

THE GAVIN FOUNDATION, INC.

Uniform Financial Statements

June 30, 2009

THE GAVIN FOUNDATION, INC.

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June 30, 2009

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Kevin P. Martin & Associates, P.C.

Independent Auditors' Report

To the Board of Directors of
The Gavin Foundation, Inc.

We have audited the accompanying statement of financial position of The Gavin Foundation, Inc. (the Agency, a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Agency as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2009, on our consideration of Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Kevin P. Martin & Associates, P.C.".

Braintree, Massachusetts
November 6, 2009



Kevin P. Martin & Associates, P.C.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
The Gavin Foundation, Inc.

We have audited the financial statements of The Gavin Foundation, Inc. (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Gavin Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Gavin Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Gavin Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Muir P. Martini & Chute P.C.

Braintree, Massachusetts
November 6, 2009

ORGANIZATION : THE GAVIN FOUNDATION, INC.

FEIN: 043220123

STATEMENT OF FINANCIAL POSITION AS OF 06/30/2009
(BALANCE SHEET)

WITH COMPARATIVE TOTALS AS OF

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
ASSETS						
1 Cash and Cash Equivalents	615,766				615,766	
2 Accounts Receivable, Program Services	89,244				89,244	
3 Allowance for Doubtful Accounts						
4 Net Accounts Receivable, Program Services	89,244				89,244	
5 Contributions Receivable	91,748				91,748	
6 Notes Receivable						
7 Prepaid Expenses	61,138				61,138	
8 Other Accounts Receivable	34,077				34,077	
9 Other Current Assets						
10 Short-Term Investments						
11 TOTAL CURRENT ASSETS	891,973				891,973	
12 Land, Buildings, and Equipment		1,269,983			1,269,983	
13 Accumulated Depreciation		(1,019,612)			(1,019,612)	
14 Net Land, Buildings and Equipment		250,371			250,371	
15 Long-Term Investments	337				337	
16 Other Assets	14,501				14,501	
17 Due From Other Funds						
18 TOTAL ASSETS	906,811	250,371			1,157,182	
LIABILITIES AND NET ASSETS						
19 Accounts Payable	3,418				3,418	
20 Subcontract Payable						
21 Accrued Expenses	78,410				78,410	
22 Current Notes Payable						
23 Current Portion Long-Term Debt		51,342			51,342	
24 Deferred Revenue	8,650				8,650	
25 Other Current Liabilities						
26 TOTAL CURRENT LIABILITIES	90,478	51,342			141,820	
27 Long-Term Notes & Mortgage Payable		85,166			85,166	
28 Other Liabilities						
29 Due to Other Funds						
30 TOTAL LIABILITIES	90,478	136,508			226,986	
NET ASSETS						
31 Unrestricted	816,333	113,863			930,196	
32 Temporarily Restricted						
33 Permanently Restricted						
34 TOTAL NET ASSETS	816,333	113,863			930,196	
35 TOTAL LIABILITIES AND NET ASSETS	906,811	250,371			1,157,182	

See Accompanying Notes to the Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC.

FEIN: 043220123

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 06/30/2009 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
REVENUES, GAINS, AND OTHER SUPPORT					
1 Contributions, Gifts, Legacies, Bequests & Special Events	419,793			419,793	
2 In-Kind Contributions	131,247			131,247	
3 Grants					
4 Program Service Fees	2,230,249			2,230,249	
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	8,152			8,152	
7 Revenue from Commercial Products & Services					
8 Other	3,932			3,932	
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions					
11 Satisfaction of Equipment Acquisition Restrictions					
12 Expiration of Time Restrictions					
13 TOTAL REVENUE, GAINS, AND OTHER SUPPORT	2,793,373			2,793,373	
EXPENSES AND LOSSES					
14 Administration (Management & General)	196,811			196,811	
15 Fundraising					
16 Total Program Services	2,691,159			2,691,159	
17 TOTAL EXPENSES	2,887,970			2,887,970	
18 Losses					
19 TOTAL EXPENSES AND LOSSES	2,887,970			2,887,970	
CHANGES IN NET ASSETS:					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)					
24 TOTAL CHANGES IN NET ASSETS	(94,597)			(94,597)	
25 NET ASSETS AT BEGINNING OF YEAR	1,024,793			1,024,793	
26 NET ASSETS AT END OF YEAR	930,196			930,196	

See Accompanying Notes to Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC.

FEIN: 043220123

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2009

INDIRECT METHOD

	TOTAL
Cash Flows from Operating Activities:	
1 Changes in Net Assets	(94,597)
Adjustments to Reconcile Change In Net Assets to Net	
Cash provided by/(used in) Operating Activities:	
2 Depreciation	103,163
3 Losses	
4 Increase/Decrease in Net Accounts Receivable	37,258
5 Increase/Decrease in Prepaid Expenses	115
6 Increase/Decrease in Contributions Receivable	(73,673)
7 Increase/Decrease in Accounts Payable	(11,940)
8 Increase/Decrease in Accrued Expenses	22,112
9 Increase/Decrease in Deferred Revenue	8,650
10 Increase/Decrease in Subcontract Payable	
11 Contributions Restricted for Long-Term Investment	
12 Net Unrealized and Realized Gains on Long-Term Investments	191
13 Other Cash Used in/Provided by Operating Activities	(39,675)
14 Net Cash Provided by/(used in) Operating Activities	(48,396)
Cash Flows from Investing Activities:	
15 Insurance Proceeds	
16 Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	
17 Proceeds from Sale(s) of Investments	
18 Purchase(s) of Investments	
19 Purchase(s) of Assets Restricted To Long-Term Investment	
20 Other Investing Activities	
21 Net Cash Provided by/(used in) Investing Activities	
Cash from Financing Activities:	
Proceeds from Contributions Restricted For:	
22 Investment in Endowment	
23 Investment in Term Endowment	
24 Investment in Plant (Land Bldgs. & Equip.)	
Other Financing Activities:	
25 Contributions Restricted for Long-Term Investment	
26 Interest and Dividends Restricted for Reinvestment	
27 Payments on Notes Payable	
28 Payments on Long-Term Debt	(48,081)
29 Other Finance Payments/Receipts	
30 Net Cash Provided by/(used in) Financing Activities	(48,081)

See Accompanying Notes to the Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC.

FEIN: 043220123

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2009

INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	(96,477)
32	Cash and Cash Equivalents at Beginning of Year	712,243
33	Cash and Cash Equivalents at End of Year	615,766

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	10,648
35	Cash Paid During the Year for Taxes/Other	

Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	
37	Other Noncash Investing and Financing Activities	
38	See Financial Statements Note 8	
39		
40		

See Accompanying Notes to the Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC. FEIN: 043220123

Statement of Functional Expenses for the Year Ended: 06/30/2009

	TOTALS	SUPPORTING SERVICES		PROGRAM SERVICES
		ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	1,868,876	18,867		1,850,009
2. Occupancy	531,162	120,827		410,335
3. Other Program / Operating Expense	291,862	9,360		282,502
4. Subcontract Expense				
5. Direct Administrative Expense	77,504	37,756		39,748
6. Other Expenses	15,403	10,001		5,402
7. Depreciation of Buildings and Equipment	103,163			103,163
8. TOTAL EXPENSES	2,887,970	196,811		2,691,159

See Accompanying Notes to Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC. FEIN: 043220123

Statement of Functional Expenses for the Year Ended: 06/30/09

	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #
	<u>1</u>	<u>2</u>	<u>6</u>	<u>32</u>	<u>33</u>
1. Employee Compensation & Related Expenses	<u>434,379</u>		<u>836,367</u>	<u>214,578</u>	<u>86,911</u>
2. Occupancy	<u>120,250</u>	<u>26,218</u>	<u>213,675</u>	<u>42,692</u>	
3. Other Program / Operating Expense	<u>106,295</u>	<u>1,430</u>	<u>131,885</u>	<u>1,545</u>	<u>125</u>
4. Subcontract Expense					
5. Direct Administrative Expense	<u>18,843</u>	<u>726</u>	<u>20,179</u>		
6. Other Expenses	<u>3,412</u>		<u>1,243</u>	<u>747</u>	
7. Depreciation of Buildings and Equipment	<u>13,601</u>	<u>1,256</u>	<u>88,306</u>		
8. TOTAL EXPENSES	<u>696,780</u>	<u>29,630</u>	<u>1,291,655</u>	<u>259,562</u>	<u>87,036</u>

See Accompanying Notes to Financial Statements

ORGANIZATION : THE GAVIN FOUNDATION, INC. FEIN: 043220123

Statement of Functional Expenses for the Year Ended: 06/30/09

	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #
	<u>6A</u>	<u>34</u>	<u></u>	<u></u>	<u></u>
1. Employee Compensation & Related Expenses	<u>203,735</u>	<u>74,039</u>	<u></u>	<u></u>	<u></u>
2. Occupancy	<u></u>	<u>7,500</u>	<u></u>	<u></u>	<u></u>
3. Other Program / Operating Expense	<u>29,722</u>	<u>11,500</u>	<u></u>	<u></u>	<u></u>
4. Subcontract Expense	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
5. Direct Administrative Expense	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
6. Other Expenses	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
7. Depreciation of Buildings and Equipment	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
8. TOTAL EXPENSES	<u>233,457</u>	<u>93,039</u>	<u></u>	<u></u>	<u></u>

See Accompanying Notes to Financial Statements

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

Effective July 1, 2008, The Gavin Foundation, Inc. (the Agency) merged with Arch Foundation, Inc. The Agencies are known as The Gavin Foundation, Inc. As of the date of the merger total assets and liabilities totaled \$1,281,038 and \$256,245, respectively.

The Agency provides housing, counseling and support services for alcoholics and recovering alcoholics located in the South Boston area of Massachusetts and surrounding communities.

The majority of the Agency's services are provided to Greater Boston residents. The following program divisions are listed in order of relative importance based on total expenditures:

Gavin House - The Gavin House is an intensive substance abuse recovery home program which provides individual and group counseling, advocacy, vocational and educational services, medical consultation and substance abuse education to individuals in Boston and the surrounding communities who have recently achieved sobriety and require rehabilitative services to strengthen and maintain their sobriety. A substantial amount of the revenue of this program is derived from services delivered to the Commonwealth of Massachusetts through the Department of Public Health. The Gavin House is located in South Boston, Massachusetts. The Gavin House program accounts for approximately 26% of total program expenditures.

Graduate Center - The Graduate Center Program provides residence to graduates of the Gavin House. Substantially all of the revenue of this program is derived from client resources. These services are provided in South Boston, Massachusetts. The Residential Services program accounts for approximately 1% of total program expenditures.

Cushing House - Cushing House provides a stabilizing transitional care residence for substance abusing young men and women who are unable to be served in a less restrictive facility. Residents have evidence of difficulty with transitional institutions and/or some experience with the court, social service or youth services system. The program has been designed using the concepts of self-help, goal orientation, peer support, mentoring and group work in conjunction with clinical services. The Cushing House program accounted for approximately 57% of total program expenditures.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(a) *Nature of Activities - continued*

Total Immersion - Total Immersion Program (TIP) provides effective intervention and sanction for high risk offenders whose background shows a history of violence and abusive use of alcohol; provides an alternative treatment program that is both restrictive and rehabilitative which will assist the court in its disposition of violent offender cases; provides work on a collaborative basis with the Probation Department of South Boston District Court to maximize the safety of the victim, family and/or children by closely monitoring the supervision and rehabilitative plan designed for the high risk offender; provides services for male and female defendants that have been arraigned for crimes against an individual in which alcohol and drug abuse are considered factors, which begins with referrals from the court and probation department, involving a structured comprehensive assessment; provides training of probation officers, correction officers, substance abuse counselors and any jurisdiction interested in replicating the program. TIP accounted for approximately 10% of total program expenditures.

Ostiguy - The Ostiguy program provides a full time certified drug and alcohol counselor who works with the rest of the staff of the William J. Ostiguy Recovery High School to create and maintain a recovery culture. The Ostiguy program accounted for approximately 3% of total program expenditures.

Speakers of Hope - The Speakers of Hope program's purpose is to educate teens and preteens on the effects of alcohol and drug abuse by using public figures and young adults who have been affected by drug and alcohol use who have turned their life around. The Speakers program accounted for approximately 3% of total program expenditures.

(b) *Basis of Presentation*

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts. Investment income, realized and unrealized gains and losses on investments, net of related management fees are reported as non-operating revenue because such assets are managed for long-term stabilization of the Agency's activities.

The financial statements are presented in a format prescribed by the Commonwealth of Massachusetts, Operational Services Division.

(c) *Income Taxes*

The Agency qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore is not subject to income tax. The Agency is not a private foundation under Section 509(a)(1). Certain unrelated business income, as defined in the Internal Revenue Code, is subject to federal income tax. For the year ended June 30, 2009, there was no liability for tax on unrelated business income.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(c) *Income Taxes - continued*

The Agency has elected to defer the application of FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) as permitted by FSP FIN 48-3, until the fiscal year ending June 30, 2010. FIN 48 requires that a tax position be recognized or derecognized based on a more than likely or not threshold. This applies to positions taken or expected to be taken in the tax return. The Agency regularly assesses the potential settlement outcomes resulting from income tax examinations. The Agency does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Agency's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which not-for-profit organizations such as the Agency will need to apply the provisions of FIN 48.

(d) *Standards of Accounting and Reporting*

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (permanently restricted, temporarily restricted and unrestricted) and the statement of activities displays the amounts of change in each of those classes of net assets.

The two classes of net assets applicable to the Agency are presented as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and investment income whose restrictions are met in the same reporting period are recorded as unrestricted net assets.

(e) *Cash and Cash Equivalents*

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Agency maintains its cash deposit balances in banks and financial institutions located in Massachusetts. At June 30, 2009, cash and deposit balances maintained with Merrill Lynch amounted to \$438,949.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(f) Current Operations Fund and Plant Fund

To ensure observance of limitations and restrictions placed on use of resources available to the Agency, the accounts of the Agency are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Agency are reported in two self-balancing fund groups as follows:

Current Operations Fund - Includes unrestricted and restricted resources. The unrestricted fund represents resources currently available for use, while the restricted fund represents funds available for use under certain conditions.

Plant Fund - Represents resources both unrestricted and restricted for acquiring or replacing land, buildings or equipment and the accumulated net investment in property and equipment.

(g) Accounts Receivable

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. As of June 30, 2009, management has determined any allowance would be immaterial.

The Agency does not have a policy to accrue interest on accounts receivable. Contracts are written off upon notification by the government and/or non-profit entity that amounts are uncollectible.

The Agency has no policies requiring collateral or other security to secure the accounts receivable. As of June 30, 2009, substantially all of the Agency's trade receivables were due from governmental agencies in Massachusetts.

(h) Revenue Recognition

The Agency earns revenue as follows:

Program Service Fees - Program service fee revenue is earned and recognized by the Agency when units or services are provided and billed under various agreements funded primarily by governmental agencies. Under the cost-reimbursement contracts, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(h) Revenue Recognition - continued

Grants - Grants are recorded as revenue as costs related to the services provided are incurred.

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged at various sponsored events. Special event contributions and fees are recognized as income when received. The majority of special event revenue is derived from the John Dorsey Jack Leary Open Golf event and the Open Hearts Open Homes event. Revenue derived from the events, net of expenses, totaled approximately \$12,577 and \$71,269, respectively.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts. During the year ended June 30, 2009, the Agency derived approximately 75% of its total revenue from governmental agencies and 25% from foundations and individual donors. All revenue is recorded at the estimated net realizable amounts.

(i) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Payroll and associated costs are allocated to functions based upon time studies. Occupancy costs are allocated based upon square footage.

(j) Advertising Costs

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2009.

(k) Donated Facilities

The fair value of donated facilities was \$82,968 for the year ended June 30, 2009. Amounts are reflected as revenue from contributions and are included with program expenses in the accompanying financial statements and are recorded at the estimated fair value at the date of receipt.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(l) *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 certain reported amounts and disclosures. Actual results could differ from those estimates.

(m) *Subsequent Events*

The Agency has performed an evaluation of subsequent events through November 6, 2009, which is the date the Agency's financial statements were issued. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in these financial statements.

(n) *Fair Value Measurements*

Effective January 1, 2008, the Agency determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in the accordance with generally accepted accounting principles for *Fair Value Measurements* (formally known as Statement of Financial Accounting Standard ("SFAS") SFAS No. 157, "*Fair Value Measurements*" ("SFAS No. 157").

Level 1: Quoted prices in active markets for identical assets or liabilities. The Agency's Level 1 assets include short term and long term investments which are measured at fair value on a recurring basis.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 asset includes the fair value of contributed services and property.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include items where the determination of fair value requires significant management judgment or estimation. The Agency currently has no Level 3 assets or liabilities that are measured at fair value on a recurring basis.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(n) Fair Value Measurements - continued

Pursuant to the Financial Accounting Standards Boards (“FASB”) Staff Position No. 157-2, “*Effective Date of FASB Statement No.157*”, the effective date of SFAS No. 157 for certain non-financial assets and liabilities that are measured at fair value but are recognized or disclosed at fair value on a non-recurring basis has been deferred to fiscal years beginning after November 15, 2008. The Agency is primarily impacted by this deferral as it relates to non-financial assets and liabilities initially measured at fair value measurements in impairment testing. The Agency will adopt these remaining provisions of SFAS No. 157 effective January 1, 2009. The Agency does not expect the impact to be significant on its financial position, results of operations and cash flows.

The following table represents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of June 30, 2009.

	Fair Value Measurements on a Recurring Basis as of June 30, 2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ <u>337</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>337</u>

The Agency’s financial instruments include cash and cash equivalents, accounts receivables, accounts payable, accrued expenses and deferred revenue. The carrying amount of these financial instruments approximates their fair value due to their short maturities.

(o) Fixed Assets and Depreciation

Leasehold improvements, equipment, furniture and automobiles are recorded at cost or, if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies - continued

(o) Fixed Assets and Depreciation - continued

The Agency computes depreciation using the straight-line method over the following estimated lives:

Buildings	40 years
Building improvements	5-20 years
Leasehold improvements	5 years
Equipment	3-20 years
Furniture and fixtures	3-7 years
Automobiles	5 years

(p) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Agency. Immaterial amounts of fundraising are included in administration expenses.

(q) Special Events

The Agency has determined that special events are incidental to its operations and therefore has reported the gross special event revenue net of direct costs of benefit to the donors.

(2) Property and Equipment

Property and equipment consists of the following as of June 30, 2009:

Land	7,000
Buildings	106,122
Building improvements	287,353
Leasehold improvements	596,869
Equipment	68,552
Furniture and fixtures	117,668
Automobiles	<u>86,419</u>

\$ 1,269,983

Depreciation amounted to \$103,163 for the year ended June 30, 2009.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(3) Debt

The Agency has a note payable to Mount Washington Cooperative Bank in the original amount of \$210,000. The note is due in monthly installments of \$4,060 and bears interest at 6%. The final payment on the note is due in August 2010. The note is secured by all assets of the Agency. The Agency must operate at breakeven or surplus at the end of each fiscal year. At June 30, 2009, the principal balance due was \$53,696.

The Agency has a mortgage note payable to Mount Washington Cooperative Bank in the original amount of \$120,000. The note is secured by property at 851 East Fourth Street, South Boston. The note is due in monthly installments of \$834 and bears interest at 6.625% per annum. The final payment on the note is due in July 2021. At June 30, 2009, the principal balance due was \$82,812.

The minimum future payments of the notes are:

2010	\$ 51,342
2011	11,949
2012	5,294
2013	5,656
2014	6,042

Interest expense on all debt amounted to \$10,648 for the year ended June 30, 2009.

(4) Operating Lease Commitments

The Agency occupies program space under non-cancelable, operating lease agreements with various expiration dates through 2010. The Agency is also liable for certain real estate tax increases and operating cost adjustments under the office lease terms. Rent expense is being recorded on the straight-line basis by using the total amount of payments due over the extended life of the lease. Upon entering into these lease agreements, the Agency paid security deposits totaling \$12,500, which are included in other assets in the statement of financial position.

The minimum annual operating non-cancelable lease commitments on property for the Agency are as follows:

2010	\$ 86,872
2011	15,000

Rent expense for the year ended June 30, 2009 was \$215,279.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(5) Employee Benefits

Defined Contribution Plan

The Agency has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b)(7) of the Internal Revenue Code for the benefit of eligible employees. Salaried employees with 1,000 hours or more of service during any consecutive 12-month period commencing with date of employment, or anniversary date, are eligible to participate in this plan. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. The Agency's contributions under this plan amounted to \$23,095 for the year ended June 30, 2009.

(6) Related Party Transactions

During the year ended June 30, 2009, the Agency paid a Company \$12,000, to a company in which a member of the Board of Directors has ownership interest, for use of program space in Quincy, Massachusetts.

During the year ended June 30, 2009, the Agency paid a Company \$4,235, to a company in which a member of the Board of Directors has ownership interest

(7) Commitments and Contingencies

The Agency receives a portion of its funding from governmental agencies under cost reimbursement programs. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

Massachusetts Department of Public Health
Massachusetts Operational Services Division
City of Boston

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by the Commonwealth of Massachusetts Departments listed above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

THE GAVIN FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009

(8) Non Cash Investing and Financing Transactions

As disclosed in Note 1, the Agency was formed as a result of the merger of The Gavin Foundation, Inc. and Arch Foundation, Inc. All assets and liabilities for Arch Foundation, Inc. were transferred, resulting in non cash transactions of \$186,353 in assets and \$101,908 in liabilities.

(9) Not-for-Profit Provider Surplus Revenue Retention

The Agency has no liability to the Commonwealth of Massachusetts under the Division of Purchased Services "Surplus Revenue Retention Policy" pursuant to 808 CMR 1.19(3). In accordance with this policy, the Agency is entitled to retain an annual net surplus of up to five percent (5%) per year of the total revenue attributable to Commonwealth purchasing agencies. The cumulative amount retained may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retained net asset.

Such surplus may be retained as unrestricted net assets to further its charitable purposes, provided that no portion of the surplus be used for any non-reimbursable cost set forth in 808 CMR 1.15.

The following is an analysis of the Agency's deficit revenue retention net asset pool included in unrestricted net assets:

	<u>Amount</u>	<u>Percent</u>
Cumulative Deficit, June 30, 2008	\$ (912,388)	
2009 Surplus	<u>(68,367)</u>	3.26%
Cumulative Deficit, June 30, 2009	\$ <u>(980,755)</u>	

THE GAVIN FOUNDATION, INC.

Schedule of Findings and Questioned Costs

June 30, 2009

(1) Financial Statement Findings

No significant deficiencies or material weaknesses reported.

(2) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.