# The Home for Little Wanderers

Financial Report
June 30, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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 9, 2008 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 9, 2008

The Home for Little Wanderers

## Statements of Financial Position
June 30, 2008 and 2007

| Assets | 2008 | 2007 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 165,904 | $ 195,045 |
| Cash - restricted funds | 489,810 | 414,000 |
| Bond escrow deposits | 71,348 | 73,127 |
| Accounts receivable, net (Note 2) | 4,010,440 | 3,396,901 |
| Contributions and grants receivable, net (Note 3) | 807,913 | 359,810 |
| Investment income receivable | 86,495 | 26,546 |
| Investments (Note 4) | 3,880,000 | 3,636,000 |
| Prepaid expenses and other current assets | 196,480 | 194,517 |
| Total current assets | 9,708,390 | 8,295,946 |
| Contributions and grants receivable, net (Note 3) | 786,328 | - |
| Investments (Notes 4 and 12) | 74,073,762 | 77,600,097 |
| Bond issuance costs, net (Note 8) | 170,149 | 177,536 |
| Beneficial interest in perpetual trusts (Notes 15 and 16) | 12,578,938 | 14,067,346 |
| Property, plant and equipment, net (Notes 4 and 5) | 14,041,233 | 13,819,614 |
| Total assets | $ 111,358,800 | $ 113,960,539 |

| Liabilities and Net Assets | 2008 | 2007 |
|---|---|---|
| Current Liabilities | | |
| Line of credit (Note 6) | $ 2,747,471 | $ 1,277,335 |
| Current portion of bonds payable (Note 7) | 300,000 | 290,000 |
| Accounts payable and accrued expenses (Notes 8 and 12) | 4,477,646 | 4,166,758 |
| Client funds | 78,598 | 68,483 |
| Deferred revenue | 18,269 | 145,454 |
| Current portion of lease impairment (Note 9) | - | 176,471 |
| Total current liabilities | 7,621,984 | 6,124,501 |
| Bonds payable, net of current portion (Note 7) | 8,627,000 | 8,922,000 |
| Annuities payable (Note 10) | 51,457 | 52,487 |
| Lease impairment, net of current portion (Note 9) | - | 603,545 |
| Total liabilities | 16,300,441 | 15,702,533 |
| Commitments and contingencies (Notes 10 and 17) | | |
| Net Assets | | |
| Unrestricted | | |
| General | 5,571,625 | 5,018,840 |
| Board designated | 33,464,009 | 32,525,288 |
| Total unrestricted | 39,035,634 | 37,544,128 |
| Temporarily restricted (Note 14) | 34,451,601 | 37,740,622 |
| Permanently restricted (Note 15) | 21,571,124 | 22,973,256 |
| Total net assets | 95,058,359 | 98,258,006 |
| Total liabilities and net assets | $ 111,358,800 | $ 113,960,539 |

See Notes to Financial Statements.

The Home for Little Wanderers

## Statements of Activities
Years Ended June 30, 2008 and 2007

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
| **Revenues, Gains, and Other Support** | | | | | | | | |
| Program revenue | $ 32,141,746 | $ - | $ - | $ 32,141,746 | $ 33,048,859 | $ - | $ - | $ 33,048,859 |
| Contributions | 4,399,766 | 679,624 | - | 5,079,390 | 4,421,332 | 478,552 | - | 4,899,884 |
| In-kind revenue | 52,526 | - | - | 52,526 | 135,568 | - | - | 135,568 |
| Other operating revenue (Notes 9 and 10) | 61,737 | - | - | 61,737 | 263,748 | - | - | 263,748 |
| Utilization of board approved spending policy (Note 4) | 3,636,000 | - | - | 3,636,000 | 3,364,000 | - | - | 3,364,000 |
| Net assets released from restrictions (Note 13) | 1,191,049 | (1,191,049) | - | - | 955,490 | (955,490) | - | - |
| Total revenues, gains, and other support | 41,482,824 | (511,425) | - | 40,971,399 | 42,188,997 | (476,938) | - | 41,712,059 |
| **Expenses** | | | | | | | | |
| Programs | 33,140,717 | - | - | 33,140,717 | 33,087,535 | - | - | 33,087,535 |
| Administrative and general | 6,511,922 | - | - | 6,511,922 | 7,029,180 | - | - | 7,029,180 |
| Fundraising | 1,807,904 | - | - | 1,807,904 | 1,932,973 | - | - | 1,932,973 |
| Total expenses | 41,460,543 | - | - | 41,460,543 | 42,049,688 | - | - | 42,049,688 |
| Change in net assets from operations | 22,281 | (511,425) | - | (489,144) | 139,309 | (476,938) | - | (337,629) |
| **Non-Operating Income (Expense)** | | | | | | | | |
| Net gains (losses) on investment transactions (Notes 4 and 16) | (1,493,542) | (2,294,511) | (1,488,408) | (5,276,461) | 4,433,141 | 6,673,682 | 1,311,249 | 12,418,072 |
| Contributions | - | 2,202,210 | - | 2,202,210 | - | 599,095 | - | 599,095 |
| Investment revenue | 2,702,803 | - | 86,276 | 2,789,079 | 2,198,048 | - | 70,902 | 2,268,950 |
| Bequests | 2,046,087 | - | - | 2,046,087 | 715,525 | - | - | 715,525 |
| Board approved spending policy (Note 4) | (3,636,000) | - | - | (3,636,000) | (3,364,000) | - | - | (3,364,000) |
| Capital campaign expense | (654,587) | - | - | (654,587) | (496,142) | - | - | (496,142) |
| Other non-operating revenue (Note 9) | 736,684 | - | - | 736,684 | 38,566 | - | - | 38,566 |
| Other non-operating expenses | (917,515) | - | - | (917,515) | (593,967) | - | - | (593,967) |
| Net assets released from restrictions (Note 13) | 2,685,295 | (2,685,295) | - | - | 3,654,449 | (3,654,449) | - | - |
| Total non-operating income | 1,469,225 | (2,777,596) | (1,402,132) | (2,710,503) | 6,585,620 | 3,618,328 | 1,382,151 | 11,586,099 |
| Change in net assets | 1,491,506 | (3,289,021) | (1,402,132) | (3,199,647) | 6,724,929 | 3,141,390 | 1,382,151 | 11,248,470 |
| Net Assets at Beginning of Year | 37,544,128 | 37,740,622 | 22,973,256 | 98,258,006 | 30,819,199 | 34,599,232 | 21,591,105 | 87,009,536 |
| Net Assets at End 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 |

See Notes to Financial Statements.

The Home for Little Wanderers

Statements of Functional Expenses
Years Ended June 30, 2008 and 2007

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Programs | Administrative and General | Fundraising | Totals | Programs | Administrative and General | Fundraising | Totals |
| Operating Expenses | | | | | | | | |
| Salaries and wages | $ 19,558,515 | $ 2,691,179 | $ 631,706 | $ 22,881,400 | $ 19,364,788 | $ 2,690,206 | $ 685,027 | $ 22,740,021 |
| Payroll taxes and employee benefits (Notes 11 and 12) | 4,274,435 | 595,062 | 132,450 | 5,001,947 | 3,890,541 | 621,062 | 140,536 | 4,652,139 |
| Total salaries and related benefits | 23,832,950 | 3,286,241 | 764,156 | 27,883,347 | 23,255,329 | 3,311,268 | 825,563 | 27,392,160 |
| Professional fees | 524,427 | 1,166,301 | 79,800 | 1,770,528 | 591,280 | 1,184,157 | 25,980 | 1,801,417 |
| Client expenses | 1,761,283 | - | - | 1,761,283 | 1,737,932 | 155 | - | 1,738,087 |
| Rent (Note 10) | 799,824 | 469,173 | 103,509 | 1,372,506 | 910,556 | 919,932 | 111,833 | 1,942,321 |
| Depreciation and amortization (Notes 5, 7, and 9) | 897,625 | 208,492 | 41,230 | 1,147,347 | 902,788 | 236,428 | 44,894 | 1,184,110 |
| Food and other program supplies | 947,937 | 51,988 | 4,803 | 1,004,728 | 928,694 | 73,204 | 8,665 | 1,010,563 |
| Utilities | 796,849 | 160,544 | 23,215 | 980,608 | 723,206 | 195,017 | 16,156 | 934,379 |
| Equipment repairs and replacements | 688,154 | 163,537 | 40,466 | 892,157 | 840,935 | 112,378 | 47,128 | 1,000,441 |
| Subcontracted direct services | 744,606 | - | - | 744,606 | 954,845 | - | - | 954,845 |
| Other expenses | 236,605 | 101,172 | 396,777 | 734,554 | 265,660 | 128,680 | 501,203 | 895,543 |
| Contracted services | 495,535 | 202,631 | 18,666 | 716,832 | 494,752 | 183,655 | 18,483 | 696,890 |
| Interest | 265,564 | 351,870 | - | 617,434 | 333,743 | 363,616 | - | 697,359 |
| Insurance | 442,465 | 112,941 | 12,523 | 567,929 | 472,342 | 111,376 | 7,484 | 591,202 |
| Office expense | 74,713 | 180,217 | 277,222 | 532,152 | 50,811 | 159,584 | 170,081 | 380,476 |
| Transportation | 382,171 | 24,275 | 5,479 | 411,925 | 337,562 | 12,699 | 4,586 | 354,847 |
| Advertising | 142,898 | 32,540 | - | 175,438 | 79,581 | 37,031 | 10,798 | 127,410 |
| Bad debts | 107,111 | - | 5,082 | 112,193 | 207,519 | - | 4,551 | 212,070 |
| In-kind expenses | - | - | 34,976 | 34,976 | - | - | 135,568 | 135,568 |
| Total operating expenses | 33,140,717 | 6,511,922 | 1,807,904 | 41,460,543 | 33,087,535 | 7,029,180 | 1,932,973 | 42,049,688 |
| Non-Operating Expenses | | | | | | | | |
| Other non-operating expenses | - | 593,843 | 323,672 | 917,515 | - | 593,967 | - | 593,967 |
| Capital campaign expense | - | - | 654,587 | 654,587 | - | - | 496,142 | 496,142 |
| Total non-operating expenses | - | 593,843 | 978,259 | 1,572,102 | - | 593,967 | 496,142 | 1,090,109 |
| Total expenses | $ 33,140,717 | $ 7,105,765 | $ 2,786,163 | $ 43,032,645 | $ 33,087,535 | $ 7,623,147 | $ 2,429,115 | $ 43,139,797 |

See Notes to Financial Statements.

The Home for Little Wanderers

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash Flows from Operating Activities and Gains and Losses | | |
| Change in net assets | $ (3,199,647) | $ 11,248,470 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 1,147,347 | 1,184,110 |
| Amortization of lease impairment | (43,332) | (173,328) |
| 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 | 122,626 | 37,685 |
| Loss on disposal of property and equipment | 268,612 | 517,012 |
| In-kind contribution of property and equipment | - | (38,566) |
| Net (gains) losses on investment transactions | 5,276,461 | (12,418,072) |
| Change in restricted funds | (75,810) | (328) |
| Change in bond escrow deposits | 1,779 | 1,494 |
| Change in accounts receivable | (613,539) | 427,600 |
| Change in contributions and grants receivable | (1,234,431) | (125,959) |
| Change in investment income receivable | (59,949) | 66,496 |
| Change in prepaid expenses and deposits | (1,963) | 135,312 |
| Change in accounts payable and accrued expenses | 188,262 | (202,474) |
| Change in client funds | 10,115 | 13,515 |
| Change in deferred revenue | (127,185) | 145,454 |
| Change in annuities payable | (1,030) | 9,461 |
| Total adjustments | 4,128,666 | (10,413,201) |
| Net cash provided by operating activities | 929,019 | 835,269 |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 227,488,713 | 21,467,397 |
| Purchase of investments | (227,994,431) | (20,880,665) |
| Purchases of property and equipment | (1,637,778) | (1,671,735) |
| Proceeds from sale of property and equipment | 200 | 4,250 |
| Net cash used in investing activities | (2,143,296) | (1,080,753) |
| Cash Flows from Financing Activities | | |
| Net borrowings under line of credit | 1,470,136 | 609,224 |
| Net repayments of bonds payable | (285,000) | (270,000) |
| Net cash provided by financing activities | 1,185,136 | 339,224 |
| Net change in cash and cash equivalents | (29,141) | 93,740 |
| Cash and Cash Equivalents: | | |
| Beginning of year | 195,045 | 101,305 |
| End of year | $ 165,904 | $ 195,045 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | $ 636,553 | $ 692,232 |

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.

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: 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.

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.

## 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, as of June 30, 2008, the Home holds certain alternative investments that are carried at an estimated fair value provided by the management 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, 2008. Because the investment in alternative investments is not readily marketable, the estimated 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, 2008 and 2007 is $332,659 and $347,874, 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.

Spending policy: The Home operates under a spending policy whereby all 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 $3,636,000 and $3,364,000 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007.

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, if any, from the Home's annuity contracts 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, 2008 and 2007, the liabilities related to charitable gift annuities was $51,457 and $52,481, 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, 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.

Recent accounting pronouncements: In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value and expands disclosures about the use of fair value measurements and liabilities in interim and annual reporting periods subsequent to initial recognition. SFAS No. 157 is effective for the Home's 2009 financial statements .The Home does not believe the effect, if any, of adopting SFAS No. 157 will have a material impact on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115*, which expands the standards under SFAS No. 157 to provide entities the one-time election to measure financial instruments and certain other items at fair value. SFAS No. 159 is effective for the Home's 2009 financial statements. The Home does not believe the effect, if any, of adopting SFAS No. 159 will have a material impact on our financial position and results of operations.

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.

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

**Recent accounting pronouncements (continued):** In August 2008, the FASB issued 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 position 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"). This position is effective for financial statements issued for fiscal years ending after December 15, 2008. The Home is in the process of evaluating the impact the adoption of FSP No. 117-1 might have on its financial statements.

**Reclassifications:** Certain reclassifications have been made to the June 30, 2007 financial statements to conform to the June 30, 2008 presentation.

## Note 2. Accounts Receivable, Net

Accounts receivable as of June 30, 2008 and 2007 of $4,010,440 and $3,396,901, respectively, is reflected net of allowance for doubtful accounts of $375,000 and $400,000, respectively.

## Note 3. Contributions and Grants Receivable

Contributions and grants receivable of $1,594,241 and $359,810 as of June 30, 2008 and 2007, 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 $343,672 and $23,000 as of June 30, 2008 and 2007, respectively.

Included in this balance as of June 30, 2008 are gross contribution pledges of $1,294,500 made by certain members of the Home's Board of Directors. These pledges are payable through 2012 and are restricted for purposes of funding the capital campaign.

Expected collections as of June 30, 2008 and 2007 of contributions and grants receivable are as follows:

| | 2008 | 2007 |
|---|---|---|
| Less than one year | $ 827,913 | $ 382,810 |
| One to four years | 1,110,000 | - |
| Total | 1,937,913 | 382,810 |
| Less unamortized discount and allowance | 343,672 | 23,000 |
| | $ 1,594,241 | $ 359,810 |

## 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, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Marketable equity securities & equity mutual funds | $ 29,568,663 | $ 65,921,223 |
| Cash equivalents | 7,097,919 | 758,895 |
| U.S. government and debt obligations & fixed income mutual funds | 25,439,941 | 14,555,979 |
| Alternative investments | 15,847,239 | - |
| | $ 77,953,762 | $ 81,236,097 |

Investments equal to the Board approved spending policy of $3,880,000 and $3,636,000 for the years ending June 30, 2008 and 2007, 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 year ended June 30, 2008, net losses from investment transactions totaled $5,276,461. During the year ended June 30, 2007, net gains from investment transactions totaled $12,418,072. Also included in net gains (losses) from investment transactions are amounts related to the appreciation (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 related to its capital campaign. As of June 30, 2008, $461,785 has been incurred and is included in construction in progress.

Subsequent to year end, a credit and liquidity crisis throughout the global financial system has resulted in substantial financial market volatility. As a result, the Home's investments have incurred a significant decline in fair value since June 30, 2008.

## Note 5. Property, Plant and Equipment

The following is a summary as of June 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Land and improvements | $ 2,242,023 | $ 2,214,692 |
| Buildings and improvements | 21,501,608 | 21,396,128 |
| Furniture and equipment | 5,963,477 | 5,853,945 |
| Motor vehicles | 564,505 | 585,201 |
| Construction in progress | 915,056 | 153,502 |
| | 31,186,669 | 30,203,468 |
| Less accumulated depreciation and amortization | (17,145,436) | (16,383,854) |
| | $ 14,041,233 | $ 13,819,614 |

## Note 6. Line of Credit

The Home has an unsecured line of credit with a financial institution that provides for maximum borrowings up to $5,500,000. As of June 30, 2008 and 2007, $2,747,471 and $1,277,335, respectively, was outstanding on this line. The line is payable on demand with interest payable monthly at the financial institution's prime lending rate less 0.5% (4.50% as of June 30, 2008). The line of credit agreement requires the Home to maintain certain financial covenants.

## Note 7. 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 (1.60% as of June 30, 2008) 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 $4,015,000 and $4,185,000 as of June 30, 2008 and 2007, respectively. Bond issuance costs of $92,022 and $96,404 as of June 30, 2008 and 2007, 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 $39,438 and $35,056, respectively, and are being amortized over the thirty-year life of the bonds.

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 (1.60% as of June 30, 2008) 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 $4,912,000 and $5,027,000 as of June 30, 2008 and 2007, respectively. Bond issuance costs of $78,127 and $81,132 as of June 30, 2008 and 2007, 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 $12,020 and $9,015, 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 $4,058,607 and $4,241,182 as of June 30, 2008 and 2007, 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 $5,275,353 and $5,398,860 as of June 30, 2008 and 2007, 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, | |
|---|---|
| 2009 | $ 300,000 |
| 2010 | 315,000 |
| 2011 | 330,000 |
| 2012 | 345,000 |
| 2013 | 365,000 |
| Thereafter | 7,272,000 |
| | $ 8,927,000 |

## Note 8. 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 $2,200,986 and $2,305,795 as of June 30, 2008 and 2007, respectively, while the other interest rate swap (MDFA) has notional amount of $3,364,169 and $3,433,664 as of June 30, 2008 and 2007, 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 $59,373 (HEFA) and $93,200 (MDFA) as of June 30, 2008 and liabilities of $11,440 (HEFA) and $18,507 (MDFA) as of June 30, 2007, 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 9. 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. As of June 30, 2007, the unamortized lease impairment needed liability was $780,016.

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. As of June 30, 2008, there is no longer any impairment needed liability associated with this lease.

## Note 10. Operating Lease Commitments

The Home leases equipment, vehicles and office space from unrelated third parties under operating lease agreements through March 2017. In addition, the Home subleased certain non-operating office space under operating lease agreements through December 2006. Total rental income under the sublease agreements was $87,533 for the year ended June 30, 2007. There was no sub-lease rental income for the year ended June 30, 2008. Total rent expense under all lease agreements was $1,372,506 and $1,942,321 for the years ended June 30, 2008 and 2007, respectively, excluding the lease impairment amortization described in Note 11.

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

| Years ending June 30, | |
|---|---|
| 2009 | $ 1,041,836 |
| 2010 | 601,689 |
| 2011 | 593,240 |
| 2012 | 596,483 |
| 2013 | 624,714 |
| Thereafter | 861,681 |
| Total | $ 4,319,643 |

## 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 $351,047 and $271,897 for the years ended June 30, 2008 and 2007, respectively.

## Note 12. Deferred Compensation

The Home has a deferred compensation plan for a former key employee. No contributions were made by the Home to the plan as of June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, the market value of the investments under this plan was $42,940 and $51,429, respectively.

During the year ended June 30, 2007, the Home established 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). As of June 30, 2008, $25,313 has been contributed by the Home to this plan. No contributions were made by the Home to the plan as of June 30, 2007. As of June 30, 2008 and 2007, the market value of the investments under this plan was $19,264 and $0, respectively.

In addition, during the year ended June 30, 2003, the Home established a grantor trust under a deferred compensation agreement with the Home's executive director. This plan was terminated during the year ended June 30, 2007. Contributions to the terminated plan during the year ended June 30, 2007 were $7,500.

## 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, 2008 and 2007, the use of these assets were as follows:

| | 2008 | 2007 |
|---|---|---|
| Donor restrictions satisfied as to: | | |
| Program operations | $ 1,191,049 | $ 955,490 |
| Plant and equipment acquisitions | 200,943 | 1,169,175 |
| Utilization of endowment appreciation | 2,484,352 | 2,485,274 |
| | 2,685,295 | 3,654,449 |
| | $ 3,876,344 | $ 4,609,939 |

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, 2008 and 2007 was $2,484,352 and $2,485,274, respectively.

## Note 14. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2008 and 2007 are composed of the following:

| | 2008 | 2007 |
|---|---|---|
| Gifts and other unexpended revenue and gains restricted to: | | |
| Program operations | $ 218,867 | $ 235,082 |
| Plant and equipment acquisitions | 1,936,920 | 430,862 |
| Charitable gift annuities | 20,256 | 24,549 |
| Realized and unrealized gains on permanently restricted endowment funds | 32,275,558 | 37,050,129 |
| | $ 34,451,601 | $ 37,740,622 |

## Note 15. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2008 and 2007 are composed of investment gifts in perpetuity in the following categories:

| | 2008 | 2007 |
|---|---|---|
| Endowments requiring one-half of investment income to be added to original gift and balance to general support | $ 2,177,290 | $ 2,091,014 |
| 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 | 12,578,938 | 14,067,346 |
| | $ 21,571,124 | $ 22,973,256 |

## 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 unrestricted 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 year ended June 30, 2008, the Home recognized permanently restricted losses of $1,488,408. For the year ended June 30, 2007, the Home recognized permanently restricted gains of $1,311,249.

## Note 17. 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.