

**ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION**

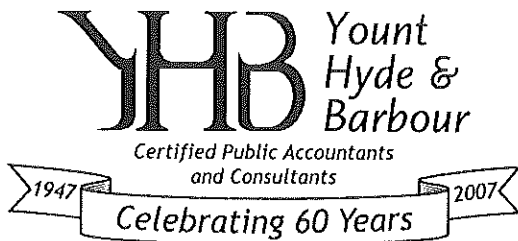
Goochland, Virginia

COMBINED FINANCIAL STATEMENTS

June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Elk Hill Farm, Inc. and Elk Hill Foundation
Goochland, Virginia

We have audited the accompanying combined statements of financial position of Elk Hill Farm, Inc. and Elk Hill Farm Foundation as of June 30, 2008 and 2007, and the related combined statements of activities, cash flows and functional expenses for the years then ended. These combined financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these combined 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Elk Hill Farm, Inc. and Elk Hill Farm Foundation as of June 30, 2008 and 2007, and the changes in its net assets, cash flows and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Glen Allen, Virginia
December 12, 2008

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Assets					
Current Assets					
Cash	\$ 360,827	\$ 98,456	\$ -	\$ 459,283	\$ 544,032
Accounts receivable	508,005	-	-	508,005	473,570
Pledges receivable	378	32,667	-	33,045	634
Employee and other receivables	11,850	-	-	11,850	12,819
Prepaid expenses	15,000	-	-	15,000	14,169
Total current assets	<u>896,060</u>	<u>131,123</u>	<u>-</u>	<u>1,027,183</u>	<u>1,045,224</u>
Property and Equipment, less accumulated depreciation	<u>4,661,890</u>	<u>-</u>	<u>-</u>	<u>4,661,890</u>	<u>4,631,907</u>
Other Assets					
Cash restricted to investment in property and equipment	-	148,098	-	148,098	99,455
Certificates of deposit	278,189	-	-	278,189	-
Long-term investments	2,381,678	35,767	640,571	3,058,016	3,690,882
Security deposit	1,700	-	-	1,700	1,700
Cash surrender value of life insurance policies	50,846	-	-	50,846	52,170
	<u>2,712,413</u>	<u>183,865</u>	<u>640,571</u>	<u>3,536,849</u>	<u>3,844,207</u>
Total assets	<u>\$ 8,270,363</u>	<u>\$ 314,988</u>	<u>\$ 640,571</u>	<u>\$ 9,225,922</u>	<u>\$ 9,521,338</u>
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 58,330	\$ -	\$ -	\$ 58,330	\$ 47,031
Flexible spending account payable	3,736	-	-	3,736	6,972
Residents savings payable	13,173	-	-	13,173	10,642
Residents clothing allowance payable	923	-	-	923	782
Accrued expenses	161,742	-	-	161,742	137,550
Gift annuity payable	-	-	-	-	613
Total current liabilities	<u>237,904</u>	<u>-</u>	<u>-</u>	<u>237,904</u>	<u>203,590</u>
Long-Term Liabilities					
Deferred compensation	50,846	-	-	50,846	36,089
Gift annuity payable	5,016	-	-	5,016	-
Total long-term liabilities	<u>55,862</u>	<u>-</u>	<u>-</u>	<u>55,862</u>	<u>36,089</u>
Net Assets:					
Unrestricted:					
Undesignated	6,055,324	-	-	6,055,324	6,817,198
Designated by board for scholarships	1,921,273	-	-	1,921,273	1,476,016
Temporarily restricted	-	314,988	-	314,988	350,859
Permanently restricted	-	-	640,571	640,571	637,586
	<u>7,976,597</u>	<u>314,988</u>	<u>640,571</u>	<u>8,932,156</u>	<u>9,281,659</u>
Total liabilities and net assets	<u>\$ 8,270,363</u>	<u>\$ 314,988</u>	<u>\$ 640,571</u>	<u>\$ 9,225,922</u>	<u>\$ 9,521,338</u>

See notes to financial statements.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION
COMBINED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Contributions	\$ 598,326	\$ 228,500	\$ 2,985	\$ 829,811	\$ 1,011,664
Tuition assistance and fees	4,708,698	-	-	4,708,698	3,835,590
Investment income	258,328	-	-	258,328	210,704
Net realized gain on marketable securities	96,702	-	-	96,702	1,178
Net unrealized (loss) gain on marketable securities	(688,142)	-	-	(688,142)	389,406
Change in value of split interest agreement	(5,515)	-	-	(5,515)	-
Other revenue	8,106	-	-	8,106	35,572
	<u>4,976,503</u>	<u>228,500</u>	<u>2,985</u>	<u>5,207,988</u>	<u>5,484,114</u>
Net assets released from restrictions:					
Satisfaction of restrictions for property and equipment	76,357	(76,357)	-	-	-
Satisfaction of program restrictions	188,014	(188,014)	-	-	-
Total support and revenue	<u>5,240,874</u>	<u>(35,871)</u>	<u>2,985</u>	<u>5,207,988</u>	<u>5,484,114</u>
Expenses:					
Program services:					
Residential services	2,043,206	-	-	2,043,206	1,951,532
Residential education	513,639	-	-	513,639	416,963
Day school	1,457,159	-	-	1,457,159	1,343,390
Aftercare & in-home services	98,994	-	-	98,994	129,939
Group home	1,127,439	-	-	1,127,439	780,355
Total program services	<u>5,240,437</u>	<u>-</u>	<u>-</u>	<u>5,240,437</u>	<u>4,622,179</u>
Supporting services:					
Management and general	153,789	-	-	153,789	364,038
Fundraising	163,265	-	-	163,265	155,082
Total supporting services	<u>317,054</u>	<u>-</u>	<u>-</u>	<u>317,054</u>	<u>519,120</u>
Total expenses	<u>5,557,491</u>	<u>-</u>	<u>-</u>	<u>5,557,491</u>	<u>5,141,299</u>
Uncollectible contributions	-	-	-	-	107,000
Total expenses and losses	<u>5,557,491</u>	<u>-</u>	<u>-</u>	<u>5,557,491</u>	<u>5,248,299</u>
Change in net assets	(316,617)	(35,871)	2,985	(349,503)	235,815
Net assets, beginning of year, as restated	<u>8,293,214</u>	<u>350,859</u>	<u>637,586</u>	<u>9,281,659</u>	<u>9,045,844</u>
Net assets at end of year	<u>\$ 7,976,597</u>	<u>\$ 314,988</u>	<u>\$ 640,571</u>	<u>\$ 8,932,156</u>	<u>\$ 9,281,659</u>

See notes to financial statements

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION
COMBINED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (349,503)	\$ 235,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	272,530	253,122
Gain on sale of assets	(880)	(18)
Realized (gain) on sale of investments	(96,702)	(1,178)
Unrealized (gain) loss on investments	687,030	(389,406)
Change in value of split interest agreement	5,515	-
Change in cash value of life insurance	1,324	(15,000)
(Increase) decrease in operating assets		
Accounts receivable	(33,466)	(48,699)
Pledges receivable	(32,411)	115,427
Prepaid expenses	(831)	11,057
Increase (decrease) in operating liabilities		
Accounts payable	8,063	(10,119)
Payable to residents	2,672	(1,943)
Accrued expenses	24,192	13,527
Deferred compensation	14,757	36,089
Net cash provided by operating activities	<u>502,290</u>	<u>198,674</u>
Cash flows from investing activities:		
Purchase of property and equipment	(304,728)	(208,875)
Proceeds from sale of assets	3,095	500
Cash restricted for investment in property and equipment	(48,643)	64,081
Purchase of certificates of deposit	(278,189)	-
Purchase of investments	(372,140)	(197,004)
Reinvested dividend and capital gain distributions	(244,986)	-
Proceeds from the sale of investments	658,552	87,740
Net cash (used in) investing activities	<u>(587,039)</u>	<u>(253,558)</u>
Cash flows from financing activities,		
principal payments on capital lease obligation	<u>-</u>	<u>(4,094)</u>
Net decrease in cash	(84,749)	(58,978)
Cash :		
Beginning of year	544,032	603,010
End of year	<u>\$ 459,283</u>	<u>\$ 544,032</u>

See notes to financial statements.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2008 and 2007

	2008						2007			
	Program Services			Supporting Services			Total			
	Residential Services	Residential Education	Day School	Home Services	Aftercare & In Home	Group Home	Management and General	Fundraising	Total	
Salaries	\$ 1,187,752	\$ 343,888	\$ 913,583	\$ 66,462	\$ 713,308	\$ 3,224,973	\$ 66,498	\$ 87,682	\$ 3,379,153	\$ 3,061,247
Employee health and retirement plan costs	137,928	42,704	97,748	707	65,527	344,614	8,279	7,417	360,310	376,271
Payroll taxes	98,545	25,450	66,810	1,601	44,161	236,567	8,948	6,421	251,936	237,387
	1,424,205	412,042	1,078,141	68,770	822,996	3,806,154	83,725	101,520	3,991,399	3,674,905
Allowance and work scholarships	22,211	-	2,167	-	9,436	33,814	-	-	33,814	25,264
Clothing	3,011	-	1,589	-	567	5,167	-	-	5,167	4,775
Consultant and professional fees	60,709	-	17,188	443	10,450	88,790	14,000	7,739	110,529	72,767
Educational supplies and expenses	5,762	11,855	14,155	-	1,857	33,629	-	-	33,629	24,259
Utilities	74,447	26,054	21,230	-	15,510	137,241	-	-	137,241	119,893
Employee procurement	6,934	3,466	4,851	1,057	2,518	18,826	-	-	18,826	8,127
Food	85,751	-	44,004	3,504	25,246	158,485	-	-	158,485	138,458
House supplies	7,340	-	903	-	13,252	21,495	-	-	21,495	8,952
Insurance	34,460	12,000	30,034	9,483	20,806	106,783	18,200	2,200	127,183	193,412
Interest	-	-	-	-	-	-	-	-	-	1,593
Maintenance	100,307	1,038	32,609	3,009	45,683	182,646	1,094	-	183,740	175,886
Medical and dental	3,093	1,026	-	-	999	5,118	-	-	5,118	11,569
Miscellaneous expense	-	-	-	-	-	-	-	-	-	580
Postage and office supplies	17,698	35	6,445	45	9,592	33,815	7,833	9,400	51,048	36,190
Printing and publicity	1,251	83	480	-	822	2,636	1,364	17,629	21,629	21,698
Recreation	4,076	1,103	7,446	1,223	6,974	20,822	-	-	20,822	13,831
Rent	-	-	18,900	-	35,555	54,455	-	-	54,455	37,900
Social service	6,276	2,539	3,878	247	4,793	17,733	-	1,182	18,915	24,015
Staff development	14,854	1,657	6,532	465	12,060	35,568	6,828	11,192	53,588	72,286
Telephone	17,797	268	7,707	952	13,271	39,995	-	1,620	41,615	53,061
Travel and transportation	25,144	473	123,429	5,863	29,460	184,369	1,111	10,783	196,263	168,756
Indirect expenses	-	-	19,550	1,650	23,250	44,250	(44,250)	-	-	-
Total expenses before depreciation	1,915,306	473,639	1,441,038	96,711	1,105,097	5,031,791	89,905	163,265	5,284,961	4,888,177
Depreciation and amortization	127,900	40,000	16,121	2,283	22,342	208,646	63,884	-	272,530	253,122
Total Program and Supporting Services Expenses	\$ 2,043,206	\$ 513,639	\$ 1,457,159	\$ 98,994	\$ 1,127,439	\$ 5,240,437	\$ 153,789	\$ 163,265	\$ 5,557,491	\$ 5,141,299

See notes to the financial statements.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Elk Hill Farm, Inc. (the Farm) provides residential programs, group homes, and day educational treatment programs to at-risk adolescents from across the Commonwealth of Virginia, as well as community outreach. Tuition assistance and fees are received primarily from schools, courts and correctional systems, and charitable contributions support operations.

Elk Hill Farm Foundation (the Foundation) is a charitable foundation that holds investments and receives certain contributions. The Foundation provides support to the Farm through a 5% spending rate contribution. The Board of Trustees of the Farm and the Foundation are comprised of the same members.

The operations of the Farm and the Foundation have been combined in the accompanying financial statements. All inter-organization accounts and transactions have been eliminated. The Farm and the Foundation are referred to herein as the Organization.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under those provisions, net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be filled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of such assets permit the Organization to use the income earned on the assets.

Use of Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)

Income Tax Status

The Organizations are exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue code and comparable state law. In addition, contributions to both qualify for the charitable contribution deduction under Section 170(b)(1)(a). They have been classified as organizations that are not private foundations under Section 509(a)(2).

Accounts Receivable

Accounts receivable from program service fees are recognized based on student attendance records and the standard rates allowed by schools and government agencies. The Organization does not accrue interest or fees on overdue receivables. An allowance for doubtful accounts is provided when deemed necessary and is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables past due more than 90 days (\$13,829 at June 30, 2008 and \$4,047 at June 30, 2007) are considered delinquent. Delinquent receivables are written off when management believes that all reasonable collection efforts have been exhausted.

Management feels the accounts receivable are fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Promises to Give

Unconditional promises to give (pledges) are recognized as assets and revenue in the period the promise is received. Promises to give are recorded at net realizable value if expected to be collected within one year and at fair value if expected to be collected in more than one year. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

Student assistance and fees are recognized when the services have been provided and the related expenses have been incurred.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term investments

Investments with readily determinable fair values are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change of net assets in the accompanying statements of activities. Realized gains and losses are determined by specific identification using the first in and first out method.

Property and Equipment

Property and equipment are stated at cost or, if donated, at estimated fair market value at date of receipt. Acquisitions of new buildings, equipment, land improvements and major betterments are capitalized. Repairs and maintenance costs are expensed as incurred. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Buildings and land improvements	10 - 40
Furniture, fixtures and equipment	3 - 10
Transportation equipment	5 - 7

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations and various committee assignments.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 2. CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and invested cash deposited in a large regional bank and with a brokerage firm. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$100,000 for balances carried in member banks. At times, bank balances may exceed federally insured limits. Money market accounts with the brokerage firm are not insured by the FDIC, but have limited protection provided by the Securities Investor Protection Corporation (SIPC).

NOTE 3. PLEDGES RECEIVABLE

The Organization projects that donors will remit contributions receivable as follows:

Year ending June 30:	2008	2007
2008	\$ -	\$ 634
2009	16,712	-
2010	16,333	-
	\$ 33,045	\$ 634

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2008	2007
Land	\$ 265,229	\$ 265,229
Buildings and leasehold improvements	6,101,419	5,983,639
Furniture, fixtures and equipment	880,652	798,431
Transportation equipment	382,204	401,171
	7,629,504	7,448,470
Less accumulated depreciation	2,967,614	2,816,563
	\$ 4,661,890	\$ 4,631,907

Depreciation and amortization expense for the year totaled \$272,530 and \$253,122 for the years ended June 30, 2008 and 2007, respectively.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 5. LONG-TERM INVESTMENTS

Investments are carried at fair value and are summarized as follows as of June 30, 2008 and 2007.

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 5,282	\$ 5,282	\$ -	\$ -
Common stocks	-	2,000	-	16,000
Equity mutual funds	2,520,119	2,443,733	2,496,327	3,080,783
Bond mutual funds	651,837	607,001	625,635	594,099
	<u>\$ 3,177,238</u>	<u>\$ 3,058,016</u>	<u>\$ 3,121,962</u>	<u>\$ 3,690,882</u>

The return on these investments consisted of the following:

	2008	2007
Interest, dividends and capital gain distributions	\$ 258,328	\$ 184,365
Realized gains	96,702	1,178
Unrealized gains	(688,142)	389,406
	<u>\$ (333,112)</u>	<u>\$ 574,949</u>

Interest, dividends and capital gain distributions are shown net of management fees totaling \$11,903 and \$13,395 for the years ended June 30, 2008 and 2007, respectively.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Organization's investments have likely incurred a significant decline in fair value since June 30, 2008.

NOTE 6. RETIREMENT PLAN

The Organization has established a retirement plan for all full time employees. This is a voluntary contributory plan and the Organization matches the employee contribution up to 10% to December 31, 2006 and 7.5% thereafter of the employee's salary depending on the employee's length of service. Contributions to the plan by the Organization amounted to \$67,816 and \$76,321 for the years ended June 30, 2008 and 2007, respectively.

NOTE 7. DEFERRED COMPENSATION

The organization has established deferred compensation plans for its executive director and director of operations that is funded by life insurance policies.

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 8. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consisted of the following:

	2008	2007
Scholarships	\$ 60,428	\$ 105,686
Operations	5,067	6,145
Property and equipment	148,098	99,455
Education for employment	60,235	111,049
Reading specialist	41,160	25,000
Other	-	3,524
	<u>\$ 314,988</u>	<u>\$ 350,859</u>

Permanently restricted net assets consisted of the following:

	2008	2007
Scholarship endowment	\$ 585,951	\$ 584,616
General endowment	54,620	52,970
	<u>\$ 640,571</u>	<u>\$ 637,586</u>

NOTE 9. LEASING ARRANGEMENTS

The Organization leases a day school location. Payments required during this renewal period are \$2,083 per month. Rent expense under this lease is reduced by \$455 per month, which amount is returned to the organization toward its contribution for improvements made to the property.

In March 2001, the Organization entered into a lease for the Northside group home. Under renewal of the lease, monthly payments are \$1,260. The lease provides for a second renewal period of five years. The base rent increases 5% at the start of the renewal period.

In July 2003, the Organization entered into a lease for the Charlottesville group home. The lease is for four years and provides for monthly payment of \$1,700. The lease provides for two renewal periods of five years each.

Total rent expense under these leases amounted to \$54,455 and \$37,900 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments at June 30, 2008, excluding the renewal periods, under these leases are as follows:

Year Ending June 30:	
2009	\$ 27,620
2010	15,120
2011	10,080
	<u>\$ 52,820</u>

ELK HILL FARM, INC. AND
ELK HILL FARM FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated by the amount the programs and supporting services benefited.

NOTE 11. CONDITIONAL PROMISES TO GIVE

At June 30, 2008 and 2007 the Organization had received a promise to give of \$100,000 and \$50,000, respectively, on the condition that it raises matching gifts of a like amount. The promise to give will be recognized as contribution support when the matching condition is met.

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

Total cash paid for interest amounted to \$1,593 for the year ended June 30, 2007.

NOTE 13. LINE OF CREDIT

The Organization has a \$10,000 revolving line of credit, which was unused during both 2008 and 2007.

NOTE 14. COMBINATION AND RESTATEMENT OF NET ASSETS AS OF JUNE 30, 2006

During the prior year, the Organization decided to combine the financial statements of the Farm and the Foundation. Also, it determined that the beginning net assets of the entities should be restated based on donor restrictions or lack of such restrictions. Accordingly, net assets as of June 30, 2006 were combined and adjusted as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance previously reported:				
Farm	\$ 4,664,611	\$ 1,239,158	\$ -	\$ 5,903,769
Foundation	-	1,528,352	1,613,723	3,142,075
Combined	4,664,611	2,767,510	1,613,723	9,045,844
Adjustments for restrictions	3,494,203	(2,510,986)	(983,217)	-
Balance restated	<u>\$ 8,158,814</u>	<u>\$ 256,524</u>	<u>\$ 630,506</u>	<u>\$ 9,045,844</u>

**INDEPENDENT AUDITOR'S REPORT ON
THE SUPPLEMENTARY INFORMATION**

To the Board of Trustees
Elk Hill Farm, Inc. and Elk Hill Farm Foundation
Goochland, Virginia

Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Yount, Hyde & Barbour, P.C.

Glen Allen, Virginia
December 12, 2008

ELK HILL FARM, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Current Assets					
Cash	\$ 639,016	\$ 98,456	\$ -	\$ 737,472	\$ 544,032
Accounts receivable	508,005	-	-	508,005	473,570
Pledges receivable	378	32,667	-	33,045	634
Employee and other receivables	11,850	-	-	11,850	12,819
Prepaid expenses	15,000	-	-	15,000	14,169
Due from Foundation	43,028	-	-	43,028	34,837
Total current assets	<u>1,217,277</u>	<u>131,123</u>	<u>-</u>	<u>1,348,400</u>	<u>1,080,061</u>
Property and Equipment					
Less accumulated depreciation	4,661,890	-	-	4,661,890	4,631,907
Other Assets					
Cash restricted to investment in property and equipment	-	148,098	-	148,098	99,455
Security deposit	1,700	-	-	1,700	1,700
Cash surrender value of life insurance policies	50,846	-	-	50,846	52,170
	<u>52,546</u>	<u>148,098</u>	<u>-</u>	<u>200,644</u>	<u>153,325</u>
TOTAL ASSETS	<u>\$ 5,931,713</u>	<u>\$ 279,221</u>	<u>\$ -</u>	<u>\$ 6,210,934</u>	<u>\$ 5,865,293</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 58,330	\$ -	\$ -	\$ 58,330	\$ 47,031
Flexible spending account payable	3,736	-	-	3,736	6,972
Residents savings payable	13,173	-	-	13,173	10,642
Residents clothing allowance payable	923	-	-	923	782
Accrued expenses	161,742	-	-	161,742	137,550
Total current liabilities	<u>237,904</u>	<u>-</u>	<u>-</u>	<u>237,904</u>	<u>202,977</u>
Long-term Liabilities					
Deferred compensation	50,846	-	-	50,846	36,089
Due to Foundation	115,079	-	-	115,079	-
Total long-term liabilities	<u>165,925</u>	<u>-</u>	<u>-</u>	<u>165,925</u>	<u>36,089</u>
Net Assets:					
Unrestricted:					
Undesignated	4,929,554	-	-	4,929,554	5,287,376
Designated by board for scholarships	598,330	-	-	598,330	62,322
Temporarily restricted	-	279,221	-	279,221	276,529
Permanently restricted	-	-	-	-	-
	<u>5,527,884</u>	<u>279,221</u>	<u>-</u>	<u>5,807,105</u>	<u>5,626,227</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,931,713</u>	<u>\$ 279,221</u>	<u>\$ -</u>	<u>\$ 6,210,934</u>	<u>\$ 5,865,293</u>

See report on supplementary information.

ELK HILL FARM FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Other Assets					
Long-term investments	\$ 2,381,678	\$ 35,767	\$ 640,571	\$ 3,058,016	\$ 3,690,882
Due from Elk Hill Farm	115,079	-	-	115,079	-
TOTAL ASSETS	<u>\$ 2,496,757</u>	<u>\$ 35,767</u>	<u>\$ 640,571</u>	<u>\$ 3,173,095</u>	<u>\$ 3,690,882</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Gift annuity payable	\$ 5,016	\$ -	\$ -	\$ 5,016	\$ 613
Due to Elk Hill Farm	43,028	-	-	43,028	34,837
Total current liabilities	<u>48,044</u>	<u>-</u>	<u>-</u>	<u>48,044</u>	<u>35,450</u>
Net Assets:					
Unrestricted:					
Undesignated	1,125,770	-	-	1,125,770	1,467,500
Designated by governing board	1,322,943	-	-	1,322,943	1,476,016
Temporarily restricted	-	35,767	-	35,767	74,330
Permanently restricted	-	-	640,571	640,571	637,586
	<u>2,448,713</u>	<u>35,767</u>	<u>640,571</u>	<u>3,125,051</u>	<u>3,655,432</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,496,757</u>	<u>\$ 35,767</u>	<u>\$ 640,571</u>	<u>\$ 3,173,095</u>	<u>\$ 3,690,882</u>

See report on supplementary information.

ELK HILL FARM, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Contributions	\$ 763,785	\$ 228,500	\$ -	\$ 992,285	\$ 1,004,584
Tuition assistance and fees	4,708,698	-	-	4,708,698	3,916,515
Investment income	25,245	-	-	25,245	27,086
Net unrealized gain on marketable securities	-	-	-	-	12,000
Other revenue	8,106	-	-	8,106	35,572
	<u>5,505,834</u>	<u>228,500</u>	<u>-</u>	<u>5,734,334</u>	<u>4,995,757</u>
Net assets released from restrictions:					
Satisfaction of restrictions for property and equipment	76,357	(76,357)	-	-	-
Satisfaction of program restri	149,451	(149,451)	-	-	-
Total support and revenue	<u>5,731,642</u>	<u>2,692</u>	<u>-</u>	<u>5,734,334</u>	<u>4,995,757</u>
Expenses:					
Program services:					
Residential services	2,043,206	-	-	2,043,206	1,951,532
Residential education	513,639	-	-	513,639	416,963
Day school	1,457,159	-	-	1,457,159	1,343,390
Aftercare & in-home services	98,994	-	-	98,994	129,939
Group home	1,127,439	-	-	1,127,439	780,355
Donation to Elk Hill Farm Foundation	-	-	-	-	29,000
Total program services	<u>5,240,437</u>	<u>-</u>	<u>-</u>	<u>5,240,437</u>	<u>4,651,179</u>
Supporting services:					
Management and general	149,754	-	-	149,754	360,038
Fundraising	163,265	-	-	163,265	155,082
Total supporting services	<u>313,019</u>	<u>-</u>	<u>-</u>	<u>313,019</u>	<u>515,120</u>
Total expenses	<u>5,553,456</u>	<u>-</u>	<u>-</u>	<u>5,553,456</u>	<u>5,166,299</u>
Uncollectible contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,000</u>
Total expenses and losses	<u>5,553,456</u>	<u>-</u>	<u>-</u>	<u>5,553,456</u>	<u>5,273,299</u>
Change in net assets	<u>178,186</u>	<u>2,692</u>	<u>-</u>	<u>180,878</u>	<u>(277,542)</u>
Net assets, beginning of year	<u>5,349,698</u>	<u>276,529</u>	<u>-</u>	<u>5,626,227</u>	<u>5,903,769</u>
Net assets at end of year	<u>\$ 5,527,884</u>	<u>\$ 279,221</u>	<u>\$ -</u>	<u>\$ 5,807,105</u>	<u>\$ 5,626,227</u>

See report on supplemental information.

ELK HILL FARM FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2008 and 2007

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Contributions	\$ -	\$ -	\$ 2,985	\$ 2,985	\$ 36,080
Investment income	233,083	-	-	233,083	183,618
Net realized gain on marketable securities	96,702	-	-	96,702	1,178
Net unrealized gain (loss) on marketable securities	(688,142)	-	-	(688,142)	377,406
Change in value of split interest agreement	(5,515)	-	-	(5,515)	-
	<u>(363,872)</u>	<u>-</u>	<u>2,985</u>	<u>(360,887)</u>	<u>598,282</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	38,563	(38,563)	-	-	-
Total support and revenue	<u>(325,309)</u>	<u>(38,563)</u>	<u>2,985</u>	<u>(360,887)</u>	<u>598,282</u>
Expenses:					
Program services:					
Grant to Elk Hill Farm	165,459	-	-	165,459	80,925
Total program services	<u>165,459</u>	<u>-</u>	<u>-</u>	<u>165,459</u>	<u>80,925</u>
Supporting services:					
Management and general	4,035	-	-	4,035	4,000
Total supporting services	<u>4,035</u>	<u>-</u>	<u>-</u>	<u>4,035</u>	<u>4,000</u>
Total expenses	<u>169,494</u>	<u>-</u>	<u>-</u>	<u>169,494</u>	<u>84,925</u>
Change in net assets	<u>(494,803)</u>	<u>(38,563)</u>	<u>2,985</u>	<u>(530,381)</u>	<u>513,357</u>
Net assets, beginning of year	<u>2,943,516</u>	<u>74,330</u>	<u>637,586</u>	<u>3,655,432</u>	<u>3,142,075</u>
Net assets at end of year	<u>\$ 2,448,713</u>	<u>\$ 35,767</u>	<u>\$ 640,571</u>	<u>\$ 3,125,051</u>	<u>\$ 3,655,432</u>

See report on supplemental information.