# Financial Statements

# The Home for Little Wanderers

**June 30, 2017 and 2016**

MHM

# THE HOME FOR LITTLE WANDERERS

## *Financial Statements*

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***Financial Statements:***

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601 ■ www.mhmcpa.com

*Independent Auditors' Report*

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

We have audited the accompanying financial statements of The Home for Little Wanderers (the "Home"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***2016 Financial Statements***

The financial statements of The Home for Little Wanderers as of and for the year ended June 30, 2016 were audited by other auditors whose report dated November 15, 2016 expressed an unmodified opinion on those statements.

Mayer Hoffman McCann P.C.

November 15, 2017
Boston, Massachusetts

# THE HOME FOR LITTLE WANDERERS

## *Statements of Financial Position*

| | *June 30,* | |
|---|---|---|
| | *2017* | *2016* |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 197,610 | $ 119,646 |
| Cash - restricted funds | 144,837 | 128,248 |
| Accounts receivable, net | 4,121,400 | 4,004,520 |
| Contributions and grants receivable, net | 259,339 | 523,961 |
| Investment income receivable | 35,330 | 38,171 |
| Investments | 4,104,000 | 4,065,000 |
| Prepaid expenses and other current assets | 928,479 | 1,193,590 |
| **Total current assets** | **9,790,995** | **10,073,136** |
| Contributions and grants receivable, net | 238,145 | 227,212 |
| Investments | 82,481,496 | 74,087,160 |
| Beneficial interest in perpetual trusts | 13,172,433 | 12,741,610 |
| Property, plant and equipment, net | 27,338,108 | 27,983,568 |
| **Total assets** | **$ 133,021,177** | **$ 125,112,686** |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Line of credit | $ 2,348,486 | $ 754,952 |
| Current portion of bonds payable | 475,000 | 470,000 |
| Accounts payable, accrued expenses, and other current liabilities | 4,514,137 | 4,505,416 |
| Client funds | 98,186 | 77,398 |
| **Total current liabilities** | **7,435,809** | **5,807,766** |
| Bonds payable, net of current portion | 10,302,430 | 10,776,028 |
| Other liabilities | 978,050 | 952,279 |
| **Total liabilities** | **18,716,289** | **17,536,073** |
| Net assets: | | |
| Unrestricted | 63,989,862 | 60,018,949 |
| Temporarily restricted | 27,303,570 | 25,048,604 |
| Permanently restricted | 23,011,456 | 22,509,060 |
| **Total net assets** | **114,304,888** | **107,576,613** |
| **Total liabilities and net assets** | **$ 133,021,177** | **$ 125,112,686** |

*See accompanying notes to the financial statements.*

## THE HOME FOR LITTLE WANDERERS

### *Statements of Activities*

***Years Ended June 30,***

| | *2017* | | | | *2016* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
| Revenues and other support: | | | | | | | | |
| Program revenue | $ 42,692,234 | $ - | $ - | $ 42,692,234 | $ 39,244,944 | $ - | $ - | $ 39,244,944 |
| Contributions | 5,062,974 | 337,397 | - | 5,400,371 | 4,645,549 | 605,029 | - | 5,250,578 |
| Utilization of board approved spending policy | 4,065,000 | - | - | 4,065,000 | 3,912,000 | - | - | 3,912,000 |
| In-kind revenue | 91,762 | - | - | 91,762 | 104,069 | - | - | 104,069 |
| Other operating revenue | 4,779 | - | - | 4,779 | 14,030 | - | - | 14,030 |
| Net assets released from restrictions | 564,754 | (564,754) | - | - | 774,039 | (774,039) | - | - |
| **Total revenues and other support** | **52,481,503** | **(227,357)** | **-** | **52,254,146** | **48,694,631** | **(169,010)** | **-** | **48,525,621** |
| Operating expenses: | | | | | | | | |
| Programs | 45,288,181 | - | - | 45,288,181 | 41,066,914 | - | - | 41,066,914 |
| Administrative and general | 7,270,047 | - | - | 7,270,047 | 7,108,872 | - | - | 7,108,872 |
| Fundraising | 2,031,136 | - | - | 2,031,136 | 2,067,359 | - | - | 2,067,359 |
| **Total operating expenses** | **54,589,364** | **-** | **-** | **54,589,364** | **50,243,145** | **-** | **-** | **50,243,145** |
| **Change in net assets from operations** | **(2,107,861)** | **(227,357)** | **-** | **(2,335,218)** | **(1,548,514)** | **(169,010)** | **-** | **(1,717,524)** |
| Non-operating income (expense): | | | | | | | | |
| Net gains (losses) on investment transactions | 5,070,892 | 3,704,250 | 430,823 | 9,205,965 | (2,367,047) | (2,008,225) | (829,714) | (5,204,986) |
| Investment revenue | 1,884,073 | 657,048 | 71,573 | 2,612,694 | 3,360,182 | 1,346,267 | 146,650 | 4,853,099 |
| Bequests | 1,474,446 | - | - | 1,474,446 | 618,432 | - | - | 618,432 |
| Board approved spending policy | (1,829,860) | (2,235,140) | - | (4,065,000) | (1,760,886) | (2,151,114) | - | (3,912,000) |
| Contributions | - | 410,765 | - | 410,765 | - | 393,446 | - | 393,446 |
| Other non-operating expenses | (575,377) | - | - | (575,377) | (87,873) | - | - | (87,873) |
| Net assets released from restrictions | 54,600 | (54,600) | - | - | 189,194 | (189,194) | - | - |
| **Total non-operating income (expense)** | **6,078,774** | **2,482,323** | **502,396** | **9,063,493** | **(47,998)** | **(2,608,820)** | **(683,064)** | **(3,339,882)** |
| **Change in net assets** | **3,970,913** | **2,254,966** | **502,396** | **6,728,275** | **(1,596,512)** | **(2,777,830)** | **(683,064)** | **(5,057,406)** |
| Net assets, beginning of year | 60,018,949 | 25,048,604 | 22,509,060 | 107,576,613 | 61,615,461 | 27,826,434 | 23,192,124 | 112,634,019 |
| **Net assets, end of year** | **$ 63,989,862** | **$ 27,303,570** | **$ 23,011,456** | **$ 114,304,888** | **$ 60,018,949** | **$ 25,048,604** | **$ 22,509,060** | **$ 107,576,613** |

*See accompanying notes to the financial statements.*

# THE HOME FOR LITTLE WANDERERS

## *Statements of Functional Expenses*

***Years Ended June 30,***

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Programs* | *Administrative and General* | *Fundraising* | *Totals* | *Programs* | *Administrative and General* | *Fundraising* | *Totals* |
| Operating expenses: | | | | | | | | |
| Salaries and wages | $ 28,301,019 | $ 3,235,819 | $ 852,446 | $ 32,389,284 | $ 25,337,827 | $ 3,086,500 | $ 821,504 | $ 29,245,831 |
| Payroll taxes and employee benefits | 6,832,196 | 875,854 | 202,400 | 7,910,450 | 6,204,450 | 811,497 | 198,831 | 7,214,778 |
| **Total salaries and related benefits** | **35,133,215** | **4,111,673** | **1,054,846** | **40,299,734** | **31,542,277** | **3,897,997** | **1,020,335** | **36,460,609** |
| Depreciation and amortization | 1,551,459 | 178,628 | 43,290 | 1,773,377 | 1,521,225 | 162,569 | 50,164 | 1,733,958 |
| Equipment repairs and replacements | 1,190,214 | 398,498 | 65,675 | 1,654,387 | 1,053,448 | 390,965 | 60,714 | 1,505,127 |
| Client expenses | 1,471,805 | - | - | 1,471,805 | 1,463,711 | - | - | 1,463,711 |
| Professional fees | 261,007 | 1,080,967 | 64,513 | 1,406,487 | 216,697 | 1,064,184 | 77,850 | 1,358,731 |
| Rent | 1,038,373 | 314,550 | 86,883 | 1,439,806 | 970,388 | 277,208 | 103,618 | 1,351,214 |
| Food and other program supplies | 1,358,746 | 54,165 | 2,823 | 1,415,734 | 1,278,400 | 36,626 | 3,116 | 1,318,142 |
| Utilities | 896,510 | 49,502 | 14,086 | 960,098 | 801,849 | 167,574 | 14,842 | 984,265 |
| Transportation | 642,147 | 26,002 | 7,103 | 675,252 | 614,014 | 26,736 | 7,884 | 648,634 |
| Insurance | 506,603 | 93,676 | 11,165 | 611,444 | 451,274 | 107,034 | 11,983 | 570,291 |
| Other expenses | 400,988 | 46,643 | 85,544 | 533,175 | 352,636 | 55,652 | 107,402 | 515,690 |
| Office expense | 11,947 | 182,852 | 219,712 | 414,511 | 17,008 | 190,678 | 269,641 | 477,327 |
| Contracted services | 269,052 | 269,244 | - | 538,296 | 195,859 | 286,767 | - | 482,626 |
| Interest | - | 463,647 | - | 463,647 | - | 444,882 | - | 444,882 |
| Bad debts | 332,337 | - | 8,161 | 340,498 | 419,829 | - | 2,028 | 421,857 |
| Special events | - | - | 341,180 | 341,180 | - | - | 320,440 | 320,440 |
| Advertising | 158,756 | - | 26,155 | 184,911 | 104,493 | - | 17,342 | 121,835 |
| Subcontracted direct services | 65,022 | - | - | 65,022 | 63,806 | - | - | 63,806 |
| **Total operating expenses** | **45,288,181** | **7,270,047** | **2,031,136** | **54,589,364** | **41,066,914** | **7,108,872** | **2,067,359** | **50,243,145** |
| Non-operating expenses: | | | | | | | | |
| Other non-operating expenses | - | 575,377 | - | 575,377 | - | 87,873 | - | 87,873 |
| **Total non-operating expenses** | **-** | **575,377** | **-** | **575,377** | **-** | **87,873** | **-** | **87,873** |
| **Total expenses** | **$ 45,288,181** | **$ 7,845,424** | **$ 2,031,136** | **$ 55,164,741** | **$ 41,066,914** | **$ 7,196,745** | **$ 2,067,359** | **$ 50,331,018** |

*See accompanying notes to the financial statements.*

## THE HOME FOR LITTLE WANDERERS

### *Statements of Cash Flows*

| | Years Ended June 30, 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 6,728,275 | $ (5,057,406) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,773,377 | 1,733,958 |
| Amortization of bond issuance costs | 1,402 | 1,402 |
| Net (gain) loss on disposal of property and equipment | 3,423 | (343,964) |
| Realized and unrealized (gain) loss from investments | (9,205,965) | 5,204,986 |
| Donated securities | (47,526) | (37,444) |
| Proceeds from sales of donated securities | 47,526 | 37,444 |
| Bad debt expense | 340,498 | 421,857 |
| Change in: | | |
| Accounts receivable | (457,378) | 42,366 |
| Contributions and grants receivable | 253,689 | (72,263) |
| Investment income receivable | 2,841 | 3,686 |
| Prepaid expenses and other current assets | 265,111 | (218,874) |
| Accounts payable, accrued expenses, and other current liabilities | (129,279) | 712,137 |
| Client funds | 20,788 | 8,199 |
| Other liabilities | 20,387 | (57,141) |
| **Net cash (used in) provided by operating activities** | **(382,831)** | **2,378,943** |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 26,161,106 | 16,076,385 |
| Purchase of investments | (25,813,916) | (16,329,709) |
| Purchases of property and equipment | (993,340) | (554,909) |
| Proceeds from sale of property and equipment | - | 476,922 |
| **Net cash used in investing activities** | **(646,150)** | **(331,311)** |
| **Cash flows from financing activities:** | | |
| Net borrowings (repayments) under line of credit | 1,593,534 | (2,188,800) |
| Decrease in restricted funds | (16,589) | 185 |
| Repayment of loan principal | (470,000) | (100,000) |
| **Net cash provided by (used in) financing activities** | **1,106,945** | **(2,288,615)** |
| **Net change in cash and cash equivalents** | **77,964** | **(240,983)** |
| Cash and cash equivalents, beginning | 119,646 | 360,629 |
| **Cash and cash equivalents, ending** | **$ 197,610** | **$ 119,646** |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the year for interest | $ 433,703 | $ 447,944 |

*See accompanying notes to the 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 behavioral, emotional, social, and educational development and physical well-being of children and families living in at-risk circumstances.

A summary of significant accounting policies follows:

### *Classification and Reporting of Net Assets*

The Home reports three classes of net assets and the changes in those net assets in the statements of financial position and statements of activities, respectively. The three classes of net assets are unrestricted, temporarily restricted, and permanently restricted. These classifications are based on the existence or absence of donor-imposed restrictions. The three classifications are defined 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 Massachusetts law, funds not yet appropriated by the Board, generally representing cumulative interest, dividends, appreciation and reinvested gains and losses on permanently restricted endowment funds, which are subject to prudent appropriation by the Board in accordance with donor use restrictions and 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 the passage of time nor can be fulfilled or otherwise removed by actions of the Home pursuant to those stipulations. Permanently restricted net assets may also include investment earnings on certain investments as stipulated by donor restrictions, as well as gains and losses from beneficial interest in perpetual trusts.

### *Note 1 - Nature of Activities and Significant Accounting Policies (Continued)*

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Significant management estimates included in the financial statements are estimated useful lives of depreciable assets, allowance for uncollectible accounts and contributions receivable, satisfaction for the release of restricted net assets, and the allocation of functional expenses. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

For purposes of the statements 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 and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### *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 receivable 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. A trade receivable is generally considered past due if any portion is outstanding for more than sixty days; however, accounts involving third party insurance companies and public agencies are often normally collectible beyond that normal limit. Receivables or payables related to estimated settlements on various contracts in which the Home participates are reported as third party payor receivables or payables, if any.

#### *Property, Plant and Equipment*

Property, plant and equipment acquisitions are recorded at cost or if donated, at fair value on the date of donation. Fair value of any donated land, buildings and equipment would effectively be recorded using a Level 3 market approach. 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 reclassified to the appropriate fixed asset account. Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

***Note 1 - Nature of Activities and Significant Accounting Policies (Continued)***

***Property, Plant and Equipment (Continued)***

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 |
| Computer and software | 3 |
| Furniture and equipment | 3-10 |
| Motor vehicles | 5 |

***Investments, Investment Income and Appreciation of Endowment Investments***

Investments are carried at fair value. Fair value is determined as per the fair value measurements policy in this section. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined on the basis of the average cost of securities sold.

Investment returns are reported as increases or decreases in unrestricted net assets or:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the current use of the income or net gains or as decreases, up to any existing unrealized appreciation.

Realized gains and losses are determined using the average cost basis. Purchases and sales of securities are accounted for using the trade date. Investment income is presented net of investment management and custodial fees.

***Restricted Funds***

Restricted cash as of June 30, 2017 and 2016 was $144,837 and $128,248, respectively, and represents amounts restricted for client or program use. Included in cash - restricted funds and accounts payable and accrued expenses as of June 30, 2017 and 2016 is $48,523 and $52,721, 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 direction of DCF in the future.

***Note 1 - Nature of Activities and Significant Accounting Policies (Continued)***

***Revenue Recognition***

The Home recognizes revenue when there is persuasive evidence of an arrangement, services have been rendered, the fee is fixed or determinable, and collectability is reasonably assured.

The programs of the Home are supported principally by contracts negotiated with various agencies of the Commonwealth of Massachusetts. Therefore, the Home is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division. Revenue is recorded by the individual programs either at the rate approved under negotiated contracts or at the rate of reimbursement as certified by the Massachusetts Operational Services Division. 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 the Operational Services Division regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment and are reported as a liability. There were no amounts in excess of these limits as of June 30, 2017 and 2016.

The Home reports third party revenue earned in its Clinic and Day Care programs net of contractual adjustments to the Home’s usual and customary rates, as well as an adjustment based on historical and industry collection standards in order to report net realizable revenue from these programs.

***Contributions***

Contributions, including unconditional promises to give, are recognized as revenues at fair value in the period received or pledged. When amounts are pledged or non-cash contributions are made, fair value is determined at the original date of recordation using Level 2 fair value methods. 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 the 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 fundraising activities.

Contributions received under $10,000 with donor-imposed restrictions are reported as revenues of the unrestricted net asset category. Contributions received over $10,000 with donor-imposed restrictions are reported as revenues of the temporary or permanently restricted net asset categories.

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.

### *Note 1 - Nature of Activities and Significant Accounting Policies (Continued)*

#### *Donated Goods and Services*

The Home receives support in the form of donated services recorded using a Level 3 fair value methodology. Donated services are recorded at their estimated fair value on the date the services are provided if the services create or enhance nonfinancial assets or the services are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation. The value of contributed services for the years ended June 30, 2017 and 2016 was $24,055 and $17,342, respectively. The value of contributed materials was $67,707 and $86,727 for the years ended June 30, 2017 and 2016, respectively.

#### *Operating Activities*

The statements of activities include 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, Board approved spending policy utilization, and other non-operating revenues and expenses.

#### *Income Tax*

The Home qualifies as a public charity under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal and state income taxes. Accordingly, no provision for income taxes is made in the financial statements.

#### *Uncertain Tax Positions*

The Home accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Home has identified its tax status as a tax-exempt entity and its determination as to its income being related or unrelated as its only significant tax positions. However, the Home has determined that such tax positions do not result in an uncertainty requiring recognition. The Home is not currently under examination by any taxing jurisdiction. The Home's Federal and state tax returns are generally open for examination for three years following the date filed.

#### *Advertising Costs*

The Home expenses advertising costs as incurred. During the years ended June 30, 2017 and 2016, the Home incurred $184,911 and $121,835, respectively, in advertising costs. Included in advertising costs for the years ended June 30, 2017 and 2016 is $11,355 and $17,342, respectively, of donated in-kind services.

### *Note 1 - Nature of Activities and Significant Accounting Policies (Continued)*

#### *Endowment Assets*

The Home follows FASB guidance, *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,* which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This guidance 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.

The Board has interpreted Massachusetts General Law as requiring investment earnings on permanently restricted net assets to be retained in a restricted net asset classification until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate for expenditure or accumulate so much of endowment fund as the Home determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. In making a determination to appropriate or accumulate, the Home shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors: the duration and preservation of the endowment fund; the purposes of the Home and the endowment fund; general economic conditions; the possible effect of inflation or deflation; the expected total return from income and the appreciation of investments; other resources of the Home; and the investment policy of the Home.

The Home has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Home must hold in perpetuity or for a donor-specified period(s), as well as Board-designated funds. Under this policy, the endowment assets are invested in equities, mutual funds, fixed income funds, and alternative investments.

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, as of the last quarter ending March 31st, 4.5% of the average fair value of the endowment investment portfolio, excluding the beneficial interest in perpetual trusts, of each of the preceding thirteen fiscal quarters is appropriated for operations in addition to any anticipated investment income received from the beneficial interest in perpetual trusts. As a result of that calculation, a portion of investment income, cumulative net realized gains and net appreciation is allocated to operations in accordance with the Home's investment policies and procedures. The spending policy amounted to $4,065,000 and $3,912,000 for the years ended June 30, 2017 and 2016, respectively.

### *Note 1 - Nature of Activities and Significant Accounting Policies (Continued)*

#### *Fair Value Measurements*

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Home uses various methods including market, income and cost approaches. In addition, the Home reports certain investments using the net asset value per share ("NAV") as determined by the investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Based on these approaches, the Home often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Home utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value (other than those carried at NAV) will be classified and disclosed in one of the following three categories:

Level 1 Quoted prices for identical assets traded in active exchange markets.

Level 2 Observable inputs other than Level 1 including quoted prices for similar assets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

#### *Beneficial Interests 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 at the fair value of the underlying 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.

#### *Subsequent Events*

The Home evaluated subsequent events through November 15, 2017, the date on which the financial statements were available to be issued.

### *Note 2 - Accounts Receivable*

Accounts receivable as of June 30, 2017 and 2016 of $4,121,400 and $4,004,520, respectively, are reflected net of an allowance for doubtful accounts of approximately $174,000 and $186,000, respectively.

### *Note 3 - Contributions and Grants Receivable*

Expected collections as of June 30, 2017 and 2016 of contributions and grants receivable are as follows:

| | ***2017*** | ***2016*** |
|---|---|---|
| Less than one year | $ 399,380 | $ 662,468 |
| One to five years | 284,167 | 250,000 |
| Thereafter | - | 10,000 |
| | 683,547 | 922,468 |
| Less unamortized discount and allowance | (186,063) | (171,295) |
| | 497,484 | 751,173 |
| Less current portion | (259,339) | (523,961) |
| **Contributions and grants receivable, net of current portion** | **$ 238,145** | **$ 227,212** |

Included in this balance as of June 30, 2017 and 2016 are unconditional promises to give of $216,001 and $328,628, respectively, made by certain members of the Board. These pledges are payable through 2022 and were restricted for purposes of funding construction and renovation of long-term assets as well as general operating purposes.

***Note 4 - Investments and Fair Values of Financial Instruments***

The following tables present financial assets at June 30 2017 and 2016 that the Home measures fair value on a recurring basis, by level, within the fair value hierarchy:

| | 2017 | | | |
|---|---|---|---|---|
| | ***Level 1*** | ***Level 3*** | ***Investments Measured at NAV*** | ***Total*** |
| ***Assets*** | | | | |
| Marketable equity securities and equity mutual funds: | | | | |
| International equities | $ 18,039,188 | $ - | $ - | $ 18,039,188 |
| Domestic equities | 27,560,643 | - | - | 27,560,643 |
| Mutual funds | 275,058 | - | - | 275,058 |
| Cash equivalents | 130,101 | - | - | 130,101 |
| U.S. government and debt obligations and fixed income mutual funds | 18,897,293 | - | - | 18,897,293 |
| Alternative investments: | | | | |
| Global private equity fund | - | - | 2,883,557 | 2,883,557 |
| Structured credit fund | - | - | 2,163,203 | 2,163,203 |
| Core property fund | - | - | 5,580,900 | 5,580,900 |
| Special situations fund | - | - | 5,014,650 | 5,014,650 |
| Private asset fund | - | - | 1,614,625 | 1,614,625 |
| Energy debt LP | - | - | 4,426,278 | 4,426,278 |
| Total investments | 64,902,283 | - | 21,683,213 | 86,585,496 |
| Beneficial interest in perpetual trusts | - | 13,172,433 | - | 13,172,433 |
| **Total items reported on a recurring basis at fair value** | **$ 64,902,283** | **$ 13,172,433** | **$ 21,683,213** | **$ 99,757,929** |

***Note 4 - Investments and Fair Values of Financial Instruments (Continued)***

| | 2016 | | | |
|---|---|---|---|---|
| | ***Level 1*** | ***Level 3*** | ***Investments Measured at NAV*** | ***Total*** |
| ***Assets*** | | | | |
| Marketable equity securities and equity mutual funds: | | | | |
| International equities | $ 14,981,773 | $ - | $ - | $ 14,981,773 |
| Domestic equities | 24,819,954 | - | - | 24,819,954 |
| Mutual funds | 243,061 | - | - | 243,061 |
| Cash equivalents | 92,927 | - | - | 92,927 |
| U.S. government and debt obligations and fixed income mutual funds | 19,598,953 | - | - | 19,598,953 |
| Alternative investments: | | | | |
| Global private equity fund | - | - | 2,592,697 | 2,592,697 |
| Structured credit fund | - | - | 1,723,660 | 1,723,660 |
| Core property fund | - | - | 5,004,543 | 5,004,543 |
| Special situations fund | - | - | 4,460,264 | 4,460,264 |
| Private asset fund | - | - | 989,644 | 989,644 |
| Energy debt LP | - | - | 3,644,684 | 3,644,684 |
| Total investments | 59,736,668 | - | 18,415,492 | 78,152,160 |
| Beneficial interest in perpetual trusts | - | 12,741,610 | - | 12,741,610 |
| **Total items reported on a recurring basis at fair value** | **$ 59,736,668** | **$ 12,741,610** | **$ 18,415,492** | **$ 90,893,770** |

Unfunded commitments related to alternative investments were $3,160,317 and $3,416,317 for the years ended June 30, 2017 and 2016, respectively.

***Note 4 - Investments and Fair Values of Financial Instruments (Continued)***

The changes in assets measured at fair value for which the Home has used Level 3 inputs to determine fair value, which is limited to beneficial interests in trusts, as of June 30 are as follows:

| | | ***2017*** | | ***2016*** |
|---|---|---|---|---|
| Beginning of year | $ | 12,741,610 | $ | 13,571,324 |
| Investment activity: | | | | |
| Change in fair value | | 948,902 | | (210,448) |
| Distributions | | (518,079) | | (619,266) |
| **End of year** | **$** | **13,172,433** | **$** | **12,741,610** |

Investments equal to the Board approved spending policy of $4,104,000 and $4,065,000 as of June 30, 2017 and 2016, respectively, are classified as current in the accompanying statements of financial position. These amounts are reflected as current assets because they represent the draw from investments to fund the Home's operations in the subsequent fiscal year. 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 of financial position.

Investment income is comprised of the following for the years ended June 30:

| | | ***2017*** | | ***2016*** |
|---|---|---|---|---|
| Interest and dividend income | $ | 2,612,694 | $ | 4,853,099 |
| Net realized and unrealized gains (losses) | | 9,205,965 | | (5,204,986) |
| Total investment return (loss) | | 11,818,659 | | (351,887) |
| Less amount availed per endowment spending policy | | (4,065,000) | | (3,912,000) |
| **Investment gain (loss), net of amounts availed** | **$** | **7,753,659** | **$** | **(4,263,887)** |

Investment fees were $442,665 and $431,835 for the years ended June 30, 2017 and 2016, respectively, and have been netted above against interest and dividend income.

### *Note 5 - Property, Plant and Equipment*

The following is a summary as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Land and improvements | $ 2,022,452 | $ 2,022,452 |
| Buildings and improvements | 33,766,144 | 33,454,147 |
| Furniture and equipment | 6,767,129 | 6,123,900 |
| Motor vehicles | 149,835 | 120,780 |
| Other assets | 56,265 | 56,265 |
| Construction in progress | 228,354 | 160,574 |
| | 42,990,179 | 41,938,118 |
| Less accumulated depreciation and amortization | (15,652,071) | (13,954,550) |
| | **$ 27,338,108** | **$ 27,983,568** |

As of June 30, 2017 and 2016, construction in progress totaling $228,357 and $160,574, respectively, represents costs incurred in connection with various construction projects to support program operations. The estimated remaining costs to complete these projects as of June 30, 2017 are approximately $9,800,000 and will be completed in fiscal year 2018. Certain projects associated with the year ended June 30, 2016 were completed in fiscal year 2017 totaling approximately $833,000 and are included in building and improvements and furniture and equipment in the schedule above. The remainder of these projects are included in construction in progress as of June 30, 2017.

Included in buildings and improvements as of June 30, 2017 and 2016 are approximately $733,000 worth of tenant improvement allowances associated with a lease entered into during the year ended June 30, 2014 for new office space. As of June 30, 2017 and 2016, the net value of this improvement allowance was approximately $594,000 and $642,000, respectively. This tenant improvement allowance has an offsetting liability balance included in other liabilities in the statements of financial position.

### *Note 6 - Assets Held for Sale*

During fiscal year 2015, the Home had entered into an agreement to sell a property of the Home. This transaction closed in September of 2015. The property rendered $476,922 in proceeds and, as of June 30, 2016, the Home recognized a total gain on this sale of $345,993.

### *Note 7 - Line of Credit*

The Home has an unsecured line of credit with a financial institution with a maximum borrowing limit of $10,000,000, subject to renewal in February of each year. As of June 30, 2017 and 2016, $2,348,486 and $754,952, respectively, was outstanding on this line. The line is payable on demand with interest payable monthly. In March 2014, the rate was amended to the LIBOR Advantage Rate plus 1.95% (3.17% and 2.41% as of June 30, 2017 and 2016, respectively). The line of credit agreement requires the Home to maintain certain financial covenants.

### *Note 8 - Bonds Payable*

Bonds payable consists of the following at June 30:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Massachusetts Development Finance Agency fixed rate bonds, collateralized by certain real property with interest at fixed rate of 3.2% and a maturity date of March 1, 2037. | $ | 10,805,000 | $ | 11,275,000 |
| Less: bond issuance costs, net of amortization | | (27,570) | | (28,972) |
| Less: current portion | | (475,000) | | (470,000) |
| **Bonds payable, net of current portion** | **$** | **10,302,430** | **$** | **10,776,028** |

Scheduled maturity dates of bond principal over the next five years and in the aggregate for the bonds are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 475,000 |
| 2019 | | 485,000 |
| 2020 | | 500,000 |
| 2021 | | 510,000 |
| 2022 | | 515,000 |
| Thereafter | | 8,320,000 |
| | **$** | **10,805,000** |

### *Note 9 - Operating Lease Commitments*

The Home leases equipment, vehicles and office space from unrelated third parties under operating lease agreements through December 2024. Certain of the leases provide for additional rent associated with increases in operating costs as needed. Total rent expense under all lease agreements was $1,747,458 and $1,657,713 for the years ended June 30, 2017 and 2016, respectively.

***Note 9 - Operating Lease Commitments (Continued)***

Future minimum annual lease payments over the next five years and in the aggregate are as follows for the years ending June 30:

| | | |
|---|---|---|
| 2018 | $ | 1,499,869 |
| 2019 | | 1,038,760 |
| 2020 | | 1,000,778 |
| 2021 | | 971,003 |
| 2022 | | 816,131 |
| Thereafter | | 1,558,470 |
| | **$** | **6,885,011** |

***Note 10 - Retirement Plans***

The Home has a qualified 403(b) tax deferred retirement plan which covers substantially 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% of such deferrals, up to a maximum of 3% of annual salary. Contributions to this plan were $535,010 and $493,570 for the years ended June 30, 2017 and 2016, respectively.

The Home also has a non-qualified deferred compensation plan under Section 457(b) and 457(f) of the Internal Revenue Code for the Home's President and Chief Executive Officer. These plans call for the Home to make calendar year contributions of $37,500. Contributions to these plans totaled $39,335 for the years ended June 30, 2017 and 2016. As of June 30, 2017 and 2016, the fair value of the investments under these plans was $390,750 and $315,757, respectively, and is included within investments and other liabilities on the statements of financial position.

***Note 11 - Net Assets and Endowment Matters***

***Temporarily Restricted Net Assets***

Temporarily restricted net assets as of June 30, 2017 and 2016 are composed of the following:

| | | ***2017*** | | ***2016*** |
|---|---|---|---|---|
| Gifts and other unexpended revenue and gains restricted to: | | | | |
| Program operations | $ | 768,810 | $ | 693,557 |
| Accumulated unspent returns on endowment funds | | 26,534,760 | | 24,355,047 |
| | **$** | **27,303,570** | **$** | **25,048,604** |

***Note 11 - Net Assets and Endowment Matters (Continued)***

***Temporarily Restricted Net Assets (Continued)***

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, 2017 and 2016, the use of these assets were as follows:

| | ***2017*** | ***2016*** |
|---|---|---|
| Donor restrictions satisfied as to: | | |
| Program operations | $ 564,754 | $ 774,039 |
| Other temporarily restricted | 54,600 | 189,194 |
| | **$ 619,354** | **$ 963,233** |

The Board voted to utilize, as part of its spending policy from its investment portfolio, a portion of cumulative endowment appreciation 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, 2017 and 2016 was $2,235,140 and $2,151,114, respectively.

***Permanently Restricted Net Assets***

Permanently restricted net assets consist of the following at June 30:

| | ***2017*** | ***2016*** |
|---|---|---|
| Endowments requiring one-half of investment income to be added to original gift and balance to general support | $ 2,939,127 | $ 2,867,554 |
| Other special endowments, income restricted for various program purposes of the Home | 1,369,577 | 1,369,577 |
| General support endowments | 5,530,319 | 5,530,319 |
| Beneficial interest in perpetual trusts | 13,172,433 | 12,741,610 |
| | **$ 23,011,456** | **$ 22,509,060** |

### *Note 11 - Net Assets and Endowment Matters (Continued)*

Following is a summary of endowment net asset composition by type of fund as of June 30, 2017:

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 26,481,206 | $ 23,011,456 | $ 49,492,662 |
| Board-designated endowment funds | 48,417,719 | - | - | 48,417,719 |
| Other unrestricted endowment funds | 1,411,507 | - | - | 1,411,507 |
| | **$ 49,829,226** | **$ 26,481,206** | **$ 23,011,456** | **$ 99,321,888** |

Following is a summary of the changes in endowment net assets for the year ended June 30, 2017:

| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| Endowment net assets as of June 30, 2016 | $ 43,664,115 | $ 24,355,047 | $ 22,509,060 | $ 90,528,222 |
| Investment return: | | | | |
| Net gains on investment transactions | 5,070,892 | 3,704,250 | 430,823 | 9,205,965 |
| Investment revenue | 1,884,073 | 657,049 | 71,573 | 2,612,695 |
| | 6,954,965 | 4,361,299 | 502,396 | 11,818,660 |
| Other changes: | | | | |
| Appropriations | (2,264,300) | (2,235,140) | - | (4,499,440) |
| Contributions | 1,474,446 | - | - | 1,474,446 |
| | (789,854) | (2,235,140) | - | (3,024,994) |
| **Endowment net assets as of June 30, 2017** | **$ 49,829,226** | **$ 26,481,206** | **$ 23,011,456** | **$ 99,321,888** |

### *Note 11 - Net Assets and Endowment Matters (Continued)*

Following is a summary of endowment net asset composition by type of fund as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 24,355,047 | $ 22,509,060 | $ 46,864,107 |
| Board-designated endowment funds | 42,252,608 | - | - | 42,252,608 |
| Other unrestricted endowment funds | 1,411,507 | - | - | 1,411,507 |
| | **$ 43,664,115** | **$ 24,355,047** | **$ 22,509,060** | **$ 90,528,222** |

Following is a summary of the changes in endowment net assets for the year ended June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets as of June 30, 2015 | $ 45,145,460 | $ 27,168,119 | $ 23,192,124 | $ 95,505,703 |
| Investment return: | | | | |
| Net losses on investment transactions | (2,363,798) | (2,008,225) | (829,714) | (5,201,737) |
| Investment revenue | 3,363,868 | 1,346,267 | 146,650 | 4,856,785 |
| | 1,000,070 | (661,958) | (683,064) | (344,952) |
| Other changes: | | | | |
| Withdrawals | (5,255,848) | - | - | (5,255,848) |
| Appropriation | 2,151,114 | (2,151,114) | - | - |
| Contributions | 623,319 | - | - | 623,319 |
| | (2,481,415) | (2,151,114) | - | (4,632,529) |
| **Endowment net assets as of June 30, 2016** | **$ 43,664,115** | **$ 24,355,047** | **$ 22,509,060** | **$ 90,528,222** |

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, 2017 and 2016 and the level required by donor stipulation was minimal.

### *Note 12 - Commitments and Contingencies*

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