

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

**Goochland, Virginia**

**COMBINED FINANCIAL STATEMENTS**

**June 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Elk Hill Farm, Inc. and Elk Hill Farm Foundation which comprise the combined statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the combined 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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

**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, 2014 and 2013, and the changes in its net assets, cash flows and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Yount, Hyde & Barbour, P.C.*

Richmond, Virginia  
October 8, 2014

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

**Combined Statements of Financial Position**

June 30, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash	\$ 1,610,479	\$ 1,011,911
Accounts receivable, net	947,226	793,126
Pledges receivable, net	613,661	76,566
Employee and other receivables	1,808	1,962
Prepaid expenses	<u>67,749</u>	<u>50,330</u>
Total current assets	<u>\$ 3,240,923</u>	<u>\$ 1,933,895</u>
<b>Property and Equipment,</b>		
less accumulated depreciation	<u>\$ 4,165,959</u>	<u>\$ 4,348,511</u>
<b>Other Assets</b>		
Pledges receivable, less current portion	\$ 1,002,119	\$ 19,632
Long-term investments	4,220,971	3,853,439
Security deposit	11,200	4,200
Cash surrender value of life insurance policies	<u>154,490</u>	<u>135,049</u>
Total other assets	<u>\$ 5,388,780</u>	<u>\$ 4,012,320</u>
Total assets	<u><u>\$ 12,795,662</u></u>	<u><u>\$ 10,294,726</u></u>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 92,635	\$ 84,166
Accrued expenses	<u>245,615</u>	<u>294,802</u>
Total current liabilities	<u>\$ 338,250</u>	<u>\$ 378,968</u>
<b>Long-Term Liabilities</b>		
Deferred compensation	\$ 154,490	\$ 135,049
Gift annuity payable	<u>1,417</u>	<u>2,270</u>
Total long-term liabilities	<u>\$ 155,907</u>	<u>\$ 137,319</u>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	\$ 6,712,564	\$ 6,451,155
Designated by board	2,745,864	2,150,319
Temporarily restricted	1,144,673	526,499
Permanently restricted	<u>1,698,404</u>	<u>650,466</u>
Total net assets	<u>\$ 12,301,505</u>	<u>\$ 9,778,439</u>
Total liabilities and net assets	<u><u>\$ 12,795,662</u></u>	<u><u>\$ 10,294,726</u></u>

See Notes to Financial Statements.

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

**Combined Statement of Activities**

Year Ended June 30, 2014

	<b>2014</b>			
	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>	<u><b>Total</b></u>
Support and revenue:				
Contributions	\$ 663,912	\$ 1,185,378	\$ 1,047,938	\$ 2,897,228
Tuition assistance and fees	4,971,982	--	--	4,971,982
Interest and dividends	79,423	12,899	--	92,322
Medicaid income	2,649,654	--	--	2,649,654
Change in value of split interest agreement	854	--	--	854
Unrealized and realized gains (losses)	<u>436,184</u>	<u>70,840</u>	<u>--</u>	<u>507,024</u>
	\$ 8,802,009	\$ 1,269,117	\$ 1,047,938	\$ 11,119,064
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	20,045	(20,045)	--	--
Satisfaction of time restriction	371,170	(371,170)	--	--
Satisfaction of program restrictions	<u>259,728</u>	<u>(259,728)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 9,452,952</u>	<u>\$ 618,174</u>	<u>\$ 1,047,938</u>	<u>\$ 11,119,064</u>
Expenses and losses:				
Program services:				
Community services	\$ 1,951,838	\$ --	\$ --	\$ 1,951,838
Schools	2,851,892	--	--	2,851,892
Residential services	<u>2,918,134</u>	<u>--</u>	<u>--</u>	<u>2,918,134</u>
Total program services	<u>\$ 7,721,864</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,721,864</u>
Supporting services:				
Management and general	\$ 577,111	\$ --	\$ --	\$ 577,111
Fundraising	<u>297,023</u>	<u>--</u>	<u>--</u>	<u>297,023</u>
Total supporting services	<u>\$ 874,134</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 874,134</u>
Total expenses	<u>\$ 8,595,998</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,595,998</u>
Change in net assets	\$ 856,954	\$ 618,174	\$ 1,047,938	\$ 2,523,066
Net assets, beginning of year	<u>8,601,474</u>	<u>526,499</u>	<u>650,466</u>	<u>9,778,439</u>
Net assets at end of year	<u>\$ 9,458,428</u>	<u>\$ 1,144,673</u>	<u>\$ 1,698,404</u>	<u>\$ 12,301,505</u>

See Notes to Financial Statements.

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

**Combined Statement of Activities**

Year Ended June 30, 2013

	<b>2013</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 762,079	\$ 293,971	\$ 1,000	\$ 1,057,050
Tuition assistance and fees	4,489,512	--	--	4,489,512
Interest and dividends	102,942	18,598	--	121,540
Medicaid income	2,100,201	--	--	2,100,201
Change in value of split interest agreement	736	--	--	736
Unrealized and realized gains (losses)	174,505	31,533	--	206,038
Other revenue	<u>2,139</u>	<u>--</u>	<u>--</u>	<u>2,139</u>
	\$ 7,632,114	\$ 344,102	\$ 1,000	\$ 7,977,216
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	75,953	(75,953)	--	--
Satisfaction of program restrictions	<u>238,171</u>	<u>(238,171)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 7,946,238</u>	<u>\$ 29,978</u>	<u>\$ 1,000</u>	<u>\$ 7,977,216</u>
Expenses and losses:				
Program services:				
Community services	\$ 1,641,630	\$ --	\$ --	\$ 1,641,630
Schools	2,564,316	--	--	2,564,316
Residential services	<u>2,781,926</u>	<u>--</u>	<u>--</u>	<u>2,781,926</u>
Total program services	<u>\$ 6,987,872</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 6,987,872</u>
Supporting services:				
Management and general	\$ 509,494	\$ --	\$ --	\$ 509,494
Fundraising	<u>236,686</u>	<u>--</u>	<u>--</u>	<u>236,686</u>
Total supporting services	<u>\$ 746,180</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 746,180</u>
Total expenses	<u>\$ 7,734,052</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,734,052</u>
Change in net assets	\$ 212,186	\$ 29,978	\$ 1,000	\$ 243,164
Net assets, beginning of year	<u>8,389,288</u>	<u>496,521</u>	<u>649,466</u>	<u>9,535,275</u>
Net assets at end of year	<u>\$ 8,601,474</u>	<u>\$ 526,499</u>	<u>\$ 650,466</u>	<u>\$ 9,778,439</u>

See Notes to Financial Statements.

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

**Combined Statements of Cash Flows**

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,523,066	\$ 243,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	371,903	318,828
(Gain) on sale of assets	(4,240)	(4,355)
Unrealized and realized (gain) on investments	(507,024)	(206,038)
Change in value of split interest agreement	(854)	(736)
Change in cash value of life insurance	(19,441)	(18,133)
(Increase) decrease in operating assets:		
Accounts receivable	(153,946)	(53,327)
Pledges receivable	(1,519,582)	(2,436)
Prepaid expenses	(17,419)	(7,126)
Security deposits	(7,000)	--
Increase (decrease) in operating liabilities:		
Accounts payable	8,469	22,055
Accrued expenses	(49,187)	(12,704)
Deferred compensation	19,441	18,133
Net cash provided by operating activities	<u>\$ 644,186</u>	<u>\$ 297,325</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	\$ (189,351)	\$ (296,201)
Insurance proceeds received	--	3,655
Proceeds from the sale of property and equipment	4,240	700
Purchase of investments	(1,336,257)	(2,321,138)
Reinvested dividend and capital gain distributions	(15,748)	(185,971)
Proceeds from the sale of investments	1,491,498	2,203,962
Net cash (used in) investing activities	<u>\$ (45,618)</u>	<u>\$ (594,993)</u>
Net increase (decrease) in cash	\$ 598,568	\$ (297,668)
<b>Cash</b>		
Beginning of year	<u>1,011,911</u>	<u>1,309,579</u>
End of year	<u>\$ 1,610,479</u>	<u>\$ 1,011,911</u>

See Notes to Financial Statements.



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

**Combined Statement of Functional Expenses**  
Year Ended June 30, 2014

	<b>Program Services</b>				<b>Supporting Services</b>		
	<b>Community Services</b>	<b>Schools</b>	<b>Residential Services</b>	<b>Total</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 1,448,854	\$ 1,696,487	\$ 1,672,503	\$ 4,817,844	\$ 239,624	\$ 165,402	\$ 5,222,870
Employee health and retirement plan costs	116,074	218,585	264,353	599,012	37,142	9,529	645,683
Workers comp	52,374	66,794	91,023	210,191	4,792	8,330	223,313
Payroll taxes	118,399	135,158	131,969	385,526	26,359	13,700	425,585
Total salaries, benefits and taxes	\$ 1,735,701	\$ 2,117,024	\$ 2,159,848	\$ 6,012,573	\$ 307,917	\$ 196,961	\$ 6,517,451
Allowances	--	--	4,258	4,258	--	--	4,258
Clothing and personal	--	38	5,937	5,975	--	--	5,975
Professional services	44,572	47,426	86,807	178,805	92,644	49,199	320,648
Educational supplies	3,003	31,314	--	34,317	--	--	34,317
Utilities	17,309	121,464	80,537	219,310	--	3,168	222,478
Food	14,030	98,834	64,629	177,493	697	745	178,935
House supplies	--	337	16,938	17,275	--	--	17,275
Insurance	--	--	--	--	101,927	--	101,927
Maintenance	26,785	66,517	88,586	181,888	--	6,420	188,308
Work pay	1,051	6,406	15,403	22,860	--	--	22,860
Medical and dental	15	--	15,117	15,132	--	--	15,132
Miscellaneous	550	673	4	1,227	1,095	107	2,429
Postage	829	1,821	1,278	3,928	--	2,862	6,790
Printing	641	2,557	1,169	4,367	5,779	26,541	36,687
Recreation	19,812	12,756	32,372	64,940	--	139	65,079
Rent	27,650	79,349	42,456	149,455	--	--	149,455
Social services	343	536	4,728	5,607	--	--	5,607
Special events	2,502	3,062	3,295	8,859	--	487	9,346
Staff development	7,327	4,972	4,377	16,676	14,863	4,176	35,715
Office expenses	6,272	7,607	3,472	17,351	29,727	726	47,804
Contract transportation	--	116,231	--	116,231	--	--	116,231
Travel and transportation	22,180	23,606	49,134	94,920	22,462	2,006	119,388
Total expenses before depreciation	\$ 1,930,572	\$ 2,742,530	\$ 2,680,345	\$ 7,353,447	\$ 577,111	\$ 293,537	\$ 8,224,095
Depreciation and amortization	21,266	109,362	237,789	368,417	--	3,486	371,903
Total Program and Supporting Services Expenses	<u>\$ 1,951,838</u>	<u>\$ 2,851,892</u>	<u>\$ 2,918,134</u>	<u>\$ 7,721,864</u>	<u>\$ 577,111</u>	<u>\$ 297,023</u>	<u>\$ 8,595,998</u>

See Notes to Financial Statements.

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

**Combined Statement of Functional Expenses**  
Year Ended June 30, 2013

	<b>Program Services</b>				<b>Supporting Services</b>		
	<b>Community Services</b>	<b>Schools</b>	<b>Residential Services</b>	<b>Total</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 1,211,883	\$ 1,559,401	\$ 1,676,801	\$ 4,448,085	\$ 233,865	\$ 145,636	\$ 4,827,586
Employee health and retirement plan costs	93,798	175,748	222,660	492,206	36,249	3,356	531,811
Workers comp	52,618	66,853	89,558	209,029	4,677	8,329	222,035
Payroll taxes	98,249	123,189	133,838	355,276	25,725	27,617	408,618
Total salaries, benefits and taxes	\$ 1,456,548	\$ 1,925,191	\$ 2,122,857	\$ 5,504,596	\$ 300,516	\$ 184,938	\$ 5,990,050
Allowances	--	--	2,713	2,713	--	--	2,713
Clothing and personal	--	957	7,746	8,703	--	--	8,703
Professional services	36,933	29,615	65,017	131,565	39,925	7,987	179,477
Educational supplies	335	28,959	462	29,756	--	--	29,756
Utilities	16,728	110,281	71,988	198,997	--	2,901	201,898
Food	11,942	88,270	59,529	159,741	295	281	160,317
House supplies	--	705	15,370	16,075	--	--	16,075
Insurance	--	--	--	--	100,833	--	100,833
Maintenance	22,962	56,331	79,229	158,522	--	5,295	163,817
Work pay	4,453	5,761	14,631	24,845	--	5	24,850
Medical and dental	--	5,409	5,946	11,355	--	--	11,355
Miscellaneous	--	--	--	--	1,112	--	1,112
Postage	981	2,027	2,008	5,016	--	3,600	8,616
Printing	801	1,020	1,246	3,067	6,882	20,927	30,876
Recreation	11,680	7,135	22,500	41,315	--	161	41,476
Rent	26,900	62,300	40,739	129,939	--	--	129,939
Social services	--	1,656	7,234	8,890	--	--	8,890
Special events	3,153	3,814	3,909	10,876	--	714	11,590
Staff development	4,786	3,959	5,701	14,446	13,261	3,813	31,520
Office expenses	5,432	8,327	6,113	19,872	29,350	1,282	50,504
Contract transportation	--	100,685	--	100,685	--	--	100,685
Travel and transportation	19,019	16,981	55,193	91,193	17,320	1,659	110,172
Total expenses before depreciation	\$ 1,622,653	\$ 2,459,383	\$ 2,590,131	\$ 6,672,167	\$ 509,494	\$ 233,563	\$ 7,415,224
Depreciation and amortization	18,977	104,933	191,795	315,705	--	3,123	318,828
Total Program and Supporting Services Expenses	<u>\$ 1,641,630</u>	<u>\$ 2,564,316</u>	<u>\$ 2,781,926</u>	<u>\$ 6,987,872</u>	<u>\$ 509,494</u>	<u>\$ 236,686</u>	<u>\$ 7,734,052</u>

See Notes to 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 services, day educational treatment programs and community services to at-risk adolescents from across the Commonwealth of Virginia. Tuition fees are received primarily from social service organizations, courts systems, Medicaid, school systems and charitable organizations.

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 Foundation Board of Trustees are also members of the Farm Board.

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**

Accounting standards establish classifications for net assets, revenues, gains and losses, 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**

**Fair Value Measurement**

The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active exchange markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. The Organization performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2014 and June 30, 2013, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

*Investments*

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

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

**Notes to Combined Financial Statements**

**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 published by Elk Hill 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 are considered delinquent. Delinquent receivables are written off when management believes that all reasonable collection efforts have been exhausted.

Management has provided an allowance for \$26,480 and \$6,950 of receivables that it has deemed uncollectible at June 30, 2014 and 2013, respectively.

**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. 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**

**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**

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. These are recorded as support at their estimated fair value. There were no donated services for the years ended June 30, 2014 and 2013, respectively.

**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.

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:

	<b>2014</b>
2015	\$ 613,661
2016	381,887
2017	308,984
2018	241,500
2019	210,500
	\$ 1,756,532
Less pledge discount	(140,752)
	<b>\$ 1,615,780</b>

**Note 4. Property and Equipment**

Property and equipment consisted of the following:

	<b>2014</b>	<b>2013</b>
Land	\$ 265,229	\$ 265,229
Buildings and leasehold improvements	6,864,059	6,795,557
Furniture, fixtures and equipment	1,123,747	1,048,524
Transportation equipment	483,983	453,364
	\$ 8,737,018	\$ 8,562,674
Less accumulated depreciation	4,571,059	4,214,163
	<b>\$ 4,165,959</b>	<b>\$ 4,348,511</b>

Depreciation and amortization expense for the year totaled \$371,903 and \$318,828 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013.

	<b>2014</b>		<b>2013</b>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 61,981	\$ 61,981	\$ 553,068	\$ 553,068
Limited partnerships	80,190	86,784	80,190	82,049
Equities	2,689,007	3,403,019	2,355,634	2,584,101
Bond mutual funds	<u>653,547</u>	<u>669,187</u>	<u>682,348</u>	<u>634,221</u>
	<u>\$ 3,484,725</u>	<u>\$ 4,220,971</u>	<u>\$ 3,671,240</u>	<u>\$ 3,853,439</u>

**Note 6. Retirement Plan**

The Organization has established a retirement plan for all employees who work more than 20 hours per week. This is a voluntary contributory plan and the Organization matches the employee contribution up to 5% for all employees. Contributions to the plan by the Organization amounted to \$82,198 and \$63,082 for the years ended June 30, 2014 and 2013, respectively.

**Note 7. Deferred Compensation**

The Organization has established deferred compensation plans for its chief executive officer and chief operating officer that is funded by life insurance policies.

**Note 8. Net Assets**

Temporarily restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Scholarships	\$ 92,675	\$ 79,525
Property and equipment	305,934	325,979
Unrestricted pledges	469,533	910
Reading specialist	--	12,123
Charlottesville Day School	11,767	13,767
Accumulated endowment income	147,496	88,433
Education for Employment	106,181	4,701
Other	<u>11,087</u>	<u>1,061</u>
	<u>\$ 1,144,673</u>	<u>\$ 526,499</u>



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

**Notes to Combined Financial Statements**

Permanently restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Scholarship endowment	\$ 589,746	\$ 589,746
General endowment	<u>1,108,658</u>	<u>60,720</u>
	<u>\$ 1,698,404</u>	<u>\$ 650,466</u>

**Note 9. Endowment Net Assets**

The Organization's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization classifies permanently restricted net endowment assets to include the original value of gifts donated to the permanent endowment and subsequent gifts to the permanently restricted endowment assets.

Accumulated earnings and realized gains are reported as unrestricted where no donor restrictions or board imposed designations exist. To the extent that endowment assets earn interest and dividends beyond the amount appropriated for expenditure in any given year, the excess is classified as temporarily restricted net assets until appropriated by the Board for expenditure.

The Organization has adopted an investment policy to achieve income and growth through current yield and realized /unrealized capital appreciation. The policy targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Organization expects its endowment funds to provide an average rate of return of approximately 4-5% annually. The Organization has adopted a spending policy for distribution each year which allows for up to 5% of the endowment fund's fair market value (averaged over the previous three calendar year ends preceding the current calendar year).

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

**Notes to Combined Financial Statements**

Changes in endowment net assets for the years ended June 30, 2014 and 2013 were as follows:

	<b>2014</b>			
	<b>Unrestricted Board Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of Year	\$ 2,150,319	\$ 88,433	\$ 650,466	\$ 2,889,218
Investment income (loss)	--	83,739	--	83,739
Transfer	48,050	--	--	48,050
Contributions	1,103,681	--	1,047,938	2,151,619
Appropriation of endowment assets for expenditure	<u>(556,186)</u>	<u>(24,676)</u>	<u>--</u>	<u>(580,862)</u>
Endowment Net Assets, End of Year	<u>\$ 2,745,864</u>	<u>\$ 147,496</u>	<u>\$ 1,698,404</u>	<u>\$ 4,591,764</u>
	<b>2013</b>			
	<b>Unrestricted Board Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment Net Assets, Beginning of Year	\$ 1,928,245	\$ 62,516	\$ 649,466	\$ 2,640,227
Investment loss	--	50,131	--	50,131
Transfer	48,050	--	--	48,050
Contributions	846,918	--	1,000	847,918
Appropriation of endowment assets for expenditure	<u>(672,894)</u>	<u>(24,214)</u>	<u>--</u>	<u>(697,108)</u>
Endowment Net Assets, End of Year	<u>\$ 2,150,319</u>	<u>\$ 88,433</u>	<u>\$ 650,466</u>	<u>\$ 2,889,218</u>

**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. Leasing Arrangements**

In January 2014, the Organization entered into a new lease for the Varina Day School. Payments required are in the amount of \$3,333 per month from January 2014 through December 2016. The lease provides for one renewal period of three years.

In March 2001, the Organization entered into a lease for the Northside group home. Under the renewal of the lease, monthly payments are \$1,323 through March 1, 2016.

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

**Notes to Combined Financial Statements**

In July 2003, the Organization entered into a lease for the Charlottesville group home. The lease is for five years and provides for two renewal periods of five years each, but the Organization entered into a second extension of lease agreement for one year and provides for monthly payment of \$2,215.

In November 2011, the Organization entered into a lease for the Charlottesville Day School. Payments required in the amount of \$4,600 per month from February 2012 through August 2012, and \$5,000 per month from September 2012 through August 2013. The lease provides for additional renewal periods at a 4% rental increase per year. In June 2013, the Organization renewed this lease. Payments are required in the amount of \$6,200 per month from September 2013 through August 2014. The lease does not include an option to renew the lease, but it can be renewed at the landlord's discretion with a 4% rental increase per year.

In July 2014, the Organization entered into a five year lease for the Charlottesville School and Community Services. Payments are required in the amount of \$7,000 per month through June 2015, with a 3% rental increase per year. The lease provides for an additional 5 year renewal.

Total rent expense under these leases amounted to \$149,455 and \$129,939 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease payments at June 30, 2014, excluding the renewal periods, under these leases are as follows:

Year Ending June 30:	
2015	\$ 178,856
2016	137,104
2017	109,116
2018	91,789
2019	<u>94,543</u>
	<u>\$ 611,408</u>

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

**Notes to Combined Financial Statements**

**Note 12. Fair Value Measurements**

The following table presents the balance of financial assets measured at fair value on a recurring basis as of June 30, 2014 and 2013:

	<b>Balance as of June 30, 2014</b>	<b>Quoted Price in Active Market for Identical Assets (Level 1)</b>	<b>Significant Other Observable Levels (Level 2)</b>	<b>Significant Other Unobservable Levels (Level 3)</b>
Cash	\$ 61,981	\$ 61,981	\$ --	\$ --
Limited partnerships	86,784	--	86,784	--
Equities	3,403,019	3,403,019	--	--
Bond mutual funds	669,187	669,187	--	--
	<u>\$ 4,220,971</u>	<u>\$ 4,134,187</u>	<u>\$ 86,784</u>	<u>\$ --</u>
		<b>Quoted Price in Active Market for Identical Assets (Level 1)</b>	<b>Significant Other Observable Levels (Level 2)</b>	<b>Significant Other Unobservable Levels (Level 3)</b>
	<b>Balance as of June 30, 2013</b>			
Cash	\$ 553,068	\$ 553,068	\$ --	\$ --
Limited partnerships	82,049	--	82,049	--
Equities	2,584,101	2,584,101	--	--
Bond mutual funds	634,221	634,221	--	--
	<u>\$ 3,853,439</u>	<u>\$ 3,771,390</u>	<u>\$ 82,049</u>	<u>\$ --</u>

**Note 13. Outstanding Commitments**

On October 11, 2011, the Organization entered into a service agreement for software in the amount of \$122,925. Payments required during this agreement relate to the licensing fee and the monthly service. Aggregate annual payments of the commitment during the next fiscal years are: 2015, \$19,200; 2016, \$19,200; and 2017, \$19,200.

On September 1, 2013, the Organization entered into a service agreement for campaign management services. The amount of the agreement was for \$100,005. The remaining balance of \$33,335 is due in 2015.

**Note 14. Subsequent Events**

The Organization has evaluated all subsequent events through October 8, 2014, the date the financial statements were available to be issued. The Organization has determined there are no subsequent events that require recognition or disclosure.

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

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

We have audited the combined financial statements of Elk Hill Farm, Inc. and Elk Hill Farm Foundation as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon, dated October 8, 2014, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on those combined financial statements taken as a whole. We have not performed any procedures with respect to the audited combined financial statements subsequent to October 8, 2014.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

*Yount, Hyde & Barbour, P.C.*

Richmond, Virginia  
October 8, 2014

**ELK HILL FARM, INC.**

**Statements of Financial Position**

June 30, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash	\$ 1,610,479	\$ 1,011,911
Accounts receivable, net	947,226	793,126
Current pledges receivable, net	201,686	76,566
Employee and other receivables	1,808	1,962
Prepaid expenses	<u>67,749</u>	<u>50,330</u>
Total current assets	<u>\$ 2,828,948</u>	<u>\$ 1,933,895</u>
<b>Property and Equipment</b>		
Less accumulated depreciation	<u>\$ 4,165,959</u>	<u>\$ 4,348,511</u>
<b>Other Assets</b>		
Pledges receivable, less current portion	\$ 177,846	\$ 19,632
Security deposit	11,200	4,200
Cash surrender value of life insurance policies	<u>154,490</u>	<u>135,049</u>
	<u>\$ 343,536</u>	<u>\$ 158,881</u>
Total assets	<u>\$ 7,338,443</u>	<u>\$ 6,441,287</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 92,635	\$ 84,166
Accrued expenses	<u>245,615</u>	<u>294,802</u>
Total current liabilities	<u>\$ 338,250</u>	<u>\$ 378,968</u>
<b>Long-Term Liabilities</b>		
Deferred compensation	\$ 154,490	\$ 135,049
Due to Foundation	<u>367,665</u>	<u>65,079</u>
Total long-term liabilities	<u>\$ 522,155</u>	<u>\$ 200,128</u>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	\$ 4,363,537	\$ 4,902,346
Designated by board	1,117,324	521,779
Temporarily restricted	<u>997,177</u>	<u>438,066</u>
	<u>\$ 6,478,038</u>	<u>\$ 5,862,191</u>
Total liabilities and net assets	<u>\$ 7,338,443</u>	<u>\$ 6,441,287</u>

**ELK HILL FARM FOUNDATION**

**Statements of Financial Position**

June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current Assets</b>		
Current pledges receivable, net	\$ 411,975	\$ --
<b>Other Assets</b>		
Pledges receivable, less current portion	\$ 824,273	\$ --
Long-term investments	4,220,971	3,853,439
Due from Elk Hill Farm	<u>367,665</u>	<u>65,079</u>
	<u>\$ 5,412,909</u>	<u>\$ 3,918,518</u>
Total assets	<u>\$ 5,824,884</u>	<u>\$ 3,918,518</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Gift annuity payable	<u>\$ 1,417</u>	<u>\$ 2,270</u>
<b>Net Assets</b>		
Unrestricted:		
Undesignated	\$ 2,349,027	\$ 1,548,809
Designated by governing board	1,628,540	1,628,540
Temporarily restricted	147,496	88,433
Permanently restricted	<u>1,698,404</u>	<u>650,466</u>
	<u>\$ 5,823,467</u>	<u>\$ 3,916,248</u>
Total liabilities and net assets	<u>\$ 5,824,884</u>	<u>\$ 3,918,518</u>

**ELK HILL FARM, INC.**

**Statement of Activities**  
Year Ended June 30, 2014

	<b>2014</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 329,884	\$ 1,185,378	\$ --	\$ 1,515,262
Tuition assistance and fees	4,971,982	--	--	4,971,982
Medicaid income	<u>2,649,654</u>	<u>--</u>	<u>--</u>	<u>2,649,654</u>
	\$ 7,951,520	\$ 1,185,378	\$ --	\$ 9,136,898
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	20,045	(20,045)	--	--
Satisfaction of time restriction	371,170	(371,170)	--	--
Satisfaction of program restrictions	<u>235,052</u>	<u>(235,052)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 8,577,787</u>	<u>\$ 559,111</u>	<u>\$ --</u>	<u>\$ 9,136,898</u>
Expenses:				
Program services:				
Community services	\$ 1,951,838	\$ --	\$ --	\$ 1,951,838
Schools	2,851,892	--	--	2,851,892
Residential services	<u>2,921,193</u>	<u>--</u>	<u>--</u>	<u>2,921,193</u>
Total program services	<u>\$ 7,724,923</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,724,923</u>
Supporting services:				
Management and general	\$ 499,105	\$ --	\$ --	\$ 499,105
Fundraising	<u>297,023</u>	<u>--</u>	<u>--</u>	<u>297,023</u>
Total supporting services	<u>\$ 796,128</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 796,128</u>
Total expenses	<u>\$ 8,521,051</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,521,051</u>
Change in net assets	\$ 56,736	\$ 559,111	\$ --	\$ 615,847
Net assets, beginning of year	<u>5,424,125</u>	<u>438,066</u>	<u>--</u>	<u>5,862,191</u>
Net assets at end of year	<u>\$ 5,480,861</u>	<u>\$ 997,177</u>	<u>\$ --</u>	<u>\$ 6,478,038</u>



**ELK HILL FARM, INC.**

**Statement of Activities**  
Year Ended June 30, 2013

	<b>2013</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 569,794	\$ 293,971	\$ --	\$ 863,765
Tuition assistance and fees	4,489,512	--	--	4,489,512
Interest and dividends	19	--	--	19
Medicaid income	2,100,201	--	--	2,100,201
Other revenue	<u>2,139</u>	<u>--</u>	<u>--</u>	<u>2,139</u>
	\$ 7,161,665	\$ 293,971	\$ --	\$ 7,455,636
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	75,953	(75,953)	--	--
Satisfaction of program restrictions	<u>213,957</u>	<u>(213,957)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 7,451,575</u>	<u>\$ 4,061</u>	<u>\$ --</u>	<u>\$ 7,455,636</u>
Expenses:				
Program services:				
Community services	\$ 1,641,630	\$ --	\$ --	\$ 1,641,630
Schools	2,564,316	--	--	2,564,316
Residential services	<u>2,785,455</u>	<u>--</u>	<u>--</u>	<u>2,785,455</u>
Total program services	<u>\$ 6,991,401</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 6,991,401</u>
Supporting services:				
Management and general	\$ 484,207	\$ --	\$ --	\$ 484,207
Fundraising	<u>236,686</u>	<u>--</u>	<u>--</u>	<u>236,686</u>
Total supporting services	<u>\$ 720,893</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 720,893</u>
Total expenses	<u>\$ 7,712,294</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,712,294</u>
Change in net assets	\$ (260,719)	\$ 4,061	\$ --	\$ (256,658)
Net assets, beginning of year	<u>5,684,844</u>	<u>434,005</u>	<u>--</u>	<u>6,118,849</u>
Net assets at end of year	<u>\$ 5,424,125</u>	<u>\$ 438,066</u>	<u>\$ --</u>	<u>\$ 5,862,191</u>

**ELK HILL FARM FOUNDATION**

**Statement of Activities**  
Year Ended June 30, 2014

	<b>2014</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 510,642	\$ --	\$ 1,047,938	\$ 1,558,580
Interest and dividends	79,423	12,899	--	92,322
Change in value of split interest agreement	854	--	--	854
Unrealized and realized gains (losses)	436,184	70,840	--	507,024
Other revenue	<u>3,059</u>	<u>--</u>	<u>--</u>	<u>3,059</u>
	\$ 1,030,162	\$ 83,739	\$ 1,047,938	\$ 2,161,839
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>24,676</u>	<u>(24,676)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 1,054,838</u>	<u>\$ 59,063</u>	<u>\$ 1,047,938</u>	<u>\$ 2,161,839</u>
Expenses and losses:				
Program services:				
Grant to Elk Hill Farm	<u>\$ 176,614</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 176,614</u>
Supporting services:				
Management and general	<u>\$ 78,006</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 78,006</u>
Total expenses	<u>\$ 254,620</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 254,620</u>
Change in net assets	\$ 800,218	\$ 59,063	\$ 1,047,938	\$ 1,907,219
Net assets, beginning of year	<u>3,177,349</u>	<u>88,433</u>	<u>650,466</u>	<u>3,916,248</u>
Net assets at end of year	<u>\$ 3,977,567</u>	<u>\$ 147,496</u>	<u>\$ 1,698,404</u>	<u>\$ 5,823,467</u>

**ELK HILL FARM FOUNDATION**

**Statement of Activities**  
Year Ended June 30, 2013

	<b>2013</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 350,500	\$ - -	\$ 1,000	\$ 351,500
Interest and dividends	102,923	18,598	- -	121,521
Change in value of split interest agreement	736	- -	- -	736
Unrealized and realized gains (losses)	174,505	31,533	- -	206,038
Other revenue	<u>3,529</u>	<u>- -</u>	<u>- -</u>	<u>3,529</u>
	\$ 632,193	\$ 50,131	\$ 1,000	\$ 683,324
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>24,214</u>	<u>(24,214)</u>	<u>- -</u>	<u>- -</u>
Total support and revenue	<u>\$ 656,407</u>	<u>\$ 25,917</u>	<u>\$ 1,000</u>	<u>\$ 683,324</u>
Expenses and losses:				
Program services:				
Grant to Elk Hill Farm	<u>\$ 158,215</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ 158,215</u>
Supporting services:				
Management and general	<u>\$ 25,287</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ 25,287</u>
Total expenses	<u>\$ 183,502</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ 183,502</u>
Change in net assets	\$ 472,905	\$ 25,917	\$ 1,000	\$ 499,822
Net assets, beginning of year	<u>2,704,444</u>	<u>62,516</u>	<u>649,466</u>	<u>3,416,426</u>
Net assets at end of year	<u>\$ 3,177,349</u>	<u>\$ 88,433</u>	<u>\$ 650,466</u>	<u>\$ 3,916,248</u>