,846
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities		
Depreciation	383,723	396,144
In-kind contribution of investments	(101,245)	(75,292)
Accrued interest added to note receivable	(17,493)	(16,645)
Change in value of trusts and annuities	102,249	(102,226)
(Gain) loss on disposal of assets	(2,430)	14,789
Realized gain on investments	(2,519,062)	(2,616,483)
Unrealized loss on investments	3,874,611	936,697
 (Increase) decrease in operating assets		
Accounts receivable	(215,392)	70,985
Pledges receivable	(1,513)	2,803
Accrued investment income	(6,359)	18,817
Prepaid expenses	(16,866)	15,248
 Increase (decrease) in operating liabilities		
Accounts payable	(34,442)	(73,719)
Accrued expenses	50,015	(95,958)
Deferred revenue	3,140	1,860
	<u>(850,602)</u>	<u>(673,134)</u>
 Net cash and cash equivalents used by operating activities		
 Cash Flows from Investing Activities		
Purchase of investments	(36,425,649)	(16,926,045)
Proceeds from sale of investments	35,352,367	18,036,702
Payments from beneficial interest in trusts	343,460	192,330
Receipt of interest to beneficial interest in trusts	-	(201,752)
Proceeds from sale of property and equipment	2,430	4,202
Purchase of property and equipment	(164,742)	(144,825)
	<u>(892,134)</u>	<u>960,612</u>
 Net cash and cash equivalents provided (used) by investing activities		

- Continued -

See accompanying notes to consolidated financial statements.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Financing Activities		
Proceeds from line of credit	160,000	200,000
Proceeds from note payable	71,333	-
Principal payments on note payable	<u>(11,176)</u>	<u>-</u>
Net cash and cash equivalents provided by financing activities	<u>220,157</u>	<u>200,000</u>
Net increase (decrease) in cash and cash equivalents	(1,522,579)	487,478
Cash and Cash Equivalents, beginning of year	<u>2,419,945</u>	<u>1,932,467</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 897,366</u></u>	<u><u>\$ 2,419,945</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 11,105	\$ 5,464

See accompanying notes to consolidated financial statements.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015 and 2014

1. Nature and Mission of the Organization

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

VHBG provides comprehensive child and family services to the community, including residential Teaching Family homes, a residential family assessment and stabilization home, alternative educational programs, clinical and counseling services, and community based services for at-risk children and families. Through its programs, VHBG serves children from birth to 21 years of age and their families.

The six Teaching Family homes, licensed by the Department of Social Services, are the heart of VHBG's campus services, and offer family-style living for boys and girls ages 11-17 using the highly successful Teaching Family Model, emphasizing the development of positive social and independent living skills and healthy family relationships to support lifelong success. Additionally, VHBG operates a Department of Behavioral Health-licensed group home in a satellite location. This program, known as the Family Assessment and Stabilization Track program ("FAST"), provides a short-term 90-day youth and family assessment program designed to help children and families stay connected and in the community, preventing foster care or long-term out-of-home placement. VHBG also operates the John G. Wood School, an accredited alternative day school which serves boys and girls, grades K-12, including residents of VHBG and students from the surrounding greater Richmond community. The John G. Wood School offers the Vocational Education Partnership Program, which complements its traditional educational programs with Career and Technical Education (CTE) curricula, helping young adults develop skills to achieve and maintain employment. VHBG's Therapeutic Resources services include intensive-in-home and home-based counseling, mentoring, and individual, family, and group outpatient therapy to help families address problems within their own homes rather than through placement outside the home. VHBG is a leader in providing a comprehensive system of care for serving the needs of youth and families through its innovative Intensive Care Coordination program, which delivers services and support to families and children to ensure family success.

VHBG is primarily supported through placement fees, donor contributions, grants, and endowments.

2. Significant Accounting Policies

Method of Accounting: The consolidated financial statements of VHBG have been prepared on the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of VHBG and its subsidiary, the Virginia Home for Boys and Girls Foundation, in accordance with Statement of Position (SOP) No. 94-3, "Reporting of Relating Entities by Not-for-Profit Organizations." All significant intercompany transactions and balances have been eliminated in consolidation.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

2. Significant Accounting Policies - Continued

Basis of Presentation: VHBG adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, "Presentation of Financial Statements." Accordingly, VHBG is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classes are summarized as follows:

- Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of VHBG and/or the passage of time. When a restriction expires or is satisfied by actions of VHBG, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. When the restriction is met in the same period the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.
- Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by VHBG to use all or part of the income earned from any related investments for general or specific purposes. At September 30, 2015, permanently restricted net assets consist of VHBG's beneficial interest in perpetual trusts.

Cash and Cash Equivalents: VHBG considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Cash designated for investment purposes is reported with investments.

Concentration of Credit Risk: Financial instruments that potentially subject VHBG to concentration of credit risk consist of interest-bearing transaction accounts. VHBG places its interest-bearing transaction accounts with high credit quality financial institutions. At times, VHBG maintains balances in these accounts in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). There were no amounts in excess of insured limits at September 30, 2015.

Investments: Investments in securities are carried at fair value. The fair value of limited partnerships is determined in good faith by external investment managers or other independent sources and reviewed by management. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty and, therefore, value realized upon disposition may vary significantly from currently reported values.

Unrealized gains and losses are included in the change in net assets. Gains and losses on sales of securities are calculated using the specific-identification method and recorded on the trade date.

Investments, including real property held for investment, received by gift are recorded at fair value on the earlier of the date received or pledged.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

2. Significant Accounting Policies - Continued

Investment securities are exposed to several risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and such changes could materially affect the amounts reported in VHBG's consolidated financial statements.

Allowance for Doubtful Accounts: VHBG extends unsecured credit in the ordinary course of its activities related to public and private placements. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collections. Receivables are charged against the allowance when deemed to be uncollectible. The allowance was \$5,000 at September 30, 2015 and 2014.

Pledges Receivable: VHBG expects all pledges receivable to be collectible within one year.

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

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

Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. Betterments and renewals are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the consolidated statement of activities.

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

Income Taxes: VHBG is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. VHBG has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2015. Fiscal years ending on or after September 30, 2012 remain subject to examination by federal and state taxing authorities.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

2. Significant Accounting Policies - Continued

Donated Assets and Services: VHBG receives a significant amount of donated services from unpaid volunteers who assist in program services, fundraising, and special projects. Donated services are not recognized as contributions in VHBG's consolidated financial statements since the recognition criteria under accounting standards were not met.

Advertising Costs: VHBG expenses advertising costs as they are incurred. Advertising expense was \$82,085 and \$62,083 for 2015 and 2014, respectively.

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

Reclassification: Certain prior-year amounts have been reclassified to conform to current-year presentation.

Subsequent Events: Management has evaluated subsequent events through January 20, 2016, which is the date the consolidated financial statements were available to be issued.

3. Note Receivable

In 2004, in connection with a capital campaign, VHBG received as a contribution a note receivable. The note receivable has a face value of \$250,000 with an interest rate of 4.36%. The unpaid balance of the note and all accrued interest thereon is due and payable in full on the earlier of August 30, 2023, or twelve months after the death of the donor and his wife. At September 30, 2015 and 2014, the balance of the note receivable and accrued interest was \$418,720 and \$401,227, respectively.

4. Investments

Investments as of September 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Common stocks	\$ -	\$ 11,129,887
Mutual funds	15,559,821	8,480,493
Hedge funds	4,452,997	425,993
Fixed income securities	1,198,001	2,463,343
Hard assets	350,006	-
Real estate and infrastructure	757,869	-
	<u>\$ 22,318,694</u>	<u>\$ 22,499,716</u>

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

4. Investments - Continued

Classification of investment assets is based on investment manager statements. As a result of the change in investment managers during the year ended September 30, 2015, the classification has changed from 2014 to 2015, but the nature of the investment portfolio has not changed significantly.

5. Fair Value Measurements

Accounting standards established a framework for measuring fair value; that framework provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that VHBG has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2015.

Common stocks: Values at the closing price reported on the active market on which the stocks are traded.

Mutual funds: Valued at the closing price reported on the active market on which the mutual funds are traded.

Hedge funds: Valued at the closing price reported on the active market on which the hedge funds are traded.

Fixed income securities: Valued at the closing price reported in the financial market in which the fixed income securities are traded, which involves standard pricing and valuation models.

Hard asset investments: Valued at the closing price reported on the active market on which the hard asset investments are traded.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

5. Fair Value Measurements - Continued

Real estate and infrastructure investments: Valued at the closing price reported on the active market on which the real estate and infrastructure investments are traded.

Beneficial interest in trusts: Valued using the fair value of the underlying assets of the trust as an estimate for the present value of the expected future cash flows.

The following tables set forth by level, within the fair value hierarchy, VHBG's assets at fair value as of September 30, 2015 and 2014:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
September 30, 2015			
Mutual funds	\$ 15,559,821	\$ -	\$ -
Hedge funds	-	4,452,997	-
Fixed income securities	-	1,198,001	-
Hard assets	-	350,006	-
Real estate and infrastructure	-	757,869	-
Beneficial interest in trusts	-	-	1,854,352
	<u>\$ 15,559,821</u>	<u>\$ 6,758,873</u>	<u>\$ 1,854,352</u>
 September 30, 2014			
Common stocks	\$ 11,129,887	\$ -	\$ -
Mutual funds	8,480,493	-	-
Hedge funds	-	425,993	-
Fixed income securities	-	2,463,343	-
Beneficial interest in trusts	-	-	2,300,061
	<u>\$ 19,610,380</u>	<u>\$ 2,889,336</u>	<u>\$ 2,300,061</u>

The table below sets forth a summary of changes in the fair value of VHBG's level 3 investment assets:

	<u>2015</u>	<u>2014</u>
Limited Partnerships		
Beginning balance	\$ -	\$ 5,404
Unrealized losses	-	-
Sale of investment	-	(5,404)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

5. Fair Value Measurements - Continued

	<u>2015</u>	<u>2014</u>
Beneficial Interest in Perpetual Trusts		
Beginning balance	\$ 2,300,061	\$ 2,188,413
Payments received from trusts	(343,460)	(192,330)
Receipt of interest	-	201,752
Adjustments to fair value	<u>(102,249)</u>	<u>102,226</u>
Ending balance	<u>\$ 1,854,352</u>	<u>\$ 2,300,061</u>

6. Beneficial Interest in Trusts

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

VHBG is the beneficiary of three charitable remainder trusts, two charitable lead trusts, and four perpetual trusts. VHBG's beneficial interest in these trusts as of September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Charitable remainder trusts	\$ 128,398	\$ 377,708
Charitable lead trusts	819,732	915,395
Perpetual trusts	<u>906,222</u>	<u>1,006,958</u>
	<u>\$ 1,854,352</u>	<u>\$ 2,300,061</u>

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

	<u>2015</u>	<u>2014</u>
Charitable remainder trusts	2.35% - 2.88%	2.22% - 3.14%
Charitable lead trusts	1.75% - 2.53%	2.22% - 3.03%

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

7. Line of Credit

VHBG has a revolving working capital line of credit with a bank not to exceed \$1,000,000. Interest accrues at a rate of London Interbank Offered Rate (LIBOR) plus 1.50% (1.69% at September 30, 2015). Interest only is due monthly. All principal and accrued interest is due and payable on January 28, 2016. The line of credit is secured by cash and cash equivalents and investment accounts held with the bank. At September 30, 2015, the outstanding balance on the line of credit was \$660,000. The line of credit includes a restrictive loan covenant of a Line Rest Requirement, which requires the line of credit to have a zero balance for thirty consecutive days. This restrictive covenant was not met during the year ended September 30, 2015.

8. Note Payable

Notes payable consist of the following as of September 30:

	<u>2015</u>	<u>2014</u>
Note payable, bank, due \$1,601 monthly including interest at 3.65%, secured by two vehicles. Matures February 2019.	\$ 60,157	\$ -
Current portion	<u>(17,252)</u>	<u>-</u>
Long-term portion of notes payable	<u>\$ 42,905</u>	<u>\$ -</u>

Maturities of notes payable for the succeeding five years are as follows:

<u>Year ending September 30</u>	
2016	\$ 17,252
2017	\$ 17,892
2018	\$ 18,556
2019	\$ 6,457
2020	\$ -

9. Retirement Plan

VHBG sponsors a 403(b) retirement savings plan (the "Plan") for its employees. The Plan is an individual account plan which allows employees to make voluntary contributions on a pretax basis. If an employee makes such a contribution, the Plan provides for VHGB to make a matching contribution to the participant's account in the amount of 50% of the first 4% of eligible pay contributed by the participant. Additionally, VHGB may elect to contribute up to 6% of eligible pay to each participant's account. VHGB's contribution to the Plan for 2015 and 2014 was \$39,149 and \$36,563, respectively.

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

10. Restricted Net Assets

The net assets of VHBG are restricted as follows at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Temporarily restricted		
Beneficial interest in trusts	\$ 948,130	\$ 1,293,103
Higher education scholarships	21,822	21,822
Betsy Wade Chinnis scholarship	20,030	20,030
Glock-Goodwin Extended Education scholarships	14,451	14,451
Alger Higher Education scholarships	38,913	38,913
Independent Living Program home purchase	25,000	25,000
Independent Living Program	38,659	43,859
Capital Campaign	490,853	510,606
IT infrastructure	2,541	37,883
JGW Science Lab	3,000	-
JGW Textbooks	1,848	-
JGW Scholarship	15,000	-
DC Field Trip	1,022	-
VEPP Program	-	91,500
	<u>\$ 1,621,269</u>	<u>\$ 2,097,167</u>
Permanently restricted		
Beneficial interest in perpetual trusts	<u>\$ 906,222</u>	<u>\$ 1,006,958</u>

11. Rent Income

VHBG leases a 1.289 acre tract of land to Asbury Automotive North Carolina Real Estate Holdings LLC, located on W. Broad Street, for use as a surface parking lot. In March 2014, VHBG entered into a new lease agreement to lease several additional tracts of improved and unimproved land totaling 7.695 acres to Asbury Automotive North Carolina Real Estate Holdings LLC, under a 10-year agreement expiring in April of 2024. The lease includes a renewal option to extend the term of the lease for four additional periods of five years each after the expiration of the initial term. Rent is adjusted 3% annually. Rent income for 2015 and 2014 was \$288,260 and \$185,671, respectively.

VHBG also leases dining hall space to Boss-Chi Catering and Concession, Inc. under a 22-month lease. Rent income for 2015 and 2014 was \$12,000 and \$11,900, respectively.

Future minimum rental income is as follows:

For the year ending September 30,	
2016	\$ 296,908
2017	\$ 305,815
2018	\$ 314,990
2019	\$ 324,439
2020	\$ 334,172

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

12. Operating Leases

VHBG leases office equipment under operating leases with terms expiring in February 2017, June 2017, and June 2019. Lease expense was \$25,024 and \$25,281 for 2015 and 2014, respectively. Future minimum lease payments are as follows:

For the year ending September 30,

2016	\$	23,417
2017	\$	18,071
2018	\$	12,965
2019	\$	8,797
2020	\$	153

13. Subsequent Event

VHBG established a \$1,000,000 line of credit from a financial institution in January 2016, to replace the line of credit referenced in Note 7. The line of credit is unsecured, but requires VHBG to pledge not to encumber its real estate assets in excess of \$10,000,000. Interest is to be paid monthly at LIBOR plus 1.75%. Principal is due January 2017.

VHBG purchased four vehicles in January 2016, financed by an \$84,638 note payable to a financial institution. The note has monthly payments of \$1,411 and matures January 2021.

SUPPLEMENTARY INFORMATION

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended September 30, 2015

	Program Services			
	Teaching Family Homes	J.G. Wood School	Therapeutic Resources	Intensive Care Coordination
Personnel expenses				
Salaries	\$ 1,082,604	\$ 925,254	\$ 294,998	\$ 124,377
Payroll taxes	98,028	80,932	23,360	10,140
Benefits	123,923	74,657	43,535	15,920
Miscellaneous	53	2,459	140	125
Hiring and recruiting	-	-	-	-
Total personnel expenses	<u>1,304,608</u>	<u>1,083,302</u>	<u>362,033</u>	<u>150,562</u>
Direct program expenses	<u>118,918</u>	<u>106,584</u>	<u>19,950</u>	<u>81</u>
Philanthropy expense	-	-	-	-
Operating expenses				
Utilities	58,948	83,763	4,528	6,684
Building and grounds	27,993	36,676	1,844	1,042
Office	7,479	10,203	1,579	1,980
Computer expenses	25,233	23,194	5,467	1,563
Vehicle	27,102	749	1,600	561
Insurance	35,605	44,867	7,631	3,688
Advertising	-	-	-	-
Travel	4,898	3,421	12,177	1,325
Other administration expense	1,946	-	-	-
Other expenses	-	-	-	-
Total operating expenses	<u>189,204</u>	<u>202,873</u>	<u>34,826</u>	<u>16,843</u>
Total expenses	<u>\$ 1,612,730</u>	<u>\$ 1,392,759</u>	<u>\$ 416,809</u>	<u>\$ 167,486</u>

Supporting Services

<u>Other</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
\$ 771,693	\$ 3,198,926	\$ 453,561	\$ 142,532	\$ 596,093	\$ 3,795,019
62,804	275,264	33,071	12,838	45,909	321,173
65,817	323,852	36,185	6,886	43,071	366,923
11,894	14,671	970	1,486	2,456	17,127
<u>47,508</u>	<u>47,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,508</u>
<u>959,716</u>	<u>3,860,221</u>	<u>523,787</u>	<u>163,742</u>	<u>687,529</u>	<u>4,547,750</u>
<u>29,388</u>	<u>274,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,921</u>
<u>-</u>	<u>-</u>	<u>70</u>	<u>119,370</u>	<u>119,440</u>	<u>119,440</u>
42,401	196,324	5,366	2,642	8,008	204,332
67,404	134,959	133	20	153	135,112
13,760	35,001	7,852	4,297	12,149	47,150
60,255	115,712	14,376	3,396	17,772	133,484
4,705	34,717	-	-	-	34,717
28,740	120,531	8,727	3,030	11,757	132,288
82,085	82,085	-	-	-	82,085
23,556	45,377	4,617	1,236	5,853	51,230
22,430	24,376	53,116	41,906	95,022	119,398
<u>-</u>	<u>-</u>	<u>11,105</u>	<u>-</u>	<u>11,105</u>	<u>11,105</u>
<u>345,336</u>	<u>789,082</u>	<u>105,292</u>	<u>56,527</u>	<u>161,819</u>	<u>950,901</u>
<u>\$ 1,334,440</u>	<u>\$ 4,924,224</u>	<u>\$ 629,149</u>	<u>\$ 339,639</u>	<u>\$ 968,788</u>	<u>\$ 5,893,012</u>

**VIRGINIA HOME FOR BOYS AND
GIRLS AND SUBSIDIARY**

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended September 30, 2014

	Program Services			
	Teaching Family Homes	J.G. Wood School	Therapeutic Resources	Intensive Care Coordination
Personnel expenses				
Salaries	\$ 914,005	\$ 858,844	\$ 293,330	\$ 117,495
Payroll taxes	86,483	75,918	24,050	10,402
Benefits	110,486	77,592	38,530	13,305
Miscellaneous	757	(28)	177	-
Hiring and recruiting	-	-	-	-
Total personnel expenses	<u>1,111,731</u>	<u>1,012,326</u>	<u>356,087</u>	<u>141,202</u>
Direct program expenses	<u>122,894</u>	<u>101,290</u>	<u>23,093</u>	<u>22</u>
Philanthropy expense	-	-	-	-
Operating expenses				
Utilities	62,696	80,712	4,640	6,733
Building and grounds	24,173	24,850	1,939	455
Office	8,414	10,495	2,293	2,100
Computer expenses	17,636	19,950	3,400	1,929
Vehicle	29,837	5,033	2,286	1,218
Insurance	32,626	31,173	6,122	2,962
Advertising	-	1,500	-	-
Travel	3,617	2,900	7,178	4,769
Other administration expense	5,378	1,441	24,316	-
Other expenses	-	-	-	-
Total operating expenses	<u>184,377</u>	<u>178,054</u>	<u>52,174</u>	<u>20,166</u>
Total expenses	<u>\$ 1,419,002</u>	<u>\$ 1,291,670</u>	<u>\$ 431,354</u>	<u>\$ 161,390</u>

Supporting Services

<u>Other</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
\$ 591,663	\$ 2,775,337	\$ 460,407	\$ 166,292	\$ 626,699	\$ 3,402,036
50,418	247,271	35,066	14,950	50,016	297,287
6,316	246,229	29,409	4,075	33,484	279,713
16,840	17,746	777	529	1,306	19,052
<u>39,111</u>	<u>39,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,111</u>
<u>704,348</u>	<u>3,325,694</u>	<u>525,659</u>	<u>185,846</u>	<u>711,505</u>	<u>4,037,199</u>
<u>22,166</u>	<u>269,465</u>	<u>105</u>	<u>-</u>	<u>105</u>	<u>269,570</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>108,869</u>	<u>108,869</u>	<u>108,869</u>
39,834	194,615	7,053	3,497	10,550	205,165
70,068	121,485	522	225	747	122,232
9,840	33,142	18,064	3,554	21,618	54,760
64,142	107,057	11,552	4,687	16,239	123,296
7,772	46,146	135	-	135	46,281
21,145	94,028	8,143	3,863	12,006	106,034
60,283	61,783	-	300	300	62,083
27,679	46,143	4,540	2,201	6,741	52,884
19,331	50,466	63,623	1,163	64,786	115,252
<u>-</u>	<u>-</u>	<u>9,756</u>	<u>-</u>	<u>9,756</u>	<u>9,756</u>
<u>320,094</u>	<u>754,865</u>	<u>123,388</u>	<u>19,490</u>	<u>142,878</u>	<u>897,743</u>
<u>\$ 1,046,608</u>	<u>\$ 4,350,024</u>	<u>\$ 649,152</u>	<u>\$ 314,205</u>	<u>\$ 963,357</u>	<u>\$ 5,313,381</u>