

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

Goochland, Virginia

COMBINED FINANCIAL STATEMENTS

June 30, 2015

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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, 2015 and 2014, 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, 2015 and 2014, 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 7, 2015

ELK HILL FARM, INC. AND ELK HILL FARM FOUNDATION

Combined Statements of Financial Position

June 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash	\$ 1,814,982	\$ 1,610,479
Accounts receivable, net	1,087,068	947,226
Pledges receivable, net	629,177	613,661
Employee and other receivables	1,800	1,808
Prepaid expenses	<u>81,427</u>	<u>67,749</u>
Total current assets	<u>\$ 3,614,454</u>	<u>\$ 3,240,923</u>
Property and Equipment,		
less accumulated depreciation	<u>\$ 4,199,225</u>	<u>\$ 4,165,959</u>
Other Assets		
Pledges receivable, less current portion	\$ 424,140	\$ 1,002,119
Long-term investments	5,896,528	4,220,971
Security deposit	9,799	11,200
Cash surrender value of life insurance policies	<u>175,146</u>	<u>154,490</u>
Total other assets	<u>\$ 6,505,613</u>	<u>\$ 5,388,780</u>
Total assets	<u><u>\$ 14,319,292</u></u>	<u><u>\$ 12,795,662</u></u>
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 91,825	\$ 92,635
Accrued expenses	<u>273,555</u>	<u>245,615</u>
Total current liabilities	<u>\$ 365,380</u>	<u>\$ 338,250</u>
Long-Term Liabilities		
Deferred compensation	\$ 175,146	\$ 154,490
Gift annuity payable	<u>433</u>	<u>1,417</u>
Total long-term liabilities	<u>\$ 175,579</u>	<u>\$ 155,907</u>
Net Assets		
Unrestricted:		
Undesignated	\$ 7,288,674	\$ 6,712,564
Designated by board	2,323,769	2,745,864
Temporarily restricted	1,930,305	1,144,673
Permanently restricted	<u>2,235,585</u>	<u>1,698,404</u>
Total net assets	<u>\$ 13,778,333</u>	<u>\$ 12,301,505</u>
Total liabilities and net assets	<u><u>\$ 14,319,292</u></u>	<u><u>\$ 12,795,662</u></u>

See Notes to Financial Statements.

ELK HILL FARM, INC. AND ELK HILL FARM FOUNDATION

Combined Statement of Activities

Year Ended June 30, 2015

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 595,644	\$ 1,463,416	\$ 537,181	\$ 2,596,241
Tuition assistance and fees	5,689,218	--	--	5,689,218
Interest and dividends	87,431	9,733	--	97,164
Medicaid income	2,989,547	--	--	2,989,547
Change in value of split interest agreement	984	--	--	984
Unrealized and realized gains (losses)	<u>(56,354)</u>	<u>(6,274)</u>	<u>--</u>	<u>(62,628)</u>
	\$ 9,306,470	\$ 1,466,875	\$ 537,181	\$ 11,310,526
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	126,206	(126,206)	--	--
Satisfaction of time restriction	234,426	(234,426)	--	--
Satisfaction of program restrictions	<u>320,611</u>	<u>(320,611)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 9,987,713</u>	<u>\$ 785,632</u>	<u>\$ 537,181</u>	<u>\$ 11,310,526</u>
Expenses and losses:				
Program services:				
Community services	\$ 2,418,713	\$ --	\$ --	\$ 2,418,713
Schools	3,324,616	--	--	3,324,616
Residential services	<u>2,994,357</u>	<u>--</u>	<u>--</u>	<u>2,994,357</u>
Total program services	<u>\$ 8,737,686</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,737,686</u>
Supporting services:				
Management and general	\$ 683,089	\$ --	\$ --	\$ 683,089
Fundraising	<u>412,923</u>	<u>--</u>	<u>--</u>	<u>412,923</u>
Total supporting services	<u>\$ 1,096,012</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,096,012</u>
Total expenses	<u>\$ 9,833,698</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,833,698</u>
Change in net assets	\$ 154,015	\$ 785,632	\$ 537,181	\$ 1,476,828
Net assets, beginning of year	<u>9,458,428</u>	<u>1,144,673</u>	<u>1,698,404</u>	<u>12,301,505</u>
Net assets at end of year	<u>\$ 9,612,443</u>	<u>\$ 1,930,305</u>	<u>\$ 2,235,585</u>	<u>\$ 13,778,333</u>

See Notes to Financial Statements.

ELK HILL FARM, INC. AND ELK HILL FARM FOUNDATION

Combined Statement of Activities

Year Ended June 30, 2014

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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 Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ 1,476,828	\$ 2,523,066
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	399,901	371,903
(Gain) on sale of assets	--	(4,240)
Unrealized and realized loss (gain) on investments	62,628	(507,024)
Change in value of split interest agreement	(984)	(854)
Change in cash value of life insurance	(20,656)	(19,441)
(Increase) decrease in operating assets:		
Accounts receivable	(139,834)	(153,946)
Pledges receivable	562,463	(1,519,582)
Prepaid expenses	(13,678)	(17,419)
Security deposits	1,401	(7,000)
Increase (decrease) in operating liabilities:		
Accounts payable	(810)	8,469
Accrued expenses	27,940	(49,187)
Deferred compensation	20,656	19,441
Net cash provided by operating activities	\$ 2,375,855	\$ 644,186
Cash Flows from Investing Activities		
Purchase of property and equipment	\$ (433,167)	\$ (189,351)
Proceeds from the sale of property and equipment	--	4,240
Purchase of investments	(1,844,607)	(1,336,257)
Reinvested dividend and capital gain distributions	(30,364)	(15,748)
Proceeds from the sale of investments	136,786	1,491,498
Net cash (used in) investing activities	\$ (2,171,352)	\$ (45,618)
Net increase in cash	\$ 204,503	\$ 598,568
Cash		
Beginning of year	1,610,479	1,011,911
End of year	\$ 1,814,982	\$ 1,610,479

See Notes to Financial Statements.

ELK HILL FARM, INC. AND ELK HILL FARM FOUNDATION

Combined Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services				Supporting Services		
	Community Services	Schools	Residential Services	Total	Management and General	Fundraising	Total
Salaries	\$ 1,734,865	\$ 2,046,896	\$ 1,759,009	\$ 5,540,770	\$ 303,909	\$ 191,055	\$ 6,035,734
Employee health and retirement plan costs	140,234	224,016	255,161	619,411	47,106	12,253	678,770
Workers comp	69,204	90,576	76,447	236,227	6,078	8,020	250,325
Payroll taxes	141,173	159,895	137,251	438,319	33,430	14,603	486,352
Total salaries, benefits and taxes	\$ 2,085,476	\$ 2,521,383	\$ 2,227,868	\$ 6,834,727	\$ 390,523	\$ 225,931	\$ 7,451,181
Allowances	--	--	3,593	3,593	--	--	3,593
Clothing and personal	--	1,944	7,176	9,120	--	--	9,120
Professional services	40,582	29,661	105,171	175,414	97,971	21,028	294,413
Educational supplies	2,236	43,968	(86)	46,118	--	--	46,118
Utilities	24,307	123,943	81,901	230,151	--	3,208	233,359
Food	20,360	127,823	82,592	230,775	252	912	231,939
House supplies	14	985	22,142	23,141	--	2	23,143
Indirect Expenses	(413)	--	--	(413)	--	--	(413)
Insurance	--	--	--	--	112,857	--	112,857
Maintenance	29,611	86,838	111,342	227,791	--	6,784	234,575
Work pay	1,644	8,151	17,261	27,056	--	--	27,056
Medical and dental	45	3,171	16,668	19,884	--	--	19,884
Campaign Expenses	3,322	3,135	4,532	10,989	1,112	98,471	110,572
Postage	1,263	2,279	1,469	5,011	--	2,478	7,489
Printing	210	1,364	696	2,270	3,652	27,789	33,711
Recreation	25,871	11,869	40,516	78,256	--	203	78,459
Rent	27,650	116,321	50,652	194,623	--	--	194,623
Social services	--	130	6,009	6,139	--	--	6,139
Special events	3,073	2,927	3,043	9,043	--	2,015	11,058
Staff development	11,858	16,308	19,205	47,371	17,296	3,166	67,833
Office expenses	8,316	10,816	4,748	23,880	36,901	3,044	63,825
Contract transportation	--	44,091	--	44,091	--	--	44,091
Travel and transportation	24,294	33,078	46,783	104,155	22,525	2,492	129,172
Total expenses before depreciation	\$ 2,309,719	\$ 3,190,185	\$ 2,853,281	\$ 8,353,185	\$ 683,089	\$ 397,523	\$ 9,433,797
Depreciation and amortization	108,994	134,431	141,076	384,501	--	15,400	399,901
Total Program and Supporting Services Expenses	<u>\$ 2,418,713</u>	<u>\$ 3,324,616</u>	<u>\$ 2,994,357</u>	<u>\$ 8,737,686</u>	<u>\$ 683,089</u>	<u>\$ 412,923</u>	<u>\$ 9,833,698</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

	Program Services				Supporting Services		
	Community Services	Schools	Residential Services	Total	Management and General	Fundraising	Total
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**

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, 2015 and 2014, 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 \$3,577 and \$26,480 of receivables that it has deemed uncollectible at June 30, 2015 and 2014, 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, 2015 and 2014, 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:

2016	\$ 684,502
2017	132,776
2018	95,120
2019	60,120
2020	<u>198,355</u>
	\$ 1,170,873
Less discount	<u>(117,556)</u>
	<u>\$ 1,053,317</u>

Note 4. Property and Equipment

Property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 265,229	\$ 265,229
Buildings and leasehold improvements	6,907,626	6,864,059
Furniture, fixtures and equipment	980,272	1,123,747
Transportation equipment	<u>532,690</u>	<u>483,983</u>
	\$ 8,685,817	\$ 8,737,018
Less accumulated depreciation	<u>4,486,592</u>	<u>4,571,059</u>
	<u>\$ 4,199,225</u>	<u>\$ 4,165,959</u>

Depreciation and amortization expense for the year totaled \$399,901 and \$371,903 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 74,014	\$ 74,014	\$ 61,981	\$ 61,981
Limited partnerships	-	-	80,190	86,784
Equities	4,225,346	4,936,090	2,689,007	3,403,019
Bond mutual funds	921,226	886,424	653,547	669,187
	<u>\$ 5,220,586</u>	<u>\$ 5,896,528</u>	<u>\$ 3,484,725</u>	<u>\$ 4,220,971</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 \$109,674 and \$109,695 for the years ended June 30, 2015 and 2014, 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.

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

Notes to Combined Financial Statements

Note 8. Net Assets

Temporarily restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Scholarships	\$ 210,760	\$ 92,675
Property and equipment	179,728	305,934
Unrestricted pledges	531,728	469,533
Culinary arts	18,313	--
Charlottesville Day School	11,767	11,767
Accumulated endowment income	131,892	147,496
Education for Employment	57,306	106,181
School based mental health	55,000	--
Ball Cottage renovation	360,641	--
Early intervention	300,500	--
School Technology	25,000	--
Literacy	20,680	--
Other	26,990	11,087
	<u>\$ 1,930,305</u>	<u>\$ 1,144,673</u>

Permanently restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Scholarship endowment	\$ 590,646	\$ 589,746
General endowment	1,644,939	1,108,658
	<u>\$ 2,235,585</u>	<u>\$ 1,698,404</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.

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

Notes to Combined Financial Statements

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).

Changes in endowment net assets for the years ended June 30, 2015 and 2014 were as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Board Designated			
Endowment Net Assets, Beginning of Year	\$ 2,745,864	\$ 147,496	\$ 1,698,404	\$ 4,591,764
Investment income (loss)	--	3,459	--	3,459
Transfer	108,050	--	--	108,050
Contributions	507,389	--	537,181	1,044,570
Appropriation of endowment assets for expenditure	<u>(1,037,534)</u>	<u>(19,063)</u>	<u>--</u>	<u>(1,056,597)</u>
Endowment Net Assets, End of Year	<u>\$ 2,323,769</u>	<u>\$ 131,892</u>	<u>\$ 2,235,585</u>	<u>\$ 4,691,246</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Board Designated			
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>

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.

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

Notes to Combined Financial Statements

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.

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.

In March 2015, The Organization entered in a three year lease with Richmond Road Moore LLC. Payments are required in the amount of \$2,799 per month through February 2016, with a 3% rental increase per year. The lease provides for an additional 1 year renewal.

Total rent expense under these leases amounted to \$194,623 and \$149,455 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments at June 30, 2015, excluding the renewal periods, under these leases are as follows:

Year Ending June 30:	
2016	\$ 171,016
2017	144,016
2018	115,509
2019	94,543

Note 12. Fair Value Measurements

The following table presents the balance of financial assets measured at fair value on a reoccurring basis as of June 30, 2015 and 2014:

	Balance as of June 30, 2015	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Levels (Level 2)	Significant Other Unobservable Levels (Level 3)
Cash	\$ 74,014	\$ 74,014	\$ --	\$ --
Limited partnerships	--	--	--	--
Equities	4,936,090	4,936,090	--	--
Bond mutual funds	886,424	886,424	--	--
	<u>\$ 5,896,528</u>	<u>\$ 5,896,528</u>	<u>\$ --</u>	<u>\$ --</u>

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

Notes to Combined Financial Statements

	Balance as of June 30, 2014	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Levels (Level 2)	Significant Other Unobservable Levels (Level 3)
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>

Note 13. Outstanding Commitments

On October 11, 2011, the Organization entered into a 5-year service agreement for case management 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: 2016, \$19,200; and 2017, \$4,800.

On May 15, 2015 the Organization entered into a service agreement for new IT infrastructure including 3 network servers, and a Web Filter with 3 years of updates and installation costs. The amount of the agreement was \$46,673. The remaining balance of \$25,000 is due in fiscal year 2016.

On April 27, 2015 the Organization entered into an agreement to renovate portions of its administrative offices, which are located on historic property. The remaining balance of \$13,000 will be due in fiscal year 2016.

Note 14. Subsequent Events

The Organization has evaluated all subsequent events through October 7, 2015, 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, 2015 and 2014, and have issued our report thereon, dated October 7, 2015, 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 7, 2015.

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 7, 2015

ELK HILL FARM, INC.

Statements of Financial Position

June 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash	\$ 1,814,982	\$ 1,610,479
Accounts receivable, net	1,087,068	947,226
Current pledges receivable, net	364,249	201,686
Employee and other receivables	1,800	1,808
Prepaid expenses	81,427	67,749
Total current assets	<u>\$ 3,349,526</u>	<u>\$ 2,828,948</u>
Property and Equipment		
Less accumulated depreciation	<u>\$ 4,199,225</u>	<u>\$ 4,165,959</u>
Other Assets		
Pledges receivable, less current portion	\$ 173,616	\$ 177,846
Security deposit	9,799	11,200
Cash surrender value of life insurance policies	175,146	154,490
	<u>\$ 358,561</u>	<u>\$ 343,536</u>
Total assets	<u>\$ 7,907,312</u>	<u>\$ 7,338,443</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 91,825	\$ 92,635
Accrued expenses	273,555	245,615
Total current liabilities	<u>\$ 365,380</u>	<u>\$ 338,250</u>
Long-Term Liabilities		
Deferred compensation	\$ 175,146	\$ 154,490
Due to Foundation	109,258	367,665
Total long-term liabilities	<u>\$ 284,404</u>	<u>\$ 522,155</u>
Net Assets		
Unrestricted:		
Undesignated	\$ 4,763,886	\$ 4,363,537
Designated by board	695,229	1,117,324
Temporarily restricted	1,798,413	997,177
	<u>\$ 7,257,528</u>	<u>\$ 6,478,038</u>
Total liabilities and net assets	<u>\$ 7,907,312</u>	<u>\$ 7,338,443</u>

ELK HILL FARM FOUNDATION

Statements of Financial Position

June 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Current pledges receivable, net	\$ 264,928	\$ 411,975
Other Assets		
Pledges receivable, less current portion	\$ 250,524	\$ 824,273
Long-term investments	5,896,528	4,220,971
Due from Elk Hill Farm	<u>109,258</u>	<u>367,665</u>
	<u>\$ 6,256,310</u>	<u>\$ 5,412,909</u>
Total assets	<u>\$ 6,521,238</u>	<u>\$ 5,824,884</u>
Liabilities and Net Assets		
Long-Term Liabilities		
Gift annuity payable	<u>\$ 433</u>	<u>\$ 1,417</u>
Net Assets		
Unrestricted:		
Undesignated	\$ 2,524,788	\$ 2,349,027
Designated by governing board	1,628,540	1,628,540
Temporarily restricted	131,892	147,496
Permanently restricted	<u>2,235,585</u>	<u>1,698,404</u>
	<u>\$ 6,520,805</u>	<u>\$ 5,823,467</u>
Total liabilities and net assets	<u>\$ 6,521,238</u>	<u>\$ 5,824,884</u>

ELK HILL FARM, INC.

Statement of Activities
Year Ended June 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 390,263	\$ 1,463,416	\$ --	\$ 1,853,679
Tuition assistance and fees	5,689,218	--	--	5,689,218
Medicaid income	<u>2,989,547</u>	<u>--</u>	<u>--</u>	<u>2,989,547</u>
	<u>\$ 9,069,028</u>	<u>\$ 1,463,416</u>	<u>\$ --</u>	<u>\$ 10,532,444</u>
Net assets released from restrictions:				
Satisfaction of restrictions for property and equipment	126,206	(126,206)	--	--
Satisfaction of time restriction	234,426	(234,426)	--	--
Satisfaction of program restrictions	<u>301,548</u>	<u>(301,548)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 9,731,208</u>	<u>\$ 801,236</u>	<u>\$ --</u>	<u>\$ 10,532,444</u>
Expenses:				
Program services:				
Community services	\$ 2,418,713	\$ --	\$ --	\$ 2,418,713
Schools	3,324,616	--	--	3,324,616
Residential services	<u>2,996,946</u>	<u>--</u>	<u>--</u>	<u>2,996,946</u>
Total program services	<u>\$ 8,740,275</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,740,275</u>
Supporting services:				
Management and general	\$ 599,756	\$ --	\$ --	\$ 599,756
Fundraising	<u>412,923</u>	<u>--</u>	<u>--</u>	<u>412,923</u>
Total supporting services	<u>\$ 1,012,679</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,012,679</u>
Total expenses	<u>\$ 9,752,954</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,752,954</u>
Change in net assets	\$ (21,746)	\$ 801,236	\$ --	\$ 779,490
Net assets, beginning of year	<u>5,480,861</u>	<u>997,177</u>	<u>--</u>	<u>6,478,038</u>
Net assets at end of year	<u>\$ 5,459,115</u>	<u>\$ 1,798,413</u>	<u>\$ --</u>	<u>\$ 7,257,528</u>

ELK HILL FARM, INC.

Statement of Activities
Year Ended June 30, 2014

	2014			
	<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 FOUNDATION

Statement of Activities
Year Ended June 30, 2015

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributions	\$ 395,692	\$ --	\$ 537,181	\$ 932,873
Interest and dividends	87,431	9,733	--	97,164
Change in value of split interest agreement	984	--	--	984
Unrealized and realized gains (losses)	(56,354)	(6,274)	--	(62,628)
Other revenue	<u>2,589</u>	<u>--</u>	<u>--</u>	<u>2,589</u>
	\$ 430,342	\$ 3,459	\$ 537,181	\$ 970,982
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>19,063</u>	<u>(19,063)</u>	<u>--</u>	<u>--</u>
Total support and revenue	<u>\$ 449,405</u>	<u>\$ (15,604)</u>	<u>\$ 537,181</u>	<u>\$ 970,982</u>
Expenses and losses:				
Program services:				
Grant to Elk Hill Farm	<u>\$ 190,311</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 190,311</u>
Supporting services:				
Management and general	<u>\$ 83,333</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 83,333</u>
Total expenses	<u>\$ 273,644</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 273,644</u>
Change in net assets	\$ 175,761	\$ (15,604)	\$ 537,181	\$ 697,338
Net assets, beginning of year	<u>3,977,567</u>	<u>147,496</u>	<u>1,698,404</u>	<u>5,823,467</u>
Net assets at end of year	<u>\$ 4,153,328</u>	<u>\$ 131,892</u>	<u>\$ 2,235,585</u>	<u>\$ 6,520,805</u>

ELK HILL FARM FOUNDATION

Statement of Activities
Year Ended June 30, 2014

	2014			
	<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>