

Financial Statements and Supplementary
Information Together With
Report of Independent Certified Public Accountants

PHOENIX HOUSES OF NEW ENGLAND, INC.

June 30, 2014 and 2013

PHOENIX HOUSES OF NEW ENGLAND, INC.

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Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of Phoenix Houses of New England, Inc. ("PH New England"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of operations and changes in net assets and cash flows 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 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 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 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PH New England's preparation and fair presentation of the 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 PH New England's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material aspects, the financial position of Phoenix Houses of New England, Inc. as of June 30, 2014 and 2013, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purposes of forming an opinion on the financial statements of PH New England as of and for the years ended June 30, 2014 and 2013, taken as a whole. The supplementary information included on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

New York, New York
November 12, 2014

PHOENIX HOUSES OF NEW ENGLAND, INC.
Statements of Financial Position
As of June 30, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 248,729	\$ 303,027
Due from government agencies, net of allowance of approximately \$562,000 and \$297,000 in 2014 and 2013, respectively	2,746,436	2,680,260
Current portion of contributions receivable, net (Note 4)	81,931	107,751
Other receivables, net of allowance of approximately \$480,000 and \$393,000 in 2014 and 2013, respectively	1,065,899	743,450
Prepaid expenses and other assets	223,786	229,990
Current portion of note receivable (Note 5)	5,000	5,000
Total current assets	<u>4,371,781</u>	<u>4,069,478</u>
Contributions receivable, net (Note 4)	23,604	-
Notes receivable, net of current portion (Note 5)	165,000	170,000
Property and equipment, net (Note 6)	<u>4,727,447</u>	<u>4,555,608</u>
Total assets	<u>\$ 9,287,832</u>	<u>\$ 8,795,086</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,192,935	\$ 959,525
Due to government agencies	45,613	7,461
Current portion of capital lease obligation (Note 6)	12,160	11,206
Current portion of long-term debt (Note 7)	22,519	21,504
Revolving loan fund (Note 8)	<u>100,000</u>	<u>100,000</u>
Total current liabilities	<u>1,373,227</u>	<u>1,099,696</u>
Due to Parent (Note 3)	2,317,921	2,181,067
Capital lease obligation, net of current portion (Note 6)	1,353	13,513
Long-term debt, net of current portion (Note 7)	<u>212,996</u>	<u>235,309</u>
Total liabilities	<u>3,905,497</u>	<u>3,529,585</u>
Commitments and contingencies (Note 13)		
NET ASSETS		
Unrestricted	5,273,028	5,126,412
Temporarily restricted (Note 10)	<u>109,307</u>	<u>139,089</u>
Total net assets	<u>5,382,335</u>	<u>5,265,501</u>
Total liabilities and net assets	<u>\$ 9,287,832</u>	<u>\$ 8,795,086</u>

The accompanying notes are an integral part of these financial statements.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Statement of Operations and Changes in Net Assets
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES AND SUPPORT			
Government contract revenue	\$ 14,246,899	\$ -	\$ 14,246,899
Client and third-party revenue (Note 9)	8,105,160	-	8,105,160
Donated goods	240,391	-	240,391
Grants and contributions	134,037	109,200	243,237
Special event revenue	17,117	-	17,117
Other revenue	69,865	-	69,865
Net assets released from restrictions - operations	138,982	(138,982)	-
Total operating revenues and support	<u>22,952,451</u>	<u>(29,782)</u>	<u>22,922,669</u>
EXPENSES (Note 12)			
Salaries	11,445,842	-	11,445,842
Employee benefits and payroll taxes	3,399,469	-	3,399,469
Consulting and contractual services	1,108,525	-	1,108,525
Resident sustenance	966,127	-	966,127
Occupancy costs	2,002,955	-	2,002,955
Vehicle costs	275,210	-	275,210
Communications	609,724	-	609,724
Office and program supplies	664,435	-	664,435
Insurance	252,888	-	252,888
Travel	274,902	-	274,902
Interest	13,808	-	13,808
Miscellaneous	218,482	-	218,482
Repairs and maintenance	584,810	-	584,810
Depreciation and amortization	487,457	-	487,457
Administrative charges from Parent	519,200	-	519,200
Total operating expenses	<u>22,823,834</u>	<u>-</u>	<u>22,823,834</u>
Income (loss) from operations	<u>128,617</u>	<u>(29,782)</u>	<u>98,835</u>
OTHER ITEMS			
Depreciation on non-operational assets	(34,001)	-	(34,001)
Total other items	<u>(34,001)</u>	<u>-</u>	<u>(34,001)</u>
Excess of (deficiency in) revenues over expenses	<u>94,616</u>	<u>(29,782)</u>	<u>64,834</u>
OTHER CHANGES IN NET ASSETS			
Contributions restricted for capital initiatives	-	52,000	52,000
Net assets released for capital initiatives	52,000	(52,000)	-
Changes in net assets	<u>146,616</u>	<u>(29,782)</u>	<u>116,834</u>
Net assets, beginning of year	5,126,412	139,089	5,265,501
Net assets, end of year	<u>\$ 5,273,028</u>	<u>\$ 109,307</u>	<u>\$ 5,382,335</u>

The accompanying notes are an integral part of this financial statement.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Statement of Operations and Changes in Net Assets
For the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Government contract revenue	\$ 14,482,032	\$ -	\$ 14,482,032
Client and third-party revenue (Note 9)	6,772,080	-	6,772,080
Donated goods and services	215,422	-	215,422
Grants and contributions	145,599	-	145,599
Special event revenue, net of costs of direct benefits to donors of approximately \$16,000	98,642	-	98,642
Other revenue	28,616	-	28,616
Net assets released from restrictions - operations	17,118	(17,118)	-
Total operating revenues and support	<u>21,759,509</u>	<u>(17,118)</u>	<u>21,742,391</u>
EXPENSES (Note 12)			
Salaries	11,294,149	-	11,294,149
Employee benefits and payroll taxes	2,877,578	-	2,877,578
Consulting and contractual services	1,123,706	-	1,123,706
Resident sustenance	867,372	-	867,372
Occupancy costs	1,768,977	-	1,768,977
Vehicle costs	315,240	-	315,240
Communications	642,234	-	642,234
Office and program supplies	646,739	-	646,739
Insurance	263,107	-	263,107
Travel	283,480	-	283,480
Interest	19,782	-	19,782
Miscellaneous	256,579	-	256,579
Repairs and maintenance	433,595	-	433,595
Depreciation and amortization	528,702	-	528,702
Administrative charges from Parent	512,000	-	512,000
Total operating expenses	<u>21,833,240</u>	<u>-</u>	<u>21,833,240</u>
Loss from operations	<u>(73,731)</u>	<u>(17,118)</u>	<u>(90,849)</u>
OTHER ITEMS			
Depreciation on non-operational assets	(49,882)	-	(49,882)
Total other items	<u>(49,882)</u>	<u>-</u>	<u>(49,882)</u>
Excess of expenses over revenues and changes in net assets	<u>(123,613)</u>	<u>(17,118)</u>	<u>(140,731)</u>
Net assets, beginning of year	<u>5,250,025</u>	<u>156,207</u>	<u>5,406,232</u>
Net assets, end of year	<u>\$ 5,126,412</u>	<u>\$ 139,089</u>	<u>\$ 5,265,501</u>

The accompanying notes are an integral part of this financial statement.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 116,834	\$ (140,731)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	352,061	285,319
Depreciation and amortization	521,458	578,584
Foregiveness of notes receivable	5,000	-
Contributions restricted for capital expenditures	(52,000)	-
Changes in operating assets and liabilities:		
Due from government agencies	(331,697)	(669,461)
Contributions receivable	2,216	26,212
Other receivables	(408,989)	547,740
Prepaid expenses and other assets	6,204	(30,791)
Accounts payable and accrued expenses	233,410	111,310
Due to government agencies	38,152	(47,485)
Due to Parent	136,854	(433,226)
Net cash provided by operating activities	<u>619,503</u>	<u>227,471</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(693,297)	(424,539)
Net cash used in investing activities	<u>(693,297)</u>	<u>(424,539)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital expenditures	52,000	-
Principal payments on capital lease	(11,206)	(23,088)
Principal payments on long-term debt	(21,298)	(20,334)
Net cash provided by (used in) financing activities	<u>19,496</u>	<u>(43,422)</u>
Net increase (decrease) in cash and cash equivalents	(54,298)	(240,490)
Cash and cash equivalents, beginning of year	<u>303,027</u>	<u>543,517</u>
Cash and cash equivalents, end of year	<u>\$ 248,729</u>	<u>\$ 303,027</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 13,808</u>	<u>\$ 19,782</u>

The accompanying notes are an integral part of these financial statements.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

1. 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 Houses of the Mid-Atlantic, Inc. and Affiliate (which consists of Phoenix Houses of the Mid-Atlantic, Inc. and Phoenix Houses of Mid-Atlantic Property Management, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 contain donor-imposed restrictions that stipulate that such resources be maintained permanently. PH New England had no permanently restricted net assets at June 30, 2014 and 2013.

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.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

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. The allowance for doubtful accounts on accounts receivable and the fair value of donated goods represent significant accounting estimates reflected in the accompanying financial statements. Actual results could differ from those estimates.

Donated Goods

Donated goods are recorded as revenues and assets (at fair value when received) and expenses (when used) on the statement of operations and changes in net assets. 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.

Property and Equipment

Property and equipment are stated at cost, if purchased, or if donated, at 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 - 7 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 asset.

Statement of Operations and Changes in Net Assets

PH New England's operating income includes all unrestricted revenues and expenses. Other items include depreciation on non-operational assets. The statement of operations and changes in net assets also includes the caption "excess of (deficiency in) revenues over expenses," which is the performance indicator. Other changes in net assets which are excluded from the performance indicator, consistent with industry practice, include restricted contributions (including assets acquired using contributions which by donor restriction are to be used for the purposes of acquiring such assets).

Revenue and Support

Contributions (including unconditional promises to give) are recorded at fair value when received. Revenues and expenses relative to special events are recognized upon occurrence of the respective event. 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

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

statement of operations and changes in net assets as net assets released from restrictions. Contributions restricted by donors for the acquisition of property and equipment are released from their restrictions when the respective assets are acquired or constructed and placed into service. Such contributions and related releases are reported below the operating indicator, "excess of (deficiency in) revenues over expenses.

Special Events Revenue

Special events revenue consists of proceeds from fund-raising events, reported net of direct donor benefits, if any. Revenue and related expenses are recognized upon occurrence of the respective events to which they pertain. For the years ended June 30, 2014 and 2013, direct benefits to donors totaled approximately \$0 and \$16,000, respectively.

Government Contract Revenue

PH New England's contracts and other program funding arrangements with government agencies are classified as part of operating activities within the unrestricted net asset category and revenue is recognized when earned. 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.

Client and Third Party Revenue

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based on pre-determined rates. Medicaid and managed Medicaid approximated 33% and 29% of total client and third-party revenue for the years ended June 30, 2014 and 2013, respectively. Contracts have been entered into with commercial insurance carriers and reimbursement is based on contracted rates.

Laws and regulations governing healthcare programs are complex and subject to interpretation. 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. The federal government and many states have aggressively increased enforcement under Medicaid antifraud and abuse legislation. PH New England believes that it is in compliance, in all material respects, with all applicable laws and regulations and, is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation.

Noncompliance with such laws and regulations could result in repayments or amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicaid program.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

Concentration of Credit Risk

Financial instruments that potentially subject PH New England to concentrations of credit risk consist principally of cash and cash equivalents. PH New England maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. PH New England's cash and cash equivalents have been placed with high credit quality financial institutions at June 30, 2014 and 2013, and PH New England believes the risk of nonperformance by these financial institutions is remote.

PH New England provides drug and alcohol rehabilitation services through its inpatient and outpatient care facilities. PH New England grants credit without collateral to clients, however, it routinely obtains assignment of (or is otherwise entitled to receive) clients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid and commercial insurance providers).

Amounts due from government agencies and other receivables by financial class as a percentage of total accounts receivable at June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Medicaid	18 %	14 %
Commercial insurance	29	24
Other third-party payors	50	59
Self-pay	<u>3</u>	<u>3</u>
	<u>100 %</u>	<u>100 %</u>

Income Taxes

Guidance in the area of "Accounting for Uncertainty in Income Taxes," under the Financial Accounting Standards Board (FASB) Accounting Standard Codification, 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. The adoption of this standard by PH New England has not had an impact on the accompanying financial statements. The tax years ended 2011, 2012, 2013 and 2014 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.

Subsequent Events

PH New England evaluated its subsequent events through November 12, 2014, the date these financial statements were available to be issued.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

3. 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, 2014 and 2013, such allocated charges totaled \$519,000 and \$512,000, respectively, and are included as part of the administrative charges from Parent expense on the accompanying statements of operations and changes in net assets.

Amounts reflected as due to Parent on the accompanying statements of financial position of approximately \$2,318,000 and \$2,181,000 as of June 30, 2014 and 2013, respectively, relate to costs incurred by PH New England but paid for by the Parent.

4. CONTRIBUTIONS RECEIVABLE

At June 30, 2014 and 2013, PH New England's contributions receivable, net, consists of the following:

	<u>2014</u>	<u>2013</u>
Amounts expected to be collected:		
In less than one year	\$ 81,931	\$ 107,751
In one to three years	<u>25,000</u>	<u>-</u>
	106,931	107,751
Less: Discount to present value (at a rate of 4.01%)	<u>(1,396)</u>	<u>-</u>
	<u>\$ 105,535</u>	<u>\$ 107,751</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 in the year of origination are not subsequently adjusted.

5. NOTES RECEIVABLE

During May 2012, PH New England entered into a lease and promissory agreement with Central Vermont Community Land Trust ("CVCLT"), a non-profit corporation existing under the laws of the State of Vermont. In conjunction with a new program, PH New England agreed to lease a facility from CVCLT for twenty years. As part of the lease agreement, PH New England entered into a non-interest bearing note of \$100,000 payable by CVCLT and secured by a mortgage of and security interest in the property in Barre, Vermont. The principal of this note does not bear interest nor will any principal be due at any time during which the lease between PH New England and CVCLT is in effect and for a period beginning on the date of termination of the lease and ending on the last day of the twelfth calendar month after such date. The principal due shall be reduced by \$5,000 each year for the initial twenty year term of the lease, beginning with the commencement of the new program, beginning July 1, 2013. In the event the lease is in effect throughout the entire initial 20 year term, the note shall be deemed paid in full upon the conclusion of such term. In the event the lease terminates prior to the conclusion of the initial lease term, then the remaining principal shall be due and payable on the last day of the twelfth full calendar month following termination

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

of the lease. Interest shall begin to accrue on such remaining principal balance beginning on the first day of the first month following the due date at a rate equal to the U.S. Department of the Treasury One Year Treasury Bill Rate in effect on the due date. At June 30, 2014 and 2013, the balance of this note receivable was \$95,000 and \$100,000, respectively.

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 by BHA 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. At June 30, 2014 and 2013, the balance of this note receivable was \$75,000.

6. PROPERTY AND EQUIPMENT, NET

At June 30, 2014 and 2013, property and equipment, net, consists approximately of the following:

	<u>2014</u>	<u>2013</u>
Land	\$ 77,000	\$ 69,000
Buildings and improvements	9,485,000	8,923,000
Furniture, fixtures and equipment	1,163,000	1,043,000
Computer equipment	801,000	801,000
Vehicles	45,000	45,000
Construction-in-progress	<u>10,000</u>	<u>7,000</u>
	11,581,000	10,888,000
Less: Accumulated depreciation and amortization	<u>(6,854,000)</u>	<u>(6,332,000)</u>
	<u>\$ 4,727,000</u>	<u>\$ 4,556,000</u>

Included in property and equipment are assets acquired under a capital lease arrangement. At June 30, 2014 and 2013, furniture acquired under capital lease arrangements had a cost, each year, of approximately \$170,000, and accumulated amortization of approximately \$160,000 and \$142,000, respectively. Principal payments related to these capital leases totaled approximately \$11,000 and \$23,000, respectively, for the years ended June 30, 2014 and 2013. The capital lease bears interest at a rate of 8.2% with monthly payments through August 2015. Amounts outstanding under these capital leases as of June 30, 2014 and 2013 totaled approximately \$14,000 and \$25,000, respectively.

Approximate annual principal payments due on capital leases are as follows for the years ended June 30:

2015	\$ 12,000
2016	<u>1,000</u>
	<u>\$ 13,000</u>

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

7. LONG-TERM DEBT

At June 30, 2014 and 2013, long-term debt consists 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 at the end of the term. The interest rate resets in the fifth year of the loan at a rate equal to the then 5-Year Treasury Constant Maturity rate plus an additional one hundred and seventy-five basis points (175) which resulted in a rate of 2.59% effective June 2012 through the term of the loan agreement in April 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, 2014 and 2013, the balance of this mortgage payable was approximately \$93,000 and \$102,000, respectively.
- 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 property in Springfield, MA. At June 30, 2014 and 2013, the balance of this mortgage payable was approximately \$143,000 and \$155,000, respectively.

Approximate annual principal payments due on all debt are as follows for the years ended June 30:

2015	\$ 23,000
2016	24,000
2017	85,000
2018	14,000
2019	90,000
	<u>\$ 236,000</u>

8. REVOLVING LOAN FUND

In relation to the acquisition of RICAODD, PH New England assumed an agreement, the Rhode Island Revolving Loan Fund Project- R House, with the State of Rhode Island's Department of Mental Health - Retardation and Hospitals. The revolving loan fund program is a federally mandated program established to provide financial assistance loans to residents of group homes for recovering substance abusers. The State of Rhode Island has provided PH New England with \$100,000 to fund these interest-free loans. The revolving loan fund account increases with interest earned on funds on deposit and decreases as a result of uncollectible loans. The loan fund assets are recorded within cash and cash equivalents and other receivables on the accompanying statements of financial position. The loan is due to the State of Rhode Island upon dissolution of the program. Outstanding loans receivable as of June 30, 2014 and 2013 were approximately \$6,500 and \$26,000, respectively.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

9. CLIENT AND THIRD-PARTY REVENUE

For the years ended June 30, 2014 and 2013, client and third-party revenue consists approximately of the following:

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 2,811,000	\$ 2,075,000
Food stamps	174,000	269,000
Private insurance and client payments	3,789,000	3,068,000
Client fees	1,055,000	1,077,000
School lunch program	75,000	85,000
Education, tutoring, and other	<u>201,000</u>	<u>198,000</u>
	<u>\$ 8,105,000</u>	<u>\$ 6,772,000</u>

10. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2014 and 2013, temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Capital initiatives	\$ 13,000	\$ 63,000
Program initiatives	<u>96,000</u>	<u>76,000</u>
	<u>\$ 109,000</u>	<u>\$ 139,000</u>

For the years ended June 30, 2014 and 2013, net assets totaling approximately \$191,000 and \$17,000, respectively, were released in satisfaction of donor-imposed restrictions for program and capital initiatives.

11. 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 2014 and 2013, totaled approximately \$500,000 and \$420,000, respectively, and is recorded as part of employee benefits and payroll taxes on the accompanying statements of operations and changes in net assets.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

12. FUNCTIONAL EXPENSES

PH New England provides drug and alcohol rehabilitative healthcare services to clients and related support activities as described in Note 1. Expenses related to providing these services, included in the statements of operations and changes in net assets for the years ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Residential treatment services	\$ 13,795,221	\$ 12,533,583
Ambulatory treatment services	3,270,394	3,873,810
Healthcare services	2,523,228	2,309,259
Prevention and education services	-	32,622
Administration and general	3,109,688	2,939,191
Fundraising	<u>125,303</u>	<u>144,775</u>
Total expenses	<u>\$ 22,823,834</u>	<u>\$ 21,833,240</u>

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

PH New England leases facilities, vehicles and other equipment under various non-cancelable operating leases expiring at various dates through fiscal 2019. Total expense under these leases was approximately \$927,000 and \$738,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum rental payments due are approximately as follows for the years ended June 30:

2015	\$ 769,000
2016	484,000
2017	395,000
2018	232,000
2019	<u>94,000</u>
	<u>\$ 1,974,000</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 \$312,000 and \$417,000 for the years ended June 30, 2014 and 2013, respectively.

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 its financial position, changes in net assets or cash flows.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Notes to Financial Statements
June 30, 2014 and 2013

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. The 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 on the accompanying statements of financial position.

SUPPLEMENTARY INFORMATION

PHOENIX HOUSES OF NEW ENGLAND, INC.
Supplemental Information – Schedule of Functional Expenses
For the year ended June 30, 2014

	Program Services				Supporting Services			
	Residential Treatment Services	Ambulatory Treatment Services	Healthcare Services	Total	Administration and General	Fund-raising	Total	Total
Salaries	\$ 6,682,582	\$ 2,008,935	\$ 1,295,805	\$ 9,987,322	\$ 1,388,751	\$ 69,769	\$ 1,458,520	\$ 11,445,842
Employee benefits and payroll taxes	1,966,771	594,111	379,656	2,940,538	439,098	19,833	458,931	3,399,469
Consulting and contractual services	643,061	91,395	89,304	823,760	284,765	-	284,765	1,108,525
Resident sustenance	814,652	-	151,475	966,127	-	-	-	966,127
Occupancy costs	1,430,202	263,787	110,521	1,804,510	188,418	10,027	198,445	2,002,955
Vehicle costs	185,225	12,963	4,365	202,553	72,657	-	72,657	275,210
Communications	429,819	79,291	44,306	553,416	51,860	4,448	56,308	609,724
Office and program supplies	372,738	60,586	157,960	591,284	63,446	9,705	73,151	664,435
Insurance	177,315	31,332	33,810	242,457	9,649	782	10,431	252,888
Travel	106,897	63,490	57,823	228,210	42,463	4,229	46,692	274,902
Interest	13,808	-	-	13,808	-	-	-	13,808
Miscellaneous	158,427	13,906	7,326	179,659	33,176	5,647	38,823	218,482
Repairs and maintenance	452,492	25,873	94,245	572,610	11,706	494	12,200	584,810
Depreciation and amortization	361,232	24,725	96,632	482,589	4,499	369	4,868	487,457
Administrative charges from Parent	-	-	-	-	519,200	-	519,200	519,200
Total expenses reported by function	<u>\$ 13,795,221</u>	<u>\$ 3,270,394</u>	<u>\$ 2,523,228</u>	<u>\$ 19,588,843</u>	<u>\$ 3,109,688</u>	<u>\$ 125,303</u>	<u>\$ 3,234,991</u>	<u>\$ 22,823,834</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

PHOENIX HOUSES OF NEW ENGLAND, INC.
Supplemental Information – Schedule of Functional Expenses
For the year ended June 30, 2013

	Program Services					Supporting Services				
	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	Total
Salaries	\$ 6,315,014	\$ 2,386,264	\$ 1,157,038	\$ 25,410	\$ 9,883,726	\$ 1,333,685	\$ 76,738	\$ -	\$ 1,410,423	\$ 11,294,149
Employee benefits and payroll taxes	1,608,309	613,103	307,393	6,812	2,535,617	323,019	18,942	-	341,961	2,877,578
Consulting and contractual services	489,144	230,956	110,950	-	831,050	292,656	-	-	292,656	1,123,706
Resident sustenance	747,765	346	118,866	-	866,977	-	395	14,032	14,427	881,404
Occupancy costs	1,254,505	260,006	100,735	-	1,615,246	141,094	12,637	-	153,731	1,768,977
Vehicle costs	213,693	11,988	10,070	-	235,751	79,489	-	-	79,489	315,240
Communications	422,728	95,094	58,573	-	576,395	60,656	5,183	-	65,839	642,234
Office and program supplies	385,520	65,617	131,913	-	583,050	50,802	12,887	-	63,689	646,739
Insurance	166,215	35,109	30,462	400	232,186	30,421	500	-	30,921	263,107
Travel	78,546	99,037	61,265	-	238,848	38,245	6,387	1,225	45,857	284,705
Interest	16,383	-	-	-	16,383	3,399	-	-	3,399	19,782
Miscellaneous	153,260	25,752	7,520	-	186,532	60,974	9,073	479	70,526	257,058
Repairs and maintenance	296,867	25,344	105,467	-	427,678	4,655	1,262	-	5,917	433,595
Depreciation and amortization	385,634	25,194	109,007	-	519,835	8,096	771	-	8,867	528,702
Administrative charges from Parent	-	-	-	-	-	512,000	-	-	512,000	512,000
Total functional expenses	12,533,583	3,873,810	2,309,259	32,622	18,749,274	2,939,191	144,775	15,736	3,099,702	21,848,976
Less: Costs of direct benefits to donors for special event	-	-	-	-	-	-	-	(15,736)	(15,736)	(15,736)
Total expenses reported by function	<u>\$ 12,533,583</u>	<u>\$ 3,873,810</u>	<u>\$ 2,309,259</u>	<u>\$ 32,622</u>	<u>\$ 18,749,274</u>	<u>\$ 2,939,191</u>	<u>\$ 144,775</u>	<u>\$ -</u>	<u>\$ 3,083,966</u>	<u>\$ 21,833,240</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.