

**ITALIAN HOME FOR CHILDREN, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

# ITALIAN HOME FOR CHILDREN, INC.

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JUNE 30, 2012

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**Business Advisors  
Certified Public Accountants**

To the Board of Directors of  
Italian Home for Children, Inc.

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Italian Home for Children, Inc. (a Massachusetts nonprofit Organization) as of June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Organization's June 30, 2011 financial statements and, in our report dated November 7, 2011 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 Italian Home for Children, Inc. as of June 30, 2012 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 13, 2012 on our consideration of Italian Home for Children, Inc.'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.

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*PwC Avento, Ratcliffe, Renzi & Co., LLC*

Franklin, MA  
November 13, 2012

# ITALIAN HOME FOR CHILDREN, INC.

## STATEMENTS OF FINANCIAL POSITION - JUNE 30, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 840,292	\$ 1,085,018
U.S. Treasury Bills	215,781	215,759
Accounts receivable (less allowance for doubtful accounts of \$15,000 in 2012 and 2011)	968,413	1,077,869
Promises to give	120,375	38,000
Prepaid expenses and other assets	271,965	242,622
	<u>2,416,826</u>	<u>2,659,268</u>
<b>ENDOWMENT INVESTMENTS:</b>		
Cash and cash equivalents	209,235	248,099
Investments	1,441,721	1,405,665
	<u>1,650,956</u>	<u>1,653,764</u>
<b>OTHER ASSETS:</b>		
Board-designated long-term investments	4,443,990	4,229,176
Land, property and equipment, at cost less accumulated depreciation	2,956,237	3,127,430
Other assets	93,654	99,840
	<u>7,493,881</u>	<u>7,456,446</u>
<b>Total assets</b>	<b>\$ 11,561,663</b>	<b>\$ 11,769,478</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 50,506	\$ 47,690
Accounts payable	176,869	158,789
Accrued expenses	464,385	416,560
Postretirement benefit obligation	93,654	99,840
	<u>785,414</u>	<u>722,879</u>
<b>LONG-TERM DEBT</b>	<u>510,590</u>	<u>559,920</u>
<b>NET ASSETS:</b>		
Unrestricted	8,046,025	7,223,963
Temporarily restricted	442,615	1,459,342
Permanently restricted	1,777,019	1,803,374
	<u>10,265,659</u>	<u>10,486,679</u>
<b>Total liabilities and net assets</b>	<b>\$ 11,561,663</b>	<b>\$ 11,769,478</b>

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

# ITALIAN HOME FOR CHILDREN, INC.

## STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012			TOTAL	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	2011
Public support and revenue:					
Public support:					
Contributions	\$ 713,202	\$ 171,707	\$ -	\$ 884,909	\$ 658,408
Bequests	8,890	-	-	8,890	7,026
Special events	985,100	214,375	-	1,199,475	1,235,098
Total public support	1,707,192	386,082	-	2,093,274	1,900,532
Revenue:					
Program service fees	8,934,707	19,030	-	8,953,737	10,015,556
School lunch program	84,977	-	-	84,977	97,996
Specific assistance revenue	28,304	-	-	28,304	36,165
Gifts in-kind	7,281	-	-	7,281	8,543
Investment income	221,590	71,888	-	293,478	102,505
Total revenue	9,276,859	90,918	-	9,367,777	10,260,765
Net assets released from restrictions:					
Satisfaction of usage restrictions	57,664	(57,664)	-	-	-
Total support and revenue	11,041,715	419,336	-	11,461,051	12,161,297
Expenses:					
Program services	9,661,277	-	-	9,661,277	10,082,350
Supporting services:					
Management and general	899,429	-	-	899,429	903,938
Fundraising	1,040,284	-	-	1,040,284	926,698
Total supporting services	1,939,713	-	-	1,939,713	1,830,636
Total expenses	11,600,990	-	-	11,600,990	11,912,986
Increase (decrease) in net assets from operations	(559,275)	419,336	-	(139,939)	248,311
Other income (expense):					
Other Income	26,509	-	-	26,509	27,091
Realized gain on investment transactions	14,178	-	4,599	18,777	922,394
Unrealized gain (loss) on investments	(95,413)	-	(30,954)	(126,367)	26,598
Total other income (expense)	(54,726)	-	(26,355)	(81,081)	976,083
Increase (decrease) in net assets	(614,001)	419,336	(26,355)	\$ (221,020)	\$ 1,224,394
Net assets, beginning of year	7,223,963	1,459,342	1,803,374		
Reclassification (Note 17)	1,436,063	(1,436,063)	-		
Net assets, end of year	\$ 8,046,025	\$ 442,615	\$ 1,777,019		

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

# ITALIAN HOME FOR CHILDREN, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012				Total Expenses	
	Program Services	Supporting Services			2012	2011
		Management and General	Fund Raising	Total		
Salaries	\$ 6,330,154	\$ 522,081	\$ 281,394	\$ 803,475	\$ 7,133,629	\$ 7,410,230
Payroll taxes and fringe benefits	1,314,765	108,434	58,445	166,879	1,481,644	1,526,162
<b>Total salaries and related expenses</b>	<b>7,644,919</b>	<b>630,515</b>	<b>339,839</b>	<b>970,354</b>	<b>8,615,273</b>	<b>8,936,392</b>
Advertising	663	76	275	351	1,014	726
Special events expense	-	-	536,000	536,000	536,000	329,179
Public relations	-	-	45,763	45,763	45,763	58,790
Direct mail costs	-	-	63,089	63,089	63,089	64,934
Professional fees	425,175	50,883	29,790	80,673	505,848	576,520
Investment advisory fees	-	50,776	-	50,776	50,776	13,133
Postage	3,032	772	5,719	6,491	9,523	10,131
Telephone	15,676	566	111	677	16,353	37,957
General supplies	57,203	19,797	2,905	22,702	79,905	102,637
Instructional and recreational supplies	38,418	-	-	-	38,418	45,248
Building occupancy costs	538,732	19,536	6,265	25,801	564,533	594,102
Motor vehicle expenses	182,350	7,043	2,285	9,328	191,678	174,302
Staff development	34,871	449	4,445	4,894	39,765	41,964
Staff functions	1,579	4,005	-	4,005	5,584	7,930
Specific assistance	68,864	-	-	-	68,864	79,322
Food and food service	371,372	-	-	-	371,372	389,591
Interest	33,931	681	261	942	34,873	43,740
Payroll service	21,315	2,231	900	3,131	24,446	25,561
Temporary personnel	26,169	9,579	-	9,579	35,748	35,954
Dues and subscriptions	1,119	32,422	1,684	34,106	35,225	29,331
Bad debts	-	2,156	-	2,156	2,156	12,482
Other taxes	-	3,063	-	3,063	3,063	532
Other charges	-	10,806	-	10,806	10,806	18,182
<b>Total expenses before depreciation</b>	<b>9,465,388</b>	<b>845,356</b>	<b>1,039,331</b>	<b>1,884,687</b>	<b>11,350,075</b>	<b>11,628,640</b>
Depreciation of property and equipment	195,889	54,073	953	55,026	250,915	284,346
<b>Total expenses</b>	<b>\$ 9,661,277</b>	<b>\$ 899,429</b>	<b>\$ 1,040,284</b>	<b>\$ 1,939,713</b>	<b>\$ 11,600,990</b>	<b>\$ 11,912,986</b>

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

# ITALIAN HOME FOR CHILDREN, INC.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	<u>\$ (221,020)</u>	<u>\$ 1,224,394</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	250,915	284,346
Unrealized (gain) loss on investments	126,367	(26,598)
Realized (gain) loss on investments	(18,777)	(922,394)
Changes in operating assets and liabilities:		
Accounts receivable	109,456	142,622
Promises to give	(82,375)	(18,000)
Prepaid expenses and other assets	(29,343)	8,600
Other assets	6,186	(17,755)
Accounts payable	18,080	(50,654)
Accrued expenses	47,825	(306,657)
Postretirement benefit obligation	(6,186)	17,755
Total adjustments	<u>422,148</u>	<u>(888,735)</u>
Net cash provided by operating activities	<u>201,128</u>	<u>335,659</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of securities	4,190,161	8,948,067
Purchase of securities	(4,511,759)	(9,893,375)
Investment in U.S. Treasury Bills	(22)	(38)
Purchase of property and equipment	(77,720)	(139,980)
Net cash used for investing activities	<u>(399,340)</u>	<u>(1,085,326)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of amounts borrowed	(46,514)	(30,580)
Net cash used for financing activities	<u>(46,514)</u>	<u>(30,580)</u>
NET DECREASE IN CASH	(244,726)	(780,247)
CASH AT BEGINNING OF YEAR	<u>1,085,018</u>	<u>1,865,265</u>
CASH AT END OF YEAR	<u>\$ 840,292</u>	<u>\$ 1,085,018</u>

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

# ITALIAN HOME FOR CHILDREN, INC.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		2011
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for -			
Interest	\$ 34,871	\$	40,770
Taxes	3,063		532

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



# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (1) NATURE OF ACTIVITIES

The Italian Home for Children, Inc. was organized to provide housing, education and counseling for children in eastern Massachusetts. The Organization is funded substantially by state and local agencies, and such reimbursements are supplemented by public contributions. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from Massachusetts income taxes.

#### *(a) Description of Programs*

*Long-term Residential Treatment* – The Organization is committed to providing comprehensive services within its means to emotionally disturbed boys and girls of all races between the ages of 4 and 13 years. It is the intention of the Organization to provide services that will lead to a child's reintegration to family and community or placement in a permanent alternative family. Children are referred to this program by the Department of Children and Families. The program is primarily funded by the Department of Children and Families and responsible cities and towns.

*Community Based Acute Treatment (CBAT)* – The Organization provides emergency shelter services to emotionally disturbed boys and girls in immediate psychiatric crisis. The goal of the program is to stabilize children in hospital diversion, provide a safe, structured environment for them while long-term needs are being assessed. The program is funded mostly by Medicaid and private insurance companies.

*Day School* – The Organization provides special educational services for children between the ages of 4 and 13. The Organization's staff works to instill in the children the value of education and the importance of academic achievement and motivation. This is accomplished through a highly structured educational environment that includes individual group instruction; reading, speech and occupational therapy; and diagnostic evaluations. The program is primarily funded by local educational authorities.

*Cranwood Stabilization, Assessment and Rapid Reintegration Program (STARR)* - To support children and families who require a temporary out-of-home experience that will enable families to be reunited as quickly as possible without interruption to the child's educational placement and/or any other involvement in his or her community.

*Cranwood Behavioral Treatment Residence (BTR)* - To provide comprehensive services to children with serious emotional, developmental, cognitive, and behavioral disorders who are temporarily unable to live in a family setting but who are able to attend public school.

*Jamaica Plain Behavioral Treatment Residence (BTR)* - To provide comprehensive services to children with serious emotional, developmental, cognitive, and behavioral disorders who are temporarily unable to live in a family setting but who are able to attend public school.

*Therapeutic After-School Program* - To serve families in the Boston Region whose children may be returning from out-of-home placements, children at risk for disrupting placements at school and/or home and families and children who need assistance in building their capacity to utilize community supports. It provides highly structured activities to children for whom a traditional, less structured after school program may not be appropriate.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) NATURE OF ACTIVITIES (continued)

*(a) Description of Programs (continued)*

*School Vacation/Summer Camp Program* - Provides daily, weekly and monthly routines, as well as time for celebrations and special events. The established routine allows for flexibility where students choose activities, explore their interests, establish friendships and relax. Time is available for children to "check-in" with staff to talk about their day and address any specific needs or stressors they are experiencing. Academic enrichment is provided throughout the year.

*In Home Therapy* - In home therapy provides intensive, family-based treatment, with the goal of treating the child's mental health needs and promoting healthy functioning of the child within the context of the family. This service is provided by a MA-level therapist and trained paraprofessional who work in the family home in their respective communities.

*Therapeutic Mentoring* - Therapeutic mentoring is a structured, one-on-one, mentoring relationship between a therapeutic mentor and a youth that serves to address daily living, social and communication needs. Goals are mutually set to support social functioning in the home, school or social settings in the children's respective communities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations. A portion of the unrestricted net assets attributable to revenue received from Commonwealth of Massachusetts purchasing agencies has been determined to be deficit revenue in accordance with Commonwealth of Massachusetts regulations (Note 15).

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the 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 (Note 12).

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(b) Fair Values of Financial Instruments*

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term unconditional promises to give, and note payable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Short-term and endowment investments: The fair values of investments are based on quoted market prices.

#### *(c) Contributions and Pledges Receivable*

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine non-collectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

#### *(d) Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *(e) Property and Equipment*

Property and equipment are recorded at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Depreciation is provided using the straight-line and declining balance methods over estimated useful lives as follows:

	Estimated Useful Life
Buildings and improvements	10 – 40 years
Furniture and equipment	3 – 10 years
Residential furnishings	3 – 7 years
Program acquisition costs	5 years
Motor vehicles	5 years

Major additions and improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(f) Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows exclude permanently restricted cash and cash equivalents.

#### *(g) Accounts Receivable*

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

#### *(h) Credit Risk*

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of temporary cash investments and trade receivables. The Organization has placed its temporary cash investments with several high quality financial institutions. On occasion account balances will exceed the FDIC insured limit. Concentration of credit risk with respect to trade receivables is due to the fact that the Organization conducts most of its business with the Commonwealth of Massachusetts. The Organization's deposits at local banks exceeded the FDIC insured limit of \$250,000 in 2012 by \$275,327 and in 2011 by \$495,812 and it had a receivable balance of approximately \$223,000 in 2012 and \$271,299 in 2011 due from the Commonwealth of Massachusetts.

#### *(i) In-Kind Contributions*

Members of the community contribute produce and other commodities to the Organization on a regular basis. These donations are not included in the financial statements as there is no reasonable basis for measuring their value.

#### *(j) Investment Pools*

The Organization maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Under accounting principles generally accepted in the United States of America, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at market value on the Statement of Financial Position. Both realized and unrealized gains and losses are included in the change in net assets reported on the Statement of Activities. Realized gains and losses on the sale or other disposition of investments are determined on the basis of average cost.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported on the Statement of Financial Position.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(k) Functional Expenses*

Functional expenses have been allocated between program services and supporting services based on analysis of personnel time and space utilized for the related activities.

#### *(l) Unemployment Compensation*

The Organization has elected to finance the benefit costs of unemployment compensation by reimbursing the Commonwealth of Massachusetts for unemployment compensation paid. The election was made under the "Unemployment Compensation Amendments of 1976" (Public Law 94-566). As of June 30, 2012, the Organization's exposure to claims cannot be reasonably estimated, but is not considered to be material for financial statement purposes.

#### *(m) Comparative Financial Information*

The financial statements include certain prior year summarized comparative information in total, though not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

#### *(n) Reclassifications*

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

#### *(o) Uncertain Tax Positions*

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken, and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

### (3) RESTRICTED CASH

Cash includes \$49,371 in 2012 and \$49,306 in 2011 which has been restricted by donors to certain fundraising events and capital improvements. In accordance with the Organization's policies, separate bank accounts are maintained for restricted cash.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(4) PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30:

	<b>2012</b>	<b>2011</b>
Temporarily restricted for special event	\$102,375	\$10,000
Temporarily restricted for driveway renovations	18,000	20,000
Temporarily restricted for golf tournament	-	8,000
Permanently restricted	<u>50,000</u>	<u>50,000</u>
Gross unconditional promises to give		
due in less than one year	170,375	88,000
Less - allowances for uncollectible promises	<u>(50,000)</u>	<u>(50,000)</u>
Net unconditional promises to give	<u>\$120,375</u>	<u>\$38,000</u>

Allowance for uncollectible promises are based upon management's estimates of the amount of the pledge that will actually be collected.

(5) INVESTMENTS

Investments as of June 30, 2012 and unrealized gain (loss) as of June 30, 2012 and 2011 are summarized as follows:

	<b>2012</b>		<b>2011</b>
	<b>Cost</b>	<b>Market Value</b>	<b>Unrealized Loss</b>
Unrestricted net assets, Board-designated long-term investments	<u>\$4,529,675</u>	<u>\$4,443,990</u>	<u>\$(85,685)</u>
Permanently restricted net assets, endowment investments	<u>\$1,469,519</u>	<u>\$1,441,721</u>	<u>\$(27,798)</u>
			<u>\$6,635</u>

(6) LAND, PROPERTY AND EQUIPMENT

Investments in property and equipment consist of the following at June 30:

	<b>2012</b>	<b>2011</b>
Land	\$ 199,668	\$ 199,668
Buildings and improvements	6,555,121	6,524,257
Furniture and equipment	528,011	512,131
Residential furnishings	145,296	112,325
Program acquisition costs	750,727	750,727
Motor vehicles	<u>90,147</u>	<u>90,147</u>
	8,268,970	8,189,255
Less - Accumulated depreciation	<u>5,312,733</u>	<u>5,061,825</u>
	<u>\$2,956,237</u>	<u>\$3,127,430</u>

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(7) LONG-TERM DEBT

Outstanding debt as of June 30, 2012 and 2011 is as follows:

	2012	2011
Mortgage loan payable to Century Bank, fixed interest rate – 5.75%, secured by all business assets, payable in monthly installments to April 1, 2021	<u>\$561,096</u>	<u>\$607,610</u>
Less – Current portion	<u>(50,506)</u>	<u>(47,690)</u>
	<u>\$510,590</u>	<u>\$559,920</u>

The aggregate annual maturities of long-term debt for the next five years are as follows:

Year Ending June 30,	Annual Maturities
2013	\$ 50,506
2014	53,488
2015	56,646
2016	59,990
2017	63,532
Thereafter	<u>276,934</u>
	<u>\$ 561,096</u>

(8) DEMAND NOTE PAYABLE TO BANK

The Organization maintains a \$1,500,000 line-of-credit arrangement with a bank to provide for fluctuations in cash flow. Amounts borrowed on the line bear interest at the prime rate and are secured by all the business assets. There was no outstanding balance as of June 30, 2012 and 2011.

(9) RETIREMENT PLAN

The Organization has a defined contribution pension plan for the benefit of its employees. The employer contribution to the plan is a discretionary amount set yearly by the Board of Directors based on a matching of employee contributions of up to 10% of compensation. The employer contribution amounted to \$0 in both 2012 and 2011.

On March 7, 2005 the executive committee of the board of directors voted to create a nonqualified deferred compensation plan (457(b) Plan) and a "rabbi trust" for the executive director. The contributions are made through TIAA-CREF. The Organization holds assets totaling \$93,654 and \$99,840 as of June 30, 2012 and 2011, respectively, which are included in other assets and postretirement benefit obligations in the accompanying statement of financial position. The assets are subject to the claims of general creditors. The investments of the trust are held in separate accounts for investment purposes, but are designated by the Board for use to satisfy this postretirement benefit obligation.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (10) RELATED PARTIES

Three members of the Italian Home for Children, Inc.'s board of directors also serve as trustees of the Massimino Cataldo Fund.

On July 1, 2000, the Organization entered into a joint venture agreement ("the Agreement") with George H. and Irene L. Walker Home for Children, Inc. ("the Walker Home") and Family and Community Solutions, Inc. ("FCS") formerly known as Brighton-Allston Mental Health Association, Inc.. The Organization's executive director and the executive director of FCS are married. The affiliation with FCS creates a capacity in the agency to provide a broader range of services that was not previously possible. Pursuant to the agreement, the Organization and the Walker Home ("the Participants") have done the following (Note 16):

1. The Participants have become the majority board members of FCS by electing members from each Participant's board of directors, and executive directors from each Organization to the board of directors of FCS.
2. In addition to the Agreement, the Participants have entered into contracts with FCS to provide clinical services to clients of the Participants. For the fiscal years ended June 30, 2012 and 2011, FCS provided approximately \$396,112 and \$462,568 of services respectively to the Italian Home for Children, Inc. at an agreed upon rate.
3. During the years ended June 30, 2012 and 2011, the Organization agreed to assist FCS in its fundraising efforts. As part of these efforts, the Organization raised approximately \$100,000 on behalf of FCS for each of the years ended June 30, 2012 and 2011, respectively.
4. The Organization partnered with FCS to provide therapeutic services during the years ended June 30, 2012 and 2011. The Organization's share of billing under this arrangement was \$369,449 and \$230,077 for the years ended June 30, 2012 and 2011, respectively.

### (11) ENDOWMENT FUNDS

The Organization follows the provisions of accounting principles generally accepted in the United States of America regarding the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to enacted versions of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and disclosures about an organization's donor-restricted and board designated endowment funds.

The Organization's endowment consists of funds that have been restricted by donors to be maintained in perpetuity. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law Regarding Net Asset Classification and Appropriation*

Management has interpreted applicable Massachusetts law as requiring the preservation of the fair value of the original gift as of the gift date ("historic dollar value") of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets the historic dollar value of gifts donated to the permanent endowment. Any unspent investment income and cumulative appreciation (net unrealized and realized gains and (losses)) are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Massachusetts law at which time the gains are reclassified to unrestricted net assets.



# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (11) ENDOWMENT FUNDS (Continued)

Subject to the intent of the donor expressed in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the organization. In making a determination to appropriate or accumulate, the Organization considers the following factors:

1. The duration and preservation of the endowment fund;
2. The purposes of the Organization and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Organization; and
7. The investment policy of the Organization.

#### *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are to be reported as reductions in unrestricted net assets. There were no such deficiencies as of June 30, 2012.

#### *Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment. Under this approach, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks while assuming a low level of investment risk.

#### *Strategies Employed for Achieving Objectives*

To satisfy its objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividend). The Organization targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Organization's investment and spending policies have been designed to limit the exposure of the endowment assets while providing for growth through new gifts and investment return. Evaluation of progress toward the investment objective shall be made with a long term perspective.

The Organization's principal portion of investment assets is pooled for investment purposes with each participating class of net assets subscribing to, or disposing of, a percentage of the total principal balance of all pooled investments. Investment return is allocated among the net asset classes based upon this calculated percentage.

### (12) TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2012, temporarily restricted net assets consisted of the following:

Investment income from permanently restricted net assets	\$ 71,888
Temporary contributions with restrictions that have not been satisfied	<u>370,727</u>
Total	<u>\$ 442,615</u>

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (13) LEASE COMMITMENTS

The Organization has entered into long-term vehicle operating leases (expiring through February 2016) which provide for the payment of annual rental and sales taxes.

The following is a schedule, by years, of future minimum rental payments required under the above non-cancelable operating leases:

#### Year Ending June 30,

2013	\$46,584
2014	43,161
2015	17,244
2016	10,059

### (14) FAIR VALUE MEASUREMENTS

The Entity's investments are reported at fair value in the accompanying statement of financial position.

<u>June 30, 2012</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Mutual funds	\$5,885,711	\$5,885,711
Money market funds	<u>209,235</u>	<u>209,235</u>
Total	<u>\$6,094,946</u>	<u>\$6,094,946</u>

SFAS No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

#### *Level 1 Fair Value Measurements*

The fair value of mutual funds is based on quoted net asset values of the shares held by the Plan at year-end.

# ITALIAN HOME FOR CHILDREN, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### (15) UNRESTRICTED NET ASSETS

Included in unrestricted net assets is the surplus revenue retention fund pool as calculated according to the Commonwealth of Massachusetts Department of Procurement and General Services' policy dated August 31, 1994 per 808 CMR 1.19(3). The fund commencement date is retroactive to July 1, 1992. Increases (decreases) in the fund accumulate on an annual basis. The fund balance as of June 30, 2012 is estimated to be as follows:

Year Ended June 30:	
1993 – 2007	\$ (9,386,879)
2008	(1,379,638)
2009	(730,664)
2010	(827,877)
2011	(1,046,455)
2012	<u>(1,695,357)</u>
	<u><u>\$(15,066,870)</u></u>

Fund changes are based on modified Commonwealth of Massachusetts net revenues (deficits) at the end of a fiscal year. The current year's surplus (deficit) and cumulative balance are within the limits allowed to be retained under the formula.

### (16) CONCENTRATIONS AND CONTINGENCIES

The Organization is economically dependent on program service contracts negotiated with the Commonwealth of Massachusetts for a majority of its revenues. Contract revenues from the Commonwealth of Massachusetts totaled 31.3% of total revenues in 2012 and 33.8% of total revenues for fiscal year 2011. Formal contracts with the Commonwealth are in existence through March 31, 2013.

In accordance with the terms of its contracts with the Commonwealth of Massachusetts, the records of the Organization are subject to audit. Therefore, the Organization is contingently liable for any disallowed costs. Management believes that any adjustments that might result from such an audit would be immaterial.

### (17) RECLASSIFICATION

Prior period board designated investment income originally allocated to temporarily restricted net assets is being reclassified to unrestricted net assets. In accordance with the Organization's investment policy, board designated investment income **does** not carry a donor restriction and may be used to fund current operations.

### (18) SUBSEQUENT EVENTS

Subsequent events were evaluated through November 13, 2012, which is the date the financial statements were available to be issued.

On July 31, 2012 the joint venture agreement with George H. and Irene L. Walker Home for Children, Inc. (Walker) was terminated and Family and Community Solutions, Inc. merged with the Organization. In accordance with the termination agreement both Italian Home and Walker shared any deficit from the termination equally. The Organizations share of the termination settlement is estimated to be \$175,000. In August 2012 the executive director of Family and Community Solutions became the deputy director of Italian Home for Children, Inc.

**ITALIAN HOME FOR CHILDREN, INC.**

INDEPENDENT AUDITORS' REPORTS PURSUANT TO GOVERNMENT AUDITING STANDARDS  
FOR THE YEAR ENDED JUNE 30, 2012



**Business Advisors  
Certified Public Accountants**

**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  
Italian Home for Children, Inc.*

We have audited the financial statements of the Italian Home for Children, Inc. (a Massachusetts nonprofit Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 13, 2012. 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

Management of Italian Home for Children, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Italian Home for Children, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Italian Home for Children, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Italian Home for Children, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, others within the Organization 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.

*Pavento, Ratcliffe, Renzi & Co., LLC*

Franklin, MA  
November 13, 2012



**Business Advisors  
Certified Public Accountants**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

*To the Board of Directors of  
the Italian Home for Children, Inc.*

Compliance

We have audited Italian Home for Children, Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Italian Home for Children, Inc.'s major federal programs for the year ended June 30, 2012. Italian Home for Children, Inc.'s major federal programs are identified in the summary of auditor's 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 Italian Home for Children, Inc.'s management. Our responsibility is to express an opinion on Italian Home for Children, Inc.'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 Italian Home for Children, Inc.'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 Italian Home for Children, Inc.'s compliance with those requirements.

In our opinion, Italian Home for Children, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Italian Home for Children, Inc. 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 Italian Home for Children, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Italian Home for Children, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Italian Home for Children, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Italian Home for Children, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of the audit committee, management, Board of Directors, others within the Organization 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.

*Raventz, Rattloff, Kenji & Co., LLC*

Franklin, MA  
November 13, 2012

**ITALIAN HOME FOR CHILDREN, INC.**

**SCHEDULE OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Agency Pass-Through Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services:</b>			
Pass-through from State Department of Human Services:			
Massachusetts Department of Education - National School Lunch, Breakfast and Special Milk Programs - Breakfast	SCDOE12758N70532112A	10.555	\$ 57,392
Massachusetts Department of Education - National School Lunch, Breakfast and Special Milk Programs - Lunch	SCDOE12758T70532112A	10.555	<u>19,766</u>
			<u>77,158</u>
The Commonwealth of Massachusetts Executive Office of Health and Human Services - Department of Social Services	INTF 0000000051219890	93.558	1,643
	INTF 00000000912FNGRP	93.667	260,079
	INTF 00000000912FNGRP	93.558	281,407
	NTF 00000000912FNRES	93.667	81,979
	INTF 00000000912FNRES	93.558	88,701
	INTF 00000000912FNSSO	93.667	14,634
	INTF 00000000912STARR	93.558	959
	INTF 00000000912STARR	93.667	886
	INTF 0000000092012RES	93.667	226
	INTF 0000000092012SPP	93.558	315
	INTF 0000000092012SPP	93.667	<u>291</u>
			<u>731,120</u>
Total Federal Assistance			<u>\$ 808,278</u>

Notes to the Schedule of Federal Awards

Method of Accounting - The schedule of federal awards was prepared based upon the cash basis of accounting.

Major Programs - Type A programs for financial statement purposes are programs with total federal funds in excess of \$300,000.



See Accountant's Report  
ITALIAN HOME FOR CHILDREN, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified  
Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_yes Xno  
Significant deficiencies identified that are  
not considered to be material weakness(es)? \_\_\_yes Xnone reported

Noncompliance material to financial  
statements noted? \_\_\_yes Xno

Federal Awards

Internal control over major programs:  
Material weakness(es) identified? \_\_\_yes Xno  
Significant deficiencies identified that are  
not considered to be material weakness(es)? \_\_\_yes Xnone reported

Type of auditor's report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with section 501(a)  
of Circular A-133? \_\_\_yes Xno

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
93.667	The Commonwealth of Massachusetts Executive Office of Health and Human Services Department of Social Services
93.558	The Commonwealth of Massachusetts Executive Office of Health and Human Services Department of Social Services

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: Xyes \_\_\_no

Section II – Financial Statement Findings

No matters were reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported

Federal Grantor/ Pass-through Number	Agency Pass-Through CFDA #	Program Title
U.S. Department of Health and Human Services:		
Pass-through from State Department of Human Services:		
Massachusetts Department of Education - National School Lunch, Breakfast and Special Milk Programs - Breakfast	SCDOE12758N70532112A	10.555
Massachusetts Department of Education - National School Lunch, Breakfast and Special Milk Programs - Lunch	SCDOE12758T70532112A	10.555
The Commonwealth of Massachusetts Executive Office of Health and Human Services - Department of Social Services	INTF 0000000051219890 INTF 00000000912FNGRP INTF 00000000912FNGRP INTF 00000000912FNRES INTF 00000000912FNRES INTF 00000000912FNSSO INTF 00000000912STARR INTF 00000000912STARR INTF 0000000092012RES INTF 0000000092012SPP INTF 0000000092012SPP	93.558 93.667 93.558 93.667 93.558 93.667 93.558 93.667 93.667 93.558 93.667