

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

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**September 30, 2016 and 2015**

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## 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, 2016 and 2015, 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 Consolidated 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 auditor's 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.

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## **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, 2016 and 2015, and the results of their operations and their 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 on pages 20 - 23 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 25, 2017

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**September 30, 2016 and 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 948,172	\$ 897,366
Investments, at fair value	22,198,395	22,318,694
Accounts receivable		
Public and private placements, net of allowance of \$5,000 for 2016 and 2015	394,035	589,428
Other accounts receivable	13,331	12,004
Pledges receivable, net of discount	213,000	35,005
Accrued investment income	18,592	27,196
Prepaid expenses	<u>54,850</u>	<u>55,975</u>
 <b>Total current assets</b>	 <u><b>23,840,375</b></u>	 <u><b>23,935,668</b></u>
 <b>Property and Equipment</b>		
Buildings and improvements	10,082,315	9,947,603
Land	1,315,201	1,315,201
Land improvements	947,567	918,798
Furniture and equipment	514,042	612,883
Computer equipment and software	364,096	426,852
Vehicles	<u>359,502</u>	<u>329,138</u>
	13,582,723	13,550,475
Accumulated depreciation	<u>(6,743,036)</u>	<u>(6,602,584)</u>
 <b>Net property and equipment</b>	 <u><b>6,839,687</b></u>	 <u><b>6,947,891</b></u>
 <b>Other Assets</b>		
Beneficial interest in trusts	1,741,925	1,854,352
Pledges receivable, net of discount	147,000	-
Note receivable	<u>436,976</u>	<u>418,720</u>
 <b>Total other assets</b>	 <u><b>2,325,901</b></u>	 <u><b>2,273,072</b></u>
 <b>Total Assets</b>	 <u><b>\$ 33,005,963</b></u>	 <u><b>\$ 33,156,631</b></u>

See accompanying notes to consolidated financial statements.

## LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Line of credit	\$ 705,000	\$ 660,000
Current portion of long-term debt	49,178	17,252
Accounts payable	244,905	121,191
Accrued expenses	101,975	229,827
Deferred revenue	<u>650</u>	<u>5,000</u>
<b>Total current liabilities</b>	<b>1,101,708</b>	<b>1,033,270</b>
<b>Long-Term Liabilities</b>		
Long-term debt	<u>133,265</u>	<u>42,905</u>
<b>Total liabilities</b>	<b><u>1,234,973</u></b>	<b><u>1,076,175</u></b>
<b>Net Assets</b>		
Unrestricted	29,238,444	29,552,965
Temporarily restricted	1,593,057	1,621,269
Permanently restricted	<u>939,489</u>	<u>906,222</u>
<b>Total net assets</b>	<b><u>31,770,990</u></b>	<b><u>32,080,456</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 33,005,963</u></u></b>	<b><u><u>\$ 33,156,631</u></u></b>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES**

For the year ended September 30, 2016

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

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, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
<b>Revenue and Support</b>				
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	878,307	(842,956)	(35,351)	-
<b>Total revenue and support</b>	<u>5,424,513</u>	<u>(456,526)</u>	<u>(35,351)</u>	<u>4,932,636</u>
<b>Expenses</b>				
Program services	4,924,224	-	-	4,924,224
Management and general	629,149	-	-	629,149
Fundraising	339,639	-	-	339,639
<b>Total expenses</b>	<u>5,893,012</u>	<u>-</u>	<u>-</u>	<u>5,893,012</u>
<b>Change in net assets before other income (expense)</b>	<u>(468,499)</u>	<u>(456,526)</u>	<u>(35,351)</u>	<u>(960,376)</u>
<b>Other Income (Expense)</b>				
Investment income	498,060	17,493	-	515,553
Investment 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	-	(36,865)	(65,385)	(102,250)
<b>Total other income (expense)</b>	<u>(1,304,405)</u>	<u>(19,372)</u>	<u>(65,385)</u>	<u>(1,389,162)</u>
<b>Change in net assets</b>	(1,772,904)	(475,898)	(100,736)	(2,349,538)
<b>Net Assets, beginning of year</b>	<u>31,325,869</u>	<u>2,097,167</u>	<u>1,006,958</u>	<u>34,429,994</u>
<b>Net Assets, end of year</b>	<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 STATEMENTS OF CASH FLOWS**

**For the years ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (309,466)	\$ (2,349,538)
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities		
Depreciation	408,961	383,723
In-kind contribution of investments	(168,637)	(101,245)
Discount on pledges receivable	12,000	-
Accrued interest added to note receivable	(18,256)	(17,493)
Change in value of trusts and annuities	(152,966)	102,249
Gain on disposal of assets	(7,342)	(2,430)
Realized loss (gain) on investments	692,263	(2,519,062)
Unrealized loss (gain) on investments	(1,464,537)	3,874,611
 (Increase) decrease in operating assets		
Accounts receivable	194,066	(215,392)
Pledges receivable	(336,995)	(1,513)
Accrued investment income	8,604	(6,359)
Prepaid expenses	1,125	(16,866)
 Increase (decrease) in operating liabilities		
Accounts payable	123,714	(34,442)
Accrued expenses	(127,852)	50,015
Deferred revenue	(4,350)	3,140
	<u>(1,149,668)</u>	<u>(850,602)</u>
 <b>Net cash and cash equivalents used by operating activities</b>		
 <b>Cash Flows from Investing Activities</b>		
Purchase of investments	(9,545,539)	(36,425,649)
Proceeds from sale of investments	10,606,749	35,352,367
Payments from beneficial interest in trusts	265,393	343,460
Proceeds from sale of property and equipment	9,900	2,430
Purchase of property and equipment	(303,315)	(164,742)
	<u>1,033,188</u>	<u>(892,134)</u>
 <b>Net cash and cash equivalents provided (used) by investing activities</b>		

- 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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	45,000	160,000
Proceeds from note payable	160,108	71,333
Principal payments on note payable	<u>(37,822)</u>	<u>(11,176)</u>
<b>Net cash and cash equivalents provided by     financing activities</b>	<u>167,286</u>	<u>220,157</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>50,806</b>	<b>(1,522,579)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>897,366</u>	<u>2,419,945</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 948,172</u>	<u>\$ 897,366</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 17,693	\$ 11,105

See accompanying notes to consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2016 and 2015**

**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.

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, 2016 and 2015**

**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, 2016, 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, 2016.

*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 received by gift, including real property held for investment, 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, 2016 and 2015**

**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, 2016 and 2015.

*Pledges Receivable:* Pledges receivable are recorded at net realizable value if expected to be collected within one year and at present value of their estimated future cash flows if expected to be collected in more than one year. The discounts on amounts to be collected in more than one year are computed using VHBG's incremental borrowing rate.

*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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**2. Significant Accounting Policies - Continued**

*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, 2016. Fiscal years ending on or after September 30, 2013 remain subject to examination by federal and state taxing authorities.

*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 \$81,288 and \$82,085 for 2016 and 2015, 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 25, 2017, which is the date the consolidated financial statements were available to be issued.

**3. Pledges Receivable**

Pledges receivable at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 213,000	\$ 35,005
Due in one to five years	159,000	-
Discount on pledges receivable	<u>(12,000)</u>	<u>-</u>
	<u>\$ 360,000</u>	<u>\$ 35,005</u>

The noncurrent pledges receivable are shown net of a discount of \$12,000 at September 30, 2016. The discounts were determined using an interest rate of 5%.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**4. 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, 2016 and 2015, the balance of the note receivable and accrued interest was \$436,976 and \$418,720, respectively.

**5. Investments**

Investments as of September 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 14,237,517	\$ 15,559,821
Hedge funds	3,323,563	4,452,997
Fixed income securities	3,188,542	1,198,001
Hard assets	331,941	350,006
Real estate and infrastructure	<u>1,116,832</u>	<u>757,869</u>
	<u>\$ 22,198,395</u>	<u>\$ 22,318,694</u>

**6. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**6. Fair Value Measurements - Continued**

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, 2016 from those used at September 30, 2015.

*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.

*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, 2016 and 2015:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<b>October 31, 2016</b>			
Mutual funds	\$ 14,237,517	\$ -	\$ -
Hedge funds	-	3,323,563	-
Fixed income securities	-	3,188,542	-
Hard assets	-	331,941	-
Real estate and infrastructure	-	1,116,832	-
Beneficial interest in trusts	-	-	1,741,925
	<u>\$ 14,237,517</u>	<u>\$ 7,960,878</u>	<u>\$ 1,741,925</u>



**VIRGINIA HOME FOR BOYS AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**6. Fair Value Measurements - Continued**

	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>

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

	<u>2016</u>	<u>2015</u>
<b>Beneficial Interest in Perpetual Trusts</b>		
Beginning balance	\$ 1,854,352	\$ 2,300,061
Payments received from trusts	(265,393)	(343,460)
Receipt of interest	-	-
Adjustments to fair value	<u>152,966</u>	<u>(102,249)</u>
<b>Ending balance</b>	<u>\$ 1,741,925</u>	<u>\$ 1,854,352</u>

**7. 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 interests in these trusts as of September 30, 2016 and 2015 are as follows:

**VIRGINIA HOME FOR BOYS AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**7. Beneficial Interest in Trusts - Continued**

	<u>2016</u>	<u>2015</u>
Charitable remainder trusts	\$ 91,704	\$ 128,398
Charitable lead trusts	710,732	819,732
Perpetual trusts	<u>939,489</u>	<u>906,222</u>
	<u>\$ 1,741,925</u>	<u>\$ 1,854,352</u>

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

	<u>2016</u>	<u>2015</u>
Charitable remainder trusts	1.74% - 2.33%	2.35% - 2.88%
Charitable lead trusts	1.27% - 2.03%	1.75% - 2.53%

**8. 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 1.75% (2.27% at September 30, 2016). Interest only is due monthly. All principal and accrued interest is due and payable on January 24, 2017. The line of credit is secured by cash and cash equivalents held with the bank. At September 30, 2016 and 2015, the outstanding balance on the line of credit was \$705,000 and \$660,000, respectively.

**9. Notes Payable**

Notes payable consist of the following as of September 30:

	<u>2016</u>	<u>2015</u>
Note payable, bank, due \$1,601 monthly including interest at 3.65%, secured by two vehicles. Matures February 2019.	\$ 42,884	\$ 60,157
Notes payable, bank, due \$1,382 monthly including interest at 3.75%, secured by two vehicles. Matures January 2021.	66,206	-

**VIRGINIA HOME FOR BOYS AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**9. Notes Payable - Continued**

	<u>2016</u>	<u>2015</u>
Notes payables, financing company, due \$1,412 monthly including interest at 0%, secured by four vehicles. Matures February 2019.	<u>73,353</u>	<u>-</u>
Total notes payable	<b>182,443</b>	60,157
Current portion	<u>(49,178)</u>	<u>(17,252)</u>
<b>Long-term portion of notes payable</b>	<b><u>\$ 133,265</u></b>	<b><u>\$ 42,905</u></b>

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

<u>Year ending September 30</u>	
2017	\$ 49,178
2018	\$ 50,390
2019	\$ 38,838
2020	\$ 32,993
2021	\$ 11,044

**10. 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 2016 and 2015 was \$43,941 and \$39,149, respectively.

**11. Related Party**

VHGB employs professional services from a law firm where a member of the Foundation board is a partner. Transactions with this law firm are at arms-length terms similar to those with other (unrelated) vendors of VHGB.

**VIRGINIA HOME FOR BOYS AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**12. Restricted Net Assets**

The net assets of VHBG are restricted as follows at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Temporarily restricted</b>		
Beneficial interest in trusts	\$ 802,436	\$ 948,130
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	33,309	38,659
Capital Campaign	436,976	490,853
Comprehensive Campaign	200,000	-
IT infrastructure	-	2,541
JGW science lab	-	3,000
JGW textbooks	-	1,848
JGW scholarship	-	15,000
DC field trip	-	1,022
Other	120	-
	<u>\$ 1,593,057</u>	<u>\$ 1,621,269</u>
<b>Permanently restricted</b>		
Beneficial interest in perpetual trusts	<u>\$ 939,489</u>	<u>\$ 906,222</u>

**13. 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 the W. Broad Street lease for 2016 and 2015 was \$296,908 and \$288,260, respectively.

Future minimum rental income is as follows:

<b>For the year ending September 30,</b>	
2017	\$ 305,815
2018	\$ 314,990
2019	\$ 324,439
2020	\$ 334,172
2021	\$ 344,198

**VIRGINIA HOME FOR BOYS AND  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**September 30, 2016 and 2015**

**14. Operating Leases**

VHBG leases office equipment under operating leases with terms expiring in February 2017, June 2017, and June 2019. Lease expense was \$25,512 and \$25,024 for 2016 and 2015, respectively. Future minimum lease payments are as follows:

<b>For the year ending September 30,</b>		
2017	\$	18,071
2018	\$	12,965
2019	\$	8,797
2020	\$	153
2021	\$	-

## **SUPPLEMENTARY INFORMATION**

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

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES**

For the year ended September 30, 2016

	<b>Program Services</b>			
	Teaching Family Homes	J.G. Wood School	Therapeutic Resources	Intensive Care Coordination
Personnel expenses				
Salaries	\$ 1,463,097	\$ 982,116	\$ 271,161	\$ 38,112
Payroll taxes	129,108	85,877	20,774	3,038
Benefits	168,108	74,575	42,691	5,864
Miscellaneous	25	3,587	178	(5)
Hiring and recruiting	-	-	-	-
<b>Total personnel expenses</b>	<b><u>1,760,338</u></b>	<b><u>1,146,155</u></b>	<b><u>334,804</u></b>	<b><u>47,009</u></b>
Direct program expenses	<u>202,943</u>	<u>109,369</u>	<u>22,003</u>	-
Philanthropy expense	<u>181</u>	-	<u>30</u>	-
Special events	-	-	-	-
Operating expenses				
Utilities	60,827	65,316	4,500	4,190
Building and grounds	19,050	29,342	2,923	517
Office	10,908	10,928	2,330	1,373
Computer expenses	25,135	31,303	4,822	1,931
Vehicle	17,271	486	1,000	-
Insurance	62,364	58,292	10,733	2,238
Advertising	-	-	-	-
Travel	5,329	7,206	11,655	61
Other administration expense	6,728	238	2,383	-
Other expenses	-	-	-	-
<b>Total operating expenses</b>	<b><u>207,612</u></b>	<b><u>203,111</u></b>	<b><u>40,346</u></b>	<b><u>10,310</u></b>
<b>Total expenses</b>	<b><u>\$ 2,171,074</u></b>	<b><u>\$ 1,458,635</u></b>	<b><u>\$ 397,183</u></b>	<b><u>\$ 57,319</u></b>

		<b>Supporting Services</b>			
<u>Other</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
\$ 712,816	\$ 3,467,302	\$ 472,490	\$ 267,788	\$ 740,278	\$ 4,207,580
57,348	296,145	34,277	19,688	53,965	350,110
82,326	373,564	42,696	11,381	54,077	427,641
21,769	25,554	255	344	599	26,153
<u>40,757</u>	<u>40,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,757</u>
<u>915,016</u>	<u>4,203,322</u>	<u>549,718</u>	<u>299,201</u>	<u>848,919</u>	<u>5,052,241</u>
<u>23,589</u>	<u>357,904</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>357,904</u>
<u>-</u>	<u>211</u>	<u>-</u>	<u>79,538</u>	<u>79,538</u>	<u>79,749</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>80,764</u>	<u>80,764</u>	<u>80,764</u>
43,517	178,350	5,737	3,663	9,400	187,750
82,545	134,377	1,290	108	1,398	135,775
13,594	39,133	6,482	4,853	11,335	50,468
68,031	131,222	13,857	2,068	15,925	147,147
4,225	22,982	40	-	40	23,022
37,095	170,722	15,051	7,584	22,635	193,357
81,219	81,219	69	-	69	81,288
26,188	50,439	5,242	1,862	7,104	57,543
120,867	130,216	60,551	103,063	163,614	293,830
<u>-</u>	<u>-</u>	<u>17,693</u>	<u>-</u>	<u>17,693</u>	<u>17,693</u>
<u>477,281</u>	<u>938,660</u>	<u>126,012</u>	<u>123,201</u>	<u>249,213</u>	<u>1,187,873</u>
<u>\$ 1,415,886</u>	<u>\$ 5,500,097</u>	<u>\$ 675,730</u>	<u>\$ 582,704</u>	<u>\$ 1,258,434</u>	<u>\$ 6,758,531</u>



**VIRGINIA HOME FOR BOYS AND  
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**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES**

**For the year ended September 30, 2015**

	<b>Program Services</b>			
	<u>Teaching Family Homes</u>	<u>J.G. Wood School</u>	<u>Therapeutic Resources</u>	<u>Intensive Care Coordination</u>
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	-	-	-	-
Special events	-	-	-	-
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>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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>