The Home for Little Wanderers

Financial Report
June 30, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
The Home for Little Wanderers
Boston, Massachusetts

We have audited the accompanying statements of financial position of The Home for Little Wanderers as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Home for Little Wanderers' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Home for Little Wanderers as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years 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 October 8, 2009 on our consideration of The Home for Little Wanderers' internal control over financial reporting and 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.

McGladrey & Pullen, LLP

Burlington, Massachusetts
October 8, 2009

The Home for Little Wanderers

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
Current Assets		
Cash and cash equivalents	$ 159,425	$ 165,904
Cash - restricted funds	4,101,524	489,810
Bond escrow deposits	69,839	71,348
Accounts receivable, net (Note 2)	3,152,032	4,010,440
Contributions and grants receivable, net (Note 3)	558,538	807,913
Investment income receivable	69,744	86,495
Investments (Notes 4, 18 and 19)	3,700,000	3,880,000
Prepaid expenses and other current assets (Note 17)	445,410	196,480
Total current assets	12,256,512	9,708,390
Contributions and grants receivable, net (Note 3)	887,530	786,328
Investments (Notes 4, 12, 18 and 19)	54,776,114	74,073,762
Assets held for sale (Note 17)	389,946	-
Bond issuance costs, net (Note 8)	162,762	170,149
Beneficial interest in perpetual trusts (Note 15 and 16)	10,039,865	12,578,938
Property, plant and equipment, net (Note 5)	13,954,991	14,041,233
Total assets	$ 92,467,720	$ 111,358,800

Liabilities and Net Assets		
Current Liabilities		
Line of credit (Note 6)	$ 3,004,650	$ 2,747,471
Current portion of bonds payable (Notes 8 and 12)	310,000	300,000
Accounts payable and accrued expenses (Notes 9, 12, 17 and 18)	4,950,227	4,477,646
Client funds	45,170	78,598
Deferred revenue	180,572	18,269
Total current liabilities	8,490,619	7,621,984
Bonds payable, net of current portion (Notes 8 and 21)	8,317,000	8,627,000
Annuities payable	55,912	51,457
Total liabilities	16,863,531	16,300,441
Commitments and contingencies (Notes 10 and 20)		
Net Assets		
Unrestricted		
General	6,030,062	5,571,625
Board designated	23,818,957	33,464,009
Total unrestricted (Note 18)	29,849,019	39,035,634
Temporarily restricted (Notes 14 and 18)	26,645,411	34,451,601
Permanently restricted (Notes 15 and 18)	19,109,759	21,571,124
Total net assets	75,604,189	95,058,359
Total liabilities and net assets	$ 92,467,720	$ 111,358,800

See Notes to Financial Statements.

The Home for Little Wanderers

Statements of Activities

Years Ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues and Other Support								
Program revenue	$ 31,004,558	$ -	$ -	$ 31,004,558	$ 32,141,746	$ -	$ -	$ 32,141,746
Contributions	4,317,879	590,473	-	4,908,352	4,399,766	679,624	-	5,079,390
In-kind revenue	58,435	-	-	58,435	52,526	-	-	52,526
Other operating revenue (Note 7)	1,849	-	-	1,849	61,737	-	-	61,737
Utilization of board approved spending policy (Note 4)	3,880,000	-	-	3,880,000	3,636,000	-	-	3,636,000
Net assets released from restrictions (Note 13)	939,919	(939,919)	-	-	1,191,049	(1,191,049)	-	-
Total revenues and other support	40,202,640	(349,446)	-	39,853,194	41,482,824	(511,425)	-	40,971,399
Expenses								
Programs	32,454,562	-	-	32,454,562	33,140,717	-	-	33,140,717
Administrative and general	6,428,119	-	-	6,428,119	6,511,922	-	-	6,511,922
Fundraising	1,930,059	-	-	1,930,059	1,807,904	-	-	1,807,904
Total expenses	40,812,740	-	-	40,812,740	41,460,543	-	-	41,460,543
Change in net assets from operations	(610,100)	(349,446)	-	(959,546)	22,281	(511,425)	-	(489,144)
Non-Operating Income (Expense)								
Net losses on investment transactions (Notes 4, 16, and 18)	(8,002,758)	(8,621,609)	(2,539,073)	(19,163,440)	(1,493,542)	(2,294,511)	(1,488,408)	(5,276,461)
Contributions	-	1,696,900	-	1,696,900	-	2,202,210	-	2,202,210
Investment revenue	1,189,761	1,259,626	77,708	2,527,095	2,702,803	-	86,276	2,789,079
Bequests	781,131	1,000,000	-	1,781,131	2,046,087	-	-	2,046,087
Board approved spending policy (Note 4)	(3,880,000)	-	-	(3,880,000)	(3,636,000)	-	-	(3,636,000)
Capital campaign expense	(678,505)	-	-	(678,505)	(654,587)	-	-	(654,587)
Other non-operating revenue (Note 7)	-	-	-	-	736,684	-	-	736,684
Other non-operating expenses	(777,805)	-	-	(777,805)	(917,515)	-	-	(917,515)
Net assets released from restrictions (Note 13)	2,791,661	(2,791,661)	-	-	2,685,295	(2,685,295)	-	-
Total non-operating income (expense)	(8,576,515)	(7,456,744)	(2,461,365)	(18,494,624)	1,469,225	(2,777,596)	(1,402,132)	(2,710,503)
Change in net assets	(9,186,615)	(7,806,190)	(2,461,365)	(19,454,170)	1,491,506	(3,289,021)	(1,402,132)	(3,199,647)
Net Assets at Beginning of Year	39,035,634	34,451,601	21,571,124	95,058,359	37,544,128	37,740,622	22,973,256	98,258,006
Net Assets at End of Year	$ 29,849,019	$ 26,645,411	$ 19,109,759	$ 75,604,189	$ 39,035,634	$ 34,451,601	$ 21,571,124	$ 95,058,359

See Notes to Financial Statements.

The Home for Little Wanderers

Statements of Functional Expenses

Years Ended June 30, 2009 and 2008

	2009				2008			
	Programs	Administrative and General	Fundraising	Totals	Programs	Administrative and General	Fundraising	Totals
Operating Expenses								
Salaries and wages	$ 19,145,599	$ 2,770,853	$ 728,680	$ 22,645,132	$ 19,558,515	$ 2,691,179	$ 631,706	$ 22,881,400
Payroll taxes and employee benefits (Notes 11 and 12)	4,704,189	887,968	175,516	5,767,673	4,274,435	595,062	132,450	5,001,947
Total salaries and related benefits	23,849,788	3,658,821	904,196	28,412,805	23,832,950	3,286,241	764,156	27,883,347
Client expenses	1,656,706	-	-	1,656,706	1,761,283	-	-	1,761,283
Professional fees	359,577	871,208	40,635	1,271,420	524,427	1,166,301	79,800	1,770,528
Rent (Note 10)	720,002	396,288	119,728	1,236,018	799,824	469,173	103,509	1,372,506
Depreciation and amortization (Note 5)	840,510	207,021	36,466	1,083,997	897,625	208,492	41,230	1,147,347
Equipment repairs and replacements	761,602	204,615	63,663	1,029,880	688,154	163,537	40,466	892,157
Food and other program supplies	920,029	38,792	12,083	970,904	947,937	51,988	4,803	1,004,728
Utilities	719,802	182,942	20,379	923,123	796,849	160,544	23,215	980,608
Contracted services	509,700	240,879	21,302	771,881	495,535	202,631	18,666	716,832
Other expenses	242,407	108,996	390,307	741,710	236,605	101,172	431,753	769,530
Interest	351,405	218,308	-	569,713	265,564	351,870	-	617,434
Insurance	452,783	98,601	14,375	565,759	442,465	112,941	12,523	567,929
Subcontracted direct services	562,501	-	-	562,501	744,606	-	-	744,606
Office expense	52,912	165,034	301,368	519,314	74,713	180,217	277,222	532,152
Transportation (Note 10)	450,881	21,006	8,557	480,444	382,171	24,275	5,479	411,925
Advertising	132,870	15,412	-	148,282	142,898	32,540	-	175,438
Bad debts (recoveries)	(128,913)	196	(3,000)	(131,717)	107,111	-	5,082	112,193
Total operating expenses	32,454,562	6,428,119	1,930,059	40,812,740	33,140,717	6,511,922	1,807,904	41,460,543
Non-Operating Expenses								
Other non-operating expenses (recoveries) (Note 4)	-	896,033	(118,228)	777,805	-	593,843	323,672	917,515
Capital campaign expense	-	-	678,505	678,505	-	-	654,587	654,587
Total non-operating expenses	-	896,033	560,277	1,456,310	-	593,843	978,259	1,572,102
Total expenses	$ 32,454,562	$ 7,324,152	$ 2,490,336	$ 42,269,050	$ 33,140,717	$ 7,105,765	$ 2,786,163	$ 43,032,645

See Notes to Financial Statements.

The Home for Little Wanderers

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities and Gains and Losses		
Change in net assets	$ (19,454,170)	$ (3,199,647)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,083,997	1,147,347
Write off of construction costs	550,000	-
Amortization of lease impairment	-	(43,332)
Net gain on write off of lease impairment	-	(736,684)
Amortization of bond acquisition costs	7,387	7,387
Unrealized loss on interest rate swap agreements	93,524	122,626
Loss on disposal of property and equipment	3,159	268,612
Net losses on investment transactions	19,163,440	5,276,461
Change in restricted funds	(3,611,714)	(75,810)
Change in bond escrow deposits	1,509	1,779
Change in accounts receivable	858,408	(613,539)
Change in contributions and grants receivable	148,173	(1,234,431)
Change in investment income receivable	16,751	(59,949)
Change in prepaid expenses and deposits	(248,930)	(1,963)
Change in accounts payable and accrued expenses	379,057	188,262
Change in client funds	(33,428)	10,115
Change in deferred revenue	162,303	(127,185)
Change in annuities payable	4,455	(1,030)
Total adjustments	18,578,091	4,128,666
Net cash provided by (used in) operating activities	(876,079)	929,019
Cash Flows from Investing Activities		
Proceeds from sale of investments	12,392,652	227,488,713
Purchase of investments	(9,539,371)	(227,994,431)
Purchases of property and equipment	(1,970,092)	(1,637,778)
Proceeds from sale of property and equipment	29,232	200
Net cash provided by (used in) investing activities	912,421	(2,143,296)
Cash Flows from Financing Activities		
Net borrowings under line of credit	257,179	1,470,136
Net repayments of bonds payable	(300,000)	(285,000)
Net cash provided by (used in) financing activities	(42,821)	1,185,136
Net change in cash and cash equivalents	(6,479)	(29,141)
Cash and Cash Equivalents:		
Beginning of year	165,904	195,045
End of year	$ 159,425	$ 165,904
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	$ 564,797	$ 636,553

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Home for Little Wanderers (the "Home") is a not-for-profit organization whose mission is to ensure the healthy emotional, mental, and social development of children at risk, their families and communities. The Home's work is guided by a belief in the right of all children to be safe, nurtured and developed to reach their full potential.

A summary of significant accounting policies follows:

Classification and reporting of net assets: The assets, liabilities and net assets of the Home are classified into three classes. These classifications are related to the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent the portion of net assets of the Home that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include amounts designated by the Board of Directors (the "Board") for future use.

- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Home is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Home pursuant to those stipulations. Temporarily restricted net assets include charitable gift annuities, in which the Home receives an immediate as well as a remainder interest in the underlying investments from which income is currently being paid to annuitants. Actuarial methods are used to calculate that portion of the investment representing the annuity and that portion representing the gift. Annuities payable are periodically adjusted based upon revised estimates of life expectancies of the annuitants.

  Temporarily restricted net assets also include, under Commonwealth of Massachusetts law, cumulative appreciation and reinvested gains on permanently restricted endowment funds that are subject to prudent appropriation by the Board in accordance with provisions of Massachusetts law.

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Home is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Home. Permanently restricted net assets also include investment earnings on certain contributions as stipulated by donor restrictions, as well as gains and losses from beneficial interests in perpetual trusts.

Use of estimates in preparation of financial statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: For purposes of the statement of cash flows, the Home considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

Concentration of credit risk: The Home maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Home has not experienced any losses in such accounts. The Home believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Accounts receivable: Accounts receivable, where a third party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third party payors, if any.

Accounts receivables due from Massachusetts and federal funding agencies and directly from clients are carried at the original charge for the services provided less amounts covered by third party payors and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by a review of an aging of accounts. Receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various contracts in which the Home participates are reported as third party payor receivables or payables.

Property, plant and equipment: Property, plant and equipment acquisitions are recorded at cost. Property, plant and equipment donated for operations are recorded as additions to temporarily restricted net assets at fair value at the date of receipt and as net assets released from restrictions when the assets are placed in service. Also included in property, plant and equipment are costs associated with construction in progress. The Home capitalizes costs incurred in connection with various ongoing projects until such projects are completed at which time those costs are then reclassed to the appropriate fixed asset account.

Depreciation and amortization of property, plant and equipment are provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

	Years
Buildings and improvements	10-40
Furniture and equipment	2-10
Motor vehicles	3-5

Investments, investment income and appreciation of endowment investments: The Home holds certain investments that are carried at quoted market value. In addition, the Home holds certain alternative investments that are carried at an estimated fair value provided by the fund manager of the alternative investments. Management believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009 and 2008, respectively. Because alternative investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a readily available market for the investments existed, and such differences could be material.

A percentage share of investment income and gains and losses are allocated between unrestricted, temporarily restricted and permanently restricted net assets on the basis of annual market value. Unrestricted net assets are credited with the portion of investment income and gains that represent the amount available for operating purposes.

Except for explicit donor stipulations specifying reinvestment of some or all of net appreciation or income on permanent endowment investments to permanent funds, the net appreciation and income on permanent funds are reported as increases in temporarily restricted net assets in accordance with both Massachusetts law, which is determined based upon prudent use, and released to support operations under a Board approved spending policy.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Restricted funds: Included in cash-restricted funds and accounts payable as of June 30, 2009 and 2008 is $295,815 and $332,659, respectively, of amounts received under a former program from the Massachusetts Department of Children and Families (DCF). These funds have not been expended and the remaining restricted cash will be disbursed by the Home at the request of DCF in the future.

In addition, included in cash-restricted funds as of June 30, 2009 and 2008 is $3,759,005 and $77,285, respectively, of amounts received from donors for future project renovations.

Spending policy: The Home operates under a spending policy whereby bequests, permanently restricted contributions, investment interest and dividends, and trust income are deposited in the investment portfolio. Under a Board approved spending plan, an amount is budgeted and withdrawn from investments to support operations. This amount was $3,880,000 and $3,636,000 for the years ended June 30, 2009 and 2008, respectively.

Revenue recognition: The Home utilizes the accrual method of accounting whereby revenue is recorded when services are provided and expenses are recorded when incurred. The majority of the Home's clients are supported by agencies of the Commonwealth of Massachusetts and various cities and towns. Therefore, the Home is subject to the regulations and rate formulas of the Massachusetts Operational Services Division (OSD). Revenue is recorded at the Home's rates of reimbursement as certified by OSD.

Excess of revenue over expenses from Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Home for expenditures in accordance with its exempt purposes, provided such expenditures are reimbursable under OSD regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as liabilities. There were no amounts in excess of these limits as of June 30, 2009 and 2008.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fund raising activity. The Home reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets. Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the service received. Contributions of goods and services to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods or services are received.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Charitable gift annuities: The Home has charitable gift annuity contracts with certain donors, whereby the annuitant makes a contribution to the Home and then receives a stream of cash payments from the Home until the annuitant's death. The remaining balance from the Home's annuity contracts, if any, is unrestricted at the time of the annuitant's death, and the asset and activity is classified as temporarily restricted during the annuity payment period. As of June 30, 2009 and 2008, the liabilities related to charitable gift annuities was $55,912 and $51,457, respectively.

Change in net assets: The statement of activities includes non-operating revenue and support. Changes in net assets which are excluded from operations include non-operating related contributions, bequests, investment revenue, gains and losses on investment transactions, net of Board approved spending utilization, capital campaign revenues and expenses, and other non-operating revenues and expenses.

Income tax status: The Home is qualified under Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal and state income taxes.

In July 2006, the Financial Accounting Standards Board issued FASB interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and was implemented by the Home in fiscal year 2008. Management believes that the Home has no material uncertainties in income taxes.

Advertising costs: The Home expenses advertising costs as incurred.

Endowment assets: The Home has adopted FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. Massachusetts adopted UPMIFA on June 30, 2009.

Fair value of financial instruments: The Home adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements,* ("SFAS") issued by the Financial Accounting Standards Board ("FASB"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS No. 157, fair value measurements are separately disclosed by level within the fair value hierarchy.

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Fair value of financial instruments (continued): Investments measured and reported at fair value are classified and disclosed in one of the following categories:

> **Level I**: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes listed equities and listed derivatives. As required by SFAS No. 157, the Home does not adjust the quoted prices for these investments, even in situations where the Home may hold a large position and a sale could reasonably impact the quoted price.
>
> Securities that are listed on the United States securities exchange are valued at their last sales price on the largest United States securities exchange on which such securities have traded. Securities that are listed on an international exchange are valued at the last sales price from the largest exchange within the individual security's country of jurisdiction.
>
> **Level II**: Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.
>
> **Level III**: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

See Note 19, Fair Value Hierarchy, for a summary of the inputs used as of June 30, 2009 in determining the fair value of the Home's assets and liabilities.

Recent accounting pronouncements: In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for the Home's 2010 financial statements. The Home does not believe the effect, if any, of adopting SFAS No.161 will have a material impact on our financial position and results of operations.

Reclassifications: Certain reclassifications have been made to the June 30, 2008 financial statements to conform to the June 30, 2009 presentation.

Note 2. Accounts Receivable, Net

Accounts receivable as of June 30, 2009 and 2008 of $3,152,032 and $4,010,440, respectively, is reflected net of allowance for doubtful accounts of $150,000 and $375,000, respectively.

Note 3. Contributions and Grants Receivable

Contributions and grants receivable of $1,446,068 and $1,594,241 as of June 30, 2009 and 2008, respectively, are presented net of an allowance for doubtful collections and a discount for the net present values of collections over the pledge period totaling $168,269 and $343,672 as of June 30, 2009 and 2008, respectively.

Note 3. Contributions and Grants Receivable (continued)

Included in this balance as of June 30, 2009 and 2008 are gross contribution pledges of $962,645 and $1,294,500, respectively, made by certain members of the Home's Board of Directors. These pledges are payable through 2013 and are restricted for purposes of funding future project renovations. Expected collections as of June 30, 2009 and 2008 of contributions and grants receivable are as follows:

	2009	2008
Less than one year	$ 568,538	$ 827,913
One to four years	1,045,799	1,110,000
Total	1,614,337	1,937,913
Less unamortized discount and allowance	168,269	343,672
	$ 1,446,068	$ 1,594,241

Note 4. Investments

Investments are presented in the financial statements at fair market value. The following is a summary of the Home's investments as of June 30, 2009 and 2008:

	2009	2008
Marketable equity securities and equity mutual funds	$ 13,996,419	$ 29,568,663
Cash equivalents	9,097,798	7,097,919
U.S. government and debt obligations and fixed income mutual funds	23,274,909	25,439,941
Alternative investments	12,106,988	15,847,239
	$ 58,476,114	$ 77,953,762

Investments equal to the Board approved spending policy of $3,700,000 and $3,880,000 for the years ending June 30, 2009 and 2008, respectively, are classified as current in the accompanying statements of financial position. Since the remaining amount of investments is intended for long-term investment purposes, these investments are classified as long-term assets in the accompanying statements.

During the years ended June 30, 2009 and 2008, net losses from investment transactions totaled $19,163,440 and $5,276,461, respectively. Also included in net losses from investment transactions are amounts related to the depreciation in value of the Home's beneficial interest in perpetual trusts, as indicated in Note 16.

During the year ended June 30, 2008, the Board of Directors voted to commit up to $1,500,000 from its investment portfolio to cover preconstruction and architectural services associated with one of the Home's program facilities. As of June 30, 2009, $1,314,727 has been incurred. In addition, due to a change in plans of the location of the program facility, $550,000 of preconstruction costs were written off during the year ended June 30, 2009.

Note 5. Property, Plant and Equipment

The following is a summary as of June 30, 2009 and 2008:

	2009	2008
Land and improvements	$ 2,293,085	$ 2,242,023
Buildings and improvements	21,070,869	21,501,608
Furniture and equipment	6,651,661	5,963,477
Motor vehicles	175,789	564,505
Construction in progress	1,239,155	915,056
	31,430,559	31,186,669
Less accumulated depreciation and amortization	(17,475,568)	(17,145,436)
	$ 13,954,991	$ 14,041,233

Construction in progress represents costs incurred in connection with various renovation projects to support program operations. The estimated remaining costs to complete these projects are currently being evaluated by the Home.

Note 6. Line of Credit

During the year ended June 30, 2009, the Home amended its unsecured line of credit with a financial institution which increased the credit limit maximum borrowings from $5,500,000 to $10,000,000. As of June 30, 2009 and 2008, $3,004,650 and $2,747,471, respectively, was outstanding on this line. The line is payable on demand with interest payable monthly at the LIBOR Advantage Rate plus 2.5% (2.81% as of June 30, 2009). The line of credit agreement requires the Home to maintain certain financial covenants.

Note 7. Lease Impairment

As part of a merger with another organization in 2003, the Home assumed the obligations of a 10-year lease for administration and program space. The Home began sub-leasing the space as of January 1, 2004 at a reduced square-foot rate. Management had calculated the shortfall between the required lease payments and the expected market value of sub-lease revenue, both discounted at a 5% net present value calculation, to be approximately $1,500,000. During the year ended June 30, 2003, this amount was recorded as a lease impairment expense and liability to be amortized over the remaining life of the lease.

In October 2007, the Home was released from all future payment obligations associated with this lease agreement. The unamortized liability of $736,684 was written off in full during the year ended June 30, 2008 and is included in other non-operating revenue on the Statement of Activities.

Note 8. Bonds Payable

Under an agreement with the Massachusetts Health and Educational Facilities Authority (HEFA), bonds payable were issued to refinance certain debt obligations and purchase, construct and renovate new program facilities. The bonds were issued at a face value of $7,500,000, with variable interest rates (2.50% as of June 30, 2009) and, although written on demand, are payable over a 30 year maturity schedule through February 1, 2029. The balance outstanding on these bonds payable was $3,835,000 and $4,015,000 as of June 30, 2009 and 2008, respectively. Bond issuance costs, net of amortization, of $87,640 and $92,022 as of June 30, 2009 and 2008, respectively, consist of legal and other expenses incurred in connection with this issue. These bond issuance costs were capitalized and are presented net of accumulated amortization of $43,820 and $39,438, respectively, and are being amortized over the thirty-year life of the bonds.

Note 8. Bonds Payable (continued)

Under a separate agreement with the Massachusetts Development Finance Agency (MDFA), bonds payable were issued to refinance certain debt obligations and purchase, construct and renovate new program facilities. The bonds were issued at a face value of $6,600,000, with variable interest rates (2.50% as of June 30, 2009) and, although written on demand, are payable over a 30 year maturity schedule through October 1, 2034. The balance outstanding on these bonds payable was $4,792,000 and $4,912,000 as of June 30, 2009 and 2008, respectively. Bond issuance costs, net of amortization, of $75,122 and $78,127 as of June 30, 2009 and 2008, respectively, consist of legal and other expenses incurred in connection with this issue. These bond issuance costs were capitalized and are presented net of accumulated amortization of $15,025 and $12,020, respectively, and are being amortized over the thirty-year life of the bonds.

The Home also maintains a bank letter-of-credit related to its bonds with the HEFA in the amount of $3,876,190 and $4,058,607 as of June 30, 2009 and 2008, respectively. The letter-of-credit is priced at 1.25% per annum, payable semi-annually, and expires May 2010 unless extended. In addition, under a separate agreement related to its bonds with the MDFA, the Home maintained a second bank letter-of-credit related to these bonds in the amount of $5,146,477and $5,275,353 as of June 30, 2009 and 2008, respectively. This letter-of-credit is priced at 1.25% per annum, payable semi-annually, and expires February 2010 unless extended. In accordance with the letter-of-credit agreement, the Home is required to maintain certain minimum financial ratios. Scheduled maturity dates of bond principal over the next five years and in the aggregate are as follows:

Years ending June 30,	
2010	$ 310,000
2011	330,000
2012	345,000
2013	365,000
2014	385,000
Thereafter	6,892,000
	$ 8,627,000

Subsequent to June 30, 2009, the bonds payable and letters of credit agreements described above were amended through a debt refinancing. See Note 21 for further details.

Note 9. Interest Rate Swaps

During the year ended June 30, 2006, the Home entered into two interest rate swap agreements to lock in the interest cash outflows on bonds payable to the HEFA and the MDFA. One interest rate swap (HEFA) has a notional amount of $2,090,012 and $2,200,986 as of June 30, 2009 and 2008, respectively, while the other interest rate swap (MDFA) has a notional amount of $3,288,357 and $3,364,169 as of June 30, 2009 and 2008, respectively. These agreements effectively change the variable-rate interest on a portion of the Home’s bonds to fixed-rate interest.

Under the terms of the swaps (which both expire in January 2011), the Company pays monthly fixed interest rate of 3.87% (HEFA) and 3.88% (MDFA). The estimated fair value of these agreements were liabilities of $94,961 (HEFA) and $151,136 (MDFA) as of June 30, 2009 and liabilities of $59,373 (HEFA) and $93,200 (MDFA) as of June 30, 2008, which are included in accounts payable and accrued expenses in the Home's Statement of Financial Position. This amount is subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligation affects earnings.

Note 10. Operating Lease Commitments

The Home leases equipment, vehicles and office space from unrelated third parties under operating lease agreements through March 2017. Total rent expense under all lease agreements was $1,309,786 and $1,454,215 for the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments over the next five years and in the aggregate are as follows:

Years ending June 30,	
2010	$ 1,119,772
2011	711,728
2012	680,957
2013	658,100
2014	647,120
Thereafter	216,576
Total	$ 4,034,253

Note 11. Pension and Retirement Plans

The Home has a 403(b) tax deferred retirement plan for all of its employees. Under the plan, employees may contribute up to the Internal Revenue Service indexed maximum amount for each calendar year. The Home will make matching contributions of 100% up to a maximum of 3% of annual salary. Contributions to this plan totaled $407,132 and $351,047 for the years ended June 30, 2009 and 2008, respectively.

Note 12. Deferred Compensation

The Home had a deferred compensation plan for a former key employee. No contributions were made by the Home to the plan during either of the years ended June 30, 2009 or 2008. As of June 30, 2008, the market value of the investments under this plan was $42,940. During the year ended June 30, 2009, the former key employee received full distribution of the plan assets.

The Home has a section 457(b) eligible deferred compensation plan with the Home's executive director. This plan calls for the Home to make calendar year contributions of $22,500 (prorated for 2007). Contributions to this plan totaled $22,500 and $25,313 for the years ended June 30, 2009 and 2008, respectively. As of June 30, 2009 and 2008, the market value of the investments under this plan was $34,129 and $19,264, respectively.

Note 13. Net Assets Released From Restrictions

Net assets were released from temporary donor restrictions by incurring expenses which satisfied the restricted purposes or by the occurrence of events specified by the donors. During the years ended June 30, 2009 and 2008, the use of these assets were as follows:

	2009	2008
Donor restrictions satisfied as to:		
Program operations	$ 939,919	$ 1,191,049
Plant and equipment acquisitions	185,278	200,943
Utilization of endowment appreciation	2,606,383	2,484,352
	2,791,661	2,685,295
	$ 3,731,580	$ 3,876,344

Note 13. Net Assets Released From Restrictions (continued)

The Board of Directors voted in 2002 to utilize, as part of its spending policy from its investment portfolio, a portion of cumulative realized gains on permanently restricted net assets in accordance with Massachusetts law, which allows for the use of such assets in a prudent manner, as defined. The amount utilized for the years ended June 30, 2009 and 2008 was $2,606,383 and $2,484,352, respectively.

Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2009 and 2008 are composed of the following:

	2009	2008
Gifts and other unexpended revenue and gains restricted to:		
Program operations	$ 135,879	$ 218,867
Plant and equipment acquisitions	4,182,085	1,936,920
Charitable gift annuities	15,083	20,256
Investment revenue and realized and unrealized gains on investment funds	22,312,364	32,275,558
	$ 26,645,411	$ 34,451,601

Note 15. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2009 and 2008 are composed of investment gifts in perpetuity in the following categories:

	2009	2008
Endowments requiring one-half of investment income to be added to original gift and balance to general support	$ 2,254,998	$ 2,177,290
Other special endowments, income restricted for various program purposes of the Home	1,284,577	1,284,577
General support endowments	5,530,319	5,530,319
Beneficial interest in perpetual trusts	10,039,865	12,578,938
	$ 19,109,759	$ 21,571,124

Note 16. Beneficial Interest in Perpetual Trusts

The Home has a beneficial interest in several perpetual trusts held by third-party trustees for the benefit of various not-for-profit organizations. The principal as well as annual gains or losses on the investments are restricted in perpetuity. The interest and dividend income generated by the investments is distributed each year to the beneficiaries, and is reported by the Home as temporarily restricted investment revenue.

The Home has recorded on its financial statements the fair market value (measured as the present value of the estimated future cash receipts from trusts' assets) of its beneficial interest in the trusts as permanently restricted net assets. Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as permanently restricted gains or losses on perpetual trusts. For the years ended June 30, 2009 and 2008, the Home recognized permanently restricted losses of $2,539,073 and $1,488,408, respectively.

Note 17. Assets Held for Sale

The Board of Directors authorized the solicitation of offers to sell a property of the Home. Assets and liabilities included in the pending sale of this property totaling $389,946 as of June 30, 2009 have been reported as “Assets Held for Sale” in the Statements of Financial Position.

The Home is currently in the closing process of selling this facility to an outside buyer, which is expected to be finalized in 2010. Approximately $200,000 of the proceeds from the sale of this facility will be applied to part of the existing bond principal balance. The Home currently holds a refundable escrow from this buyer which amounts to $30,029 as of June 30, 2009, which is included in both prepaid expenses and other assets and accounts payable and accrued expenses.

Note 18. Endowment Net Assets

Following is a summary of endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds	$ 26,984,523	$ 22,312,364	$ 19,109,759	$68,406,646

Following is a summary of the changes in endowment net assets for the year ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2008	$ 36,552,160	$ 32,275,557	$ 21,571,124	$ 90,398,841
Investment return:				
Unrealized losses on investments	(8,002,758)	(8,616,436)	-	(16,619,194)
Investment revenue	1,189,761	1,259,626	77,708	2,527,095
	(6,812,997)	(7,356,810)	77,708	(14,092,099)
Other changes:				
Withdrawals	(5,058,659)	-	-	(5,058,659)
Appropriation	2,606,383	(2,606,383)	-	-
Change in beneficial interest in perpetual trust	-	-	(2,539,073)	(2,539,073)
Other fees	(302,364)	-	-	(302,364)
Endowment net assets as of June 30, 2009	$ 26,984,523	$ 22,312,364	$ 19,109,759	$ 68,406,646

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Home to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. The aggregate deficiency between the fair value of the investments of the endowment fund as of June 30, 2009 and the level required by donor stipulation was $545,419. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ended June 30, 2009.

Note 19. Fair Value Hierarchy

The following table summarizes the Home's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

Assets Measured at Fair Value on a Recurring Basis

	Quoted Prices Level I	Observable Inputs Level II	Unobservable Inputs Level III	Total June 30, 2009
Assets				
Marketable equity securities and equity mutual funds	$ 13,996,419	$ -	$ -	$ 13,996,419
Cash equivalents	9,097,798	-	-	9,097,798
U.S. government and debt obligations and fixed income mutual funds	23,274,909	-	-	23,274,909
Alternative investments	-	-	12,106,988	12,106,988
Beneficial interest in perpetual trusts	-	-	10,039,865	10,039,865
Total assets	$ 46,369,126	$ -	$ 22,146,853	$ 68,515,979
Liabilities				
Interest rate swap liability	$ -	$ 246,097	$ -	$ 246,097

The changes in assets measured at fair value for which the Home has used Level III inputs to determine fair value are as follows:

	Private Equity Funds	Hedge Funds	Structured Credit	Other	Total
Balance as of June 30, 2008	$ 400,217	$ 12,533,512	$ 2,913,510	$ 12,578,938	$28,426,177
Realized and unrealized losses on investments:					
Net realized/unrealized losses on investments	(196,820)	(1,992,790)	(1,550,641)	(2,539,073)	(6,279,324)
Balance as of June 30, 2009	$ 203,397	$ 10,540,722	$ 1,362,869	$ 10,039,865	$ 22,146,853

Note 20. Commitments and Contingencies

There are various legal proceedings pending that involve claims against the Home. These proceedings are, in the opinion of management and legal counsel, routine matters incidental to the normal business conducted by the Home. In the opinion of management and legal counsel, the ultimate disposition of such proceedings is not expected to have a material adverse effect, if any, on the Home's financial position, results of operations, or cash flows.

Note 21. Subsequent Events

Subsequent to June 30, 2009, the Home refinanced both its HEFA and MDFA bond issues (see Note 8) through refinancing arrangements. This refinancing involved the Home's existing debt through amended agreements on its bond issues, as well as its related letters of credit with a financial institution. This refinancing process did not materially change the terms of either bond agreement and was finalized in September 2009. As a result of these refinancing arrangements, the interest rates on the bonds payable decreased to 0.45% for HEFA and to 0.42% for MDFA.

The Home evaluated subsequent events through October 8, 2009, when the financial statements were available to be issued.