

FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

PHOENIX HOUSES OF NEW ENGLAND, INC.

For the years ended June 30, 2010 and 2009

CONTENTS

Report of Independent Certified Public Accountants	1
Financial Statements:	
Statements of Financial Position as of June 30, 2010 and 2009	2
Statement of Activities for the year ended June 30, 2010	3
Statement of Activities for the year ended June 30, 2009	4
Statement of Functional Expenses for the year ended June 30, 2010	5
Statement of Functional Expenses for the year ended June 30, 2009	6
Statements of Cash Flows for the years ended June 30, 2010 and 2009	7
Notes to Financial Statements	8-18

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Phoenix Houses of New England, Inc.:

We have audited the accompanying statements of financial position of Phoenix Houses of New England, Inc. (“PH New England”) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of PH New England’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 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 PH New England’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Houses of New England, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



New York, New York
October 19, 2010

Phoenix Houses of New England, Inc.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 336,264	\$ 148,523
Due from government agencies, net of allowance of approximately \$182,000 and \$95,000 in 2010 and 2009, respectively	1,970,848	2,335,550
Contributions receivable, net (Note D)	146,997	179,482
Other receivables, net of allowance of approximately \$110,000 and \$58,000 in 2010 and 2009, respectively	382,703	420,556
Prepaid expenses and other assets	227,790	201,287
Property and equipment, net (Notes E and F)	4,897,992	4,950,452
Total assets	<u>\$ 7,962,594</u>	<u>\$ 8,235,850</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,052,845	\$ 1,069,285
Due to government agencies	79,258	89,468
Due to Parent (Note C)	1,413,527	1,783,274
Long-term debt (Note F)	310,465	325,423
Long-term debt to Parent (Notes C and F)	218,111	488,111
Total liabilities	<u>3,074,206</u>	<u>3,755,561</u>
Commitments and contingencies (Note J)		
Net assets:		
Unrestricted	4,611,539	4,230,039
Temporarily restricted (Note H)	276,849	250,250
Total net assets	<u>4,888,388</u>	<u>4,480,289</u>
Total liabilities and net assets	<u>\$ 7,962,594</u>	<u>\$ 8,235,850</u>

The accompanying notes are an integral part of these statements.

Phoenix Houses of New England, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating revenues and support:			
Government contract revenue	\$ 13,076,338	\$ -	\$ 13,076,338
Client and third-party revenue (Note G)	4,309,642	-	4,309,642
Donated goods	277,916	-	277,916
Grants and contributions	79,373	89,399	168,772
Special events revenue, net of costs of direct benefits to donors of approximately \$21,000	119,047	-	119,047
Other revenue	51,973	-	51,973
Net assets released from restrictions	63,189	(63,189)	-
	<u>17,977,478</u>	<u>26,210</u>	<u>18,003,688</u>
Total operating revenues and support			
Operating expenses:			
Program services	14,960,903	-	14,960,903
Supporting services	2,601,848	-	2,601,848
	<u>17,562,751</u>	<u>-</u>	<u>17,562,751</u>
Total operating expenses			
Changes in net assets from operating activities	414,727	26,210	440,937
Nonoperating activities:			
Contributions - capital	-	17,793	17,793
Depreciation - non-operational	(50,631)	-	(50,631)
Net assets released - capital expenditures	17,404	(17,404)	-
Government grants	483,193	-	483,193
Other	(483,193)	-	(483,193)
	<u>(33,227)</u>	<u>389</u>	<u>(32,838)</u>
Total nonoperating activities			
Changes in net assets	381,500	26,599	408,099
Net assets, beginning of year	<u>4,230,039</u>	<u>250,250</u>	<u>4,480,289</u>
Net assets, end of year	<u>\$ 4,611,539</u>	<u>\$ 276,849</u>	<u>\$ 4,888,388</u>

The accompanying notes are an integral part of this statement.

Phoenix Houses of New England, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Operating revenues and support:			
Government contract revenue	\$ 11,930,249	\$ -	\$ 11,930,249
Client and third-party revenue (Note G)	4,417,155	-	4,417,155
Donated goods	260,970	-	260,970
Grants and contributions	102,693	33,490	136,183
Special event revenue, net of costs of direct benefits to donors of approximately \$16,000	138,890	-	138,890
Other revenue	38,098	-	38,098
Net assets released from restrictions	63,298	(63,298)	-
	<u>16,951,353</u>	<u>(29,808)</u>	<u>16,921,545</u>
Total operating revenues and support			
Operating expenses:			
Program services	14,247,819	-	14,247,819
Supporting services	2,246,906	-	2,246,906
	<u>16,494,725</u>	<u>-</u>	<u>16,494,725</u>
Total operating expenses			
Changes in net assets from operating activities	456,628	(29,808)	426,820
Nonoperating activities:			
Contributions - capital	-	5,498	5,498
Depreciation - non-operational	(51,269)	-	(51,269)
Net assets released - capital expenditures	181,542	(181,542)	-
	<u>130,273</u>	<u>(176,044)</u>	<u>(45,771)</u>
Total nonoperating activities			
Changes in net assets	586,901	(205,852)	381,049
Net assets, beginning of year	<u>3,643,138</u>	<u>456,102</u>	<u>4,099,240</u>
Net assets, end of year	<u>\$ 4,230,039</u>	<u>\$ 250,250</u>	<u>\$ 4,480,289</u>

The accompanying notes are an integral part of this statement.

Phoenix Houses of New England, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

	Program Services				Supporting Services					Total
	Residential Treatment Services	Ambulatory Treatment Services	Healthcare Services	Prevention and Education Services	Total	Administration and General	Fund-Raising	Costs of Direct Benefits to Donors	Total	
Salaries	\$ 5,065,385	\$ 2,374,921	\$ 581,451	\$ 204,362	\$ 8,226,119	\$ 1,010,250	\$ 27,559	\$ -	\$ 1,037,809	\$ 9,263,928
Employee benefits and payroll taxes	1,284,633	607,735	146,907	51,173	2,090,448	295,400	7,052	-	302,452	2,392,900
Consulting and contractual services	272,691	195,959	70,918	4,624	544,192	198,439	51,875	-	250,314	794,506
Resident sustenance	680,687	9,697	30,843	551	721,778	123	-	11,337	11,460	733,238
Occupancy costs	849,323	104,159	29,820	4,619	987,921	97,092	18,404	494	115,990	1,103,911
Vehicle costs	170,751	33,837	9,788	-	214,376	68,420	-	-	68,420	282,796
Communications	237,672	69,579	12,893	2,292	322,436	41,494	5,837	-	47,331	369,767
Office and program supplies	393,323	56,543	57,375	3,793	511,034	59,297	17,972	1,936	79,205	590,239
Insurance	144,029	42,055	8,328	2,669	197,081	30,767	356	-	31,123	228,204
Travel	66,594	60,588	28,700	2,122	158,004	48,076	1,949	1,320	51,345	209,349
Interest	29,813	-	-	-	29,813	2,867	-	-	2,867	32,680
Miscellaneous	153,613	37,551	3,560	1,314	196,038	56,775	4,159	6,294	67,228	263,266
Repairs and maintenance	283,464	22,414	15,947	-	321,825	10,491	841	-	11,332	333,157
Depreciation and amortization	374,551	39,938	25,349	-	439,838	32,962	1,391	-	34,353	474,191
Administrative charges from Parent	-	-	-	-	-	512,000	-	-	512,000	512,000
Total functional expenses	10,006,529	3,654,976	1,021,879	277,519	14,960,903	2,464,453	137,395	21,381	2,623,229	17,584,132
Less: Costs of direct benefits to donors for special events	-	-	-	-	-	-	-	(21,381)	(21,381)	(21,381)
Total expenses reported by function	\$ 10,006,529	\$ 3,654,976	\$ 1,021,879	\$ 277,519	\$ 14,960,903	\$ 2,464,453	\$ 137,395	\$ -	\$ 2,601,848	\$ 17,562,751

The accompanying notes are an integral part of this statement.

Phoenix Houses of New England, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2009

	Program Services					Supporting Services				Total
	Residential Treatment Services	Ambulatory Treatment Services	Healthcare Services	Prevention and Education Services	Total	Administration and General	Fund-Raising	Costs of Direct Benefits to Donors	Total	
Salaries	\$ 4,890,982	\$ 2,167,468	\$ 632,747	\$ 198,105	\$ 7,889,302	\$ 943,871	\$ 28,519	\$ -	\$ 972,390	\$ 8,861,692
Employee benefits and payroll taxes	1,229,436	546,629	158,699	51,121	1,985,885	236,731	7,153	-	243,884	2,229,769
Consulting and contractual services	242,648	239,483	74,949	4,112	561,192	153,380	75,000	-	228,380	789,572
Resident sustenance	660,464	365	35,733	735	697,297	364	1,296	8,819	10,479	707,776
Occupancy costs	778,801	122,797	28,748	5,046	935,392	49,428	14,750	510	64,688	1,000,080
Vehicle costs	155,211	37,082	10,092	620	203,005	61,482	-	-	61,482	264,487
Communications	208,848	70,640	11,356	1,427	292,271	54,068	6,011	-	60,079	352,350
Office and program supplies	294,625	69,387	45,657	7,933	417,602	49,888	14,872	1,104	65,864	483,466
Insurance	145,621	39,553	11,665	3,189	200,028	43,870	327	-	44,197	244,225
Travel	63,812	95,002	33,090	3,811	195,715	34,078	2,398	1,317	37,793	233,508
Interest	34,807	-	-	-	34,807	3,756	-	-	3,756	38,563
Miscellaneous	134,015	42,216	3,463	5,385	185,079	94,021	3,765	3,814	101,600	286,679
Repairs and maintenance	179,167	26,481	18,843	-	224,491	10,117	939	-	11,056	235,547
Depreciation and amortization	378,887	21,304	25,562	-	425,753	43,431	1,391	-	44,822	470,575
Administrative charges from Parent	-	-	-	-	-	312,000	-	-	312,000	312,000
Total functional expenses	9,397,324	3,478,407	1,090,604	281,484	14,247,819	2,090,485	156,421	15,564	2,262,470	16,510,289
Less: Costs of direct benefits to donors for special event	-	-	-	-	-	-	-	(15,564)	(15,564)	(15,564)
Total expenses reported by function	\$ 9,397,324	\$ 3,478,407	\$ 1,090,604	\$ 281,484	\$ 14,247,819	\$ 2,090,485	\$ 156,421	\$ -	\$ 2,246,906	\$ 16,494,725

The accompanying notes are an integral part of this statement.

Phoenix Houses of New England, Inc.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Changes in net assets	\$ 408,099	\$ 381,049
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Amortization of discount on contributions receivable	(3,091)	(3,536)
Provision for doubtful accounts	139,014	(3,236)
Depreciation and amortization	524,822	521,844
Contributions restricted for capital expenditures	(17,793)	(5,498)
Changes in operating assets and liabilities:		
Due from government agencies	277,552	(981,526)
Contributions receivable	35,576	114,153
Other receivables	(14,011)	(175,896)
Prepaid expenses and other assets	(26,503)	(54,436)
Accounts payable and accrued expenses	27,519	68,764
Due to government agencies	(10,210)	(76,989)
Deferred revenue	-	(33,925)
Due to Parent	(369,747)	701,474
Net cash provided by operating activities	<u>971,227</u>	<u>452,242</u>
Cash flows from investing activities:		
Purchases of property and equipment	(472,362)	(591,734)
Net cash used in investing activities	<u>(472,362)</u>	<u>(591,734)</u>
Cash flows from financing activities:		
Contributions restricted for capital expenditures	17,793	5,498
Principal payments on loan payable to Parent	(270,000)	(270,000)
Proceeds from loan payable	-	200,000
Principal payments on capital lease	(43,959)	(48,417)
Principal payments on long-term debt	(14,958)	(13,484)
Net cash used in financing activities	<u>(311,124)</u>	<u>(126,403)</u>
Net increase (decrease) in cash and cash equivalents	187,741	(265,895)
Cash and cash equivalents, beginning of year	148,523	414,418
Cash and cash equivalents, end of year	<u>\$ 336,264</u>	<u>\$ 148,523</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 32,680</u>	<u>\$ 38,564</u>
Assets acquired under capital lease	<u>\$ 53,469</u>	<u>\$ 50,147</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE A - ORGANIZATION

Phoenix Houses of New England, Inc. (“PH New England”) is a Section 501(c)(3) not-for-profit organization, exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the “Code”). PH New England is also exempt from state and local taxes under similar provisions. PH New England was established in order to operate therapeutic treatment centers for the rehabilitation of drug and substance abusers throughout New England.

Phoenix House Foundation, Inc. (the “Parent”) is the sole member of PH New England and the following affiliated organizations: Phoenix Houses of New York, Inc. and Affiliates (which consists of Phoenix Houses of New York, Inc. and Phoenix Houses of Long Island, Inc.); Phoenix Houses of California, Inc. and Affiliates (which consists of Phoenix Houses of California, Inc.; Phoenix Houses of Los Angeles, Inc.; Phoenix House Orange County, Inc.; and Phoenix House San Diego, Inc.); Phoenix Programs of Florida, Inc.; Phoenix Houses of Texas, Inc.; American Council for Drug Education, Inc.; Center on Addiction and the Family, Inc.; and Phoenix Houses of New Jersey, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the net assets of PH New England and changes therein are classified and reported based upon the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent expendable resources that are used to carry out PH New England’s operations and are not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent resources that contain donor-imposed restrictions that permit PH New England to use or expend such resources only as or when specified. Restrictions are satisfied either by the passage of time or by actions of PH New England.
- Permanently restricted net assets represent resources that contain donor-imposed restrictions stipulating that such resources be maintained permanently. PH New England had no permanently restricted net assets at June 30, 2010 and 2009.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE B (continued)

2. Cash and Cash Equivalents

PH New England considers all highly liquid financial instruments, which principally consist of money market funds, with original maturities of three months or less from the date of purchase to be cash equivalents.

3. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Donated Goods

Donated goods are recorded as revenues and assets (at fair value when received) and expenses (when used) on the accompanying financial statements. Food stamps are recorded at face amount, which is the same as fair value, as revenues and assets and are charged to resident sustenance when expended.

5. Third-party Payor Programs

Third-party payor programs in which PH New England participates are based on complex laws and regulations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. PH New England is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying financial statements and believes it is in compliance with all applicable laws and regulations. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from third-party payor programs.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE B (continued)

6. Property and Equipment

Property and equipment are stated at cost, if purchased, or if donated, at the fair value at the date of gift, less accumulated depreciation and amortization. PH New England capitalizes assets acquired for greater than \$1,000 and with useful lives greater than one year. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	4 - 40 years
Furniture, fixtures and equipment	3 - 5 years
Computer equipment and vehicles	3 - 5 years

Furniture, fixtures and equipment acquired under capital lease arrangements are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment.

7. Revenue and Support

Contributions (including unconditional promises to give) are recorded at fair value when received. Contributions received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted support. Unconditional promises to give, with payments due in future years, are reported as either temporarily restricted or permanently restricted support and discounted to present value. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions. Contributions restricted by donors for the acquisition of property and equipment are generally released from their restrictions when the respective assets are acquired or constructed.

PH New England's contracts and other program funding arrangements with government agencies are classified as part of unrestricted net asset activities. Client and third-party revenue (including Medicare and Medicaid) is recognized as earned when services are provided.

8. Government Contract Revenue

PH New England operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewal. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon, among other things, the amount of program income received. Any costs disallowed by the grantor would be absorbed by PH New England and any adjustments by grantors would be recorded when amounts are known; however, it is the opinion of management that disallowances, if any, would not be material to the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE B (continued)

9. Program Services

Residential treatment services are costs associated with providing residential care and treatment to clients. Ambulatory treatment services are costs associated with providing treatment on an outpatient basis to clients. Healthcare services are costs associated with providing primary medical and dental treatment to clients. Prevention and education services are costs associated with the dissemination of educational materials related to substance abuse prevention and community outreach activities.

10. Supporting Services

Supporting program services represent costs for administrative and general support activities not directly related to providing rehabilitation services. Fundraising includes the salaries and related expenses of employees involved in fundraising activities.

11. Operating Indicator

The accompanying statements of activities distinguish between operating and nonoperating activities. PH New England's contracts and other program funding arrangements with government agencies are classified as part of operating activities. Other items which are unusual in nature or nonrecurring such as capital contributions and related net asset releases from restrictions, assets acquired under government grants and indirect cost recoveries and related depreciation are reflected below the operating indicator on the accompanying statements of activities.

12. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, contributions receivable, prepaid expenses and other assets, and accounts payable and accrued expenses reported on the accompanying statements of financial position approximate fair value due to the short maturity of these financial instruments. The carrying value of due from government agencies and other receivables approximates net realizable value, and has been reduced by an appropriate allowance for doubtful accounts based on historical collection experience. The carrying value of long-term debt approximates fair value.

As of July 1, 2008, PH New England adopted guidance that established a framework for measuring fair value and expanding its disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE B (continued)

Assets and liabilities, subject to the standard, measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments in Level 1 include listed equities held in the name of PH New England, and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

Under this hierarchy, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. As of June 30, 2010 and 2009, PH New England did not have any financial instruments that were subject to leveling under this hierarchy.

13. Income Taxes

In July 2006, new guidance was issued in the area of "Accounting for Uncertainty in Income Taxes." The new standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. It was effective for PH New England on July 1, 2009, and had no material impact on the accompanying financial statements. The tax years ended 2007, 2008, and 2009 are still open to audit for both federal and state purposes. PH New England has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE C - RELATED PARTY TRANSACTIONS

PH New England is charged for administrative services provided by its Parent based upon a cost allocation plan. The administrative expenses charged by the Parent approximate the federally approved indirect cost rate for the Parent and its affiliates on a consolidated basis, adjusted to reflect PH New England's own administrative expenses. During the years ended June 30, 2010 and 2009, such allocated charges totaled \$512,000 and \$312,000, respectively, and are included as part of supporting services expenses on the accompanying statements of activities and functional expenses.

PH New England entered into an agreement with the Parent, in June 2001, to borrow up to \$250,000. On June 2, 2004, PH New England entered into a loan agreement with the Parent converting a current payable and the above-mentioned loan into a long-term loan from the Parent in the approximate amount of \$2,500,000, over a period not to exceed 10 years. At June 30, 2010 and 2009, approximately \$218,000 and \$488,000, respectively, was outstanding under this agreement. The loan accrues interest monthly at a rate equal to the rate as credited to the Parent's "Treasury Plus Money Market Morgan Shares" account held by JP Morgan Chase as quoted on the last day of the month. Interest is calculated based on PH New England's combined short- and long-term debt in excess of \$2,550,000. There was no interest expense, relating to amounts outstanding under this agreement, for fiscal 2010 and 2009, respectively.

Amounts reflected as due to Parent on the accompanying statements of financial position of approximately \$1,414,000 and \$1,783,000 as of June 30, 2010 and 2009, respectively, relate to costs incurred by PH New England but paid for by the Parent.

NOTE D - CONTRIBUTIONS RECEIVABLE, NET

At June 30, 2010 and 2009, PH New England's contributions receivable, net, consisted approximately of the following:

	<u>2010</u>	<u>2009</u>
Amounts expected to be collected:		
In less than one year	\$ 56,000	\$ 60,000
In one to four years	<u>96,000</u>	<u>127,000</u>
	152,000	187,000
Less: Discount to present value (discount rates ranging from 4.4% to 5.0%)	<u>(5,000)</u>	<u>(8,000)</u>
	<u>\$ 147,000</u>	<u>\$ 179,000</u>

Multi-year pledges received are recorded at the present value of their expected future cash flows using a credit adjusted discount rate which articulates with the collection period of the respective pledge. Discount rates assigned to multi-year pledges are not subsequently adjusted.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE E - PROPERTY AND EQUIPMENT, NET

At June 30, 2010 and 2009, property and equipment, net, consisted approximately of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 69,000	\$ 69,000
Buildings and improvements	7,617,000	7,449,000
Furniture, fixtures and equipment	721,000	663,000
Computer equipment	762,000	745,000
Vehicles	45,000	45,000
Construction-in-progress	<u>251,000</u>	<u>22,000</u>
	9,465,000	8,993,000
Less: Accumulated depreciation and amortization	<u>(4,567,000)</u>	<u>(4,043,000)</u>
	<u>\$ 4,898,000</u>	<u>\$ 4,950,000</u>

Construction in progress as of June 30, 2010 relates mainly to three separate projects: \$5,000 at Dublin, NH, with a total completion cost of approximately \$14,000 for painting of the building; \$48,000 at Exeter, RI, with a total completion cost of approximately \$63,000 for installation of a generator and related electrical improvements; and \$196,000 at Phoenix House Family Shelter, Cushing Avenue, Dorchester, MA to perform extensive external renovations with a total completion cost of approximately \$201,000. All construction is scheduled to be completed in fiscal year 2011.

Included in property and equipment are purchases acquired under capital lease arrangements with terms ranging from four to five years. At June 30, 2010 and 2009, computers acquired under such leases had a cost of approximately \$88,000 each year and accumulated amortization of approximately \$81,000 and \$62,000, respectively. At June 30, 2010 and 2009, furniture acquired under capital lease arrangements had a cost of approximately \$170,000 and \$116,000, respectively, and accumulated amortization of approximately \$46,000 and \$23,000, respectively. Principal payments related to these capital leases totaled approximately \$44,000 and \$48,000, respectively, for the years ended June 30, 2010 and 2009. Amounts outstanding under these capital leases are included in accounts payable and accrued expenses on the accompanying statements of financial position as of June 30, 2010 and 2009 and totaled approximately \$130,000 and \$121,000, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE F - LONG-TERM DEBT

At June 30, 2010 and 2009, long-term debt consisted of the following:

- On May 1, 2007, PH New England entered into a loan agreement with Citizens Bank of Rhode Island in the amount of \$146,000 due in 120 monthly installments with a final balloon payment, including interest amortized over ten years at a rate of 7.25%, through May 2017. The proceeds of the loan were used to purchase and renovate a building. Amounts due under the mortgage are secured by the property purchased. At June 30, 2010 and 2009, the balance of this mortgage payable was approximately \$126,000 and \$133,000, respectively.
- Long-term loan payable to the Parent in the amount of \$2,700,000 due in 120 monthly installments, including interest at a variable rate based upon the “Treasury Plus Money Market Morgan Shares” held by the Parent, which had a rate of 0.05% at June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the balance of the loan payable was approximately \$218,000 and \$488,000, respectively (see also Note C).
- On July 18, 2008, PH New England entered into a loan agreement with Citizens Bank of Rhode Island in the amount of \$200,000 due in 120 monthly installments with a final balloon payment, including interest amortized over fifteen years at a rate of 6.465%, through July 2018. The proceeds of the loan were used to purchase and renovate a building in Holyoke, MA. Amounts due under the mortgage are secured by the property in Springfield, MA. At June 30, 2010 and 2009, the balance of this mortgage payable was approximately \$184,000 and \$192,000, respectively.

Approximate annual principal payments due on all debt obligations (including long-term loan payable to the Parent) were as follows at June 30, 2010:

2011	\$ 234,000
2012	17,000
2013	19,000
2014	20,000
2015	22,000
Thereafter	<u>216,000</u>
	<u>\$ 528,000</u>

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE G - CLIENT AND THIRD-PARTY REVENUE

For the years ended June 30, 2010 and 2009, client and third-party revenue consisted approximately of the following:

	<u>2010</u>	<u>2009</u>
Healthcare services	\$ 2,086,000	\$ 2,273,000
Food stamps	238,000	221,000
Client fees	1,386,000	1,163,000
School lunch program	80,000	74,000
Education/tutoring/other	<u>520,000</u>	<u>686,000</u>
	<u>\$ 4,310,000</u>	<u>\$ 4,417,000</u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Capital initiatives	\$ 54,000	\$ 117,000
Program Initiatives	<u>223,000</u>	<u>133,000</u>
	<u>\$ 277,000</u>	<u>\$ 250,000</u>

For the years ended June 30, 2010 and 2009, net assets totaling approximately \$81,000 and \$245,000, respectively, were released for program and capital initiatives.

NOTE I - TAX-DEFERRED ANNUITY PLAN

PH New England has a tax-deferred annuity plan, which is sponsored by the Parent, for all eligible employees under Section 403(b) of the Code. PH New England makes contributions equal to 3% to 10% of each active participant's compensation, based on years of service, as defined in the plan agreement. Total contributions to this plan by PH New England for fiscal 2010 and 2009, totaled approximately \$349,000 and \$307,000, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE J - COMMITMENTS AND CONTINGENCIES

1. *Lease Commitments*

PH New England leases facilities, vehicles and other equipment under various noncancelable operating leases expiring at various dates through 2016. Total expense under these leases was approximately \$629,000 and \$589,000 for the years ended June 30, 2010 and 2009, respectively.

Future minimum rental payments due are approximately as follows at June 30, 2010:

2011	\$ 749,000
2012	482,000
2013	287,000
2014	161,000
2015	138,000
2016	<u>16,000</u>
	<u>\$ 1,833,000</u>

In addition, PH New England rents certain facilities under operating leases on a month-to-month basis. Rent expense relating to these month-to-month leases totaled approximately \$78,000 and \$92,000 for fiscal 2010 and 2009, respectively.

2. *Litigation*

PH New England is contingently liable under various claims which have arisen in the ordinary course of its business. In the opinion of management, the claims will be defended as appropriate and, in certain cases, are adequately covered by insurance. PH New England believes that the resolution of these matters will not have a material effect on the financial position, changes in net assets or cash flows of PH New England.

3. *Other*

PH New England's title to the facility located in Exeter, RI, is subject to a right of reversion held by the State of Rhode Island if PH New England, or its designee, fails at any time within 25 years from the date of execution of the deed to comply with all the terms and conditions set forth in the deed and related attachments. The deed was executed on November 20, 1990. Terms of the deed include, among other pertinent provisions, that the property be used to provide long-term residential drug dependency treatment, provide for the increase of current drug dependency treatment slots, conduct research into efficient treatment methods and length of stay, and provide individual and group counseling and training. PH New England believes that it has and will continue to operate this facility consistent with these stated purposes and has included this facility within property and equipment.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2010 and 2009

NOTE K - SUBSEQUENT EVENTS

PH New England evaluated its June 30, 2010 financial statements for subsequent events through October 19, 2010, the date the financial statements were available to be issued.

During July 2010, PH New England entered into a lease and promissory agreement with Burlington Housing Authority (“BHA”), a housing authority existing under the laws of the State of Vermont and the City of Burlington. In conjunction with a new program, PH New England agreed to lease a facility from BHA for twenty-five years. As part of the lease agreement, PH New England entered into a non-interest bearing note of \$75,000 due and payable on the last day of the twelfth full calendar month immediately following the termination of the lease. Interest accrues on the principal balance of this note, beginning on the first day of the first month following the Due Date, at a rate equal to the One Year Treasury Bill rate in effect on that date.

PH New England is not aware of any other material subsequent events which would require recognition or disclosure on the accompanying financial statements.