

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

**Financial Statements**

**June 30, 2009**

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

June 30, 2009

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Kevin P. Martin & Associates, P.C.

## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Bay Cove Human Services, Inc. and Affiliate (a Massachusetts corporation, not-for-profit) as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Bay Cove Human Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Bay Cove Human Services, Inc. and Affiliate's 2008 financial statements and, in our report dated November 14, 2008, we expressed an unqualified opinion on those financial statements. The prior year comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Cove Human Services, Inc. and Affiliate as of June 30, 2009, 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, 2009, on our consideration of Bay Cove Human Services, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Braintree, Massachusetts  
November 10, 2009



Kevin P. Martin & Associates, P.C.

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

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

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay Cove Human Services, Inc. and Affiliate's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item # 09-1.

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

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

*Muir P. Martini & Chute P.C.*

Braintree, Massachusetts  
November 10, 2009



Kevin P. Martin & Associates, P.C.

## **Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

### Compliance

We have audited the compliance of Bay Cove Human Services, Inc. and Affiliate (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Bay Cove Human Services, Inc. and Affiliate'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 Bay Cove Human Services, Inc. and Affiliate's management. Our responsibility is to express an opinion on Bay Cove Human Services, Inc. and Affiliate's compliance based on our audit.

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

In our opinion, Bay Cove Human Services, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### Internal Control over Compliance

The management of Bay Cove Human Services, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bay Cove Human Services, Inc. and Affiliate's internal control over compliance with 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, 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 Bay Cove Human Services, Inc. and Affiliate's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

*Muir P. Martini & Chute P.C.*

Braintree, Massachusetts  
November 10, 2009

ORGANIZATION : Bay Cove Human Services, Inc. and Affiliate

FEIN: #REF!

STATEMENT OF FINANCIAL POSITION AS OF  
(BALANCE SHEET)

6/30/2009

WITH COMPARATIVE TOTALS AS OF

6/30/2008

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
<b>ASSETS</b>						
1	Cash and Cash Equivalents	3,813,974	85,889		3,899,863	3,414,472
2	Accounts Receivable, Program Services	6,991,033			6,991,033	7,293,474
3	Allowance for Doubtful Accounts	(132,853)			(132,853)	(71,587)
4	Net Accounts Receivable, Program Services	6,858,180			6,858,180	7,221,887
5	Contributions Receivable	195,120			195,120	162,875
6	Notes Receivable					
7	Prepaid Expenses	277,112			277,112	526,734
8	Other Accounts Receivable	66,983			66,983	106,472
9	Other Current Assets					
10	Short-Term Investments	905,010			905,010	38,228
11	<b>TOTAL CURRENT ASSETS</b>	<b>12,116,379</b>	<b>85,889</b>		<b>12,202,268</b>	<b>11,470,668</b>
12	Land, Buildings, and Equipment		27,266,698		27,717,776	25,323,247
13	Accumulated Depreciation		(8,706,453)		(8,927,200)	(7,879,121)
14	Net Land, Buildings and Equipment		18,560,245		18,790,576	17,444,126
15	Long-Term Investments	28,033			28,033	28,033
16	Other Assets	2,528,487	95,489		2,623,976	2,682,786
17	Due From Other Funds					
18	<b>TOTAL ASSETS</b>	<b>14,672,899</b>	<b>18,741,623</b>	<b>230,331</b>	<b>33,644,853</b>	<b>31,625,613</b>
<b>LIABILITIES AND NET ASSETS</b>						
19	Accounts Payable	1,516,180			1,516,180	1,079,436
20	Subcontract Payable	67,379			67,379	27,324
21	Accrued Expenses	3,255,579			3,255,579	2,698,057
22	Current Notes Payable	500,000	312,500		812,500	562,500
23	Current Portion Long-Term Debt		384,854		384,854	842,113
24	Deferred Revenue					
25	Other Current Liabilities					13,598
26	<b>TOTAL CURRENT LIABILITIES</b>	<b>5,339,138</b>	<b>697,354</b>		<b>6,036,492</b>	<b>5,223,028</b>
27	Long-Term Notes & Mortgage Payable		12,934,196		12,934,196	12,373,229
28	Other Liabilities	113,010	327,895		440,905	269,860
29	Due to Other Funds					
30	<b>TOTAL LIABILITIES</b>	<b>5,452,148</b>	<b>13,959,445</b>		<b>19,411,593</b>	<b>17,866,117</b>
<b>NET ASSETS</b>						
31	Unrestricted	8,865,380	4,782,178	230,331	13,877,889	13,071,907
32	Temporarily Restricted	355,371			355,371	687,589
33	Permanently Restricted					
34	<b>TOTAL NET ASSETS</b>	<b>9,220,751</b>	<b>4,782,178</b>	<b>230,331</b>	<b>14,233,260</b>	<b>13,759,496</b>
35	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>14,672,899</b>	<b>18,741,623</b>	<b>230,331</b>	<b>33,644,853</b>	<b>31,625,613</b>

See Accompanying Notes to the Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and Affi

FEIN: #REF!

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED

6/30/2009

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

6/30/2008

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
1 Contributions, Gifts, Legacies, Bequests & Special Events	455,546	854,191		1,309,737	1,294,801
2 In-Kind Contributions	423,843			423,843	235,324
3 Grants	2,724,903			2,724,903	2,833,246
4 Program Service Fees	59,284,990			59,284,990	58,286,569
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	76,896			76,896	150,688
7 Revenue from Commercial Products & Services	85,332			85,332	(3,871)
8 Other	314,861			314,861	162,498
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions	986,409	(986,409)			
11 Satisfaction of Equipment Acquisition Restrictions					
12 Expiration of Time Restrictions	200,000	(200,000)			
13 <b>TOTAL REVENUE, GAINS, AND OTHER SUPPORT</b>	<b>64,552,780</b>	<b>(332,218)</b>		<b>64,220,562</b>	<b>62,959,255</b>
<b>EXPENSES AND LOSSES</b>					
14 Administration (Management & General)	6,250,604			6,250,604	6,454,699
15 Fundraising	485,552			485,552	409,246
16 Total Program Services	56,736,781			56,736,781	55,466,716
17 <b>TOTAL EXPENSES</b>	<b>63,472,937</b>			<b>63,472,937</b>	<b>62,330,661</b>
18 Losses	132,692			132,692	
19 <b>TOTAL EXPENSES AND LOSSES</b>	<b>63,605,629</b>			<b>63,605,629</b>	<b>62,330,661</b>
<b>CHANGES IN NET ASSETS:</b>					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)	(141,169)			(141,169)	(186,726)
24 <b>TOTAL CHANGES IN NET ASSETS</b>	<b>805,982</b>	<b>(332,218)</b>		<b>473,764</b>	<b>441,868</b>
25 <b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>13,071,907</b>	<b>687,589</b>		<b>13,759,496</b>	<b>13,317,628</b>
26 <b>NET ASSETS AT END OF YEAR</b>	<b>13,877,889</b>	<b>355,371</b>		<b>14,233,260</b>	<b>13,759,496</b>

See Accompanying Notes to Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and A

FEIN: #REF!

STATEMENT OF CASH FLOWS for the YEAR ENDED

6/30/2009

INDIRECT METHOD

		<b>TOTAL</b>
	<b>Cash Flows from Operating Activities:</b>	
1	Changes in Net Assets	473,764
	Adjustments to Reconcile Change In Net Assets to Net	
	Cash provided by/(used in) Operating Activities:	
2	Depreciation	1,059,171
3	Losses	7,307
4	Increase/Decrease in Net Accounts Receivable	363,707
5	Increase/Decrease in Prepaid Expenses	249,622
6	Increase/Decrease in Contributions Receivable	(32,245)
7	Increase/Decrease in Accounts Payable	436,744
8	Increase/Decrease in Accrued Expenses	557,522
9	Increase/Decrease in Deferred Revenue	
10	Increase/Decrease in Subcontract Payable	40,055
11	Contributions Restricted for Long-Term Investment	
12	Net Unrealized and Realized Gains on Long-Term Investments	
13	Other Cash Used by Operating Activities	642,228
14	Net Cash Provided by/(used in) Operating Activities	3,797,875
	<b>Cash Flows from Investing Activities:</b>	
15	Insurance Proceeds	
16	Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	(2,022,928)
17	Proceeds from Sale(s) of Investments	
18	Purchase(s) of Investments	(834,602)
19	Purchase(s) of Assets Restricted To Long-Term Investment	
20	Other Investing Activities	(386,662)
21	Net Cash Provided by/(used in) Investing Activities	(3,244,192)
	<b>Cash from Financing Activities:</b>	
	Proceeds from Contributions Restricted For:	
22	Investment in Endowment	
23	Investment in Term Endowment	
24	Investment in Plant (Land Bldgs. & Equip.)	
	Other Financing Activities:	
25	Contributions Restricted for Long-Term Investment	
26	Interest and Dividends Restricted for Reinvestment	
27	Payments on Notes Payable	(750,000)
28	Payments on Long-Term Debt	(1,274,614)
29	Other Finance Payments	1,956,322
30	Net Cash Provided by/(used in) Financing Activities	(68,292)

See Accompanying Notes to the Financial Statements

ORGANIZATION : Bay Cove Human Services, Inc. and A

FEIN: #REF!

STATEMENT OF CASH FLOWS for the YEAR ENDED

6/30/2009

INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	485,391
32	Cash and Cash Equivalents at Beginning of Year	3,414,472
33	Cash and Cash Equivalents at End of Year	3,899,863

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	789,209
35	Cash Paid During the Year for Taxes/Other	

Supplemental Data for Noncash Investing and Financing Activities:

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

See Accompanying Notes to the Financial Statements

BAY COVE HUMAN SERVICES, INC. AND AFFILIATE  
STATEMENT OF CASH FLOWS ADDENDUM  
June 30, 2009

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

Bond Cost of Issuance	\$	1,019
Decrease in other accounts receivables		39,489
Increase in security deposits		(12,424)
Decrease in debt service reserve		503,238
Increase in cash surrender value of life insurance policies		(14,361)
Decrease in other liabilities		(13,598)
Increase in deferred rent liability		29,876
Net Unrealized and realized gains on ST investments		(32,180)
Decrease in fair market value of interest rate swap agreement		<u>141,169</u>
Total	\$	<u><u>642,228</u></u>

**Line 20 - Other Investing Activities**

Premiums paid on life insurance policies	\$	<u>(386,662)</u>
Total	\$	<u><u>(386,662)</u></u>

**Line 29 - Other Finance Payments**

Borrowings under long-term debt	\$	<u>1,956,332</u>
Total	\$	<u><u>1,956,332</u></u>

ORGANIZATION : Bay Cove Human Services, Inc. and AffiliateFEIN: #REF!**Statement of Functional Expenses for the Year Ended:** 6/30/2009

	SUPPORTING SERVICES		PROGRAM SERVICES	
	TOTALS	ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	45,331,513	4,562,174	436,065	40,333,274
2. Occupancy	6,432,599	325,078	17,756	6,089,765
3. Other Program / Operating Expense	8,155,199	135,980	17,035	8,002,184
4. Subcontract Expense	578,666	52,000		526,666
5. Direct Administrative Expense	1,828,403	903,136	10,183	915,084
6. Other Expenses	87,386	5,298		82,088
7. Depreciation of Buildings and Equipment	1,059,171	266,938	4,513	787,720
<b>8. TOTAL EXPENSES</b>	<b>63,472,937</b>	<b>6,250,604</b>	<b>485,552</b>	<b>56,736,781</b>

See Accompanying Notes to Financial Statements

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

### (1) Summary of Significant Accounting Policies

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

#### (a) Basis of Presentation

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

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

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

#### (b) Nature of Activities

The Agency is a private, non-profit 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 26% 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 16% of total program expenditures.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

Substance Abuse - The Substance Abuse division provides medical and counseling services to individuals suffering from substance abuse and dependency. Services include medical detoxification, counseling, methadone treatment, case management, outpatient clinic and psychiatric nursing. The Substance Abuse division accounted for 15% of total program expenditures.

Rehabilitation Services - The Rehabilitation Services division provides several integrated, supportive settings in which workers with developmental disabilities or mental illness build work readiness skills that lead to group or individual jobs in the community. Clients are adults disabled by severe and persistent mental illness or developmental disabilities that come together in a supportive setting to develop job skills, pursue educational and creative goals, and establish a network of friends. A major component of the Rehabilitation Services is an educational and employment program for the homeless or those at risk of homelessness. Rehabilitation Services are structured, individualized intensive programs which provide a goal-oriented environment to help clients stabilize their lives after periods of hospitalization and to develop positive attitudes and coping skills. The Rehabilitation Services division accounted for 10% 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 4% 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 3% 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, with the exception of the Department of Transitional Assistance - Medicaid, consist of three types, unit-rate, accommodation rate, and cost-reimbursement contracts, 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.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

#### (c) Revenue Recognition - continued

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 costs related to the services provided are incurred.

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.

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, 2009, approximately 79% of the Agency's total revenue is from governmental agencies, 15% 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 (permanently restricted, temporarily restricted and unrestricted) 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.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

#### (e) *Income Tax Status*

Bay Cove and Kit Clark are non-profit corporations. Both entities qualify as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore are not subject to income tax. Furthermore, neither entity is a private foundation under Section 509(a)(1) of the Internal Revenue Code. Certain unrelated business income, as defined in the Internal Revenue Code, is subject to federal income tax under Section 511. For the year ended June 30, 2009, there was no liability for tax on unrelated business income.

The Agency has elected to defer the application of FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) as permitted by FSP FIN 48-3, until the fiscal year ending June 30, 2010. FIN 48 requires that a tax position be recognized or derecognized based on a more than likely or not threshold. This applies to positions taken or expected to be taken in the tax return. The Agency regularly assesses the potential settlement outcomes resulting from income tax examinations. The Agency does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Agency's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which not-for-profit organizations such as the Agency will need to apply the provisions of FIN 48.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

#### (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 \$79,454 resulting in a \$144,575 gain for the year ended June 30, 2009, which is included with contributions on the statement of activities.

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

Commercial products and services revenue and expenses amounted to \$85,332 and \$145,023, respectively, resulting in a \$59,691 loss for the year ended June 30, 2009 on the statement of activities.

#### (j) *Subsequent Events*

The Agency has performed an evaluation of subsequent events through the audit report date, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in these financial statements.

#### (k) *Fair Value Measurements*

Effective July 1, 2008, 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 fair value hierarchy established in the accordance with generally accepted accounting principles for *Fair Value Measurements* (formally known as Statement of Financial Accounting Standard ("SFAS") SFAS No. 157, "*Fair Value Measurements*" ("SFAS No. 157").

**Level 1:** Quoted prices in active markets for identical assets or liabilities. The Agency's Level 1 assets include short-term and long-term investments which are measured at fair value on a recurring basis.

**Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets include the fair value of contributed property, interest rate swap, and other assets (see Note 10a).

**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.

Pursuant to the Financial Accounting Standards Boards ("FASB") Staff Position No. 157-2, "*Effective Date of FASB Statement No.157*", the effective date of SFAS No. 157 for certain non-financial assets and liabilities that are measured at fair value but are recognized or disclosed at fair value on a non-recurring basis has been deferred to fiscal years beginning after November 15, 2008. The Agency is primarily impacted by this deferral as it relates to non-financial assets and liabilities initially measured at fair value measurements in impairment testing. The Agency will adopt these remaining provisions of SFAS No. 157 effective July 1, 2009. The Agency does not expect the impact to be significant on its financial position, results of operations and cash flows.

The following table represents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of June 30, 2009.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

#### (k) Fair Value Measurements - continued

	Fair Value Measurements on a Recurring Basis as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Investments	\$ 905,010	\$ -	\$ -	\$ 905,010
Interest rate swap	-	327,895	-	327,895
Contributed property	-	2,391,417	-	2,391,417
Other asset	-	2,419,440	-	2,419,440
	<u>\$ 905,010</u>	<u>\$ 5,138,752</u>	<u>\$ -</u>	<u>\$ 6,043,762</u>

The Agency's financial instruments include cash and cash equivalents, accounts receivables, accounts payable, subcontract payable, accrued expenses and interest rate swap. The carrying amount of these financial instruments approximates their fair value due to their short maturities.

#### (l) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Agency. Total costs of all fundraising activities for the year ended June 30, 2009 were 37% of total contribution revenue. The ratio of expenses to amounts raised is computed using the actual expenses and related contributions on an accrual basis.

#### (m) Functional Allocation of Expenses

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

#### (n) Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Agency maintains its cash deposit balances in various banks located in Massachusetts. Money market accounts are primarily invested in U.S. Government securities, certificates of deposit and commercial paper. Cash deposited with Citizens Bank and Cambridge Savings Bank at June 30, 2009 amounted to \$3,161,581 and \$877,620, respectively, which exceed FDIC limits. The money market accounts are not FDIC insured.

#### (o) Investments

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

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

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

#### *(q) Accounts Receivable*

The Agency carries its accounts receivable at an amount equal to uncollected but earned revenue less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and collections and current credit conditions. As of June 30, 2009, the allowance for doubtful accounts was \$132,853.

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, 2009, 71% of the Agency's total accounts receivable is from governmental agencies, 23% is from medical insurance companies and 6% is from other non-profit agencies, foundations and individuals.

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

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

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

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

The Agency acquired fixed assets with resources provided under contracts with the Commonwealth of Massachusetts and the City of Boston, for which the State and City retains title. State/City-owned assets are capitalized in the year of acquisition and are reflected in the Custodial 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.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2009.

#### ***(s) Donated Items and Services***

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

For the year ended June 30, 2009, in-kind contributions totaling \$423,843 have been recognized as income and the corresponding expenses have been included with program and administration expenses in the accompanying financial statements and are recorded at estimated fair value at the date of receipt.

#### ***(t) Advertising Costs***

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2009.

#### ***(u) Summarized Financial Information for 2008***

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, 2008. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

### (2) Cash and Cash Equivalents

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

	<u>Included in Cash and Cash Equivalents</u>			<u>Included in Other Assets</u>
	<u>Cash</u>	<u>Money Market Accounts</u>	<u>Total</u>	<u>Money Market Accounts</u>
Operating cash	\$ 2,896,392	\$ 39,980	\$ 2,936,372	\$ -
Debt Service Interest Fund (See Note 8a)	-	11,275	11,275	-
Project Commitment Fund (See Note 8a)	-	60,370	60,370	-
Expense Funds (See Note 8a)	-	102,106	102,106	-
Rebate Fund (See Note 8a)	-	437	437	-
Project Fund (See Note 8a)	-	789,303	789,303	-
Debt Service Reserve Fund (See Note 8a)	-	-	-	35,461
	<u>\$ 2,896,392</u>	<u>\$ 1,003,471</u>	<u>\$ 3,899,863</u>	<u>\$ 35,461</u>

The Agency earned \$44,717 of interest income on cash and cash equivalents during the year ended June 30, 2009. The interest income is included in investment revenue on the statement of activities.

### (3) Investments

Short-term investments consist of established U.S. mutual funds investing 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 as of June 30, 2009 totaled \$905,010.

Long-term investment consists of a one-twelfth member ownership interest in the Resource Consortium, LLC, a Massachusetts Limited Liability Company; see Note 12a. The Agency has accounted for the investment under the equity method. The value of the investment is carried at the Agency's cost basis of contributions, increased or decreased for the Agency's prorated share of the Resource Consortium LLC's historical net earnings. During the year ended June 30, 2009 there was no material change in the value of the member interest. The carrying value as of June 30, 2009 totaled \$28,033, which is accounted for under the equity method.

Investment return consisted of the following for the year ended June 30, 2009:

Interest and dividends, net of management fees	\$ 44,717
Net realized and unrealized gains	<u>32,179</u>
Total gain on investments	<u>\$ 76,896</u>

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

### (4) Property and Equipment

Property and equipment consists of the following as of June 30, 2009:

	Agency Owned	State/City Owned	Total
Land	\$ 4,464,784	\$ -	\$ 4,464,784
Building and improvements	21,050,264	-	21,050,264
Furniture and equipment	1,445,281	365,350	1,810,631
Motor vehicles	<u>306,369</u>	<u>85,728</u>	<u>392,097</u>
Total	\$ <u>27,266,698</u>	\$ <u>451,078</u>	\$ <u>27,717,776</u>

Real estate acquired for future renovation is included in building and improvements, carried at cost and valued at \$362,961 as of June 30, 2009. This real estate has not been placed in service as of June 30, 2009, 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.

Assets totaling \$1,973,716 were purchased and/or constructed with restricted donations received under the Small Wonders capital campaign and are included in land, building and equipment on the statement of financial position.

Total depreciation expense for the year ended June 30, 2009 was \$1,059,171.

### (5) Other Assets

At June 30, 2009, other assets consisted of the following:

<u>Restricted Deposits</u>	
Debt Service Reserve Funds (see Note 8a)	\$ 35,461
<u>Other</u>	
Policy value on employee life insurance (see Note 10a)	2,419,440
Financing Fees	60,028
Deposits	<u>109,047</u>
Total	\$ <u>2,623,976</u>

### (6) Promises to Give

The Agency has received unconditional promises to give related to a capital campaign initiated during a prior fiscal year. 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, 2009

### **(7) Current Notes Payable**

#### ***(a) Citizens Bank***

The Agency has two revolving lines of credit with Citizens Bank. The first line of credit permits borrowing up to \$2,500,000. At June 30, 2009 net advances totaling \$500,000 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, 2009. 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, 2009. The line of credit agreement requires that the Agency repay the line of credit in full for 30 consecutive days prior to December 31 of each calendar year and maintain a debt service coverage ratio of no less than 1.20:1.00. The Agency complied with both covenants during fiscal year 2009. 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 at the bank's prime lending rate, which was 3.25% as of June 30, 2009. Both lines of credit are due on demand and are reviewed annually by the bank.

#### ***(b) Cambridge Savings Bank***

The Agency has a revolving line of credit with Cambridge Savings Bank that permits borrowing up to \$312,500. At June 30, 2009 net advances totaling \$312,500 were outstanding. The revolving line of credit is collateralized by real estate located at 28 Freeland St, Mattapan, MA. Borrowings under the revolving line of credit accrue interest at the bank's prime lending rate, which was 3.25% as of June 30, 2009. The revolving line of credit is due on demand and is reviewed annually by the bank.

The Agency also has a non-revolving line of credit that permits borrowing up to \$4,000,000 for the acquisition of real estate. There were no advances outstanding as of June 30, 2009. 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 November 30, 2009, the termination date, which can be extended at the bank's discretion.

The line of credit agreement requires the Agency to execute a secured term note for each advance, the funds of which will be used to pay down the non-revolving line of credit. 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, 2009

**(8) Long-Term Debt**

Long-term debt at June 30, 2009 consisted of the following:

<u>Lending Institution</u>	<u>Type of Debt</u>	<u>Current</u>	<u>Long Term</u>	<u>Total</u>
HEFA	Mortgage Notes	\$ 197,845	\$ 8,058,722	\$ 8,256,567
TD Banknorth	Mortgage Notes	58,908	1,122,978	1,181,886
Cambridge Savings Bank	Mortgage Notes	128,101	3,224,996	3,353,097
CEDAC	Mortgage Notes	-	527,500	527,500
		<u>187,009</u>	<u>5,203,369</u>	<u>5,390,378</u>
		<u>\$ 384,854</u>	<u>\$ 13,262,091</u>	<u>\$ 13,646,945</u>

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

The Agency had previously entered into two debt instruments with the Massachusetts Health and Educational Facilities Authority (HEFA).

The first debt instrument was a 30-year loan in the amount of \$6,075,000, with an effective interest rate of 5.90%. The installment loan was payable through April 2028. Funds for the loan were raised by HEFA through the sale of Authority Revenue Bonds. During the year ended June 30, 2009, the outstanding balance of \$4,390,000 was repaid in full using the proceeds of the loan's respective fund accounts and a new debt instrument entered into with HEFA. The funds required under this debt instrument were closed as of June 30, 2009 with the defeasement of the debt.

The second debt instrument is a 30-year loan in the amount of \$3,940,000, with a floating interest rate equal to the USD-Bond Market Association Swap Index Rate. The floating rate was 3.00% at June 30, 2009. The installment loan is payable through April 2037. Funds for the loan were raised by HEFA through the sale of Variable Rate Demand Revenue Bonds. As of June 30, 2009, the unpaid principal balance totaled \$3,546,061. The Agency has entered into an interest rate swap agreement to reduce their exposure to interest rate fluctuations on this debt instrument. See Note 8b for details.

During the year ended June 30, 2009 the Agency entered into two additional debt instruments with HEFA.

The third debt instrument is a 30-year loan in the amount of \$3,500,000, with a floating interest rate equal to the Wall Street Journal Prime Rate, less .5%, during initial construction. The floating rate was 2.75% at June 30, 2009. The installment loan is payable through June 2039. Funds for the loan were raised by HEFA through the sale of Authority Revenue Bonds. As of June 30, 2009, the Agency has drawn down \$110,506 of the total loan amount. The Agency is only required to make interest payments on the loan until the construction period has been completed at which time the rate will be fixed according to the terms of the agreement.

The fourth 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. Funds for the loan were raised by HEFA through the sale of Authority Revenue Bonds. As of June 30, 2009, the unpaid principal balance totaled \$4,600,000. This loan was predominantly used to repay the principal debt on the \$6,075,000 instrument.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

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

Flagship Bank and Trust Company acts as trustee for the second debt instrument, while Cambridge Savings Bank acts as trustee on the third and fourth 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 2009.

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

Debt Service Principal Fund - The Agency is required to make the annual principal payment to the Debt Service Principal Fund through maturity, April 2037. The Trustee will remit the annual principal payment from the Debt Service Principal Fund to the bondholders on June 15<sup>th</sup> of each year. The account will receive a portion on interest earned on the Project/Commitment Fund and the Debt Service Reserve 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 at June 30, 2009.

Debt Service Reserve Fund - The Agency was required to make an initial deposit of \$39,400 from HEFA bond proceeds into a Debt Service Reserve Fund to be used to make payments should the Agency become unable to meet their debt service payment requirements. Interest earned on the account is transferred to the Debt Service Interest, Expense and/or Rebate Funds. The Debt Service Reserve Fund balance was \$35,461 as of June 30, 2009 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 Project/Commitment and Debt Service Reserve 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 \$11,275 as of June 30, 2009.

Project/ Commitment Fund - The Agency made an initial deposit of \$661,200, from the HEFA bond proceeds into a Project/Commitment Fund. Withdrawals from this account can only be made with the approval of Flagship Bank and Trust Company in accordance with the agreement. The Agency made approved withdrawals of \$428,295 for the purchase of fixed assets and improvements during 2009. Interest earned on the account is transferred to the Debt Service Interest, Expense and/or Rebate Funds. The Project/Commitment Fund balance was \$60,370 as of June 30, 2009.

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

Notes to Financial Statements

June 30, 2009

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

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

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 Rebate Fund balance was \$437 as of June 30, 2009.

Expense Fund - The Expense Fund was established to receive monthly payment amounts for payment of certain program expenses. These expenses include the annual fees and draw fees for the letter of credit, remarketing agent, paying agent, trustee, and program administrator, bond counsel, the rebate agent and any other consultants of HEFA. Earnings in this account shall remain in this account. The Expense Fund balance was \$13,807 as of June 30, 2009.

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

Project Fund - The Agency made an initial deposit of \$70,202, from the HEFA bond proceeds into a Project Fund. Withdrawals from this account can only be made with the approval of Cambridge Savings Bank in accordance with the agreement. The Agency made approved withdrawals of \$70,202 for the payment of bond issuance and construction costs. The Project Fund balance was zero as of June 30, 2009.

Bond Fund - The Bond Fund is held in trust and shall be applied by the Trustee for the purpose of paying any outstanding amounts on the HEFA debt. The Agency had no liability to fund this account as of June 30, 2009.

Expense Fund - The Agency made an initial deposit of \$40,304, from the HEFA bond proceeds into an Expense Fund. This account is to be solely used to hold the necessary funds to pay bond issuance costs. Funds deposited into this account cannot exceed \$70,000 in the aggregate. The Agency made approved withdrawals of \$13,827 for the payment of bond issuance costs. The Expense Fund balance was \$26,477 as of June 30, 2009.

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

Project Fund - The Agency made an initial deposit of \$797,821, from the HEFA bond proceeds into a Project Fund. This account is to be used for capital improvements for the Agency. Withdrawals from this account can only be made with the approval of Cambridge Savings Bank in accordance with the agreement. The Agency made approved withdrawals of \$8,518 for the payment of bond issuance costs. The Project Fund balance was \$789,303 as of June 30, 2009.

Bond Fund - The Bond Fund is held in trust and shall be applied by the Trustee for the purpose of paying any outstanding amounts on the HEFA debt. The Agency had no liability to fund this account as of June 30, 2009.

Expense Fund - The Agency made an initial deposit of \$79,995, from the HEFA bond proceeds into an Expense Fund. This account is to be solely used to hold the necessary funds to pay bond issuance costs. The Agency made approved withdrawals of \$18,173 for the payment of bond issuance costs. The Expense Fund balance was \$61,822 as of June 30, 2009.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

In a prior year, the Agency 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 was fixed at 4.19% with respect to the specified amounts of notional principal. The interest rate swap was a completely effective hedge in mitigating the market risk of significant changes in the floating interest rate of the associated indebtedness. The interest rate swap agreement was to be in effect through April 2037.

In 2009, the Agency entered into a new interest rate swap agreement with Citizens Bank which replaced the prior agreement. Under this agreement, the interest rate is fixed at 3.65% with respect to the specified amounts of notional principal, however, the variable rate index used on the swap agreement and debt are different. At June 30, 2009, the Agency held floating rate debt of \$3,546,061, while the notional amount of the swap is \$3,770,580. The interest rate swap agreement is to be in effect through June 2017, while the debt does not mature until April 2037. The interest rate swap is an ineffective hedge in mitigating the market risk of significant changes in the floating interest rate of the associated indebtedness. The interest rate swap is a derivative instrument and as such is accounted for under generally accepted accounting principals for *Accounting for Derivative Instrument and Hedging Activities* (formerly known as SFAS No. 133). 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.

During the year ended June 30, 2009, it came to management's attention that the cumulative effect of the fair market value of the interest swap agreement was determined to be directly material to the financial statements. As a result, management recorded the fair market value of the interest swap agreement and it is included in other liabilities on the statement of financial position. The current year change in fair market value of \$(141,169) was recorded as another change in net assets on the statement of activities. The previously unrecorded beginning fair market value of the swap of \$(186,726) was recorded as an adjustment to beginning net assets.

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

The Agency has two non-interest bearing mortgage notes payable to CEDAC under their Facilities Consolidation Fund program in the original amounts of \$255,000 and \$272,500. These notes are collateralized by real estate located at 466 Washington Ave, Revere, MA, and 91 Winthrop St, Winthrop, MA. All principal is due in June 2036, but may be extended in ten year increments by CEDAC. If gross receipts for the Agency exceed 105% of cash expenditures for any fiscal year, the Agency may have to submit the excess to CEDAC within 45 days after fiscal year end at CEDAC's discretion.

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

Notes to Financial Statements

June 30, 2009

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

**(d) TD Banknorth**

<u>Collateralized by Real Estate</u>	Outstanding Loan Balance at 6/30/09	Monthly Principal Installments	Amortization Period	Balloon Payment After	Interest		Maturity
					Terms	Rate at 6/30/09	
144 Utica St, Quincy, MA	119,866	818	20 yrs	5 yrs	Fixed	5.72%	November 2014*
581 Norfolk St, Mattapan, MA	504,000	3,365	20 yrs	5 yrs	Fixed	5.72%	April 2015*
19 Willers St, West Roxbury, MA	177,600	1,200	20 yrs	10 yrs	Variable	5.00%	November 2011
17-19 Bradston St, Boston, MA	<u>380,420</u>	3,029	20 yrs	5 yrs	Fixed	6.92%	November 2013
	<u>\$ 1,181,886</u>						

\* The original maturity dates for 114 Utica St. and 581 Norfolk St. are November-09 and April-10, respectively. Management intends to use long-term debt instruments to refinance these properties. The anticipated terms of the refinanced debt have been specified above. The refinanced mortgage notes will continue to be collateralized by the respective real estate.

**(e) Cambridge Savings Bank**

<u>Collateralized by Real Estate</u>	Outstanding Loan Balance at 6/30/09	Monthly. Prin. and Interest Installments	Amortization Period	Balloon Payment After	Interest		Maturity
					Terms	Rate at 6/30/09	
26-28 Mill Street, Quincy, MA	\$ 326,222	\$ 2,894	20 yrs	5 yrs	Fixed	6.36%	November 2013
466 Washington Ave, Revere, MA	221,847	1,894	20 yrs	5 yrs	Fixed	5.48%	June 2014
91 Winthrop Street, Winthrop, MA	237,446	2,028	20 yrs	5 yrs	Fixed	5.48%	June 2014
101-105 Victory Rd, Dorchester, MA	641,282	13,612	20 yrs	10 yrs	Variable	7.02%	December 2012
98-100 Cook Ave, Chelsea, MA	482,182	3,638	20 yrs	5 yrs	Fixed	6.36%	November 2013
33 Bourne Street, Middleboro, MA	328,206	2,821	20 yrs	10 yrs	Fixed	7.43%	August 2016
16 Carol Circle, West Roxbury, MA	474,372	4,058	20 yrs	10 yrs	Fixed	6.84%	August 2015
40 Stark Avenue, Revere, MA	354,388	2,673	20 yrs	5 yrs	Fixed	6.36%	November 2013
28 Freeland Street, Mattapan, MA	<u>287,152</u>	2,459	20 yrs	10 yrs	Fixed	7.19%	February 2016
	<u>\$ 3,353,097</u>						
44 Orland Street, Mattapan, MA**	200,000	1,337	20 yrs	5 yrs	Fixed	5.08%	July 2014

\*\* Subsequent to year end, the Agency entered into a new debt covenant on this property. The future maturities on long-term debt for this loan have been included in Note 8f. The principal balance of the loan has not been included on the Statement of Financial Position as of June 30, 2009.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

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

2010	\$	390,271
2011		385,755
2012		534,889
2013		887,766
2014		1,985,663
Thereafter		<u>9,334,706</u>
Total	\$	<u>13,519,050</u>

Interest incurred on all debt amounted to \$724,404 for the year ended June 30, 2009.

### (9) Operating Leases

#### (a) *As Lessor*

The Agency leases programmatic space to other non-profit organizations under leases requiring fixed monthly payments. The leases are accounted for as non-cancelable operating leases that expire through 2014. At June 30, 2009, future minimum receipts under non-cancelable operating leases were as follows:

2010	\$	107,089
2011		46,800
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 generally accepted accounting principals for *Accounting for Leases* (formerly known as SFAS No. 13), 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 \$113,010 as of June 30, 2009. Accrued rent liability is included in other liabilities on the statement of financial position.

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

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

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

### (9) Operating Leases

#### (b) *As Lessee - continued*

Rental expense on property, equipment and vehicles for the year ended June 30, 2009 was as follows:

Property	\$ 2,872,646
Equipment	147,917
Motor vehicles	<u>323,741</u>
Total	\$ <u>3,344,304</u>

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

2010	\$ 2,265,848
2011	1,454,020
2012	1,170,827
2013	935,114
2014	856,266

### (10) Employee Benefits

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

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

During the year ended June 30, 2009, the Agency made premium payments on the employees' life insurance policies totaling \$386,662. No premiums paid into the life insurance plans were surrendered in the fiscal year. The Agency incurred \$14,361 in investment gains that have been netted against salaries and benefits expense on the statement of functional expenses. The Agency is entitled to the lesser of the cash surrender value or the premiums paid on an individual policy. As of June 30, 2009, the Agency's portion of the cash value of the policies under the employee split dollar life insurance plan amounted to \$2,419,440 and is recorded in other assets on the statement of financial position.

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

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

### (10) 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. Bay Cove and Kit Clark make matching contributions equal to 25% of participants' elective contribution not to exceed \$5 per pay period or \$260 per year. Contributions made by Bay Cove and Kit Clark for the year ended June 30, 2009 amounted to \$42,710 and \$4,003, respectively.

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

The Agency has established a 401(a) plan for employees who have ten consecutive years of service. This plan is meant to supplement the 403(b) defined contribution plans. The Agency will contribute 2.5% - 10% of the employee's salary based on length of service. Highly compensated employees, as defined by IRS code section 414(g), and employees who elect to remain in the split dollar life-insurance plan are excluded from participating in this plan. Contributions to the 401(a) plan made by the Agency for the year ended June 30, 2009, amounted to \$261,516.

### (11) Temporarily Restricted Net Assets

Resources with donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time are classified as temporarily restricted net assets. The following details the donor restrictions within particular programs, all of which are included in temporarily restricted net assets as of June 30, 2009:

<u>Program Division</u>	<u>Nature of Restriction</u>	<u>Total</u>
Development	Innovative housing for individuals with multiple disabilities	\$ 50,000
Bay Cove Academy	Training for teachers, support for recreational activities	28,230
Center House	Supported employment for people with developmental disabilities	12,500
Early Intervention	Services for severely handicapped children between the ages of 3 to 5	50,220
Mental Health	Community residences and treatment programs	10,000
Tenancy	Tenancy Prevention Project to prevent homelessness	60,000
Senior Services	Services for the elderly to assist in everyday living	<u>144,422</u>
		\$ <u>355,371</u>

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

Notes to Financial Statements

June 30, 2009

**(12) Related Party Transactions**

**(a) Resource Consortium**

The Agency has a minority interest in the Resource Consortium, LLC (the Consortium). The Chief Operational Officer of the Agency is the President of the Consortium and is also a board member of the Consortium. The Consortium was founded to contract with the Commonwealth of Massachusetts to provide residential services to individuals with developmental disabilities as they are relocated from nursing homes. The Consortium currently has no contracts but is kept active for future social service ventures. The Agency received no fees for services provided to the Consortium for the fiscal year ended June 30, 2009 as the Consortium's residential services contract with the Commonwealth of Massachusetts expired in fiscal year 2003. The carrying value as of June 30, 2009 totaled \$28,033, which approximates the fair value of the investment (see Note 3).

**(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 non-profit 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 also 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 fully collectible.

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	\$ 63,087	\$ 7,689	\$ 10,393	\$ 93,829
HUD II	20,027	2,142	3,024	23,233
HUD III	22,895	2,388	5,064	40,120
Moseley	14,135	1,068	3,024	76,182
Hamilton	22,288	2,303	4,752	1,571
Orchardfield	8,362	1,493	1,512	643
	<u>\$ 150,794</u>	<u>\$ 17,083</u>	<u>\$ 27,769</u>	<u>\$ 235,578</u>

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

Notes to Financial Statements

June 30, 2009

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

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

The following financial information as of and for the year ended June 30, 2009 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	\$ 984,137	\$ 449,224	\$ 590,084	\$ 373,594	\$ 487,090	\$ 412,217
Total Liabilities	1,002,860	304,897	521,986	76,854	82,349	127,619
Net Assets	(18,723)	144,327	68,098	296,740	404,741	284,598
Total Revenue	464,321	143,639	173,334	65,615	91,878	37,601
Total Expenses	362,016	121,748	168,819	84,037	98,606	48,420
Change in Net Assets	102,305	21,891	4,515	(18,422)	(6,728)	(11,219)

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

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

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

The Agency received \$38,560 in contributions from members of its Board of Directors.

# BAY COVE HUMAN SERVICES, INC. AND AFFILIATE

## Notes to Financial Statements

June 30, 2009

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

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

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

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

Massachusetts Department of:  
Public Health  
Education  
Mental Retardation  
Mental Health

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

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

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

During the year ended June 30, 2009, the Agency financed a \$390,000 term loan for leasehold improvements on 17-19 Bradston Street, Boston, MA. During the year ended June 30, 2009, the Agency repaid their \$6,075,000 debt instrument with HEFA which had an outstanding balance of \$4,390,000 by using \$3,722,184 of funds received as a part of the new \$4,600,000 HEFA loan. The Agency also used \$32,000 in new HEFA loans to pay bond issuance costs which are included in other assets on the statement of financial position.

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

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

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

Notes to Financial Statements

June 30, 2009

**(15) Commitments and Contingencies - continued**

During 2009 a civil action was brought against the Agency for a contract dispute with claimed damages of \$184,649. The Agency has denied the allegations in a counterclaim and intends to vigorously contest this claim. Management has determined that the likelihood of an unfavorable outcome to the Agency is reasonably possible.

As of June 30, 2009, the Agency had an outstanding complaint with the Massachusetts Commission Against Discrimination alleging employment discrimination. Management is vigorously contesting the allegations and is of the opinion that the case will be dismissed.

**(16) Schedule of Federal Awards**

Determination of Federal Major Programs was made using a risk based approach. For the fiscal year ended June 30, 2009 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.

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

Many volunteers donated significant amounts of their time under the Agency's senior services nutrition program. The Agency has estimated the value of these services to be \$331,484 for the year ended June 30, 2009. In accordance with the provisions of SFAS No. 116, the estimated value of these services has not been included in the accompanying financial statements.

**(18) Not-for Profit Provider Surplus Revenue Retention**

The Agency has no liability at June 30, 2009 to the Commonwealth of Massachusetts under the Division of Purchased Services "Surplus Revenue Retention Policy", pursuant to 808 CMR 1.19(3). In accordance with this policy, the Agency is allowed to retain an annual net surplus of up to 5% per year of the total revenue attributable to Commonwealth purchasing agencies. The cumulative amount retained may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retained net asset. Such surplus may be retained as unrestricted net assets to further its charitable purposes, provided that no portion of the surplus be used for any non-reimbursable cost set forth in 808 CMR 1.15.

The following is an analysis of the Agency's deficit revenue retention net asset pool included in unrestricted net assets:

	<u>Amount</u>	
Surplus Revenue Retention Balance, June 30, 2008	\$ 4,878,016	
Current Year Surplus (Deficit)	1,023,162	2.33%
Less Amounts Used During the Year	<u>(311,834)</u>	
Surplus Revenue Retention Balance, June 30, 2009	<u>\$ 5,589,344</u>	

The Agency has used \$311,834 of the total surplus revenue retention from prior years to cover losses in state funded cost reimbursement programs in the current year.

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

Schedule of Findings and Questioned Costs

June 30, 2009

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

Financial Statements:

Type of Auditors' Report Issued: Qualified

Internal Control over Financial Reporting:

Material Weakness(es) Identified?  Yes  no

Reportable Condition(s) Identified  
Not Considered to be Material Weaknesses?  Yes  none reported

Noncompliance Material to Financial Statements Noted?  Yes  no

Federal Awards:

Internal Control over Major Programs:

Material Weakness(es) Identified?  Yes  no

Reportable Condition(s) Identified  
Not Considered to be Material Weaknesses?  Yes  none reported

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

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

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

June 30, 2009

### (2) Financial Statement Findings

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

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

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

Cause - Due to a revision of the representative payee system at the Agency, made in an effort to reduce costly client bank fees, the Agency did not complete implementation of internal controls that would monitor client account balances.

Questioned Costs - None

Effect - The Agency did not report client countable asset balances which exceeded SSA limits.

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

Corrective Action Note - It has always been the Agency's policy to ask the Program Staff to put together a spend down plan when a client's SSI account reaches \$1,400. In order to make sure this happens the Agency has also implemented two additional systems. 1) A new accounting system has been instituted which has been approved by both our auditors and Social Security. This system is updated daily for an accurate accounting for Rep Payee and Program Staff of each client's balance. 2) On the 15<sup>th</sup> of each month for each client with a balance in excess of \$2,000, Program Staff will be contacted and required to submit a revised spend down plan by the end of the month and Social Security will be notified by the Rep Payee staff if there is still a balance in excess of \$2,000 by the 10<sup>th</sup> of the following month.

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

No significant deficiencies or material weaknesses reported.

### (4) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.

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Kevin P. Martin & Associates, P.C.

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

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

We have audited the basic financial statements of Bay Cove Human Services, Inc. and Affiliate for the year ended June 30, 2009. That audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Braintree, Massachusetts  
November 10, 2009

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	Federal Expenditures
<b>Major Programs:</b>			
<b>Department of Health and Human Services</b>			
Passed Through Commonwealth of Massachusetts			
Department of Public Health		INTF2303MM3900617053	\$120,365
Department of Public Health		INTF2303MM3900617054	\$160,635
Department of Public Health		234853570180000	\$738,939
Department of Public Health		231853620190000	\$24,697
Department of Public Health		INTF2304MM3810412160	\$89,500
Department of Public Health		230153580830000	\$17,169
Department of Public Health		INTF2354MM3901115014	<u>\$100,000</u>
**Block Grants for Prevention and Treatment of Substance Abuse	93.959		\$1,251,305
<b>Department of Health and Human Services</b>			
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston		17C- 08	<u>\$1,517,992</u>
**Specif: Special Programs for the Aging - Title III, Part C Nutrition Services	93.045		\$1,517,992
<b>Total Major Programs</b>			<b><u>\$2,769,297</u></b>
<b>Non Major Programs:</b>			
<b>Department of Health and Human Services</b>			
Passed Through Commonwealth of Massachusetts			
Department of Mental Health		632070060730000	\$47,342
Department of Mental Health		621050060130000	<u>\$15,464</u>
Block Grants for Community Mental Health Services	93.958		\$62,806
Passed Through Commonwealth of Massachusetts			
Department of Social Services		INTF00000000909FNSS0	<u>\$6,811</u>
Social Services Block Grant: Administration for Children & Families	93.667		\$6,811
Passed Through Commonwealth of Massachusetts			
Public Health AIDS Office		2018227-S	\$48,725
Public Health AIDS Office		2018227-S	<u>\$46,010</u>
HIV Emergency Relief Project Grants	93.914		\$94,735
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston Elder Commission		17-B-07	\$131,867
via City of Boston Elder Commission		17-B-07	<u>\$2,714</u>
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Ce	93.044		\$134,581
Passed Through Commonwealth of Massachusetts			
Executive Office of Elder Affairs			
via City of Boston Elder Commission		17-D-07	<u>\$18,375</u>
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion	93.043		\$18,375
<b>Total - Department of Health and Human Services</b>			<b><u>\$317,308</u></b>
<b>Department of Housing and Urban Development</b>			
Passed Through City of Boston			
Department of Neighborhood Development			\$15,000
Department of Neighborhood Development		C-26492-09	\$27,500
Department of Neighborhood Development		C-18091-09	<u>\$126,542</u>
Community Development Block Grants/ Entitlement Grants	14.218		\$169,042
Passed Through City of Boston			
Department of Neighborhood Development		C-26167-09	\$30,419
Department of Neighborhood Development		C-26122-09	<u>\$22,815</u>
Emergency Shelter Grants Program	14.231		\$53,234
Passed Through Commonwealth of Massachusetts			
Department of Housing & Community Development		SCOCD262094500330000	\$61,043
Department of Housing & Community Development		SCOCD262094500250000	<u>\$31,457</u>
Emergency Shelter Grants Program	14.231		\$92,500
Passed Through Commonwealth of Massachusetts			
Department of Mental Health			
Supportive Housing Program	14.235	631050061440000	<u>\$132,154</u>
			\$132,154
Passed Through City of Boston			
Department of Neighborhood Development			
Via Boston Rescue Mission		SUB C - 23306-08	\$7,613
Via Boston Rescue Mission		SUB C - 25803-09	\$18,719
Via Massachusetts Housing & Shelter Alliance		C-24517-08	\$57,263
Via Massachusetts Housing & Shelter Alliance		C-27120-09	\$16,528
Via Homestart, Inc.			<u>\$28,414</u>
Supportive Housing Program	14.235		\$128,537
<b>Total - Department of Housing and Urban Development</b>			<b><u>\$575,467</u></b>

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, 2009

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Passed-through Grantor's Number	Federal Expenditures
<b>Department of Education</b>			
Passed Through Commonwealth of Massachusetts Department of Public Health Department of Public Health Special Education - Grants for Infants and Families with Disabilities	84.181	INTF3601MM3RFR005015 INTF3601MM3RFR005069	\$16,367 \$64,137 <hr/> \$80,504
Passed Through Commonwealth of Massachusetts Massachusetts Rehabilitation Commission Massachusetts Rehabilitation Commission Rehabilitation Services - Vocational Rehabilitation Grant to States	84.126	20075004223000B 20075004223000B	\$48,617 \$39,140 <hr/> \$87,757
Passed Through Commonwealth of Massachusetts Department of Developmental Disabilities Supported Employment Services for Individuals with Severe Disabilities	84.027	926009600717DMR00000	\$28,350 <hr/> \$28,350
Passed Through Commonwealth of Massachusetts Department of Public Health Grants for Infants & Families: Recovery Act	84.393	INTF3601MM3RFR005069	\$53,001 <hr/> \$53,001
<b>Total - Department of Education</b>			<hr/> <b>\$249,612</b>
<b>Department of Labor</b>			
Passed Through Metro North Regional Employment Board Workforce Initiative Act Youth Programs	17.259	A3-01.6.430.7003-977	\$28,738 <hr/> \$28,738
Passed Through City of Boston Department of Neighborhood Development EDIC Workforce Initiative Act Youth Programs	17.259	C-28175-09	\$55,000 <hr/> \$55,000
Passed Through Boston Private Industry Council Disability Employment Policy Development	17.720	237085833	\$7,009 <hr/> \$7,009
Passed Through Massachusetts Veterans Epidemiology Research and Information Center Disabled Veterans Outreach Program	17.801	VA241-P-0971	\$13,440 <hr/> \$13,440
<b>Total - Department of Labor</b>			<hr/> <b>\$104,187</b>
<b>Department of Agriculture</b>			
Passed Through Commonwealth of Massachusetts Department of Education Department of Education Department of Education Department of Education Department of Education Child & Adult Care Food Program	10.558	SCD0E9758GF9N109044 SCD0E9758NF8N109044 SCD0E9758GF9N202044 SCD0E9758NF8N109044 SCD0E9758NF8N202044	\$97,366 \$50,556 \$4,453 \$50,556 \$2,293 <hr/> \$205,224
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs Commodity Supplemental Food Plan	10.565		\$127,026 <hr/> \$127,026
Passed Through Commonwealth of Massachusetts Executive Office of Elder Affairs Senior Farmers Market Nutrition Program	10.576		\$7,125 <hr/> \$7,125
<b>Total - Department of Agriculture</b>			<hr/> <b>\$339,375</b>
<b>Department of Justice</b>			
Passed Through Commonwealth of Massachusetts Department of Public Health Edward Byrne Memorial Formula Grant Program	16.579	INTF3409MM3500209080	\$1,984 <hr/> \$1,984
<b>Total - Department of Justice</b>			<hr/> <b>\$1,984</b>
<b>Total Non Major Programs</b>			<hr/> <b>\$1,587,933</b>
<b>Total Expenditures of Federal Awards</b>			<hr/> <b>\$4,357,230</b>

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

**Note 1: Basis of Presentation**

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

\*\* Major program, see Note 16

**Supplemental Information  
Required by Mortgagor**



Kevin P. Martin & Associates, P.C.

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

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

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (Massachusetts corporations, not-for-profit) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009.

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

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

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

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

Braintree, Massachusetts  
November 10, 2009



Kevin P. Martin & Associates, P.C.

### Report on Compliance with Reimbursement Agreement

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

We have audited the financial statements of Bay Cove Human Services, Inc. and Affiliate (Massachusetts corporations, not-for-profit) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009.

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

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

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

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

Braintree, Massachusetts  
November 10, 2009

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

Schedule of Financial Ratios

June 30, 2009

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

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

**Debt Service Coverage Ratio** as of June 30, 2009:

$$\frac{\text{Excess revenue over expenses} + \text{Depreciation} + \text{Amortization} + \text{Total Interest Expense} - \text{Unfinanced Capital}}{\text{Expenditures}} = \frac{\text{Current Portion of Long-term Debt} + \text{Total Interest Expense}}$$

$$\frac{\$614,933 + \$1,059,171 + \$1,019 + \$724,404 - \$120,949}{\$384,854 + \$724,404} = \mathbf{2.05 \text{ to } 1.00}$$

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

Schedule of Financial Ratios

June 30, 2009

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

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

**Debt Service Coverage Ratio** as of June 30, 2009:

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

$$\frac{\$947,151 + \$1,059,171 + \$1,019 + \$724,404 - \$120,949}{\$384,854 + \$724,404} = \mathbf{2.35 \text{ to } 1.00}$$