



**FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

HORIZONS FOR HOMELESS CHILDREN

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JUNE 30, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Horizons for Homeless Children:

Report on the Financial Statements

We have audited the accompanying financial statements of Horizons for Homeless Children (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the 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 the entity'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 the entity'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 respects, the financial position of Horizons for Homeless Children as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.
Boston, Massachusetts
October 29, 2014

HORIZONS FOR HOMELESS CHILDREN

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

| <u>ASSETS</u> | <u>2014</u> | <u>2013</u> |
|------------------------------------------------------|----------------------|----------------------|
| Cash | \$ 2,162,284 | \$ 625,697 |
| Investments | 13,386,326 | 15,657,098 |
| Contracts and grants receivable | 219,833 | 229,896 |
| Pledges receivable, net of allowance | 544,846 | 476,193 |
| Prepaid expenses and other | 332,636 | 174,543 |
| Deposits | 27,217 | 27,217 |
| Property and equipment, net | 191,191 | 250,489 |
| | <u>191,191</u> | <u>250,489</u> |
| Total assets | <u>\$ 16,864,333</u> | <u>\$ 17,441,133</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES: | | |
| Accounts payable | \$ 82,202 | \$ 24,501 |
| Accrued expenses | 493,936 | 531,212 |
| | <u>493,936</u> | <u>531,212</u> |
| Total liabilities | <u>576,138</u> | <u>555,713</u> |
| NET ASSETS: | | |
| Unrestricted: | | |
| Operating | 1,552,485 | 1,492,404 |
| Property and equipment | 191,191 | 250,489 |
| Board designated | 14,272,452 | 14,959,232 |
| | <u>14,272,452</u> | <u>14,959,232</u> |
| Total unrestricted | 16,016,128 | 16,702,125 |
| Temporarily restricted | 272,067 | 183,295 |
| | <u>272,067</u> | <u>183,295</u> |
| Total net assets | <u>16,288,195</u> | <u>16,885,420</u> |
| Total liabilities and net assets | <u>\$ 16,864,333</u> | <u>\$ 17,441,133</u> |

The accompanying notes are an integral part of these statements.

HORIZONS FOR HOMELESS CHILDREN

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

| | 2014 | | | 2013 | | |
|--------------------------------------------------|----------------------|-----------------------------------|----------------------|----------------------|-----------------------------------|----------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
| REVENUES: | | | | | | |
| Program revenues: | | | | | | |
| Contracts, grants and vouchers | \$ 2,242,820 | \$ - | \$ 2,242,820 | \$ 2,447,657 | \$ - | \$ 2,447,657 |
| Donated professional services | 138,700 | - | 138,700 | 38,784 | - | 38,784 |
| Training, conferences and other | 35,881 | - | 35,881 | 61,745 | - | 61,745 |
| Total program revenues | <u>2,417,401</u> | <u>-</u> | <u>2,417,401</u> | <u>2,548,186</u> | <u>-</u> | <u>2,548,186</u> |
| Fundraising revenues: | | | | | | |
| Contributions | 2,989,822 | 758,332 | 3,748,154 | 3,404,642 | 370,934 | 3,775,576 |
| Special events | 1,766,957 | - | 1,766,957 | 1,708,206 | - | 1,708,206 |
| Net assets released from restrictions: | | | | | | |
| Satisfaction of purpose restrictions | 476,060 | (476,060) | - | 350,009 | (350,009) | - |
| Satisfaction of time restrictions | 193,500 | (193,500) | - | 115,000 | (115,000) | - |
| Total fundraising revenues | <u>5,426,339</u> | <u>88,772</u> | <u>5,515,111</u> | <u>5,577,857</u> | <u>(94,075)</u> | <u>5,483,782</u> |
| Interest and dividends | 516,457 | - | 516,457 | 221,023 | - | 221,023 |
| Total revenues | <u>8,360,197</u> | <u>88,772</u> | <u>8,448,969</u> | <u>8,347,066</u> | <u>(94,075)</u> | <u>8,252,991</u> |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Community Children's Centers | 5,138,864 | - | 5,138,864 | 4,898,963 | - | 4,898,963 |
| Playspace Program | 1,019,083 | - | 1,019,083 | 1,135,789 | - | 1,135,789 |
| Family Partnership Program | 311,558 | - | 311,558 | 338,289 | - | 338,289 |
| Training and Technical Assistance | 261,524 | - | 261,524 | 259,711 | - | 259,711 |
| Evaluation | 57,317 | - | 57,317 | 115,169 | - | 115,169 |
| Policy and Advocacy | 171,890 | - | 171,890 | 149,656 | - | 149,656 |
| Total program services | <u>6,960,236</u> | <u>-</u> | <u>6,960,236</u> | <u>6,897,577</u> | <u>-</u> | <u>6,897,577</u> |
| Supporting services: | | | | | | |
| Fundraising | 1,220,545 | - | 1,220,545 | 1,157,498 | - | 1,157,498 |
| Marketing/Communications | 364,953 | - | 364,953 | 314,399 | - | 314,399 |
| General and Administrative | 1,145,346 | - | 1,145,346 | 1,070,042 | - | 1,070,042 |
| Total supporting services | <u>2,730,844</u> | <u>-</u> | <u>2,730,844</u> | <u>2,541,939</u> | <u>-</u> | <u>2,541,939</u> |
| Total expenses | <u>9,691,080</u> | <u>-</u> | <u>9,691,080</u> | <u>9,439,516</u> | <u>-</u> | <u>9,439,516</u> |
| Changes in net assets from operations | <u>(1,330,883)</u> | <u>88,772</u> | <u>(1,242,111)</u> | <u>(1,092,450)</u> | <u>(94,075)</u> | <u>(1,186,525)</u> |
| NON-OPERATING REVENUES: | | | | | | |
| Net realized and unrealized gains on investments | 622,886 | - | 622,886 | 442,471 | - | 442,471 |
| Gain on sale of property and equipment | 22,000 | - | 22,000 | - | - | - |
| Capital grant | - | - | - | - | 40,000 | 40,000 |
| Satisfaction of capital restriction | - | - | - | 40,000 | (40,000) | - |
| Total non-operating revenues | <u>644,886</u> | <u>-</u> | <u>644,886</u> | <u>482,471</u> | <u>-</u> | <u>482,471</u> |
| Changes in net assets | <u>(685,997)</u> | <u>88,772</u> | <u>(597,225)</u> | <u>(609,979)</u> | <u>(94,075)</u> | <u>(704,054)</u> |
| NET ASSETS, beginning of year | <u>16,702,125</u> | <u>183,295</u> | <u>16,885,420</u> | <u>17,312,104</u> | <u>277,370</u> | <u>17,589,474</u> |
| NET ASSETS, end of year | <u>\$ 16,016,128</u> | <u>\$ 272,067</u> | <u>\$ 16,288,195</u> | <u>\$ 16,702,125</u> | <u>\$ 183,295</u> | <u>\$ 16,885,420</u> |

The accompanying notes are an integral part of these statements.

HORIZONS FOR HOMELESS CHILDREN

**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 | \$ (597,225) | \$ (704,054) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation | 93,320 | 87,931 |
| Net unrealized and realized gains on investments | (622,886) | (442,471) |
| Gain on sale of property and equipment | (22,000) | - |
| Changes in operating assets and liabilities: | | |
| Contracts and grants receivable | 10,063 | (31,588) |
| Pledges receivable, net of allowance | (68,653) | (113,843) |
| Prepaid expenses and other | (158,093) | 20,614 |
| Deposits | - | (850) |
| Accounts payable | 57,701 | (21,464) |
| Accrued expenses | <u>(37,276)</u> | <u>79,555</u> |
| Net cash used in operating activities | <u>(1,345,049)</u> | <u>(1,126,170)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds on sales and maturities of investments | 4,848,175 | 3,856,176 |
| Acquisition of property and equipment | (34,022) | (106,044) |
| Proceeds from sale of property and equipment | 22,000 | - |
| Purchase of investments | <u>(1,954,517)</u> | <u>(3,120,811)</u> |
| Net cash provided by investing activities | <u>2,881,636</u> | <u>629,321</u> |
| NET INCREASE (DECREASE) IN CASH | 1,536,587 | (496,849) |
| CASH, beginning of year | <u>625,697</u> | <u>1,122,546</u> |
| CASH, end of year | <u><u>\$ 2,162,284</u></u> | <u><u>\$ 625,697</u></u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTMENT ACTIVITY: | | |
| Unrealized gains on investments | <u>\$ 505,878</u> | <u>\$ 259,019</u> |
| Cost basis of fully depreciated property and equipment disposed | <u>\$ 163,463</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

HORIZONS FOR HOMELESS CHILDREN

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

(With Summarized Comparative Totals for the Year Ended June 30, 2013)

| | 2014 | | | | | | | | | | 2013 | |
|-------------------------------------|------------------------------|-------------------|----------------------------|-----------------------------------|------------|---------------------|------------------------|--------------|---------------------------|----------------------------|--------------|--------------|
| | PROGRAM SERVICES | | | | | | SUPPORTING SERVICES | | | | TOTAL | TOTAL |
| | COMMUNITY CHILDREN'S CENTERS | PLAYSPACE PROGRAM | FAMILY PARTNERSHIP PROGRAM | TRAINING AND TECHNICAL ASSISTANCE | EVALUATION | POLICY AND ADVOCACY | TOTAL PROGRAM SERVICES | FUND-RAISING | MARKETING/ COMMUNICATIONS | GENERAL AND ADMINISTRATIVE | | |
| EXPENSES: | | | | | | | | | | | | |
| Salaries and related expenses: | | | | | | | | | | | | |
| Salaries | \$ 2,948,992 | \$ 537,681 | \$ 196,785 | \$ 118,593 | \$ 899 | \$ 108,156 | \$ 3,911,106 | \$ 507,889 | \$ 162,048 | \$ 598,339 | \$ 5,179,382 | \$ 5,366,288 |
| Employee benefits | 433,412 | 83,904 | 27,649 | 18,987 | 1,338 | 13,490 | 578,780 | 73,347 | 20,201 | 111,217 | 783,545 | 905,231 |
| Payroll taxes | 270,285 | 49,220 | 15,817 | 10,849 | 251 | 9,288 | 355,710 | 45,793 | 14,555 | 57,068 | 473,126 | 456,424 |
| Temporary help | 149,432 | 24,635 | - | 1,894 | 44,630 | 15,480 | 236,071 | 102,931 | 56,174 | 29,581 | 424,757 | 298,405 |
| Total salaries and related expenses | 3,802,121 | 695,440 | 240,251 | 150,323 | 47,118 | 146,414 | 5,081,667 | 729,960 | 252,978 | 796,205 | 6,860,810 | 7,026,348 |
| Occupancy | 684,174 | 30,856 | 166 | 4,387 | 6,808 | 10,088 | 736,479 | 49,633 | 14,541 | 85,799 | 886,452 | 835,903 |
| Services and professional fees | 204,307 | 88,217 | 5,742 | 4,718 | - | - | 302,984 | 43,811 | 84,759 | 125,884 | 557,438 | 317,924 |
| Supplies | 275,011 | 102,458 | 209 | 59,207 | 1,997 | 594 | 439,476 | 3,250 | 2,641 | 1,311 | 446,678 | 384,514 |
| Major fundraising events | - | - | - | - | - | - | - | 321,121 | - | - | 321,121 | 279,262 |
| Office | 32,790 | 27,423 | 2,820 | 3,324 | 764 | 3,329 | 70,450 | 52,638 | 3,639 | 12,927 | 139,654 | 145,817 |
| Donated professional services | 27,740 | - | 55,480 | - | - | - | 83,220 | - | - | 55,480 | 138,700 | 38,784 |
| Miscellaneous | 35,729 | 29,926 | 841 | 4,710 | 29 | 8,479 | 79,714 | 9,992 | 1,908 | 45,877 | 137,491 | 125,017 |
| Depreciation | 66,975 | 10,857 | - | 1,226 | 576 | 1,226 | 80,860 | 4,830 | 1,552 | 6,078 | 93,320 | 87,931 |
| Transportation | 6,787 | 33,480 | 6,029 | 6,452 | - | 1,760 | 54,508 | 3,683 | 1,625 | 3,977 | 63,793 | 76,543 |
| Training and meetings | 3,230 | 426 | 20 | 25,479 | 25 | - | 29,180 | 1,627 | 1,310 | 11,808 | 43,925 | 46,447 |
| Conference | - | - | - | 1,698 | - | - | 1,698 | - | - | - | 1,698 | 75,026 |
| Total expenses | \$ 5,138,864 | \$ 1,019,083 | \$ 311,558 | \$ 261,524 | \$ 57,317 | \$ 171,890 | \$ 6,960,236 | \$ 1,220,545 | \$ 364,953 | \$ 1,145,346 | \$ 9,691,080 | \$ 9,439,516 |

The accompanying notes are an integral part of these statements.

HORIZONS FOR HOMELESS CHILDREN

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

| | PROGRAM SERVICES | | | | | | SUPPORTING SERVICES | | | TOTAL | |
|-------------------------------------|------------------------------|---------------------|----------------------------|-----------------------------------|-------------------|---------------------|------------------------|---------------------|---------------------------|---------------------|----------------------------|
| | COMMUNITY CHILDREN'S CENTERS | PLAYSPACE PROGRAM | FAMILY PARTNERSHIP PROGRAM | TRAINING AND TECHNICAL ASSISTANCE | EVALUATION | POLICY AND ADVOCACY | TOTAL PROGRAM SERVICES | FUND-RAISING | MARKETING/ COMMUNICATIONS | | GENERAL AND ADMINISTRATIVE |
| EXPENSES: | | | | | | | | | | | |
| Salaries and related expenses: | | | | | | | | | | | |
| Salaries | \$ 2,921,398 | \$ 658,542 | \$ 247,365 | \$ 134,940 | \$ 74,198 | \$ 88,936 | \$ 4,125,379 | \$ 531,514 | \$ 169,974 | \$ 539,421 | \$ 5,366,288 |
| Employee benefits | 488,997 | 109,869 | 41,682 | 22,887 | 13,317 | 14,676 | 691,428 | 92,470 | 29,710 | 91,623 | 905,231 |
| Payroll taxes | 259,636 | 55,886 | 20,829 | 10,859 | 6,161 | 8,096 | 361,467 | 40,752 | 12,556 | 41,649 | 456,424 |
| Temporary help | 94,155 | 25,068 | - | - | 6,498 | 15,700 | 141,421 | 10,986 | 69,811 | 76,187 | 298,405 |
| Total salaries and related expenses | 3,764,186 | 849,365 | 309,876 | 168,686 | 100,174 | 127,408 | 5,319,695 | 675,722 | 282,051 | 748,880 | 7,026,348 |
| Occupancy | 640,406 | 29,122 | 7,210 | 3,433 | 7,718 | 9,516 | 697,405 | 46,900 | 12,888 | 78,710 | 835,903 |
| Services and professional fees | 41,141 | 80,781 | 1,247 | - | - | 2,889 | 126,058 | 56,454 | 11,682 | 123,730 | 317,924 |
| Supplies | 270,739 | 87,492 | 1,183 | 1,680 | 216 | 751 | 362,061 | 1,725 | 968 | 19,760 | 384,514 |
| Major fundraising events | - | - | - | - | - | - | - | 279,262 | - | - | 279,262 |
| Office | 32,189 | 30,904 | 7,783 | 2,452 | 1,373 | 2,213 | 76,914 | 48,591 | 1,877 | 18,435 | 145,817 |
| Donated professional services | - | - | - | - | - | - | - | - | - | 38,784 | 38,784 |
| Miscellaneous | 42,322 | 16,593 | 125 | 661 | 2,586 | 2,435 | 64,722 | 39,723 | 1,561 | 19,011 | 125,017 |
| Depreciation | 66,203 | 8,541 | 375 | 845 | 985 | 1,220 | 78,169 | 4,271 | 1,220 | 4,271 | 87,931 |
| Transportation | 21,261 | 31,035 | 8,504 | 4,939 | 1,353 | 2,818 | 69,910 | 3,780 | 1,027 | 1,826 | 76,543 |
| Training and meetings | 20,516 | 1,956 | 1,986 | 1,989 | 764 | 406 | 27,617 | 1,070 | 1,125 | 16,635 | 46,447 |
| Conference | - | - | - | 75,026 | - | - | 75,026 | - | - | - | 75,026 |
| Total expenses | <u>\$ 4,898,963</u> | <u>\$ 1,135,789</u> | <u>\$ 338,289</u> | <u>\$ 259,711</u> | <u>\$ 115,169</u> | <u>\$ 149,656</u> | <u>\$ 6,897,577</u> | <u>\$ 1,157,498</u> | <u>\$ 314,399</u> | <u>\$ 1,070,042</u> | <u>\$ 9,439,516</u> |

The accompanying notes are an integral part of these statements.

HORIZONS FOR HOMELESS CHILDREN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

(1) CORPORATE ORGANIZATION AND PURPOSE

Horizons for Homeless Children (the Agency) works to improve the lives of young homeless children and to help their families succeed by providing high quality early education, opportunities for play, and comprehensive family support services. The Agency provides customized play and education that children who have experienced the traumas of homelessness need in order to overcome the effects of trauma and to be ready for school. Through the Playspace Program, we provide a safe and nurturing place to play for more than 2,000 children each week. Through the Community Children's Centers, the Agency provides homeless children with high-quality individualized early education and care that will help them to be "school ready" and embrace a more promising future. The Agency connects the families with the support and resources necessary to become self-sufficient, thereby offering them and their children a better chance in the future.

The Agency is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within the IRC regulations.

(2) SIGNIFICANT ACCOUNTING POLICIES

The Agency prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC).

Funding

The Agency receives a significant portion of its funding from the Commonwealth of Massachusetts and the Federal government under unit-rate contracts. Payments to the Agency are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of June 30, 2014 and 2013, or on the changes in its net assets for the years then ended.

Revenue Recognition

Contracts and grants are recorded over the period covered by the contract or grant as services are provided and costs are incurred. State vouchers for services are recorded as revenue as services are provided. Unrestricted grants and contributions are recorded when unconditionally pledged or received. Training, conferences and other revenues are earned as services are provided.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted support. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Gifts of non-cash assets are recorded at their fair value at the date of contribution, as determined by the donor or the Agency. Special events revenue is recognized in the year the event occurs.

HORIZONS FOR HOMELESS CHILDREN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

(Continued)

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Assets

Net assets, revenue and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - include all resources that are not subject to donor-imposed stipulations. Unrestricted net assets designated by the Board represent funds set aside by internal Board action. These funds include funds set aside to fund long-term planning and related projects and future operating deficits. Board designated net assets are included in investments (see page 11) and cash as of June 30, 2014, and investments only as of June 30, 2013. The Board voted to release \$687,002 from designation during fiscal year 2014. Unrestricted net assets denoted as property and equipment represent equity in such property and equipment.

Temporarily restricted net assets - subject to legal or donor-imposed stipulations that may or will be met either by actions of the Agency and/or passage of time. Temporarily restricted net assets consist of time restricted contributions of \$251,267 and purpose restricted contributions of \$20,800 as of June 30, 2014. Temporarily restricted net assets consist of time restricted contributions of \$152,500 and purpose restricted contributions of \$30,795 as of June 30, 2013.

When a donor restriction expires (when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Investment income is reported as an increase or decrease in unrestricted net assets unless its use is restricted by explicit donor stipulation or by law.

Investments

Investments are recorded at fair value. Investment income includes interest and dividends and is recorded when earned. Realized gains and losses from investment transactions and changes in fair value (unrealized gains and losses) of investments are recorded as incurred. Investments are not insured and are subject to ongoing market fluctuations.

Contracts and Grants Receivable

Contracts and grants receivable are stated as unpaid balances, less an allowance for doubtful accounts. The allowance is based on collection experience and other circumstances that may affect the ability of agencies and donors to meet their obligations. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of June 30, 2014 and 2013, there was no allowance for doubtful accounts receivable recorded by the Agency on contracts and grants receivable.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|-------------|
| Leasehold improvements | Lease term |
| Computer and office equipment | 3 - 5 years |
| Vehicles | 3 years |

HORIZONS FOR HOMELESS CHILDREN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The statements of activities and changes in net assets reflect expenses on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services functions. Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Fair Value Measurement

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Tax Positions

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2014 and 2013. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

HORIZONS FOR HOMELESS CHILDREN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(Continued)

(2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through October 29, 2014, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

(3) INVESTMENTS

The investment portfolio at fair value as of June 30, 2014 and 2013, is as follows:

| <u>Investment Type</u> | <u>2014</u> | | | <u>Total</u> |
|-----------------------------------------------|---------------------|----------------|--------------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Government bond funds | \$ 4,049,310 | \$ - | \$ - | \$ 4,049,310 |
| Multi-asset funds | 4,264,572 | - | - | 4,264,572 |
| Various exchange traded funds | 3,746,090 | - | - | 3,746,090 |
| Investment in multi-asset limited partnership | - | - | 1,181,279 | 1,181,279 |
| Cash and cash equivalents | <u>145,075</u> | <u>-</u> | <u>-</u> | <u>145,075</u> |
| Total | <u>\$12,205,047</u> | <u>\$ -</u> | <u>\$1,181,279</u> | <u>\$13,386,326</u> |

| <u>Investment Type</u> | <u>2013</u> | | | <u>Total</u> |
|-----------------------------------------------|---------------------|----------------|--------------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | |
| Government bond funds | \$ 7,483,539 | \$ - | \$ - | \$ 7,483,539 |
| Multi-asset funds | 2,873,394 | - | - | 2,873,394 |
| Various exchange traded funds | 3,283,099 | - | - | 3,283,099 |
| Investment in multi-asset limited partnership | - | - | 1,939,833 | 1,939,833 |
| Cash and cash equivalents | <u>77,233</u> | <u>-</u> | <u>-</u> | <u>77,233</u> |
| Total | <u>\$13,717,265</u> | <u>\$ -</u> | <u>\$1,939,833</u> | <u>\$15,657,098</u> |

The changes in the investment for which the Agency has used Level 3 inputs to determine fair value were as follows for fiscal years 2014 and 2013:

| | |
|----------------------------------------------------------|--------------------|
| Investment balance at June 30, 2012 | \$1,819,048 |
| Unrealized gain on investment in non-marketable security | <u>120,785</u> |
| Investment balance at June 30, 2013 | 1,939,833 |
| Transfer to multi-asset funds (Level 1) | (930,000) |
| Unrealized gain on investment in non-marketable security | <u>171,446</u> |
| Investment balance at June 30, 2014 | <u>\$1,181,279</u> |

HORIZONS FOR HOMELESS CHILDREN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(3) INVESTMENTS (Continued)

All investments are managed by outside investment managers. All investment fair values have been provided by investment managers. The valuation of the Agency's investment in the limited partnership is subject to audit. The most recent audit available is for the year ended December 31, 2013, and was dated June 25, 2014. The value provided on page 10 contains no adjustment for potential changes arising from such audit results. The investment in the limited partnership is subject to a two-year lockup period expiring at various dates through April 1, 2015. During the year ended June 30, 2014, the Agency transferred \$930,000 from the investment in multi-asset limited partnership (Level 3) to the multi-asset funds (Level 1).

Investments by purpose consisted of the following at June 30:

| | <u>2014</u> | <u>2013</u> |
|------------------|---------------------|---------------------|
| Board designated | \$13,386,326 | \$14,959,232 |
| Undesignated | <u>-</u> | <u>697,866</u> |
| | <u>\$13,386,326</u> | <u>\$15,657,098</u> |

Investment income consisted of the following for the years ended June 30:

| | <u>2014</u> | <u>2013</u> |
|------------------------|--------------------|------------------|
| Interest and dividends | \$ 516,457 | \$221,023 |
| Net unrealized gains | 505,878 | 259,019 |
| Realized gains | <u>117,008</u> | <u>183,452</u> |
| | <u>\$1,139,343</u> | <u>\$663,494</u> |

Investments are reflected at fair value, which is subject to significant fluctuations on a daily basis. Management does not believe these losses, if any, permanently impair the value of investments as of the statement of financial position date.

(4) PLEDGES RECEIVABLE

As of June 30, 2014 and 2013, the Agency has \$550,846 and \$482,193, respectively, in outstanding pledges. Approximately 58% of the Agency's pledges receivable at June 30, 2014, was from three donors. Approximately 21% of the Agency's pledges receivable at June 30, 2013, was from one donor.

The allowance for doubtful accounts is based on collection experience and other circumstances that may affect the ability of donors to meet their obligations. It is the Agency's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

HORIZONS FOR HOMELESS CHILDREN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(4) PLEDGES RECEIVABLE (Continued)

Pledges receivable are expected to be collected as follows as of June 30:

| | <u>2014</u> | <u>2013</u> |
|-------------------------|------------------|------------------|
| Due within one year | \$478,846 | \$482,193 |
| Due in one to two years | <u>72,000</u> | <u>-</u> |
| | 550,846 | 482,193 |
| Less – allowance | <u>6,000</u> | <u>6,000</u> |
| | <u>\$544,846</u> | <u>\$476,193</u> |

Pledges receivable have not been discounted as the discount would be immaterial to the accompanying financial statements.

(5) DONATED GOODS AND SERVICES

Volunteers and other organizations contribute services to the Agency in support of various aspects of its programs. These services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management.

The value of donated services for the years ended June 30, 2014 and 2013, was \$55,480 and \$38,784 respectively.

The Agency receives services of volunteers to fulfill various aspects of its programs. These volunteers contributed over 150,000 and 152,000 hours of service for the years ended June 30, 2014 and 2013, respectively. The hourly value for these services, which is determined by management, was approximately \$27 per hour at June 30, 2014 and 2013, respectively. In addition, the Agency receives goods which are used in various aspects of its programs. The value of these goods and services is not reflected in the accompanying financial statements, since the value of these donations does not meet the criteria for recognition under standards pertaining to *Accounting for Contributions Received* under U.S. GAAP.

Total unrecorded donated goods and services were as follows for the years ended June 30:

| | <u>2014</u> | <u>2013</u> |
|------------------------------|--------------------|--------------------|
| Volunteer workers | \$4,050,000 | \$4,169,360 |
| Educational supplies | 160,046 | 122,076 |
| Advertising | 115,000 | 128,534 |
| Other | 88,325 | 76,204 |
| Printing and design services | <u>8,000</u> | <u>121,000</u> |
| | <u>\$4,421,371</u> | <u>\$4,617,174</u> |

HORIZONS FOR HOMELESS CHILDREN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(Continued)

(6) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|-------------------|-------------------|
| Leasehold improvements | \$2,033,270 | \$2,006,771 |
| Computer and office equipment | 453,850 | 446,330 |
| Vehicles | - | 163,460 |
| | <u>2,487,120</u> | <u>2,616,561</u> |
| Less - accumulated depreciation | <u>2,295,929</u> | <u>2,366,072</u> |
| | <u>\$ 191,191</u> | <u>\$ 250,489</u> |

Included in property and equipment are approximately \$2,117,000 and \$2,188,000 of fully depreciated assets which are still being utilized by the Agency as of June 30, 2014 and 2013, respectively.

(7) LEASE AGREEMENTS

The Agency leases equipment and space under various operating leases expiring through July, 2020. The terms of these lease agreements are from five to ten years. The facility leases require the Agency to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. Rent expense under the facility leases was approximately \$583,000 and \$566,000 for the years ended June 30, 2014 and 2013, respectively, and is included in occupancy in the accompanying statements of functional expenses.

Future minimum lease payments under these agreements are as follows:

| | <u>Equipment</u> | <u>Facilities</u> |
|------------|------------------|--------------------|
| 2015 | \$11,103 | \$ 534,623 |
| 2016 | 5,781 | 297,641 |
| 2017 | 1,980 | 135,432 |
| 2018 | - | 138,805 |
| Thereafter | <u>-</u> | <u>214,242</u> |
| | <u>\$18,864</u> | <u>\$1,320,743</u> |

(8) PENSION PLAN

The Agency has a defined contribution pension plan covering all employees. Participation in the plan is voluntary and contributions are limited by the IRC. The Agency made discretionary matching contributions of \$65,697 and \$64,246 to the plan for the years ended June 30, 2014 and 2013, respectively, which are included in employee benefits in the accompanying statements of functional expenses.

HORIZONS FOR HOMELESS CHILDREN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(Continued)

(9) CONCENTRATION OF CREDIT RISK

The Agency receives a significant portion of its revenues (approximately 15% and 16% in fiscal years 2014 and 2013, respectively) from the Massachusetts Department of Early Education and Care (EEC) under unit-rate contracts. Approximately 62% and 54% of the contracts and grants receivable as of June 30, 2014 and 2013, respectively, are due from EEC.

Approximately 17% of contracts and grants receivable at June 30, 2014, are due from one not-for-profit organization. Approximately 41% of contracts and grants receivable at June 30, 2013, are due from three not-for-profit organizations.

The Agency maintains its cash balances in a Massachusetts bank. The Federal Deposit Insurance Corporation (FDIC) insures balances at the bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Agency has not experienced any losses in these accounts. The Agency believes it is not exposed to any significant credit risk on its operating cash balance.

(10) RELATED PARTIES

On occasion, the Agency transacts with individuals or entities that have a family or business relationship with members of the Agency's Board of Directors or management. During the years ended June 30, 2014 and 2013, pro bono legal services received from such related parties was valued at \$55,480 and \$38,784, respectively (see Note 5).

(11) CONTINGENCIES

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in disputes concerning individual's employment with the Agency and/or litigation with outside parties. The Agency denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes. It is the Agency's opinion that any potential settlement would not be material to the accompanying June 30, 2014 financial statements.