

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

Financial Statements

June 30, 2011

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

June 30, 2011

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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. (a nonprofit organization) and Affiliate (the Agency) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2010 financial statements and, in our report dated November 10, 2010, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency'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 the Agency as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Muir P. Martini & Company, P.C.

Braintree, Massachusetts
November 10, 2011



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. (a nonprofit organization) and Affiliate (the Agency) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated November 10, 2011.

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, 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, 2011



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. (a nonprofit organization) and Affiliate (the Agency) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Agency's major federal programs are 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 each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency'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 Agency'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 Agency's compliance with those requirements.

As described in item #11-1 in the accompanying schedule of findings and questioned costs, the Agency did not comply with requirements regarding eligibility that are applicable to one of its major programs. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Agency 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 Agency'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 Agency'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 a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 #11-1 to be a material weakness.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency'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, 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, 2011

ORGANIZATION : Bay Cove Human Services, Inc. and Affiliate

FEIN: 042518575

STATEMENT OF FINANCIAL POSITION AS OF
(BALANCE SHEET)

6/30/2011

WITH COMPARATIVE TOTALS AS OF

6/30/2010

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
ASSETS						
1	Cash and Cash Equivalents	457,511	31,432		488,943	3,626,654
2	Accounts Receivable, Program Services	11,643,501			11,643,501	10,684,148
3	Allowance for Doubtful Accounts	(121,946)			(121,946)	(119,477)
4	Net Accounts Receivable, Program Services	11,521,555			11,521,555	10,564,671
5	Contributions Receivable	157,876			157,876	34,052
6	Notes Receivable					
7	Prepaid Expenses	483,339			483,339	364,266
8	Other Accounts Receivable	86,458			86,458	60,163
9	Other Current Assets					
10	Short-Term Investments	1,612			1,612	1,438
11	TOTAL CURRENT ASSETS	12,708,351	31,432		12,739,783	14,651,244
12	Land, Buildings, and Equipment		33,879,193		34,505,436	31,709,230
13	Accumulated Depreciation		(11,132,300)		(11,574,700)	(10,333,280)
14	Net Land, Buildings and Equipment		22,746,893		22,930,736	21,375,950
15	Long-Term Investments	1,328,492			1,328,492	1,167,475
16	Other Assets	3,601,437	158,762		3,760,199	3,181,975
17	Due From Other Funds					
18	TOTAL ASSETS	17,638,280	22,937,087		40,759,210	40,376,644
LIABILITIES AND NET ASSETS						
19	Accounts Payable	1,173,849			1,173,849	1,820,417
20	Subcontract Payable	382,152			382,152	540,464
21	Accrued Expenses	3,525,403			3,525,403	4,328,888
22	Current Notes Payable	1,200,000			1,200,000	1,312,500
23	Current Portion Long-Term Debt		714,046		714,046	436,336
24	Deferred Revenue					
25	Other Current Liabilities	522			522	21,476
26	TOTAL CURRENT LIABILITIES	6,281,926	714,046		6,995,972	8,460,081
27	Long-Term Notes & Mortgage Payable		16,842,586		16,842,586	15,559,788
28	Other Liabilities	157,700	389,736		547,436	588,468
29	Due to Other Funds					
30	TOTAL LIABILITIES	6,439,626	17,946,368		24,385,994	24,608,337
NET ASSETS						
31	Unrestricted	10,916,533	4,990,719		16,091,095	15,380,726
32	Temporarily Restricted	282,121			282,121	387,581
33	Permanently Restricted					
34	TOTAL NET ASSETS	11,198,654	4,990,719		16,373,216	15,768,307
35	TOTAL LIABILITIES AND NET ASSETS	17,638,280	22,937,087		40,759,210	40,376,644

See Accompanying Notes to the Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and Affil

FEIN: 042518575

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED

6/30/2011

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

6/30/2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
REVENUES, GAINS, AND OTHER SUPPORT					
1 Contributions, Gifts, Legacies, Bequests & Special Events	228,189	735,455		963,644	1,729,709
2 In-Kind Contributions	144,211			144,211	414,345
3 Grants	3,244,503			3,244,503	3,033,543
4 Program Service Fees	76,871,427			76,871,427	74,475,965
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	210,992			210,992	114,893
7 Revenue from Commercial Products & Services	30,248			30,248	36,206
8 Other	709,354			709,354	396,088
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions	840,915	(840,915)			
11 Satisfaction of Equipment Acquisition Restrictions					
12 Expiration of Time Restrictions					
13 TOTAL REVENUE, GAINS, AND OTHER SUPPORT	82,279,839	(105,460)		82,174,379	80,200,749
EXPENSES AND LOSSES					
14 Administration (Management & General)	7,120,597			7,120,597	6,747,171
15 Fundraising	288,536			288,536	277,710
16 Total Program Services	74,203,881			74,203,881	71,450,098
17 TOTAL EXPENSES	81,613,014			81,613,014	78,474,979
18 Losses					85,338
19 TOTAL EXPENSES AND LOSSES	81,613,014			81,613,014	78,560,317
CHANGES IN NET ASSETS:					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)	43,544			43,544	(105,385)
24 TOTAL CHANGES IN NET ASSETS	710,369	(105,460)		604,909	1,535,047
25 NET ASSETS AT BEGINNING OF YEAR	15,380,726	387,581		15,768,307	14,233,260
26 NET ASSETS AT END OF YEAR	16,091,095	282,121		16,373,216	15,768,307

See Accompanying Notes to Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and A

FEIN: 042518575

STATEMENT OF CASH FLOWS for the YEAR ENDED

6/30/2011

INDIRECT METHOD

	TOTAL
Cash Flows from Operating Activities:	
1 Changes in Net Assets	604,909
Adjustments to Reconcile Change In Net Assets to Net	
Cash provided by/(used in) Operating Activities:	
2 Depreciation	1,339,050
3 Losses	
4 Increase/Decrease in Net Accounts Receivable	(956,884)
5 Increase/Decrease in Prepaid Expenses	(119,073)
6 Increase/Decrease in Contributions Receivable	(123,824)
7 Increase/Decrease in Accounts Payable	(717,738)
8 Increase/Decrease in Accrued Expenses	(803,485)
9 Increase/Decrease in Deferred Revenue	
10 Increase/Decrease in Subcontract Payable	(158,312)
11 Contributions Restricted for Long-Term Investment	
12 Net Unrealized and Realized Gains on Long-Term Investments	(182,532)
13 Other Cash Used by Operating Activities	(469,840)
14 Net Cash Provided by/(used in) Operating Activities	(1,587,729)
Cash Flows from Investing Activities:	
15 Insurance Proceeds	450,578
16 Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	(2,332,563)
17 Proceeds from Sale(s) of Investments	52,138
18 Purchase(s) of Investments	(11,630)
19 Purchase(s) of Assets Restricted To Long-Term Investment	
20 Other Investing Activities	(597,313)
21 Net Cash Provided by/(used in) Investing Activities	(2,438,790)
Cash from Financing Activities:	
Proceeds from Contributions Restricted For:	
22 Investment in Endowment	
23 Investment in Term Endowment	
24 Investment in Plant (Land Bldgs. & Equip.)	
Other Financing Activities:	
25 Contributions Restricted for Long-Term Investment	
26 Interest and Dividends Restricted for Reinvestment	
27 Payments on Notes Payable	(1,812,500)
28 Payments on Long-Term Debt	(963,333)
29 Other Finance Payments	3,664,641
30 Net Cash Provided by/(used in) Financing Activities	888,808

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

6/30/2011

INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	<u>(3,137,711)</u>
32	Cash and Cash Equivalents at Beginning of Year	<u>3,626,654</u>
33	Cash and Cash Equivalents at End of Year	<u><u>488,943</u></u>

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	<u>756,414</u>
35	Cash Paid During the Year for Taxes/Other	<u></u>

Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	<u></u>
37	Other Noncash Investing and Financing Activities	<u></u>
38	<u>See notes to financial statements #15</u>	<u></u>
39	<u></u>	<u></u>
40	<u></u>	<u></u>

See Accompanying Notes to the Financial Statements

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE
STATEMENT OF CASH FLOWS ADDENDUM
June 30, 2011

Line 13 - Other Cash Used by Operating Activities

Increase in other accounts receivables	\$	(26,295)
Decrease in security deposits		17,396
Increase in cash, capital & program reserve		(52,835)
Decrease in cash surrender value of life insurance policies		30,773
Decrease in other liabilities		(20,954)
Increase in deferred rent liability		2,512
Gain on insurance proceeds		(351,959)
Increase in fair market value of interest rate swap agreement		(43,544)
Capitalized interest		(29,522)
Amortization of bond costs		<u>4,588</u>
Total	\$	<u><u>(469,840)</u></u>

Line 20 - Other Investing Activities

Interest and dividends, net of management fees	\$	(19,167)
Premiums paid on life insurance policies		<u>(578,146)</u>
Total	\$	<u><u>(597,313)</u></u>

Line 29 - Other Finance Payments

Borrowings under long-term debt	\$	<u>3,664,641</u>
Total	\$	<u><u>3,664,641</u></u>

ORGANIZATION : Bay Cove Human Services, Inc. and AffiliateFEIN: 042518575**Statement of Functional Expenses for the Year Ended:** 6/30/2011**SUPPORTING SERVICES****PROGRAM SERVICES**

	TOTALS	ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	56,534,104	5,208,189	181,196	51,144,719
2. Occupancy	7,715,258	457,236	8,513	7,249,509
3. Other Program / Operating Expense	8,461,828	247,088	9,568	8,205,172
4. Subcontract Expense	5,371,867			5,371,867
5. Direct Administrative Expense	2,088,079	957,277	86,760	1,044,042
6. Other Expenses	102,828	34,399		68,429
7. Depreciation of Buildings and Equipment	1,339,050	216,408	2,499	1,120,143
8. TOTAL EXPENSES	81,613,014	7,120,597	288,536	74,203,881

See Accompanying Notes to Financial Statements

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). 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 and non-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 44% 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 26% 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, 2011

(1) Summary of Significant Accounting Policies - continued

(b) Nature of Activities - continued

Addiction Services - The Addiction Services 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 Addiction Services division accounted for 12% 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, 2011

(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, 2011, approximately 81% of the Agency's total revenue is from governmental agencies, 13% is from medical insurance companies and 6% 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 organizations 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, 2011, there was no liability for tax on unrelated business income.

The Agency has adopted the provisions of GAAP which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Agency does not believe its financial statements include any uncertain tax positions.

All tax years prior to fiscal year 2007 are closed via the passing of the Statute of Limitations. No notices have been received from the Internal Revenue Service or Commonwealth of Massachusetts addressing any subsequent year.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies - continued

(f) Use of Estimates

In preparing the Agency's financial statements in conformity with GAAP, 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 \$153,649 resulting in a \$234,395 gain for the year ended June 30, 2011, which is included with contributions on the statement of activities.

(i) Commercial Products and Services

Commercial products and services revenue and expenses amounted to \$30,248 and \$93,363, respectively, resulting in a \$63,115 loss for the year ended June 30, 2011 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, 2011, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2011 that required recognition or disclosure in these financial statements.

(k) Advertising Costs

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2011.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies - continued

(i) 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 GAAP.

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. The Agency currently has no Level 1 liabilities that 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, 2011.

Fair Value Measurements on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments (see Note 3)	\$ 1,149,012	\$ -	\$ -	\$ 1,149,012
Other assets (see Note 5)	-	3,441,701	-	3,441,701
Interest rate swap	-	(389,736)	-	(389,736)
	<u>\$ 1,149,012</u>	<u>\$ 3,051,965</u>	<u>\$ -</u>	<u>\$ 4,200,977</u>

Based on the analysis of the nature and risks of its investments, the Agency has determined that presenting them as a single class is appropriate.

The Agency's policy is to recognize transfers into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2011.

The Agency's financial instruments include cash and cash equivalents, accounts receivable, contributions receivable, accounts payable, accrued expenses and other current liabilities. 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.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies - continued

(l) Fair Value Measurements - continued

The Agency is also required to apply the provisions of GAAP to fair value measurements for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Agency has no non-financial assets or liabilities required to be accounted for on a non-recurring basis as of June 30, 2011.

(m) 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, 2011 were 26% of total contribution revenue. The ratio of expenses to amounts raised is computed using the actual expenses and related contributions on an accrual basis.

(n) 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.

(o) 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. The money market accounts are not FDIC insured and totaled \$93,754 as of June 30, 2011. The Agency did not maintain interest bearing cash deposit balances in excess of FDIC limits in any banks as of June 30, 2011.

(p) 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.

(q) 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, 2011

(1) Summary of Significant Accounting Policies - continued

(r) 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, 2011, the allowance for doubtful accounts was \$121,946.

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, 2011, 64% of the Agency's total accounts receivable is from governmental agencies, 33% is from medical insurance companies and 3% is from other non-profit agencies, foundations and individuals.

(s) 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	5 years

The Agency acquired some of its 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 during the year ended June 30, 2011.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies - continued

(t) 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 supplies to assist the Agency in its programs.

For the year ended June 30, 2011, in-kind contributions totaling \$144,211 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.

(u) Below Market Loans

Other governmental entities, having similar agendas to foster the Agency's mission, have lent money to the Agency at advantageous terms. The Agency has not discounted these below market loans as they were made at arm's length.

(v) Summarized Financial Information for 2010

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, 2010. 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 GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2010, 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:

Included in Cash and Cash Equivalents

	<u>Cash</u>	<u>Money Market Accounts</u>	<u>Total</u>
Operating Cash	\$ 450,709	\$ 6,802	\$ 457,511
Debt Service Interest Fund (see Note 9a)	-	496	496
Expense Fund (see Note 9a)	-	30,936	30,936
	<u>\$ 450,709</u>	<u>\$ 38,234</u>	<u>\$ 488,943</u>

Included in Other Assets and Investments

	<u>Cash</u>	<u>Money Market Accounts</u>	<u>Total</u>
Debt Service Reserve Fund (see Note 9a)	\$ -	\$ 32,835	\$ 32,835
Cash, Capital & Program Reserve (see Note 6)	54,161	-	54,161
Board Restricted Funds	-	22,685	22,685
	<u>\$ 54,161</u>	<u>\$ 55,520</u>	<u>\$ 109,681</u>

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(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, 2011 totaled \$1,149,012. As of June 30, 2011, \$1,612 is included in short-term investments.

The board of directors has designated \$1,147,400 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, 2011, 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 13a, 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, 2011 there was no material change in the value of the member interest in the Resource Consortium, LLC. During the year ended June 30, 2011, the Agency deposited \$11,630 with The Captive Advantage, LLC. The combined carrying value as of June 30, 2011 totaled \$181,092, which is accounted for under the equity method.

Investment revenue consisted of the following for the year ended June 30, 2011:

Interest and dividends, investments	\$ 28,335
Interest, cash and cash equivalents	125
Net realized and unrealized gains	<u>182,532</u>
Total investment revenue	\$ <u>210,992</u>

Bank management fees incurred on the investments totaled \$9,168 for the year ended June 30, 2011 and are included in administrative expenses on the statement of activities.

(4) Property and Equipment

Property and equipment consists of the following as of June 30, 2011:

	Agency Owned	State/City Owned	Total
Land	\$ 5,125,928	\$ -	\$ 5,125,928
Building and improvements	26,661,066	-	26,661,066
Furniture and equipment	1,681,518	495,515	2,177,033
Motor vehicles	<u>410,681</u>	<u>130,728</u>	<u>541,409</u>
Total	\$ <u>33,879,193</u>	\$ <u>626,243</u>	\$ <u>34,505,436</u>

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(4) Property and Equipment - continued

Real estate under rehabilitation is included in building and improvements, carried at cost and valued at \$395,824 as of June 30, 2011. This real estate has not been placed in service as of June 30, 2011, 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, 2011 was \$1,339,050.

(5) Other Assets

As of June 30, 2011, other assets consisted of the following:

<u>Restricted Deposits</u>	
Debt Service Reserve Funds (see Note 9a)	\$ 32,835
Cash, Capital & Program Reserve (see Note 6)	54,161
<u>Other</u>	
Policy value on employee life insurance (see Note 11a)	3,441,701
Financing fees, net of amortization	125,927
Deposits	<u>105,575</u>
Total	\$ <u>3,760,199</u>

(6) Cash, Capital & Program Reserve

In accordance with the Agency's management agreement with Charlestown Recovery House, Inc., a nonprofit organization who owns a halfway house which is managed by the Agency; the Agency is required to establish a reserve to fund future operating losses and required capital replacements incurred by the Charlestown Recovery House program. This reserve is to be funded by any program revenue less program expenses earned in a given year. During the year ended June 30, 2011, required deposits of \$54,167 were made to the reserve and \$6 in bank fees were charged to the account. No other withdrawals were made and no interest was earned on the account during the year ended June 30, 2011. As of June 30, 2011, the cash, capital and program reserve balance was \$54,161 and is included in other assets on the statement of financial position.

(7) 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.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(8) 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 \$3,300,000. As of June 30, 2011 net advances totaling \$1,200,000 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, 2011. 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, 2011. 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, which was fulfilled during the year ended June 30, 2011, and maintain a debt service coverage ratio of no less than 1.20:1.00. The Agency's debt service coverage ratio exceeded 1.20:1.00 as of June 30, 2011. 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 3.19% as of June 30, 2011. Both lines of credit are due on demand and are reviewed annually by the bank.

(b) Cambridge Savings Bank

The Agency had a revolving line of credit with Cambridge Savings Bank that permitted borrowing up to \$312,500. The revolving line of credit was collateralized by a second mortgage on real estate located at 28 Freeland St, Mattapan, MA. Borrowings under the revolving line of credit accrued interest at the bank's prime lending rate. During the year ended June 30, 2011, the revolving line of credit was repaid in full.

The Agency also has a non-revolving line of credit for the acquisition of real estate. As of June 30, 2011, \$2,710,000 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, 2012, the termination date, which can be extended at the bank's discretion. As of June 30, 2011, all borrowings under this non-revolving line of credit have been converted to individual permanent notes which are governed by the terms of their respective permanent financing. The outstanding balance on the non-revolving line of credit is zero as of June 30, 2011.

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).

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt

Long-term debt as of June 30, 2011 consisted of the following:

<u>Lending Institution</u>	<u>Type of Debt</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
MassDevelopment	Mortgage Notes	\$ 292,406	\$ 8,821,552	\$ 9,113,958
Cambridge Savings Bank	Mortgage Notes	155,913	3,354,231	3,510,144
CEDAC	Mortgage Notes	-	2,272,707	2,272,707
TD Bank	Mortgage Notes	234,148	1,616,566	1,850,714
Department of Housing and Community Development	Mortgage Notes	-	530,162	530,162
Citizens Bank	Mortgage Notes	31,579	247,368	278,947
		<u>\$ 714,046</u>	<u>\$ 16,842,586</u>	<u>\$ 17,556,632</u>

(a) *MassDevelopment*

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

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 monthly floating rate was .06% as of June 30, 2011. The installment loan is payable through April 2037. Funds for the loan were raised by MassDevelopment through the sale of Variable Rate Demand Revenue Bonds. During fiscal year 2010, the Agency entered into an Amendment to Reimbursement Agreement with Citizens Bank 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, 2011, the unpaid principal balance totaled \$3,283,435. The Agency has entered into an interest rate swap agreement to reduce their exposure to interest rate fluctuations on this debt instrument. See Note 9b for details.

The second debt instrument is a 30-year loan in the maximum amount of \$3,500,000, with a floating interest rate equal to the Wall Street Journal Prime Rate, less .5%, during initial construction. The Agency was only required to make interest payments on the loan until the construction period had been completed at which time the rate would become fixed according to the terms of the agreement. Construction was completed during the year ended June 30, 2011 and the interest rate was converted to a fixed rate of 4.86% as of June 30, 2011. 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 MassDevelopment through the sale of Authority Revenue Bonds. During the year ended June 30, 2011, the Agency completed construction and final draws on the bond totaled \$1,372,000. As of June 30, 2011, the unpaid principal balance totaled \$1,367,108. Subsequent to year end and before the issuance date, the Agency made a payment on the bond totaling \$66,312 to refund amounts received above and beyond required construction costs, due to cost savings recognized upon the completion of construction, which occurred during the year ended June 30, 2011.

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 MassDevelopment through the sale of Authority Revenue Bonds. As of June 30, 2011, the unpaid principal balance totaled \$4,463,415.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt - continued

(a) MassDevelopment - continued

The MassDevelopment 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 2011.

The loan and trust agreements for the \$3,940,000 MassDevelopment 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 15th 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, 2011.

Debt Service Reserve Fund - The Agency was required to make an initial deposit of \$39,400 from MassDevelopment 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 \$32,835 as of June 30, 2011 and is included with other assets on the statement of financial position.

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 \$496 as of June 30, 2011.

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, 2011.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt - continued

(a) *MassDevelopment - continued*

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 MassDevelopment. Earnings in this account shall remain in this account. The Expense Fund balance was \$30,936 as of June 30, 2011.

The loan and trust agreements for the \$3,500,000 MassDevelopment loan require the following account:

Project Fund - In a prior year, the Agency made an initial deposit of \$70,202 from the MassDevelopment bond proceeds into a Project Fund. Withdrawals from this account could only be made with the approval of Cambridge Savings Bank in accordance with the agreement. During the year ended June 30, 2011, the Agency fully withdrew the account for the payment of approved construction costs.

The loan and trust agreements for the \$4,600,000 MassDevelopment loan require the following account:

Project Fund - In a prior year, the Agency made an initial deposit of \$797,821 from the MassDevelopment bond proceeds into a Project Fund. This account was to be used for capital improvements for the Agency. Withdrawals from this account could only be made with the approval of Cambridge Savings Bank in accordance with the agreement. During the year ended June 30, 2011, the Agency fully withdrew the account for the payment of approved construction costs.

(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. 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 GAAP 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 total current year change in fair market value was a gain of \$43,544 and was recorded as another change in net assets on the statement of activities. Any portion of the change in the current year applicable to the ineffective portion of the interest rate swap was immaterial. As of June 30, 2011, the fair value of the interest rate swap represents a liability to the Agency of \$389,736 and is included in other liabilities on the statement of financial position.

(c) *CEDAC*

The Agency has two non-interest bearing second 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. As of June 30, 2011, the unpaid principal balances totaled \$255,000 and \$272,500, respectively.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt - continued

(c) CEDAC - continued

The Agency has a third non-interest bearing second 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. As of June 30, 2011, the unpaid principal balance totaled \$357,885.

During the year ended June 30, 2011, the Agency entered into a fourth non-interest bearing second mortgage note payable to CEDAC under their Facilities Consolidation Program in the original amount of \$368,630. The note is collateralized by real estate located at 36 Orlando Street, Mattapan, MA. All principal is due in April 2041, 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. As of June 30, 2011, the unpaid principal balance totaled \$368,630.

During the year ended June 30, 2011, the Agency entered into a fifth non-interest bearing second mortgage note payable to CEDAC under their Facilities Consolidation Program in the original amount of \$1,018,692. The note is collateralized by real estate located at 510 Hyde Park Avenue, Boston, MA. All principal is due in November 2039, 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. As of June 30, 2011, the unpaid principal balance totaled \$1,018,692.

(d) TD Bank

	Outstanding Loan Balance at 6/30/11	Monthly Principal Installments	Amortization Period	Balloon Payment After	Interest		Maturity
					Terms	Rate at 6/30/11	
<u>Collateralized by Real Estate</u>							
144 Utica St, Quincy, MA	\$ 96,666	\$ 967	20 yrs	5 yrs	Fixed	4.80%	December 2014
581 Norfolk St, Mattapan, MA	458,792	3,832	20 yrs	5 yrs	Fixed	4.99%	June 2015
19 Willers St, West Roxbury, MA	148,800	1,200	20 yrs	10 yrs	Variable	3.25%	November 2011
17-19 Bradston St, Boston, MA	360,723	3,029	20 yrs	5 yrs	Fixed	6.92%	November 2013
71 Central Avenue, Hyde Park, MA	241,943	1,791	20 yrs	5 yrs	Fixed	4.80%	December 2014
30 Pleasant Street, Dorchester, MA	543,790	3,614	20 yrs	5 yrs	Fixed	4.75%	August 2015
	<u>\$ 1,850,714</u>						

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt - continued

(e) Cambridge Savings Bank

Collateralized by Real Estate	Outstanding Loan Balance at 6/30/11	Monthly. Prin. and Interest Installments	Amortization Period	Balloon Payment After	Interest		
					Terms	Rate at 6/30/11	Maturity
26-28 Mill Street, Quincy, MA	\$ 297,074	\$ 2,894	20 yrs	5 yrs	Fixed	6.36%	November 2013
466 Washington Ave, Revere, MA	199,873	1,894	20 yrs	5 yrs	Fixed	5.48%	June 2014
91 Winthrop Street, Winthrop, MA	213,851	2,028	20 yrs	5 yrs	Fixed	5.48%	June 2014
101-105 Victory Rd, Dorchester, MA	577,477	4,659	20 yrs	10 yrs	Variable	4.37%	December 2012
98-100 Cook Ave, Chelsea, MA	456,656	3,638	20 yrs	5 yrs	Fixed	6.36%	November 2013
33 Bourne Street, Middleboro, MA	308,580	2,821	20 yrs	10 yrs	Fixed	7.43%	August 2016
16 Carol Circle, West Roxbury, MA	436,522	3,411	20 yrs	10 yrs	Variable	4.07%	August 2015
40 Stark Avenue, Revere, MA	334,751	2,673	20 yrs	5 yrs	Fixed	6.36%	November 2013
28 Freeland Street, Mattapan, MA	267,905	2,131	20 yrs	10 yrs	Variable	4.79%	February 2016
44 Orlando Street, Mattapan, MA	187,111	1,337	20 yrs	5 yrs	Fixed	5.08%	July 2014
36 Orlando Street, Mattapan, MA	<u>230,344</u>	1,608	20 yrs	5 yrs	Fixed	5.11%	February 2015
	<u>\$ 3,510,144</u>						

(f) Citizens Bank

The Agency has a mortgage note payable held by Citizens Bank in the original amount of \$300,000. The note is collateralized by the Agency's accounts and equipment in Massachusetts. The note is payable in monthly principal installments of \$2,632 and bears interest at a fixed rate of 4.75%. The unpaid principal and interest are due in May 2015. As of June 30, 2011, the unpaid principal balance totaled \$278,947.

(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 amount of \$550,000. During the year ended June 30, 2011, construction was completed on the related property and draws of only \$530,162 were required. The note is collateralized by a first mortgage on real estate located at 510 Hyde Park Avenue, Boston, MA. All principal is due in November 2040, but may be extended in a thirty year increment by DHCD. As of June 30, 2011, the unpaid principal balance totaled \$530,162.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(9) Long-Term Debt - continued

(h) *Maturities on Long-Term Debt*

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

2012	\$	714,046
2013		1,029,121
2014		2,113,771
2015		1,137,439
2016		1,317,611
Thereafter		<u>11,244,644</u>
Total	\$	<u>17,556,632</u>

Interest capitalized and expensed on all debt amounted to \$29,522 and \$726,713, respectively, for the year ended June 30, 2011.

(10) 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. As of June 30, 2011, future minimum receipts under non-cancelable operating leases were as follows:

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

(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 GAAP 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 \$157,700 as of June 30, 2011. 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 in 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.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(10) Operating Leases - continued

(b) As Lessee - continued

Rental expense on property, equipment and vehicles for the year ended June 30, 2011 was as follows:

Property	\$ 3,448,925
Equipment	102,005
Motor vehicles	<u>351,153</u>
Total	\$ <u>3,902,083</u>

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

2012	\$ 2,159,815
2013	1,667,426
2014	1,275,731
2015	1,165,097
2016	962,967

(11) 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, 2011, the Agency made premium payments on the employees' life insurance policies totaling \$578,146. No premiums paid into the life insurance plans were surrendered in the fiscal year. The Agency incurred \$30,773 in investment losses 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, 2011, the Agency's portion of the cash value of the policies under the employee split dollar life insurance plan amounted to \$3,441,701 and is included 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 403(b) plan according to the terms and conditions of that plan. See Note 11b.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(11) Employee Benefits - continued

(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 \$10 per pay period or \$520 per year. Additionally, beginning during the year ended June 30, 2011, the Agency will contribute 2.5% - 10% of the employee's salary based on length of service. Contributions made by Bay Cove and Kit Clark for the year ended June 30, 2011 amounted to \$482,896 and \$9,758, respectively, of which \$267,860 is included in accrued expenses on the statement of financial position as of June 30, 2011.

(c) 401(a) Plan

The Agency had established a 401(a) plan for employees who had ten consecutive years of service. This plan was meant to supplement the 403(b) defined contribution plan. The Agency would 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 elected to remain in the split dollar life-insurance plan were excluded from participating in this plan. During the year ended June 30, 2011, the 401(a) plan was discontinued by the Agency and rolled into the Agency's 403(b) plan (see Note 11b). The Agency made no contributions to the 401(a) plan for the year ended June 30, 2011.

(12) 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, 2011:

<u>Program Division</u>	<u>Nature of Restriction</u>	<u>Total</u>
Administrative	Innovative housing for individuals with multiple disabilities	\$ 11,764
Bay Cove Academy	Training for teachers and support for recreational activities	10,983
Center House	Supported employment for people with developmental disabilities	10,000
Chelsea ASAP	Peer leaders support for youth programs	1,000
Day Habilitation	Services for improving functional abilities in the severely developmentally disabled	617
Early Intervention	Services for severely handicapped children between the ages of 3 to 5	70,130
Tenancy	Tenancy prevention project to prevent homelessness	82,601
Wellness Center	Services for lifestyle modifications	15,689
Senior Services	Services for the elderly to assist in everyday living	<u>79,337</u>
		\$ <u>282,121</u>

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(13) Related Party Transactions

(a) Resource Consortium

The Agency has a minority interest in the Resource Consortium, LLC (the Consortium). The Executive Director 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, 2011 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, 2011 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 statement of financial position.

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	\$ 59,998	\$ 16,420	\$ 13,184	\$ 11,406
HUD II	28,564	4,125	3,693	11,388
HUD III	24,837	5,899	5,579	31,349
Moseley	15,457	1,762	3,578	18,799
Hamilton	22,769	3,702	5,328	12,143
Orchardfield	8,476	1,846	2,273	1,373
	<u>\$ 160,101</u>	<u>\$ 33,754</u>	<u>\$ 33,635</u>	<u>\$ 86,458</u>

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(13) Related Party Transactions - continued

(b) Housing and Urban Development Projects - continued

The following financial information as of and for the year ended June 30, 2011 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	\$ 1,062,702	\$ 458,414	\$ 600,471	\$ 344,293	\$ 488,040	\$ 407,434
Total Liabilities	877,844	269,400	483,172	77,339	92,685	128,300
Net Assets	184,858	189,014	117,299	266,954	395,355	279,134
Total Revenue	459,231	142,502	194,743	68,358	99,504	41,375
Total Expenses	383,548	136,171	176,573	92,525	130,781	44,993
Change in Net Assets	\$ 75,683	\$ 6,331	\$ 18,170	\$ (24,167)	\$ (31,277)	\$ (3,618)

(c) Other Related Parties

A board member is a vice-president of TD Bank. TD Bank is the holder of six notes payable (see Note 9d) for the Agency. The board member has no involvement with any Agency transactions in his official capacities at the bank.

Another 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, two lines of credit (see Note 8a) as well as a note payable (see Note 9f). The board member has no involvement with any Agency transactions in his official capacities at the bank.

The Agency received \$125,286 in contributions from members of its Board of Directors during the year ended June 30, 2011.

(14) 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.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(14) Current Vulnerability Due to Certain Concentrations - continued

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
Developmental Services
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.

(15) Supplemental Data for Noncash Investing and Financing Activities

During the year ended June 30, 2011, the Agency financed \$559,200 of fixed asset additions from the proceeds of long-term debt. Additionally, \$71,170 of fixed asset additions were included in accounts payable as of June 30, 2011.

(16) 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.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Notes to Financial Statements

June 30, 2011

(16) Commitments and Contingencies - continued

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 \$576,229 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.

The Company is involved in legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Company.

(17) Schedule of Federal Awards

Determination of Federal Major Programs was made using a risk based approach. For the fiscal year ended June 30, 2011, the Agency did not qualify as a low-risk auditee. The major programs tested are disclosed in the schedule of findings and questioned costs, summary of auditors' results.

(18) 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 \$340,030 for the year ended June 30, 2011. In accordance with GAAP, 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, 2011

(1) Summary of Auditors' Results

Financial Statements:

Type of Auditors' Report Issued: Unqualified

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 and 93.045	Special Programs for the Aging - Title III, Part B and C Nutrition Services (cluster)
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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, 2011

(2) Financial Statement Findings

No significant deficiencies or material weakness reported.

(3) Federal Awards Findings and Questioned Costs

#11-1 Eligibility

Criteria - In accordance with OMB Circular A-133 Compliance Supplement, 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, 2011, the Agency did not timely assess or reassess all of the clients in their Title III C Nutrition Services Federal contract. We noted 21 out of the 40 clients tested did not have their eligibility properly determined.

Cause - The Agency did not have adequate controls in place to monitor the timely assessment and reassessment of clients.

Questioned costs - None

Effect - Meals may have been delivered to ineligible clients during fiscal year 2011.

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

Corrective Action Note - The Meals on Wheels assessor will produce a list of all clients requiring reassessment in the following month, to ensure clients are reassessed before their prior assessment has expired, and to avoid scheduling conflicts. As an additional check, the Meals on Wheels assessor will also produce a list of all clients requiring reassessment during the current month, which should be none, if they were all completed a month early. The reports will be generated by the SIM/SAMS database. All assessments will be logged on the reports, and the reports will be scanned to a shared drive and filed accordingly, to prove that all assessments were completed in a timely fashion. The Meals on Wheels assessor will review progress with the Director on a weekly basis at their supervisory meetings, to go over any conflicts or questions that arise. Also, the Director and the Meals on Wheels assessor will continue to work with the Executive Office of Elder Affairs' information technology department to create more efficient and flexible reports.

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs - continued

June 30, 2011

(4) Status of Prior Year 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.

Status - Corrected.

#10-2 Eligibility

Criteria - In accordance with OMB Circular A-133 Compliance Supplement, 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, 2011, there were 73 clients that were not reassessed for eligibility in a timely manner.

Status - Not corrected. See finding #11-1.



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 (a nonprofit organization, for the year ended June 30, 2011. That audit was conducted for the purpose of forming an opinion on the basic financial statements of Bay Cove Human Services, Inc. and Affiliate taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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, 2011

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	FY11 Federal Expenditures
Major Programs:			
Department of Health and Human Services			
Passed Through Commonwealth of Massachusetts			
Department of Public Health		INTF2303MM3900617053	\$ 84,019
Department of Public Health		SCDPH234853570180000	233,344
Department of Public Health		SCDPH231853620190000	22,649
Department of Public Health		INTF2304MM3810412160	104,984
Department of Public Health		SCDPH230153580830000	3,660
Department of Public Health		INTF2324MM3RFR359002	1,495
Department of Public Health		INTF2354MM3901115014	<u>100,000</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959		550,151
Department of Health and Human Services			
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston		17C- 08	411,145
via City of Boston		17C- 08	<u>1,107,755</u>
Special Programs for the Aging - Title 111 Part C Nutrition Services	93.045		1,518,900
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston Elder Commission		17-B-07	31,807
via City of Boston Elder Commission		17-B-07	<u>95,248</u>
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044		127,055
Total Major Programs**			<u><u>2,196,106</u></u>
Non Major Programs:			
Department of Health and Human Services			
Passed Through Commonwealth of Massachusetts			
Department of Mental Health		SCDMH632070060730000	50,000
Department of Mental Health		SCDMH621050060130000	<u>15,464</u>
Block Grants for Community Mental Health Services	93.958		65,464
Passed Through Commonwealth of Massachusetts			
Department of Social Services			
Social Services Block Grant: Administration for Children & Families	93.667	INTF00000000910FNSS0	<u>11,549</u>
			11,549
Passed Through Commonwealth of Massachusetts			
Public Health AIDS Office		ACTIVITY #0570067	62,680
Public Health AIDS Office		PO 2022807-S	<u>10,613</u>
HIV Emergency Relief Project Grants	93.914		73,293
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston Elder Commission		17-D-07	4,359
via City of Boston Elder Commission		17-D-07	<u>13,991</u>
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion	93.043		18,350
Substance Abuse and Mental Health			
Center for Substance Abuse Prevention		1H79SP015889-01	<u>121,000</u>
Drug Free Communities Support Program	93.276		121,000
Passed Through Commonwealth of Massachusetts			
Department of Public Health		2011 PRIORPOPSUPPMA01	106
Department of Public Health		6100BAYCOVEHUMANPPSP	<u>36,966</u>
Child Care & Development Block Grant	93.575		37,072
Passed Through Commonwealth of Massachusetts			
Department of Public Health		2011 PRIORPOPSUPPMA01	156
Department of Public Health		6100BAYCOVEHUMANPPSP	<u>54,541</u>
Refugee and Entrance Assistance	93.596		54,697
Total - Department of Health and Human Services			\$ <u><u>381,425</u></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, 2011

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	FY11 Federal Expenditures
Department of Housing and Urban Development			
Passed Through City of Boston Department of Neighborhood Development		C-29103-10	\$ 27,500
Department of Neighborhood Development		C-27114-09	40,505
Department of Neighborhood Development		C-29917-10	13,875
Department of Neighborhood Development		C-29469-10	<u>147,557</u>
Community Development Block Grants/ Entitlement Grants	14.218		229,437
Passed Through City of Boston Department of Neighborhood Development		C-29281-10	30,206
Department of Neighborhood Development		C-29233-10	<u>22,655</u>
Emergency Shelter Grants Program	14.231		52,861
Passed Through Commonwealth of Massachusetts Department of Housing & Community Development		CTOCD8000HSESHLP3000	<u>69,590</u>
Emergency Shelter Grants Program	14.231		69,590
Passed Through Commonwealth of Massachusetts Department of Mental Health		SCDMH631001061130000	<u>133,611</u>
Supportive Housing Program	14.235		133,611
Passed Through City of Boston Department of Neighborhood Development		SUB C - 25803-09	5,555
Via Boston Rescue Mission		SUB C - 28694-10	17,610
Via Boston Rescue Mission		C-27120-09	58,213
Via Massachusetts Housing & Shelter Alliance		C-29938-10	18,890
Via Massachusetts Housing & Shelter Alliance			5,790
Via Homestart, Inc.			<u>17,673</u>
Via Homestart, Inc.			123,731
Supportive Housing Program	14.235		
Passed Through City of Boston Department of Neighborhood Development		C-29555-10	55,682
Department of Neighborhood Development		C-29596-10	<u>67,622</u>
Homelessness Prevention And Rapid Re-housing Program - ARRA	14.257		123,304
Total - Department of Housing and Urban Development			<u>732,534</u>
Department of Education			
Passed Through Commonwealth of Massachusetts Department of Public Health		INTF3601MM3001513103	<u>34,949</u>
Special Education - Grants for Infants and Families with Disabilities	84.181		34,949
Passed Through Commonwealth of Massachusetts Massachusetts Rehabilitation Commission		0MRC00CIESES0000000	14,096
Massachusetts Rehabilitation Commission		0MRC00CIESPES0000000	1,370
Massachusetts Rehabilitation Commission		0MRC00CIESSOUTH00000	<u>86,270</u>
Rehabilitation Services - Vocational Rehabilitation Grant to States	84.126		101,736
Passed Through Commonwealth of Massachusetts Massachusetts Rehabilitation Commission		0MRC00CIESES0000000	<u>3,588</u>
Supported Employment Services for Individuals with Severe Disabilities	84.187		3,588
Passed Through Commonwealth of Massachusetts Department of Developmental Disabilities		CT DMR 113340340950DDS3174C	2,000
Department of Developmental Disabilities		CT DMR 116601601717DDS3738C	26,624
Department of Developmental Disabilities		CT DMR 116601601317DDS3780C	<u>5,000</u>
Supported Employment Services for Individuals with Severe Disabilities	84.027		33,624
Total - Department of Education			<u>\$ 173,897</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, 2011

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	FY11 Federal Expenditures
Department of Labor			
Passed Through Massachusetts Veterans Epidemiology Research and Information Center		VA241-P-0971	\$ 11,865
Passed Through Massachusetts Veterans Epidemiology Research and Information Center		VA241-P-0971	<u>8,525</u>
Disabled Veterans Outreach Program	17.801		20,390
Total - Department of Labor			<u>20,390</u>
Department of Agriculture			
Passed Through Commonwealth of Massachusetts Department of Education		SCDOE10758A70532117A	108,758
Department of Education		SCDOE10758G70532117A	59,464
Department of Education		SCDOE10758A70532117B	4,596
Department of Education		SCDOE10758G70532117B	<u>2,512</u>
Child & Adult Care Food Program	10.558		175,330
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs			<u>89,233</u>
Commodity Supplemental Food Plan	10.565		89,233
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs			<u>5,825</u>
Senior Farmers Market Nutrition Program	10.576		5,825
Total - Department of Agriculture			<u>270,388</u>
Total Non Major Programs			<u>1,578,634</u>
Total Expenditures of Federal Awards			\$ <u>3,774,740</u>

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 Affiliate 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 17