

**BAY COVE HUMAN SERVICES, INC.  
AND AFFILIATE**

**Financial Statements**

**June 30, 2010**

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

June 30, 2010

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Kevin P. Martin & Associates, P.C.

## Independent Auditors' Report

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

We have audited the accompanying statement of financial position of Bay Cove Human Services, Inc. and Affiliate (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Bay Cove Human Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Bay Cove Human Services, Inc. and Affiliate's 2009 financial statements and, in our report dated November 10, 2009, we expressed an unqualified opinion on those financial statements. The prior year comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Cove Human Services, Inc. and Affiliate as of June 30, 2010 and the change in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2010, on our consideration of Bay Cove Human Services, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Braintree, Massachusetts  
November 10, 2010



Kevin P. Martin & Associates, P.C.

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

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay Cove Human Services, Inc. and Affiliate's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #10-1.

We noted certain matters that we reported to management of the Agency in a separate letter dated November 10, 2010.

Bay Cove Human Services, Inc. and Affiliate's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bay Cove Human Services, Inc. and Affiliate's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, the Commonwealth of Massachusetts, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kevin P. Martin & Associates, P.C.*

Braintree, Massachusetts  
November 10, 2010



Kevin P. Martin & Associates, P.C.

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

Compliance

We have audited the compliance of Bay Cove Human Services, Inc. and Affiliate (a nonprofit organization), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. Bay Cove Human Services, Inc. and Affiliate's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Bay Cove Human Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on the Bay Cove Human Services, Inc. and Affiliate's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bay Cove Human Services, Inc. and Affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Bay Cove Human Services, Inc. and Affiliate's compliance with those requirements.

As described in item #10-2 in the accompanying schedule of findings and questioned costs, Bay Cove Human Services, Inc. and Affiliate did not comply with requirements regarding eligibility that are applicable to its major program. Compliance with such requirements is necessary, in our opinion, for Bay Cove Human Services, Inc. and Affiliate to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Bay Cove Human Services, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

## Internal Control Over Compliance

Management of the Bay Cove Human Services, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Bay Cove Human Services, Inc. and Affiliate's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bay Cove Human Services, Inc. and Affiliate's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #10-2 to be a material weakness.

Bay Cove Human Services, Inc. and Affiliate's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bay Cove Human Services, Inc. and Affiliate's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, the Commonwealth of Massachusetts, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Braintree, Massachusetts  
November 10, 2010

ORGANIZATION : Bay Cove Human Services, Inc. and Affiliate

FEIN: 042518575

STATEMENT OF FINANCIAL POSITION AS OF  
(BALANCE SHEET)

06/30/2010

WITH COMPARATIVE TOTALS AS OF

06/30/2009

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
<b>ASSETS</b>						
1	Cash and Cash Equivalents	3,597,584	29,070		3,626,654	3,899,863
2	Accounts Receivable, Program Services	10,684,148			10,684,148	6,991,033
3	Allowance for Doubtful Accounts	(119,477)			(119,477)	(132,853)
4	Net Accounts Receivable, Program Services	10,564,671			10,564,671	6,858,180
5	Contributions Receivable	34,052			34,052	195,120
6	Notes Receivable					
7	Prepaid Expenses	364,266			364,266	277,112
8	Other Accounts Receivable	60,163			60,163	66,983
9	Other Current Assets					
10	Short-Term Investments	1,438			1,438	1,286
11	<b>TOTAL CURRENT ASSETS</b>	<b>14,622,174</b>	<b>29,070</b>		<b>14,651,244</b>	<b>11,298,544</b>
12	Land, Buildings, and Equipment		31,070,781		31,709,230	27,717,776
13	Accumulated Depreciation		(10,005,009)		(10,333,280)	(8,927,200)
14	Net Land, Buildings and Equipment		21,065,772		21,375,950	18,790,576
15	Long-Term Investments	1,167,475			1,167,475	931,757
16	Other Assets	3,017,299	164,676		3,181,975	2,623,976
17	Due From Other Funds					
18	<b>TOTAL ASSETS</b>	<b>18,806,948</b>	<b>21,259,518</b>	<b>310,178</b>	<b>40,376,644</b>	<b>33,644,853</b>
<b>LIABILITIES AND NET ASSETS</b>						
19	Accounts Payable	1,820,417			1,820,417	1,516,180
20	Subcontract Payable	540,464			540,464	67,379
21	Accrued Expenses	4,328,888			4,328,888	3,255,579
22	Current Notes Payable	1,000,000	312,500		1,312,500	812,500
23	Current Portion Long-Term Debt		436,336		436,336	384,854
24	Deferred Revenue					
25	Other Current Liabilities	21,476			21,476	
26	<b>TOTAL CURRENT LIABILITIES</b>	<b>7,711,245</b>	<b>748,836</b>		<b>8,460,081</b>	<b>6,036,492</b>
27	Long-Term Notes & Mortgage Payable		15,559,788		15,559,788	12,934,196
28	Other Liabilities	155,188	433,280		588,468	440,905
29	Due to Other Funds					
30	<b>TOTAL LIABILITIES</b>	<b>7,866,433</b>	<b>16,741,904</b>		<b>24,608,337</b>	<b>19,411,593</b>
<b>NET ASSETS</b>						
31	Unrestricted	10,552,934	4,517,614	310,178	15,380,726	13,877,889
32	Temporarily Restricted	387,581			387,581	355,371
33	Permanently Restricted					
34	<b>TOTAL NET ASSETS</b>	<b>10,940,515</b>	<b>4,517,614</b>	<b>310,178</b>	<b>15,768,307</b>	<b>14,233,260</b>
35	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>18,806,948</b>	<b>21,259,518</b>	<b>310,178</b>	<b>40,376,644</b>	<b>33,644,853</b>

See Accompanying Notes to the Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and Affil

FEIN: 042518575

**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED**

06/30/2010

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

06/30/2009

	<b>UNRESTRICTED</b>	<b>TEMPORARILY RESTRICTED</b>	<b>PERMANENTLY RESTRICTED</b>	<b>TOTAL THIS YEAR</b>	<b>TOTAL LAST YEAR</b>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
1 Contributions, Gifts, Legacies, Bequests & Special Events	298,027	1,431,682		1,729,709	1,309,737
2 In-Kind Contributions	414,345			414,345	423,843
3 Grants	3,033,543			3,033,543	2,724,903
4 Program Service Fees	74,475,965			74,475,965	59,284,990
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	114,893			114,893	76,896
7 Revenue from Commercial Products & Services	36,206			36,206	85,332
8 Other	396,088			396,088	314,861
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions	1,399,472	(1,399,472)			
11 Satisfaction of Equipment Acquisition Restrictions					
12 Expiration of Time Restrictions					
13 <b>TOTAL REVENUE, GAINS, AND OTHER SUPPORT</b>	<b>80,168,539</b>	<b>32,210</b>		<b>80,200,749</b>	<b>64,220,562</b>
<b>EXPENSES AND LOSSES</b>					
14 Administration (Management & General)	6,747,171			6,747,171	6,250,604
15 Fundraising	277,710			277,710	485,552
16 Total Program Services	71,450,098			71,450,098	56,736,781
17 <b>TOTAL EXPENSES</b>	<b>78,474,979</b>			<b>78,474,979</b>	<b>63,472,937</b>
18 Losses	85,338			85,338	132,692
19 <b>TOTAL EXPENSES AND LOSSES</b>	<b>78,560,317</b>			<b>78,560,317</b>	<b>63,605,629</b>
<b>CHANGES IN NET ASSETS:</b>					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)	(105,385)			(105,385)	(141,169)
24 <b>TOTAL CHANGES IN NET ASSETS</b>	<b>1,502,837</b>	<b>32,210</b>		<b>1,535,047</b>	<b>473,764</b>
25 <b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>13,877,889</b>	<b>355,371</b>		<b>14,233,260</b>	<b>13,759,496</b>
26 <b>NET ASSETS AT END OF YEAR</b>	<b>15,380,726</b>	<b>387,581</b>		<b>15,768,307</b>	<b>14,233,260</b>

See Accompanying Notes to Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and A

FEIN: 042518575

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2010

INDIRECT METHOD

	<b>TOTAL</b>
<b>Cash Flows from Operating Activities:</b>	
1 Changes in Net Assets	1,535,047
Adjustments to Reconcile Change In Net Assets to Net Cash provided by/(used in) Operating Activities:	
2 Depreciation	1,406,247
3 Losses	9,858
4 Increase/Decrease in Net Accounts Receivable	(3,706,491)
5 Increase/Decrease in Prepaid Expenses	(87,154)
6 Increase/Decrease in Contributions Receivable	161,068
7 Increase/Decrease in Accounts Payable	274,967
8 Increase/Decrease in Accrued Expenses	1,073,309
9 Increase/Decrease in Deferred Revenue	
10 Increase/Decrease in Subcontract Payable	473,085
11 Contributions Restricted for Long-Term Investment	
12 Net Unrealized and Realized Gains on Long-Term Investments	
13 Other Cash Used by Operating Activities	168,551
14 Net Cash Provided by/(used in) Operating Activities	1,308,487
<b>Cash Flows from Investing Activities:</b>	
15 Insurance Proceeds	
16 Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	(936,210)
17 Proceeds from Sale(s) of Investments	
18 Purchase(s) of Investments	(235,718)
19 Purchase(s) of Assets Restricted To Long-Term Investment	
20 Other Investing Activities	(473,220)
21 Net Cash Provided by/(used in) Investing Activities	(1,645,148)
<b>Cash from Financing Activities:</b>	
Proceeds from Contributions Restricted For:	
22 Investment in Endowment	
23 Investment in Term Endowment	
24 Investment in Plant (Land Bldgs. & Equip.)	
Other Financing Activities:	
25 Contributions Restricted for Long-Term Investment	
26 Interest and Dividends Restricted for Reinvestment	
27 Payments on Notes Payable	(3,750,000)
28 Payments on Long-Term Debt	(404,000)
29 Other Finance Payments	4,217,452
30 Net Cash Provided by/(used in) Financing Activities	63,452

See Accompanying Notes to the Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and A

FEIN: 042518575

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2010

INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	(273,209)
32	Cash and Cash Equivalents at Beginning of Year	3,899,863
33	Cash and Cash Equivalents at End of Year	3,626,654

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	700,562
35	Cash Paid During the Year for Taxes/Other	

Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	
37	Other Noncash Investing and Financing Activities	
38	See notes to financial statements #14	
39		
40		

See Accompanying Notes to the Financial Statements

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE  
STATEMENT OF CASH FLOWS ADDENDUM  
June 30, 2010

**Line 13 - Other Cash Used by Operating Activities**

Decrease in other accounts receivables	\$	6,820
Increase in security deposits		(13,924)
Decrease in debt service reserve		1,300
Increase in cash surrender value of life insurance policies		(1,668)
Increase in other liabilities		21,476
Increase in deferred rent liability		42,178
Net Unrealized and realized gains on ST investments		(152)
Decrease in fair market value of interest rate swap agreement		105,385
Amortization of bond costs		<u>7,136</u>
Total	\$	<u><u>168,551</u></u>

**Line 20 - Other Investing Activities**

Premiums paid on life insurance policies	\$	<u>(473,220)</u>
Total	\$	<u><u>(473,220)</u></u>

**Line 29 - Other Finance Payments**

Borrowings under long-term debt	\$	4,250,000
Bond cost of issuance		<u>(32,548)</u>
Total	\$	<u><u>4,217,452</u></u>

ORGANIZATION : Bay Cove Human Services, Inc. and AffiliateFEIN: 042518575**Statement of Functional Expenses for the Year Ended: 06/30/2010**

	<b>SUPPORTING SERVICES</b>		<b>PROGRAM SERVICES</b>	
	<b>TOTALS</b>	<b>ADMINISTRATION (MNGT. &amp; GEN.)</b>	<b>FUND RAISING</b>	<b>TOTAL ALL PROGRAMS</b>
1. Employee Compensation & Related Expenses	53,139,610	4,544,464	237,365	48,357,781
2. Occupancy	7,257,597	420,624	13,678	6,823,295
3. Other Program / Operating Expense	8,920,858	353,586	13,074	8,554,198
4. Subcontract Expense	5,451,126	130,000		5,321,126
5. Direct Administrative Expense	1,996,136	987,291	10,538	998,307
6. Other Expenses	303,405	67,701		235,704
7. Depreciation of Buildings and Equipment	1,406,247	243,505	3,055	1,159,687
<b>8. TOTAL EXPENSES</b>	<b>78,474,979</b>	<b>6,747,171</b>	<b>277,710</b>	<b>71,450,098</b>

See Accompanying Notes to Financial Statements

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The significant accounting policies followed by Bay Cove Human Services, Inc. and Affiliate (the Agency) are described below to enhance the usefulness of the financial statements to the reader.

#### (a) Basis of Presentation

The financial statements present the consolidated financial position and results of operations of Bay Cove Human Services, Inc. (Bay Cove) and Kit Clark Senior Services, Inc. (Kit Clark). Kit Clark is a separately incorporated nonprofit that is managed as a division of Bay Cove. Both entities share a common Board of Directors. The consolidation was accounted for as a purchase and all material inter-company balances and transactions have been eliminated in consolidation.

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

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

#### (b) Nature of Activities

The Agency is a private, nonprofit organization providing a full range of human services to Greater Boston residents who face the challenges accompanying developmental disabilities, mental illness, homelessness, drug and alcohol dependency and other mental, physical and aging challenges.

The following program divisions are listed in order of relative importance based on program expenditures:

Mental Health Residential - The Mental Health Residential division provides a wide range of human services tailored to adults with long-term and severe mental illness. The division operates several mental health community residences and treatment programs which focus on increasing a client's independence through rehabilitation, community skills development and case management. The Mental Health Residential division accounted for 45% of total program expenditures.

Developmental Disabilities - The Developmental Disabilities division provides services to adults suffering from a wide range of development disabilities and behavioral challenges as well as family support and respite services to people with developmental disabilities and their families. The division operates limited group residences and staff-supported housing which concentrate on daily supervision, counseling and community living skill development. The Developmental Disabilities division accounted for 24% of total program expenditures.

Senior Services - The Senior Services division provides living assistance in all areas of life to the elderly including nutritious meals and nutrition education to those elders in need of proper nutrition, but not capable of providing it themselves. Clients are provided daily programming at several sites, medical and mental health outpatient clinic services, support around issues of substance abuse, in-home assistance with activities of daily living and an array of case management services designed to assist elders who are homeless or at risk for homelessness secure and stabilize housing and meet other basic needs. The Senior Services division also provides transportation to and from most programs. The Senior Service division accounted for 13% of total program expenditures.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies - continued

#### (b) Nature of Activities - continued

Substance Abuse - The Substance Abuse division provides medical and counseling services to individuals suffering from substance abuse and dependency. Services include medical detoxification, counseling, methadone treatment, case management, outpatient clinic and psychiatric nursing. The Substance Abuse division accounted for 13% of total program expenditures.

Child and Family Services - The Child and Family Services division operates early intervention programs and a small wonders nursery school that provide clinical and counseling services to infants, toddlers and their families. The Child and Family Services division accounted for 3% of total program expenditures.

Bay Cove Academy - The Bay Cove Academy operates a junior/senior high school, which provides educational and counseling services to troubled youths. The Bay Cove Academy accounted for 2% of total program expenditures.

#### (c) Revenue Recognition

The Agency earns revenue as follows:

Program Fees - Program service fee revenue is earned and recognized by the Agency when units or services are provided under various contracts funded primarily by governmental agencies. All contracts consist of five types; special education program, Division of Health Care Finance Policy Medicaid class rate, negotiated rate, negotiated accommodations rate and cost reimbursement, all with ceiling amounts. Unit-rate contracts provide that revenue is to be earned and recognized at a negotiated or class rate for each unit-of-service that is provided under the terms of the contract. Accommodation rate contracts provide that revenue is earned and recognized for each day the services are open and available. Under the cost-reimbursement contracts, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency. Medicaid revenue is generated through providing units of service delivered to pre-approved and covered individuals.

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

Grants - Grants are recorded as revenue as terms of the grant are met.

Commercial Products and Services - Client wages and consultation fees are recognized as services are rendered at rates established by parties under contractual arrangements.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies - continued

#### (c) Revenue Recognition - continued

Deferred revenue represents program service fees received prior to year-end for the subsequent fiscal period. These amounts are recognized as income during the subsequent fiscal period.

Substantially all of the Agency's revenue is due from entities in Massachusetts. For the year ended June 30, 2010, approximately 81% of the Agency's total revenue is from governmental agencies, 12% is from medical insurance companies and 7% is from other non-profit agencies, foundations and individuals. All revenue is recorded at the estimated net realizable amounts.

#### (d) Standards of Accounting and Reporting

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

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

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

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

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

#### (e) Income Tax Status

Bay Cove and Kit Clark are nonprofit corporations. Both entities qualify as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore are not subject to income tax. Furthermore, neither entity is a private foundation under Section 509(a)(1) of the Internal Revenue Code. Certain unrelated business income, as defined in the Internal Revenue Code, is subject to federal income tax under Section 511. For the year ended June 30, 2010, there was no liability for tax on unrelated business income.

Effective July 1, 2009, the provisions of U.S. generally accepted accounting principles require that a tax position be recognized or derecognized based on a more-likely-than-not threshold. This applies to tax positions taken or expected to be taken in a tax return. The implementation of these provisions had no impact on the Agency's financial statements. The Agency does not believe its financial statements include any uncertain tax positions.

All tax years prior to fiscal year 2006 are closed via the passing of the Statute of Limitations. No notices have been received from the Internal Revenue Service addressing any subsequent year.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies - continued

#### *(f) Use of Estimates*

In preparing the Agency's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

#### *(g) Current Operations Fund, Plant Fund and Custodial Fund*

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

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

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

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

Custodial Fund - Represents the Agency's fiduciary and stewardship responsibility for assets received and to be held or disbursed only on instruction from whom the assets were received.

#### *(h) Special Events*

The Agency has determined that special events are incidental to its operations. Therefore, gross special event revenue has been shown net of direct cost of benefits to donors of \$81,003 resulting in a \$154,530 gain for the year ended June 30, 2010, which is included with contributions on the statement of activities.

#### *(i) Commercial Products and Services*

Commercial products and services revenue and expenses amounted to \$36,206 and \$47,647, respectively, resulting in an \$11,441 loss for the year ended June 30, 2010 on the statement of activities. Commercial products and services expenses are included in total program services expenses on the statement of activities.

#### *(j) Subsequent Events*

The Agency has performed an evaluation of subsequent events through November 10, 2010, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2010 that required recognition or disclosure in these financial statements.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies - continued

#### (k) Fair Value Measurements

The Agency determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the following fair value hierarchy established in accordance with generally accepted accounting principles.

**Level 1:** Quoted prices in active markets for identical assets or liabilities the Agency has the ability to access. The Agency's Level 1 assets include short term investments and board restricted funds which are measured at fair value on a recurring basis.

**Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Agency's Level 2 asset is the policy value on employee life insurance. The Agency's Level 2 liability is the fair value of the interest rate swap.

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

The following table presents the fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.

Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 999,451	\$ -	\$ -	\$ 999,451
Other assets (Note 5)	-	2,894,328	-	2,894,328
Interest rate swap	-	(433,280)	-	(433,280)
	<u>\$ 999,451</u>	<u>\$ 2,461,048</u>	<u>\$ -</u>	<u>\$ 3,460,499</u>

The Agency's financial instruments include cash and cash equivalents, accounts receivables, promises to give, deposits, accounts payable and accrued expenses. The carrying amount of these financial instruments approximates their fair value due to their short maturities. The fair value of the Agency's long-term debt, including the current portion, is estimated based on the borrowing rates currently available for loans with similar terms and maturities.

Effective July 1, 2009, the Agency is required to apply the provisions of U.S. generally accepted accounting principles to fair value measurements for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Agency has no nonfinancial assets or liabilities required to be accounted for on a non-recurring basis as of June 30, 2010.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(1) Summary of Significant Accounting Policies - continued**

#### ***(l) Fundraising***

Fundraising relates to the activities of raising general and specific contributions to the Agency. Total costs of all fundraising activities for the year ended June 30, 2010 were 13% of total contribution revenue. The ratio of expenses to amounts raised is computed using the actual expenses and related contributions on an accrual basis.

#### ***(m) Functional Allocation of Expenses***

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency. Payroll and associated costs are allocated to functions based upon actual time incurred, number of enrolled clients and square footage. Occupancy costs are allocated based upon square footage.

#### ***(n) Cash and Cash Equivalents***

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Agency maintains its cash deposit balances in various banks located in Massachusetts. Money market accounts are primarily invested in U.S. Government securities, certificates of deposit and commercial paper. Cash deposited with Citizens Bank and Cambridge Savings Bank at June 30, 2010 amounted to \$3,605,003 and \$627,953, respectively. The money market accounts are not FDIC insured. The Agency did not maintain cash balances in excess of FDIC limits in any other accounts at June 30, 2010.

#### ***(o) Investments***

The Agency carries investments in marketable securities with readily determinable values at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. The investments in the Resource Consortium, LLC and The Captive Advantage, LLC are accounted for under the equity method.

#### ***(p) Promises to Give***

Unconditional promises to give are recognized as revenue and as assets, net of allowances, in the period in which the promises are made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Accretion of the discount is included in contribution revenue.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (1) Summary of Significant Accounting Policies - continued

#### (q) *Accounts Receivable*

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. As of June 30, 2010, the allowance for doubtful accounts was \$119,477.

The Agency does not have a policy to accrue interest or to require collateral to secure accounts receivable. Upon notification by the government entity or medical insurance company that amounts are uncollectible a contractual allowance is established. Commercial products and services and self-pay receivables are written off after collection efforts have failed, including collection agencies and small claims court. Promises to give are written off after scheduled payments become delinquent and donors have notified the Agency that amounts will not be paid.

Substantially all of the Agency's receivables are due from other governmental agencies in Massachusetts. As of June 30, 2010, 77% of the Agency's total accounts receivable is from governmental agencies, 22% is from medical insurance companies and 1% is from other non-profit agencies, foundations and individuals.

#### (r) *Fixed Assets and Depreciation*

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

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

Building and improvements	5-40 years
Furniture and equipment	3-10 years
Motor vehicles	3-5 years

The Agency acquired fixed assets with resources provided under contracts with the Commonwealth of Massachusetts and the City of Boston, for which the State and City retains title. State/City-owned assets are capitalized in the year of acquisition and are reflected in the Custodian Fund on the statement of financial position. In accordance with state/city funding agency requirements, these assets are depreciated over their estimated useful lives. The Agency is restricted to employ the assets for the purposes described in the contract funding their acquisition.

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in the year ended June 30, 2010.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies - continued**

*(s) Donated Items and Services*

The Commonwealth of Massachusetts provides the free use of facilities on a tenant-at-will basis, to assist the Agency in its programs. The Agency also received donated food and medical supplies to assist the Agency in its programs and a donated promotional video to assist in their advocacy efforts.

For the year ended June 30, 2010, in-kind contributions totaling \$414,345 have been recognized as income and the corresponding expenses have been included with program and administration expenses in the accompanying financial statements and are recorded at estimated fair value at the date of receipt.

*(t) Advertising Costs*

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2010.

*(u) Summarized Financial Information for 2009*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, there is no presentation of statement of cash flows or statement of functional expenses for the year ended June 30, 2009. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

**(2) Cash and Cash Equivalents**

The Agency maintains current cash balances, funded reserves and restricted deposits as follows:

	<u>Included in Cash and Cash Equivalents</u>			<u>Included in Other Assets and Investments</u>
	Cash	Money Market Accounts	Total	Money Market Accounts
Operating cash	\$ 3,259,938	\$ 6,802	\$ 3,266,740	\$ -
Debt Service Interest Fund (See Note 8a)	-	710	710	-
Expense Fund (See Note 8a)	-	28,360	28,360	-
Project Funds (See Note 8a)	-	330,844	330,844	-
Debt Service Reserve Fund (See Note 8a)	-	-	-	34,161
Board Restricted Funds	-	-	-	37,249
	<u>\$ 3,259,938</u>	<u>\$ 366,716</u>	<u>\$ 3,626,654</u>	<u>\$ 71,410</u>

The Agency earned \$35,769 of interest income on cash and cash equivalents during the year ended June 30, 2010. The interest income is included in investment revenue on the statement of activities.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (3) Investments

Investments partially consist of established U.S. mutual funds invested in relatively conservative debt securities including, U.S. government agencies, corporate and foreign bonds, common equity securities, international equity mutual funds, closed end equity mutual funds and taxable fixed income funds maintaining durations of one year or less. Non-governmental securities are primarily invested in companies that trade on the New York Stock Exchange. The carrying value of these forms of investments as of June 30, 2010 totaled \$999,451. As of June 30, 2010, \$1,438 is included in short-term investments.

The board of directors has designated \$998,013 of the previously described forms of investments and unrestricted net assets to a quasi-endowment fund to provide a continuous source of income to the Agency; including funds to provide for bonus compensation to employees under the Agency's Legacy Bonus Policy. As of June 30, 2010, board restricted assets are classified as long-term investments on the statement of financial position.

Long-term investments also consist of a one-twelfth member ownership interest in the Resource Consortium, LLC, a Massachusetts Limited Liability Company, see Note 12a, and a one-fourth membership interest in The Captive Advantage, LLC, a Delaware Limited Liability Company that was founded for the principal purpose of participating in a segregated account captive insurance company in an attempt to provide human service provider organizations with significantly lower insurance costs. The Agency has accounted for the investments under the equity method. The value of the investments are carried at the Agency's cost basis of contributions, increased or decreased for the Agency's prorated share of the Resource Consortium, LLC's and The Captive Advantage, LLC's historical net earnings. During the year ended June 30, 2010 there was no material change in the value of the member interest in the Resource Consortium, LLC. During the year ended June 30, 2010, the Agency deposited \$141,429 with The Captive Advantage, LLC. The combined carrying value as of June 30, 2010 totaled \$169,462, which is accounted for under the equity method.

Investment return consisted of the following for the year ended June 30, 2010:

Interest and dividends, net of management fees	\$ 47,132
Net realized and unrealized gains	<u>67,761</u>
Total gain on investments	\$ <u>114,893</u>

### (4) Property and Equipment

Property and equipment consists of the following as of June 30, 2010:

	Agency Owned	State/City Owned	Total
Land	\$ 4,874,816	\$ -	\$ 4,874,816
Building and improvements	24,299,719	-	24,299,719
Furniture and equipment	1,634,465	552,721	2,050,186
Motor vehicles	<u>398,781</u>	<u>85,728</u>	<u>484,509</u>
Total	\$ <u>31,207,781</u>	\$ <u>638,449</u>	\$ <u>31,709,230</u>

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (4) Property and Equipment - continued

Real estate under rehabilitation is included in building and improvements, carried at cost and valued at \$2,051,089 as of June 30, 2010. This real estate has not been placed in service as of June 30, 2010, and, as such, is not being depreciated.

State/City owned assets consist of furniture and equipment and motor vehicles used in the Agency's programs, for which title is held by various departments of the Commonwealth of Massachusetts and the City of Boston.

Total depreciation expense for the year ended June 30, 2010 was \$1,406,247.

### (5) Other Assets

At June 30, 2010, other assets consisted of the following:

<u>Restricted Deposits</u>	
Debt Service Reserve Funds (see Note 8a)	\$ 34,161
<u>Other</u>	
Policy value on employee life insurance (see Note 10a)	2,894,328
Financing fees, net of amortization	130,515
Deposits	<u>122,971</u>
Total	<u>\$ 3,181,975</u>

### (6) Promises to Give

The Agency has received unconditional promises to give. All of these promises to give are due within one year. Uncollectible amounts of pledges receivable are expected to be immaterial. Accordingly, no provision has been made for uncollectible amounts.

### (7) Current Notes Payable

#### (a) Citizens Bank

The Agency has two revolving lines of credit with Citizens Bank. The first line of credit permits borrowing up to \$2,500,000. At June 30, 2010 net advances totaling \$1,000,000 were outstanding. The line of credit agreement requires that the Agency repay the line of credit in full for 30 consecutive days during the fiscal year, which was fulfilled for the year ended June 30, 2010. The line of credit is collateralized by agreements covering personal property including certain receivables as described in the Revolving Credit Agreement.

The second line of credit permits borrowing up to \$700,000. There were no advances outstanding as of June 30, 2010. The line of credit agreement requires that the Agency repay the line of credit in full for 30 consecutive days prior to December 31 of each calendar year and maintain a debt service coverage ratio of no less than 1.20:1.00. The Agency complied with both covenants during fiscal year 2010. The line of credit is collateralized by agreements covering personal property including certain receivables as described in the Revolving Credit Agreement.

Borrowings under both lines of credit accrue interest based on the LIBOR Advantage rate, which was 3.35% as of June 30, 2010. Both lines of credit are due on demand and are reviewed annually by the bank.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Notes to Financial Statements

June 30, 2010

**(7) Current Notes Payable - continued**

**(b) Cambridge Savings Bank**

The Agency has a revolving line of credit with Cambridge Savings Bank that permits borrowing up to \$312,500. At June 30, 2010 net advances totaling \$312,500 were outstanding. The revolving line of credit is collateralized by real estate located at 28 Freeland St, Mattapan, MA. Borrowings under the revolving line of credit accrue interest at the bank's prime lending rate, which was 3.25% as of June 30, 2010. The revolving line of credit is due on demand and is reviewed annually by the bank.

The Agency also has a non-revolving line of credit for the acquisition of real estate. As of June 30, 2010, \$2,950,000 of the non-revolving line of credit was available to the Agency. Borrowings under the non-revolving line of credit accrue interest in accordance with each secured term note (see below). The non-revolving line of credit is due on demand and is reviewed annually by the bank. In any event, the entire unpaid principal balance together with all unpaid accrued interest shall be due February 28, 2011, the termination date, which can be extended at the bank's discretion.

The line of credit agreement requires the Agency to execute a secured term note for each line of credit advance. The Agency will be required to make payments of interest only in accordance with each secured term note. The principal balance of each secured term note is payable in full on the termination date of the non-revolving line of credit (see above).

**(8) Long-Term Debt**

Long-term debt at June 30, 2010 consisted of the following:

<u>Lending Institution</u>	<u>Type of Debt</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
HEFA	Mortgage Notes	\$ 201,325	\$ 9,075,214	\$ 9,276,539
TD Bank	Mortgage Notes	61,852	1,325,376	1,387,228
Cambridge Savings Bank	Mortgage Notes	142,172	3,515,424	3,657,596
Citizens Bank	Mortgage Notes	30,987	263,389	294,376
Department of Housing and Community Development	Mortgage Notes	-	495,000	495,000
CEDAC	Mortgage Notes	-	885,385	885,385
		<u>\$ 436,336</u>	<u>\$ 15,559,788</u>	<u>\$ 15,996,124</u>

**(a) Massachusetts Health and Educational Facilities Authority**

The Agency has entered into three debt instruments with the Massachusetts Health and Educational Facilities Authority (HEFA).

The first debt instrument is a 30-year loan in the amount of \$3,940,000, with a floating interest rate equal to the USD-Bond Market Association Swap Index Rate. The floating rate was .24% at June 30, 2010. The installment loan is payable through April 2037. Funds for the loan were raised by HEFA through the sale of Variable Rate Demand Revenue Bonds. During the year, the Agency entered into an Amendment to Reimbursement Agreement with RBS Citizens, N.A. whereby the Series M Bond was refunded by variable rate demand revenue bonds, Series O. There were no changes to requirements of the bond, including principal amounts, interest rates and required cash accounts and covenants. As of June 30, 2010, the unpaid principal balance totaled \$3,414,761. The Agency has entered into an interest rate swap agreement to reduce their exposure to interest rate fluctuations on this debt instrument. See Note 8b for details.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(8) Long-Term Debt - continued**

#### *(a) Massachusetts Health and Educational Facilities Authority - continued*

The second debt instrument is a 30-year loan in the amount of \$3,500,000, with a floating interest rate equal to the Wall Street Journal Prime Rate, less .5%, during initial construction. The floating rate was 2.75% at June 30, 2010. The installment loan is payable through June 2039, however, the instrument can be called by the lender or fully repaid by the Agency in June 2019. Funds for the loan were raised by HEFA through the sale of Authority Revenue Bonds. As of June 30, 2010, the Agency had drawn down \$1,328,319 of the total loan amount. The Agency is only required to make interest payments on the loan until the construction period has been completed at which time the rate will be fixed according to the terms of the agreement.

The third debt instrument is a 30-year loan in the amount of \$4,600,000, with a fixed interest rate of 5.04%. The installment loan is payable through June 2039, however, the instrument can be called by the lender or fully repaid by the Agency in June 2019. Funds for the loan were raised by HEFA through the sale of Authority Revenue Bonds. As of June 30, 2010, the unpaid principal balance totaled \$4,533,459.

The HEFA loans are collateralized by a first mortgage position in certain real property of the Agency. The real property includes land, buildings and improvements that are located in Dorchester and Boston, Massachusetts. The security agreements place certain restrictions on the sale, lease or encumbrance of the mortgaged property.

People's United Bank acts as trustee for the first debt instrument, while Cambridge Savings Bank acts as trustee on the second and third debt instruments, respectively. All loan and trust agreements contain covenants which include, but are not limited to: (a) a debt service coverage ratio of no less than 1.20 to 1.00 and; (b) that no action shall be taken or omitted if such action or omission would cause any revocation or adverse modification of its tax-exempt status under IRC Section 501(c)(3). The Agency complied with all covenants during fiscal year 2010.

The loan and trust agreements for the \$3,940,000 HEFA loan require the accounts listed below:

Debt Service Principal Fund - The Agency is required to make the annual principal payment to the Debt Service Principal Fund through maturity, April 2037. The Trustee will remit the annual principal payment from the Debt Service Principal Fund to the bondholders on June 15<sup>th</sup> of each year. The account will receive a portion on interest earned on the Debt Service Reserve Fund and the Project/Commitment Fund each month. The transferred interest will be used toward the current interest due on the bonds. The Agency made its required annual payment to the fund in the current year and, as such, there was no balance as of June 30, 2010.

Debt Service Reserve Fund - The Agency was required to make an initial deposit of \$39,400 from HEFA bond proceeds into a Debt Service Reserve Fund to be used to make payments should the Agency become unable to meet their debt service payment requirements. Interest earned on the account is transferred to the Debt Service Interest, Rebate and/or Expense Funds. The Debt Service Reserve Fund balance was \$34,161 as of June 30, 2010 and is included with other assets on the statement of financial position.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(8) Long-Term Debt - continued**

#### *(a) Massachusetts Health and Educational Facilities Authority - continued*

Debt Service Interest Fund - The Agency is required to deposit an estimated portion of the interest due on the bond each month into the Debt Service Interest Fund. Any amount left in the account after the interest is paid will be used toward the next estimated payments. The Trustee will remit interest payments from the Debt Service Interest Fund to the bondholders on a monthly basis. The account receives a portion on interest earned on the Debt Service Reserve and Project/Commitment Funds each month. This transferred interest is also used toward the current interest due on the bonds. The Debt Service Interest Fund is primarily invested in money market accounts and is included with cash and cash equivalents on the statement of financial position. The Debt Service Interest Fund balance was \$710 as of June 30, 2010.

Project/Commitment Fund - The Agency made an initial deposit of \$661,200, from the HEFA bond proceeds into a Project/Commitment Fund. Withdrawals from this account can only be made with the approval of People's United Bank in accordance with the agreement. The Agency made approved withdrawals of \$60,370 for the purchase of fixed assets and improvements during 2010. Interest earned on the account is transferred to the Debt Service Interest, Expense and/or Rebate Funds. The Project/Commitment Fund balance was fully withdrawn as of June 30, 2010.

Rebate Fund - The Rebate Fund is to be used to provide monies that could be necessary to satisfy the tax on excess amounts earned on non-purpose investments, as defined under Internal Revenue Code Section 148(f). Any surplus in the Rebate Fund at the end of each year shall be transferred to the Project/Commitment Fund or if closed, to the Agency. The Agency transferred the balance of the Rebate Fund as required in the current year and, as such, there was no balance as of June 30, 2010.

Expense Fund - The Expense Fund was established to receive monthly payment amounts for payment of certain program expenses. These expenses include the annual fees and draw fees for the letter of credit, remarketing agent, paying agent, trustee, and program administrator, bond counsel, the rebate agent and any other consultants of HEFA. Earnings in this account shall remain in this account. The Expense Fund balance was \$28,360 as of June 30, 2010.

The loan and trust agreements for the \$3,500,000 HEFA loan require the accounts listed below:

Project Fund - The Agency made an initial deposit of \$70,202, from the HEFA bond proceeds into a Project Fund. Withdrawals from this account can only be made with the approval of Cambridge Savings Bank in accordance with the agreement. The Agency made additional deposits from HEFA bond proceeds during the year ended June 30, 2010 and made approved withdrawals for the payment of bond issuance and construction costs. The Project Fund balance was \$330,781 as of June 30, 2010.

Bond Fund - The Bond Fund is held in trust and shall be applied by the Trustee for the purpose of paying any outstanding amounts on the HEFA debt. The Agency had no liability to fund this account as of June 30, 2010.

Expense Fund - In a prior year, the Agency made an initial deposit of \$40,304, from the HEFA bond proceeds into an Expense Fund. This account is to be solely used to hold the necessary funds to pay bond issuance costs. Funds deposited into this account cannot exceed \$70,000 in the aggregate. During the year ended June 30, 2010, the Agency made approved withdrawals of \$26,477 for the payment of bond issuance costs. The Expense Fund balance was fully withdrawn as of June 30, 2010.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(8) Long-Term Debt - continued**

#### ***(a) Massachusetts Health and Educational Facilities Authority - continued***

The loan and trust agreements for the \$4,600,000 HEFA loan require the accounts listed below:

Project Fund - The Agency made an initial deposit of \$797,821, from the HEFA bond proceeds into a Project Fund. This account is to be used for capital improvements for the Agency. Withdrawals from this account can only be made with the approval of Cambridge Savings Bank in accordance with the agreement. The Agency made approved withdrawals of \$789,240 for the payment of bond issuance cost and construction costs. The Project Fund balance was \$63 as of June 30, 2010.

Bond Fund - The Bond Fund is held in trust and shall be applied by the Trustee for the purpose of paying any outstanding amounts on the HEFA debt. The Agency had no liability to fund this account as of June 30, 2010.

Expense Fund - In a prior year, the Agency made an initial deposit of \$79,995, from the HEFA bond proceeds into an Expense Fund. This account is to be solely used to hold the necessary funds to pay bond issuance costs. The Agency made approved withdrawals of \$61,822 for the payment of bond issuance costs. The Expense Fund balance was fully withdrawn as of June 30, 2010.

#### ***(b) Interest Rate Swap Agreement***

The Agency has entered into an interest rate swap agreement with Citizens Bank to mitigate the risk of changes in interest rates associated with floating rate indebtedness. Under this agreement, the interest rate is fixed at 3.65% with respect to the specified amounts of notional principal, however, the variable rate index used on the swap agreement and debt are different. At June 30, 2010, the Agency held floating rate debt of \$3,414,761, while the notional amount of the swap is \$3,510,540. The interest rate swap agreement is to be in effect through June 2017, while the debt does not mature until April 2037. The interest rate swap is an ineffective hedge in mitigating the market risk of significant changes in the floating interest rate of the associated indebtedness. The interest rate swap is a derivative instrument and as such is accounted for under generally accepted accounting principals for *Accounting for Derivative Instrument and Hedging Activities*. This statement requires such instruments to be recorded at fair market value in the statement of financial position, with changes in the fair value recorded through other changes in net assets

The current year change in fair market value was a loss of \$105,385 and was recorded as another change in net assets on the statement of activities. As of June 30, 2010, the fair value of the interest rate swap was \$433,280 and is included in other liabilities on the statement of financial position.

#### ***(c) CEDAC***

The Agency has two non-interest bearing mortgage notes payable to CEDAC under their Facilities Consolidation Fund program in the original amounts of \$255,000 and \$272,500. These notes are collateralized by real estate located at 466 Washington Ave, Revere, MA, and 91 Winthrop St, Winthrop, MA. All principal is due in January 2037, but may be extended in ten year increments by CEDAC. If gross receipts for the Agency exceed 105% of cash expenditures for any fiscal year, the Agency may have to submit the excess to CEDAC within 45 days after fiscal year end at CEDAC's discretion.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Notes to Financial Statements

June 30, 2010

**(8) Long-Term Debt - continued**

*(c) CEDAC - continued*

During the year ended June 30, 2010, the Agency entered into a third non-interest bearing mortgage note payable to CEDAC under their Facilities Consolidation Program in the original amount of \$357,885. The note is collateralized by real estate located at 44 Orlando Street, Mattapan, MA. All principal is due in May 2040, but may be extended in ten year increments by CEDAC. If gross receipts for the Agency exceed 105% of cash expenditures for any fiscal year, the Agency may have to submit the excess to CEDAC within 45 days after fiscal year end at CEDAC's discretion.

*(d) TD Bank*

<u>Collateralized by Real Estate</u>	Outstanding Loan Balance at 6/30/10	Monthly Principal Installments	Amortization Period	Balloon Payment After	Interest		Maturity
					Terms	Rate at 6/30/10	
144 Utica St, Quincy, MA	\$ 108,266	967	20 yrs	5 yrs	Fixed	4.80%	December 2014
581 Norfolk St, Mattapan, MA	480,953	3,832	20 yrs	5 yrs	Fixed	4.99%	June 2015
19 Willers St, West Roxbury, MA	163,200	1,200	20 yrs	10 yrs	Variable	3.25%	November 2011
17-19 Bradston St, Boston, MA	371,346	3,029	20 yrs	5 yrs	Fixed	6.92%	November 2013
71 Central Avenue, Hyde Park, MA	<u>263,463</u>	1,758	20 yrs	5 yrs	Fixed	4.80%	December 2014
	<u>\$ 1,387,228</u>						

*(e) Cambridge Savings Bank*

<u>Collateralized by Real Estate</u>	Outstanding Loan Balance at 6/30/10	Monthly. Prin. and Interest Installments	Amortization Period	Balloon Payment After	Interest		Maturity
					Terms	Rate at 6/30/10	
26-28 Mill Street, Quincy, MA	\$ 312,118	\$ 2,894	20 yrs	5 yrs	Fixed	6.36%	November 2013
466 Washington Ave, Revere, MA	211,160	1,894	20 yrs	5 yrs	Fixed	5.48%	June 2014
91 Winthrop Street, Winthrop, MA	225,939	2,028	20 yrs	5 yrs	Fixed	5.48%	June 2014
101-105 Victory Rd, Dorchester, MA	607,093	4,659	20 yrs	10 yrs	Variable	4.37%	December 2012
98-100 Cook Ave, Chelsea, MA	470,387	3,638	20 yrs	5 yrs	Fixed	6.36%	November 2013
33 Bourne Street, Middleboro, MA	318,758	2,821	20 yrs	10 yrs	Fixed	7.43%	August 2016
16 Carol Circle, West Roxbury, MA	458,057	4,058	20 yrs	10 yrs	Fixed	6.84%	August 2015
40 Stark Avenue, Revere, MA	344,886	2,673	20 yrs	5 yrs	Fixed	6.36%	November 2013
28 Freeland Street, Mattapan, MA	278,287	2,459	20 yrs	10 yrs	Fixed	7.19%	February 2016
44 Orlando Street, Mattapan, MA	193,408	1,337	20 yrs	5 yrs	Fixed	5.08%	July 2014
36 Orlando Street, Mattapan, MA	<u>237,503</u>	1,608	20 yrs	5 yrs	Fixed	5.11%	February 2015
	<u>\$ 3,657,596</u>						

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (8) Long-Term Debt - continued

#### (f) *Citizens Bank*

The Agency has a mortgage note payable held by Citizens Bank in the original amount of \$300,000. As of June 30, 2010, the Agency has drawn down \$294,376 of the total loan amount. The note is collateralized by the Agency's accounts and equipment in Massachusetts. The note is payable in monthly principal installments of \$2,582 and bears interest at a fixed rate of 4.75%. The unpaid principal and interest are due in May 2015. As of June 30, 2010, the unpaid principal balance totaled \$294,376.

#### (g) *Department of Housing and Community Development*

The Agency has a non-interest bearing mortgage note payable to the Department of Housing and Community Development in the original amounts of \$550,000. As of June 30, 2010, the Agency has drawn down \$495,000 of the total loan amount. The note is collateralized by real estate located at 510 Hyde Park Avenue, Boston, MA. All principal is due in October 2039.

#### (h) *Maturities on Long-Term Debt*

Maturities of long-term debt and sinking-fund installments are as follows:

2011	\$	436,336
2012		586,142
2013		967,553
2014		2,051,462
2015		1,072,123
Thereafter		<u>10,882,508</u>
Total	\$	<u>15,996,124</u>

Interest capitalized and expensed on all debt amounted to \$10,367 and \$690,356, respectively, for the year ended June 30, 2010.

### (9) Operating Leases

#### (a) *As Lessor*

The Agency leases programmatic space to other non-profit organizations under leases requiring fixed monthly payments. The leases are accounted for as non-cancelable operating leases that expire through 2014. At June 30, 2010, future minimum receipts under non-cancelable operating leases were as follows:

2011	\$	46,800
2012		48,960
2013		51,120
2014		17,280

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (9) Operating Leases - continued

#### (b) As Lessee

The Agency occupies programmatic facilities under non-cancelable, operating lease agreements with various expiration dates through 2018. Several of these leases include escalation clauses. In accordance with generally accepted accounting principals for *Accounting for Leases*, the Agency recognizes rental expense on a straight-line basis over the life of these leases. The difference between rent recognized on a straight-line basis over actual rent payments is recorded as an accrued rent liability, which totaled \$155,188 as of June 30, 2010. Accrued rent liability is included in other liabilities on the statement of financial position.

The Agency entered into a lease, which expires in 2088, with the City of Boston to lease a downtown Boston facility. The Agency also leases the area adjacent to the building. That lease expires 2020. The City of Boston restricts the use of the facility to a charitable purpose. The Agency is responsible for the repair to the structure, utilities and insurance.

The Agency is also liable for certain real estate tax increases and operating cost adjustments under their office lease terms. In addition, the Agency leases equipment and vehicles for up to a five-year period.

Rental expense on property, equipment and vehicles for the year ended June 30, 2010 was as follows:

Property	\$ 3,556,683
Equipment	130,063
Motor vehicles	<u>346,227</u>
Total	\$ <u>4,032,973</u>

The five year minimum annual operating non-cancelable lease commitments on property, equipment and motor vehicles for the Agency are as follows:

2011	\$ 2,111,275
2012	1,762,750
2013	1,253,138
2014	982,364
2015	934,579

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(10) Employee Benefits**

#### ***(a) Employee Split Dollar Life Insurance***

The Agency has established a non-qualified employee benefit plan for employees who have completed 10 consecutive years of service. The plan is funded through split-dollar life insurance policies while the employee is employed with the Agency. Under this arrangement, the employee assigns their life insurance policy to the Agency as collateral for premiums paid on behalf of the employee. This assignment allows the Agency the ability to obtain its share of the cash surrender value that is recovered at mortality of the employee or termination of the policy by the insured. If the employee is terminated the Agency discontinues the premium payments, at which time the employee can: continue to make premium payments, utilize dividends on the cash surrender value if the policy has enough value to make required premium payments or cash out the policy taking the excess of the policy value exceeding the aggregate premiums paid by the Agency.

During the year ended June 30, 2010, the Agency made premium payments on the employees' life insurance policies totaling \$473,220. No premiums paid into the life insurance plans were surrendered in the fiscal year. The Agency incurred \$1,668 in investment gains that have been netted against salaries and benefits expense on the statement of functional expenses. The Agency is entitled to the lesser of the cash surrender value or the premiums paid on an individual policy. As of June 30, 2010, the Agency's portion of the cash value of the policies under the employee split dollar life insurance plan amounted to \$2,894,328 and is recorded in other assets on the statement of financial position.

The plan was discontinued to new employees who were not participants as of June 30, 2005. They are eligible to participate in the 401(a) plan according to the terms and conditions of that plan. See Note 10c.

#### ***(b) Defined Contribution Plan***

Bay Cove and Kit Clark each have a defined contribution plan that qualifies as a tax-sheltered account under Section 403(b) of the Internal Revenue Code which is eligible to all employees. Under the retirement plans, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. After two years of employment, Bay Cove and Kit Clark make matching contributions equal to 25% of participants' elective contribution not to exceed \$5 per pay period or \$260 per year. Contributions made by Bay Cove and Kit Clark for the year ended June 30, 2010 amounted to \$42,289 and \$5,342, respectively.

#### ***(c) 401(a) Plan***

The Agency has established a 401(a) plan for employees who have ten consecutive years of service. This plan is meant to supplement the 403(b) defined contribution plans. The Agency will contribute 2.5% - 10% of the employee's salary based on length of service. Highly compensated employees, as defined by IRS code section 414(g), and employees who elect to remain in the split dollar life-insurance plan are excluded from participating in this plan. Contributions to the 401(a) plan for the year ended June 30, 2010, amounted to \$414,503, of which \$139,053 was included in accrued expenses on the accompanying statement of financial position as of June 30, 2010.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### (11) Temporarily Restricted Net Assets

Resources with donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time are classified as temporarily restricted net assets. The following details the donor restrictions within particular programs, all of which are included in temporarily restricted net assets as of June 30, 2010:

<u>Program Division</u>	<u>Nature of Restriction</u>	<u>Total</u>
Bay Cove Academy	Training for teachers, support for recreational activities	\$ 17,236
Center House	Supported employment for people with developmental disabilities	16,000
Chelsea ASAP	Peer leaders support for youth programs	25,000
Early Intervention	Services for severely handicapped children between the ages of 3 to 5	87,795
Tenancy	Tenancy prevention project to prevent homelessness	20,000
Senior Services	Services for the elderly to assist in everyday living	<u>221,550</u>
		\$ <u>387,581</u>

### (12) Related Party Transactions

#### (a) Resource Consortium

The Agency has a minority interest in the Resource Consortium, LLC (the Consortium). The Chief Operational Officer of the Agency is the President of the Consortium and is also a board member of the Consortium. The Consortium was founded to contract with the Commonwealth of Massachusetts to provide residential services to individuals with developmental disabilities as they are relocated from nursing homes. The Consortium currently has no contracts but is kept active for future social service ventures. The Agency received no fees for services provided to the Consortium for the fiscal year ended June 30, 2010 as the Consortium's residential services contract with the Commonwealth of Massachusetts expired in fiscal year 2003. The carrying value of the investment as of June 30, 2010 totaled \$28,033.

#### (b) Housing and Urban Development Projects

Bay Cove Group Homes I (HUD I), Bay Cove Group Homes II (HUD II), Bay Cove Group Homes III (HUD III), Bay Cove Moseley Group Homes, Inc. (Moseley), Bay Cove Hamilton Group Homes, Inc. (Hamilton) and Bay Cove Orchardfield Residence, Inc. (Orchardfield) are affiliated nonprofit corporations with a common board of directors. These corporations operate nine housing complexes that provide affordable housing to clients receiving clinical services under the Agency's Mental Health and Mental Retardation programs. The housing complexes are subsidized by the U.S. Department of Housing and Urban Development (HUD). These entities are not consolidated in the financial statements because HUD exercises financial and operational control over the projects. The Agency is reimbursed by these related parties for certain shared payroll and operating expenses, including salaries and wages, payroll taxes, health insurance, workman compensation, property insurance and maintenance costs and offsets for fixed asset purchases. In addition, the Agency earned management fees from each of the HUD entities. Management has estimated that the related party receivables created from expenditures not reimbursed at year-end are current and they are included, net of any allowances, in other accounts receivable on the accompanying statement of financial position.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Notes to Financial Statements

June 30, 2010

**(12) Related Party Transactions - continued**

***(b) Housing and Urban Development Projects - continued***

The following schedule summarizes the reimbursed costs, management fee and the outstanding receivable due from the related entities:

	Reimbursed Costs		Management Fee	Due From Related Party
	Salary & Fringe	Insurance		
HUD I	\$ 49,539	\$ 11,809	\$ 12,416	\$ 8,252
HUD II	15,325	2,976	3,775	1,634
HUD III	15,451	4,233	5,082	29,026
Moseley	13,884	1,275	3,453	19,105
Hamilton	12,563	2,695	5,244	1,655
Orchardfield	5,759	1,351	2,116	491
	<u>\$ 112,521</u>	<u>\$ 24,339</u>	<u>\$ 32,086</u>	<u>\$ 60,163</u>

The following financial information as of and for the year ended June 30, 2010 has been summarized from the audited financial statements of the related HUD projects:

	<u>HUD I</u>	<u>HUD II</u>	<u>HUD III</u>	<u>Moseley</u>	<u>Hamilton</u>	<u>Orchardfield</u>
Total Assets	\$ 1,066,122	\$ 458,140	\$ 595,530	\$ 368,881	\$ 508,152	\$ 410,364
Total Liabilities	956,947	275,457	496,401	77,760	81,520	127,612
Net Assets	109,175	182,683	99,129	291,121	426,632	282,752
Total Revenue	454,168	147,659	181,209	69,458	103,197	42,024
Total Expenses	326,270	109,303	150,178	75,077	81,306	43,870
Change in Net Assets	\$ 127,898	\$ 38,356	\$ 31,031	\$ (5,619)	\$ 21,891	\$ (1,846)

***(c) Other Related Parties***

A board member is a vice-president of Citizens Bank. Citizens Bank is the holder of cash funds for the Agency's operating and payroll accounts as well as two lines of credit (see Note 7a) and an interest rate swap (see Note 8b). The board member has no involvement with any Agency transactions in his official capacities at the bank.

Another board member was a vice-president of Sovereign Bank through December 2009. Sovereign Bank is the holder of cash funds for the Agency's development account. The board member had no involvement with any Agency transactions in his official capacities at the bank.

The Agency received \$53,601 in contributions from members of its Board of Directors.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(13) Current Vulnerability Due to Certain Concentrations**

The majority of the Agency's activities and revenues are a result of contracts with the Commonwealth of Massachusetts. The Agency's operations are concentrated in the social service provider field. As such, the Agency operates in a heavily regulated environment.

The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

United States Department of:  
Health and Human Services  
Housing and Urban Development  
Education  
Agriculture  
Labor

Massachusetts Department of:  
Public Health  
Education  
Mental Retardation  
Mental Health

Massachusetts Rehabilitation Commission  
Massachusetts Executive Office of Elder Affairs  
Massachusetts Operational Services Division

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

### **(14) Supplemental Data for Noncash Investing and Financing Activities**

During the year ended June 30, 2010, the Agency financed \$3,035,999 of fixed asset additions from the proceeds of long-term debt. Additionally, \$29,270 of fixed asset additions were included in accounts payable as of June 30, 2010. The Agency also used \$45,075 in new HEFA loan proceeds to pay bond issuance costs which are included in other assets on the statement of financial position.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2010

### **(15) Commitments and Contingencies**

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

The Agency has entered into a Housing Payment Agreement with the City of Boston Department of Neighborhood Development and The Neighborhood Housing Trust dated November 30, 2009. Under this Agreement the Agency was awarded \$600,000 from The Neighborhood Housing Trust to pay costs to construct a housing complex of twelve units located in Boston, Massachusetts. The award is not required to be repaid so long as the housing remains available to eligible, low income households for a period of 15 years or the Agency utilizes the housing for eligible households consistent with the intent of the Agreement. Failure to meet those requirements will result in an actual liability owed to The Neighborhood Housing Trust for the entire award. During the year ended June 30, 2010, the full award was recognized as revenue by the Agency and is included on the statement of activities as a contribution.

During 2009 a civil action was brought against the Agency for a contract dispute with claimed damages of \$184,649. The Agency has denied the allegations in a counterclaim and intends to vigorously contest this claim. Management has determined that the likelihood of an unfavorable outcome to the Agency is reasonably possible. As such, during the year ended June 30, 2010, the Agency recorded an accrued cost contingency for the full amount of damages claimed which is included in accrued expenses on the accompanying statement of financial position.

### **(16) Schedule of Federal Awards**

Determination of Federal Major Programs was made using a risk based approach. For the fiscal year ended June 30, 2010, the Agency qualified as a low-risk auditee. The major program tested is disclosed in the schedule of findings and questioned costs, summary of auditors' results.

### **(17) Donated Services (Unaudited)**

Many volunteers donated significant amounts of their time under the Agency's senior services nutrition program. The Agency has estimated the value of these services to be \$331,484 for the year ended June 30, 2010. In accordance with generally accepted accounting principles, the estimated value of these services has not been included in the accompanying financial statements.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Findings and Questioned Costs

June 30, 2010

**(1) Summary of Auditors' Results**

Financial Statements:

Type of Auditors' Report Issued: Qualified

Internal Control over Financial Reporting:

Material Weakness(es) Identified?  Yes  no

Significant Deficiency(ies) Identified?  Yes  none reported

Noncompliance Material to Financial Statements Noted?  Yes  no

Federal Awards:

Internal Control over Major Programs:

Material Weakness(es) Identified?  Yes  no

Significant Deficiency(ies) Identified?  Yes  none reported

Type of Auditors' Report Issued on Compliance:  
for Major Programs: Qualified

Any Audit Findings Disclosed that are Required to be  
Reported in Accordance with Circular A-133, Section .510(a)?  Yes  no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.044, 93.045 and 93.705	Special Programs for the Aging - Title III, Part B and C Nutrition Services (cluster)

Dollar Threshold Used to Distinguish

Between Type A and Type B Programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee?  Yes  no

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Findings and Questioned Costs - continued

June 30, 2010

**(2) Financial Statement Findings**

***#10-1 Internal Controls over Rep Payee***

Criteria - In accordance with the Social Security Administration's (SSA) Reporting Responsibilities for Supplemental Security Income (SSI), the Agency is required to report certain changes that may affect the clients' eligibility for SSI benefits within ten days after the end of the month in which the change takes place. In addition, the Agency is required to remit balances to beneficiaries who are no longer rep payee clients.

Condition - The Agency has experienced considerable growth and a new accounting system over the past year. The newly implemented procedures did not fully allow for the proper monitoring and reconciliation of accounts so that it could report changes timely.

Cause - Due to a revision of the representative payee system at the Agency, made in an effort to reduce costly client bank fees, the Agency's implementation of a new procedure did not fully address the SSA Reporting Responsibilities issues.

Questioned Costs - None

Effect - The Agency did not report countable asset balances which exceeded SSA limits of three clients in a timely manner for which the SSA may have overpaid benefits. As of June 30, 2010, the Agency had an un-reconciled balance of \$16,403 and there were 23 savings accounts belonging to former clients that were not, closed and remitted to the beneficiaries. The clients' primary balance was remitted timely.

Recommendation - We recommend that the Agency implement adequate controls to monitor and reconcile client balances and report changes to SSA in a timely manner.

Corrective Action Note - The Agency has received written clarification from the SSA that separate interest bearing savings accounts are not required and therefore have been closed with balances transferred to their main account. In addition, the Agency's new procedure has been changed to reduce the notice balance and include retroactive payments.

## BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

### Schedule of Findings and Questioned Costs - continued

June 30, 2010

#### (3) Federal Awards Findings and Questioned Costs

##### *#10-2 Eligibility*

Criteria - In accordance with OMB Circular A-133 Compliance Supplement, Bay Cove Human Services, Inc. (the Agency) is required to adhere to eligibility requirements as outlined in their Title III C Nutrition Services Federal contract.

Condition - During the year ended June 30, 2010, there were 73 clients that were not reassessed for eligibility in a timely manner.

Cause - The Agency did not have adequate controls in place to monitor if the clients were reassessed in the appropriate timeframe.

Questioned costs - None

Effect - Out of the 73 clients, meals were delivered to one ineligible client during all of fiscal year 2010.

Recommendation - We recommend that Bay Cove Human Services implement adequate controls to monitor eligibility reassessments.

Corrective Action Note - The Meals on Wheels assessor will produce a monthly report of all clients requiring reassessment for eligibility which will be generated from the SIM/SAMS database. The assessor will then review their progress in completing necessary reassessment with their Director on a weekly basis at their supervision.

#### (4) Status of Prior Year Findings

##### *#09-1 Internal Controls over Compliance*

Criteria - In accordance with the Social Security Administration's (SSA) Reporting Responsibilities for Supplemental Security Income (SSI), 2009 Edition; the Agency is required to report certain changes that may affect the clients' eligibility for SSI benefits within ten days after the end of the month in which the change takes place.

Condition - Several clients had countable asset balances that exceeded the SSA limit for which the Agency did not report to SSA within the required timeframe.

Status - Not corrected. See finding #10-1.



Kevin P. Martin & Associates, P.C.

**Independent Auditors' Report on  
Schedule of Expenditures of Federal Awards**

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

We have audited the basic financial statements of Bay Cove Human Services, Inc. and Affiliate for the year ended June 30, 2010. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kevin P. Martin & Associates, P.C.*

Braintree, Massachusetts  
November 10, 2010

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	Federal Expenditures
<b>Major Program:</b>			
<b>Department of Health and Human Services</b>			
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs via City of Boston via City of Boston ** Special Programs for the Aging - Title 111 Part C Nutrition Services	93.045	17C- 08 17C- 08	\$467,781 \$853,547 <hr/> \$1,321,328
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs via City of Boston ** ARRA - Aging Home-delivered Nutrition Services For States	93.705	17C- 08	\$216,312 <hr/> \$216,312
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs via City of Boston Elder Commission ** Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	17-B-07	\$127,018 <hr/> \$127,018
<b>Total Major Program (cluster)</b>			<hr/> <b>\$1,664,658</b>
<b>Non Major Programs:</b>			
<b>Department of Health and Human Services</b>			
Passed Through Commonwealth of Massachusetts Department of Mental Health Department of Mental Health Block Grants for Community Mental Health Services	93.958	SCDMH632070060730000 SCDMH621050060130000	\$50,000 \$15,464 <hr/> \$65,464
Passed Through Commonwealth of Massachusetts Department of Social Services Social Services Block Grant: Administration for Children & Families	93.667	INTF00000000910FNSS0	\$9,444 <hr/> \$9,444
Substance Abuse and Mental Health Center for Substance Abuse Prevention Drug Free Communities Support Program	93.276	1H79SP015889-01	\$98,475 <hr/> \$98,475
Passed Through Commonwealth of Massachusetts Department of Public Health Department of Public Health Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2303MM3900617053 INTF2303MM3900617054 SCDPH234853570180000 SCDPH231853620190000 INTF2304MM3810412160 SCDPH230153580830000 INTF2354MM3901115014	\$91,476 \$51,635 \$379,848 \$109,526 \$119,500 \$3,547 \$100,000 <hr/> \$855,532
Passed Through Commonwealth of Massachusetts Public Health AIDS Office Public Health AIDS Office HIV Emergency Relief Project Grants	93.914	ACTIVITY #0570067 PO 2022807-S	\$39,118 \$8,791 <hr/> \$47,909
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs via City of Boston Elder Commission Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion	93.043	17-D-07	\$16,093 <hr/> \$16,093
<b>Total - Department of Health and Human Services</b>			<hr/> <b>\$1,092,917</b>
<b>Department of Housing and Urban Development</b>			
Passed Through City of Boston Department of Neighborhood Development Department of Neighborhood Development Department of Neighborhood Development Department of Neighborhood Development Department of Neighborhood Development Community Development Block Grants/ Entitlement Grants	14.218	C-29103-10 C-27114-09 C-29917-10 C-29469-10 C-18091-06	\$27,500 \$41,651 \$15,030 \$110,623 \$41,981 <hr/> \$236,785
Passed Through City of Boston Department of Neighborhood Development Department of Neighborhood Development Emergency Shelter Grants Program	14.231	C-29281-10 C-29233-10	\$30,419 \$21,223 <hr/> \$51,642
Passed Through Commonwealth of Massachusetts Department of Housing & Community Development Department of Housing & Community Development Emergency Shelter Grants Program	14.231	SCOCD262094500330000 CTOCD8000HSESHLP3000	\$20,348 \$79,500 <hr/> \$99,848

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	Federal Expenditures
Passed Through Commonwealth of Massachusetts Department of Mental Health Supportive Housing Program	14.235	SCDMH631001061130000	<u>\$133,467</u> \$133,467
Passed Through City of Boston Department of Neighborhood Development Via Boston Rescue Mission Via Boston Rescue Mission Via Massachusetts Housing & Shelter Alliance Via Massachusetts Housing & Shelter Alliance Via Homestart, Inc. Via Homestart, Inc. Supportive Housing Program	14.235	SUB C - 25803-09 SUB C - 28694-10 C-27120-09 C-29938-10	<u>\$5,958</u> <u>\$17,006</u> <u>\$55,058</u> <u>\$26,136</u> <u>\$6,251</u> <u>\$16,820</u> <u>\$127,229</u>
Passed Through City of Boston Department of Neighborhood Development Department of Neighborhood Development ARRA - Homelessness Prevention And Rapid Re-housing Program	14.257	C-29555-10 C-29596-10	<u>\$25,116</u> <u>\$45,799</u> <u>\$70,915</u>
<b>Total - Department of Housing and Urban Development</b>			<b><u>\$719,886</u></b>
<b>Department of Education</b>			
Passed Through Commonwealth of Massachusetts Department of Public Health Special Education - Grants for Infants and Families with Disabilities	84.181	INTF3601MM3001513103	<u>\$126,342</u> \$126,342
Passed Through Commonwealth of Massachusetts Massachusetts Rehabilitation Commission Massachusetts Rehabilitation Commission Rehabilitation Services - Vocational Rehabilitation Grant to State	84.126	0MRC00CIESSSES0000000 0MRC00CIESSSOUTH000000	<u>\$20,510</u> <u>\$7,884</u> <u>\$28,394</u>
Passed Through Commonwealth of Massachusetts Massachusetts Rehabilitation Commission Supported Employment Services for Individuals with Severe Disabilities	84.187	0MRC00CIESSSES0000000	<u>\$13,283</u> \$13,283
Passed Through Commonwealth of Massachusetts Department of Developmental Disabilities Supported Employment Services for Individuals with Severe Disabilities	84.027	0260006007170D800000	<u>\$5,000</u> \$5,000
Passed Through Commonwealth of Massachusetts Department of Public Health ARRA - Grants for Infants and Families with Disabilities	84.393	INTF3601MM3001513103	<u>\$48,209</u> \$48,209
<b>Total - Department of Education</b>			<b><u>\$221,228</u></b>
<b>Department of Labor</b>			
Passed Through Metro North Regional Employment Board Workforce Initiative Act Youth Programs	17.259	BCA73/7409SP	<u>\$6,405</u> \$6,405
Passed Through City of Boston Department of Neighborhood Development EDIC Workforce Initiative Act Youth Programs	17.259	GRANT CODE 122/ORG # 110	<u>\$26,275</u> \$26,275
Passed Through Massachusetts Veterans Epidemiology Research and Information Center Passed Through Massachusetts Veterans Epidemiology Research and Information Center Disabled Veterans Outreach Program	17.801	VA241-P-0971 VA241-P-0971	<u>\$11,835</u> <u>\$15,030</u> <u>\$26,865</u>
<b>Total - Department of Labor</b>			<b><u>\$89,545</u></b>
<b>Department of Agriculture</b>			
Passed Through Commonwealth of Massachusetts Department of Education Department of Education Department of Education Department of Education Child & Adult Care Food Program	10.558	SCDOE10758A70532117A SCDOE10758G70532117A SCDOE10758A70532117B SCDOE10758G70532117B	<u>\$114,552</u> <u>\$57,629</u> <u>\$4,726</u> <u>\$2,440</u> <u>\$179,347</u>

The accompanying notes are an integral part of this schedule.

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	Federal Expenditures
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs Commodity Supplemental Food Plan	10.565		<u>\$121,169</u> \$121,169
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs Senior Farmers Market Nutrition Program	10.576		<u>\$1,175</u> \$1,175
<b>Total - Department of Agriculture</b>			<b><u>\$301,691</u></b>
<b>Department of Justice</b>			
Passed Through Commonwealth of Massachusetts Department of Public Health Edward Byrne Memorial Formula Grant Program	16.738	INTF3409MM3000414093	<u>\$487</u> \$487
<b>Total - Department of Justice</b>			<b><u>\$487</u></b>
<b>Total Non Major Programs</b>			<b><u>\$2,395,753</u></b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$4,060,412</u></b>

**Notes to the Schedule of Expenditures of Federal Awards**

**Note - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bay Cove Human Services, Inc. and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

\*\* Major program, see Note 16

**Supplemental Information  
Required by Mortgagor**



Kevin P. Martin & Associates, P.C.

**Report on Compliance with Mortgage, Security and Loan  
and Trust Agreement**

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (Massachusetts corporations, not-for-profit) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In connection with the audit, nothing came to our attention that caused us to believe that the Agency was not in compliance with any of the terms, covenants, provisions or conditions of Section 10.08 through Section 10.11 of the Mortgage and Trust Agreements dated as of June 11, 2009 between Cambridge Savings Bank and Bay Cove Human Services, Inc. and Affiliate insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

*Kevin P. Martin & Associates, P.C.*

Braintree, Massachusetts  
November 10, 2010



Kevin P. Martin & Associates, P.C.

### Report on Compliance with Reimbursement Agreement

To the Board of Directors of  
Bay Cove Human Services, Inc. and Affiliate

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (Massachusetts corporations, not-for-profit) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In connection with the audit, nothing came to our attention that caused us to believe that the Agency was not in compliance with any of the terms, covenants, provisions or conditions of Section 4.4 and 4.9 (Schedule I, Section 2, Part E) of the Reimbursement Agreement dated as of March 1, 2007 between Citizens Bank and Kit Clark Senior Services, Inc. and Affiliate insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

A handwritten signature in black ink that reads "Kevin P. Martin &amp; Associates, P.C." in a cursive script.

Braintree, Massachusetts  
November 10, 2010

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Financial Ratios

June 30, 2010

The management of the Agency is responsible for compliance with the terms, covenants, provisions and conditions stated in Section 10.08 through 10.11, of the HEFA Mortgage, Security and Loan and Trust Agreements and the Revolving Credit Agreement dated May 12, 1998.

Section 10.09 of the HEFA Mortgage, Security and Loan and Trust Agreements and the Revolving Credit Agreement requires that the Agency maintain a Debt Service Coverage Ratio of no less than 1.20 to 1.00.

**Debt Service Coverage Ratio** as of June 30, 2010:

Excess revenue over expenses + Depreciation + Amortization + Total Interest Expense - Unfinanced Capital Expenditures =  
Current Portion of Long-term Debt + Total Interest Expense

$$\frac{\$1,436,069 + \$1,406,247 + \$4,588 + \$690,356 - \$856,049}{\$436,336 + \$690,356} = 2.38 \text{ to } 1.00$$

**BAY COVE HUMAN SERVICES, INC. AND AFFILIATE**

Schedule of Financial Ratios

June 30, 2010

The management of the Agency is responsible for compliance with the terms, covenants, provisions and conditions stated in Section 4.9 (Schedule I, Section 2, Part E), Additional Financial Covenants, of the Reimbursement Agreement between Citizens Bank and Kit Clark Senior Services, Inc. dated March 1, 2007.

Section .4.9 (Schedule I, Section 2, Part E) of the Reimbursement Agreement requires that the Agency maintain a Debt Service Coverage Ratio of no less than 1.20 to 1.00.

**Debt Service Coverage Ratio** as of June 30, 2010:

Change in Unrestricted Net Assets + Depreciation + Amortization + Total Interest Expense - Unfinanced Capital Expenditures =  
Current Portion of Long-term Debt + Interest on All Debt

$$\frac{\$1,608,222 + \$1,406,247 + \$4,588 + \$690,356 - \$856,049}{\$436,336 + \$690,356} = \mathbf{2.53 \text{ to } 1.00}$$