

# **Erie Homes for Children and Adults, Inc.**

*Financial Statements*

June 30, 2009 and 2008

**Erie Homes for Children and Adults, Inc.**  
**Financial Statements**  
**June 30, 2009 and 2008**  
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**Malin, Bergquist & Company, LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

To the Board of Directors  
Erie Homes for Children and Adults, Inc.  
226 East 27th Street  
Erie, PA 16504

We have audited the accompanying statement of assets, liabilities and net assets of Erie Homes for Children and Adults, Inc. (a nonprofit organization) as of June 30, 2009 and the related statements of revenue, support and expenses, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2008 financial statements, and, in our report dated February 6, 2009, we expressed a qualified opinion on those financial statements for the same reason discussed in the third paragraph of this report.

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 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 our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, Erie Homes for Children and Adults, Inc. expenses property and equipment purchases that are funded by government contracts and grants. This practice is consistent with certain state regulations. In our opinion, all capital expenditures should be capitalized and depreciated over their estimated useful lives to conform with accounting principles generally accepted in the United States of America. The effects on the financial statements of this practice are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Erie Homes for Children and Adults, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Malin, Bergquist & Company, LLP*

Erie, Pennsylvania  
December 29, 2009

**Erie Homes for Children and Adults, Inc.**  
**Statements of Financial Position**  
**As of June 30, 2009 with Comparative Totals for 2008**

<i>ASSETS</i>	Current	Board of	Interfund	2009 Total	2008 Total
	Operations	Directors	Eliminations		
Cash and cash equivalents	\$ 117,127	\$ 51,894	\$ -	\$ 169,021	\$ 98,134
Receivables	1,134,718	30,064	-	1,164,782	1,537,643
Interfund receivable	386,798	-	(386,798)	-	-
Prepaid expenses and other	214,469	-	-	214,469	179,014
Investments	-	2,808,263	-	2,808,263	3,473,079
Funds held by others	-	55,654	-	55,654	70,251
Land, buildings and equipment	3,032,831	305,035	-	3,337,866	3,204,352
Bond financing costs	18,315	-	-	18,315	26,877
<b>Total assets</b>	<b>\$ 4,904,258</b>	<b>\$ 3,250,910</b>	<b>\$ (386,798)</b>	<b>\$ 7,768,370</b>	<b>\$ 8,589,350</b>
<b><i>LIABILITIES AND NET ASSETS</i></b>					
<b>Liabilities</b>					
Short-term bank borrowings	\$ 623,000	\$ -	\$ -	\$ 623,000	\$ 1,620,000
Accounts payable and accrued expenses	1,459,379	8,196	(5,227)	1,462,348	1,006,743
Interfund payable	-	381,571	(381,571)	-	-
Long-term debt	1,917,977	-	-	1,917,977	1,451,035
<b>Total liabilities</b>	<b>4,000,356</b>	<b>389,767</b>	<b>(386,798)</b>	<b>4,003,325</b>	<b>4,077,778</b>
<b>Net assets</b>					
Unrestricted - Undesignated	903,902	2,476,642	-	3,380,544	4,019,394
Unrestricted - Board designated	-	242,500	-	242,500	242,500
Temporarily restricted	-	117,001	-	117,001	224,678
Permanently restricted	-	25,000	-	25,000	25,000
<b>Total net assets</b>	<b>903,902</b>	<b>2,861,143</b>	<b>-</b>	<b>3,765,045</b>	<b>4,511,572</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,904,258</b>	<b>\$ 3,250,910</b>	<b>\$ (386,798)</b>	<b>\$ 7,768,370</b>	<b>\$ 8,589,350</b>

See Notes to Financial Statements

Erie Homes for Children and Adults, Inc.  
Statements of Activities  
Year Ended June 30, 2009 with Comparative Totals for 2008

	Unrestricted		Temporarily Restricted		Permanently Restricted		Interfund Eliminations	2009 Total	2008 Total
	Current Operations	Board of Directors	Board of Directors	Board of Directors	Board of Directors	Board of Directors			
<b><u>Revenues and Support</u></b>									
Program income	\$ 14,311,515	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (150,347)	\$ 14,161,168	\$ 12,535,161
Investment income	-	(681,677)	-	-	-	-	-	(681,677)	(122,850)
Contributions, grants and fundraising	-	150,808	215,826	-	-	-	-	366,634	512,177
<b>Total revenues and support</b>	14,311,515	(530,869)	215,826	-	-	-	(150,347)	13,846,125	12,924,488
Net assets released from restrictions	-	323,503	(323,503)	-	-	-	-	-	-
	14,311,515	(207,366)	(107,677)	-	-	-	(150,347)	13,846,125	12,924,488
<b><u>Expenses</u></b>									
Program	12,568,872	372,103	-	-	-	-	(107,847)	12,833,128	11,231,165
General and administrative	1,536,714	136,440	-	-	-	-	-	1,673,154	1,587,492
Fundraising	-	86,370	-	-	-	-	-	86,370	113,909
<b>Total expenses</b>	14,105,586	594,913	-	-	-	-	(107,847)	14,592,652	12,932,566
<b>Increase (decrease) in net assets</b>	205,929	(802,279)	(107,677)	-	-	-	(42,500)	(746,527)	(8,078)
Net assets, beginning of year	697,973	3,521,421	224,678	25,000	25,000	42,500	42,500	4,511,572	4,519,650
Net assets, end of year	\$ 903,902	\$ 2,719,142	\$ 117,001	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ 3,765,045	\$ 4,511,572

See Notes to Financial Statements

**Erie Homes for Children and Adults, Inc.**  
**Statements of Functional Expenses**  
**Year Ended June 30, 2009 with Comparative Totals for 2008**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2009 Total</u>	<u>2008 Total</u>
Wages and salaries	\$ 7,505,924	\$ 805,721	\$ 51,427	\$ 8,363,072	\$ 7,450,240
Employee benefits	2,218,970	273,597	7,130	2,499,697	2,193,444
Other personnel and subcontract costs	683,661	229,504	-	913,165	681,658
Occupancy costs	401,535	51,028	-	452,563	404,301
Communications	146,866	34,448	-	181,314	155,801
Facility insurance	32,316	27,805	-	60,121	60,077
Office supplies	52,990	64,170	-	117,160	208,798
Program and medical supplies	167,838	-	-	167,838	166,927
Food and clothing	151,117	-	-	151,117	137,077
Purchased services	87,804	17,697	-	105,501	96,241
Transportation	346,482	22,742	-	369,224	297,534
Miscellaneous operating costs	166,153	86,964	-	253,117	194,408
Development and promotions	-	-	27,813	27,813	58,933
Repairs and maintenance	309,013	49,403	-	358,416	208,347
Depreciation	401,853	7,466	-	409,319	440,835
Amortization	39,336	-	-	39,336	44,337
Loss on write-off of assets	-	2,609	-	2,609	3,862
Interest	121,270	-	-	121,270	129,746
<b>Total expenses</b>	<b>\$ 12,833,128</b>	<b>\$ 1,673,154</b>	<b>\$ 86,370</b>	<b>\$ 14,592,652</b>	<b>\$ 12,932,566</b>

*See Notes to Financial Statements*

**Erie Homes for Children and Adults, Inc.**  
**Statements of Cash Flows**  
**Year Ended June 30, 2009 with Comparative Totals for 2008**

	<u>Current Operations</u>	<u>Board of Directors</u>	<u>2009 Total</u>	<u>2008 Total</u>
<b><u>Cash Flows From Operating Activities</u></b>				
Change in net assets	\$ 55,582	\$ (802,109)	\$ (746,527)	\$ (8,078)
Add depreciation and amortization expense which does not require the use of cash	417,123	31,532	448,655	485,173
Gain on sale of equipment	(2,400)	-	(2,400)	-
(Gain) loss on sale of investments	-	269,881	269,881	(30,734)
Loss from write-off of equipment	5,009	-	5,009	6,652
Net depreciation of investments	-	511,627	511,627	346,350
Decrease in receivables	349,683	23,178	372,861	3,699
Increase in prepaid expenses and other assets	(35,455)	-	(35,455)	(19,030)
Increase (decrease) in accounts payable and accrued expenses	<u>425,610</u>	<u>29,995</u>	<u>455,605</u>	<u>(125,809)</u>
<b>Net cash flows provided by operating activities</b>	<u>1,215,152</u>	<u>64,104</u>	<u>1,279,256</u>	<u>658,223</u>
<b><u>Cash Flows From Investing Activities</u></b>				
Purchase of property and equipment	(578,617)	-	(578,617)	(288,562)
Proceeds from sale of equipment	2,400	-	2,400	-
Proceeds from sale of investments	-	1,680,820	1,680,820	2,647,972
Purchase of investments	<u>-</u>	<u>(1,782,914)</u>	<u>(1,782,914)</u>	<u>(2,822,629)</u>
<b>Net cash flows used in investing activities</b>	<u>(576,217)</u>	<u>(102,094)</u>	<u>(678,311)</u>	<u>(463,219)</u>
<b><u>Cash Flows From Financing Activities</u></b>				
Net borrowings (repayments) on line of credit	(997,000)	-	(997,000)	67,000
Proceeds from borrowings of debt	800,000	-	800,000	-
Repayments on debt	(333,058)	-	(333,058)	(200,874)
Change in interfund receivable/payable	<u>(77,350)</u>	<u>77,350</u>	<u>-</u>	<u>-</u>
<b>Net cash flows provided by (used in) financing activities</b>	<u>(607,408)</u>	<u>77,350</u>	<u>(530,058)</u>	<u>(133,874)</u>
<b>Net increase in cash and cash equivalents</b>	31,527	39,360	70,887	61,130
Cash and cash equivalents - beginning	<u>85,600</u>	<u>12,534</u>	<u>98,134</u>	<u>37,004</u>
Cash and cash equivalents - ending	<u>\$ 117,127</u>	<u>\$ 51,894</u>	<u>\$ 169,021</u>	<u>\$ 98,134</u>
<b><u>Supplemental Cash Flow Information</u></b>				
Cash paid for interest	\$ 123,879	\$ -	\$ 123,879	\$ 133,608

*See Notes to Financial Statements*

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

1. *Nature of Activities*

Erie Homes for Children and Adults, Inc. (“Organization” or “EHCA”) operates as a private, nonprofit agency providing programs for individuals with mental retardation and severe physical disabilities. The agency provides a variety of residential, therapeutic, habilitative and medical services designed to assist each individual to grow and develop toward his/her maximum potential.

Children and adults functioning at all levels of mental retardation, developmental disability and often times possessing severe physical disabilities with neurological manifestations are candidates for the Organization’s services in its residential program.

The Medicaid 2176 Home and Community Based Waiver Program (Waiver) is designed to provide a wide array of home and community-based services needed by an individual to avoid institutionalization and to allow federal and state funds to follow individuals from institutions to the community. The program permits the Commonwealth of Pennsylvania to use existing service systems and Medical Assistance and state funding to furnish non-institutional services to individuals, as well as to encourage cost effectiveness and accountability.

Residential facilities funded by Waiver through Erie and other Pennsylvania counties are located at:

- Cumberland Road, Harborcreek, PA
- Cider Mill Road, Millcreek, PA
- East 38th Street, Erie, PA
- Walbridge Road, Harborcreek, PA
- 224 East 27th Street (South Apartments), Erie, PA
- 225 East 26th Street (North Apartments), Erie, PA
- Tulane Avenue, Millcreek, PA
- Saltsman Road, Harborcreek, PA
- Aris Drive, Millcreek, PA
- Whitney Way, Lawrence Park, PA
- Skyline Drive, Erie, PA
- 815 Rockwood Drive, Titusville, PA
- 819 Rockwood Drive, Titusville, PA
- 216 East 27<sup>th</sup> Street, Erie, PA
- Cochran Suite, 226 East 27<sup>th</sup> Street, Erie, PA

A residential facility located at Roxanna Drive, Erie, Pennsylvania, is funded through the Erie County Office of Children and Youth Services.

EHCA also provides in-home therapeutic, habilitation, and nursing care to developmentally challenged persons. The Organization refers to this program as “Options”. It is provided in Erie County, Venango County and Crawford County and is funded by these counties (Waiver).

EHCA also operates a program called “Project First Step” in Erie, Crawford and Venango Counties. This program assists birth families in finding the community support services and education that will enable a child who is medically fragile or has been diagnosed with developmental disabilities to live in a family environment. A prevention component of the program called Doula Services supports families at risk for having a child with disabilities. Project First Step receives financial support from the Erie, Crawford and Venango County offices of Human Services, and is funded in part by grants from foundations and private individuals.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

1. *Nature of Activities (Continued)*

EHCA also operates day support services, known as the MOVE program. Residents over the age of 21 participate in therapeutic, volunteer and leisure activities. These services are funded by Erie and other Pennsylvania counties.

Additional programs and services provided by EHCA are as follows:

Supported Living – A program to support individuals who can live independently but need some assistance with daily living skills.

Children’s Therapeutic Living Program – A program for children with mental illness who require 24-hour, one-on-one live-in staff support, in a highly specialized domestic setting.

Respite Services – A program that offers short-term care so other family members can rest or participate in special events. Respite may be provided in either an EHCA facility or in a host home.

OBRA and Independence Waivers – A program that serves adults with disabilities whose first diagnosis is not mental retardation.

Family Living – A program that places children and adults with special needs in the homes of those willing to care for them. Seven clients in Erie and Crawford are currently being served in family living homes.

School Age Program – A project in collaboration with the YMCA that offers after-school and summer programming to children 6-12 years old, with and without disabilities.

Representative Payee Program – A program in which a representative helps an individual with developmental disabilities handle money management and fiscal responsibilities.

A significant amount of EHCA funding is provided by federal, state and municipal governments. A substantial amount of the receivables for the Current Operations are from these governments.

EHCA is subject to various laws and regulations regarding the program funding they receive from federal, state and municipal governments. The program funding received is subject to audit. As of the date of this report, management is not aware of any pending audits or adjustments to grants/contracts that would have a material effect on the financial statements.

2. *Summary of Significant Accounting Policies*

*Accounting Practices*

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America except for the accounting of certain property and equipment purchases. Government contracts and other grants received to fund purchases of property and equipment are recorded as revenues and the expenditure for property and equipment is recorded as an expense. In 2009, government funds received for property and equipment which was expensed totaled \$10,105.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

2. **Summary of Significant Accounting Policies (Continued)**

**Basis of Presentation**

The financial statements are prepared on the accrual basis of accounting whereby revenues are recorded in the year earned (when services are rendered) and expenses are reported in the year incurred.

EHCA's financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations. SFAS No. 117 requires that resources be classified into three net asset categories according to donor-imposed restrictions. The three net asset categories are as follows:

**Unrestricted Net Assets** – Net assets that are not subject to donor restrictions.

Current Operations – Includes the revenues, support and expenses associated with the principal functions of EHCA.

Board of Directors – Created primarily from various contributions received. Generally, the Board of Directors has designated that only its income can be used to increase its investments, fund deficits in the current operations, and fund other board activities.

**Temporarily Restricted Net Assets** – Net assets subject to donor-imposed restrictions that may or will be met either by passage of time or actions of the Organization. EHCA's 2009 temporarily restricted net assets are a result of donations restricted by donors for capital improvements, the Special Needs fund, Project First Step, technology and other miscellaneous programs.

Net assets released from restrictions for the year ended June 30, 2009 were for capital improvements, Special Needs, Project First Step, technology and other miscellaneous programs.

**Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that are maintained permanently by the Organization. These net assets are permanently restricted for Project First Step.

**Cash and Cash Equivalents**

Cash equivalents include amounts held in interest bearing checking and savings accounts.

**Concentration of Credit Risk**

EHCA maintains its cash balances in financial institutions located in Erie, Pennsylvania. At times, balances exceed amounts insured by the Federal Deposit Insurance Corporation. EHCA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

EHCA maintains investments in debt and equity securities and may be subject to concentration risks. Investment securities are exposed to various risks, such as market interest rate and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in value of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position and Activities.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

2. *Summary of Significant Accounting Policies (Continued)*

*Receivables*

EHCA accounts for its trade receivables at the outstanding principal balance, adjusted for the allowance for doubtful accounts, if applicable. EHCA estimates its allowance for doubtful accounts and bad debts based on management's assessment of the collectability of receivables, prior experience, and discussions with and information provided by governmental agencies and others who EHCA extends credit to. Management has determined there is no allowance required at June 30, 2009. The Organization grants credit to governmental agencies and others, and collateral is generally not required.

The Organization has no accounts accruing interest charges as of June 30, 2009. The Organization charges off trade receivables based on management experience with the governmental agencies and others they extend credit to. Receivables are typically written off after repeated attempts to collect the balance have been unsuccessful.

*Contributions*

EHCA accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Made*. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenues, and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. 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. SFAS No. 116 also requires contributed services be recorded at fair value if the services meet certain criteria.

*Contributed Services*

EHCA uses the help of unpaid volunteers in its program and fundraising activities. The value of these services is not included in the Statement of Activities because the services do not meet the recording criteria of SFAS No. 116.

*Investments*

EHCA accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 requires investments in equity securities with readily determinable fair values and all debt securities to be measured at fair value. SFAS No. 124 also requires dividends, interest and realized and unrealized gains and losses to be reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently limited by donor-imposed restrictions.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

2. *Summary of Significant Accounting Policies (Continued)*

*Property and Equipment*

Property and equipment is carried at cost less accumulated depreciation. Property and equipment that is donated is carried at fair market value determined at the date of donation. The donation is recorded as unrestricted revenue unless the donor has imposed a restriction. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, EHCA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Property and equipment purchased with grants from federal, state or local governments is expensed in the year purchased. Depreciation is computed on a straight-line basis using the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-20
Equipment, furniture and fixtures	5
Vehicles	5

*Bond Financing Costs*

Bond financing costs are amortized on a straight-line basis over the term of the debt. Accumulated amortization on the bond financing was \$37,589 and \$29,028 as of June 30, 2009 and 2008, respectively.

*Fair Value of Financial Instruments*

The carrying amounts of cash, accounts receivable, prepaid items, accounts payable and accrued liabilities approximate fair values due to the short-term maturities of these assets and liabilities. The interest rates on substantially all of the EHCA short-term and long-term debt reflect current market rates available to EHCA; accordingly, the carrying amounts of EHCA's short-term and long-term borrowings also approximate fair value. EHCA's investments are carried at fair market value on the statement of financial position.

*Functional Allocation of Expenses*

Costs of providing programs, general administration and fundraising have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs, administrative and fundraising activities benefited. The allocation percentages and methodology are reviewed and revised by management on a regular basis to result in a reasonable and equitable allocation of costs between the programs benefited.

*Use of Estimates*

The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

2. **Summary of Significant Accounting Policies (Continued)**

**Prior-Year Summarized Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with basis of accounting as described above in Note 2. Accordingly, such information should be read in conjunction with EHCA's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

**Federal Income Tax Status**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Also, the Internal Revenue Service has determined EHCA to be a publicly supported organization, and not a private foundation.

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, which utilizes different thresholds and measurement criterion for the recognition of tax positions under the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. In December 2008, the FASB issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN No. 48 for certain nonpublic enterprises until fiscal years beginning after December 15, 2008. As such, EHCA has elected to defer its adoption of FIN No. 48 in its financial statements for the year ended June 30, 2009.

The FASB confirmed that FIN No. 48 applies to non-profit entities. The deferred effective date is intended to give the Board additional time to develop guidance on the application of FIN 48 to not-for-profit organizations. The deferral will also give the Board time to amend the disclosure requirements of FIN 48 for nonpublic enterprises.

EHCA is currently evaluating the impact of adopting FIN No. 48 on its financial statements for the year ending June 30, 2010.

**Subsequent Events**

EHCA evaluated its June 30, 2009 financial statements for subsequent events through December 29, 2009, the date the financial statements were available to be issued. EHCA is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

3. **Receivables**

Accounts receivable consist of the following at June 30, 2009 (various County receivables are net of any advances):

Current Operations:

Crawford County Human Services	\$	42,410
Erie Family Engagement		14,307
Erie Family Living (RU #766)		59,298
Erie Home and Community Habilitation (RU #591)		101,285
Erie County MHMR (RU #760)		459,715
Erie Respite (RU #XXX)		87,236
Forest/Warren County MHMR		167,691
OBRA-Erie County MHMR		37,431
Office of Children and Youth		43,189
Venango County MHMR		28,058
Venango County Children and Youth		31,414
Other		62,684
		<u>1,134,718</u>
	\$	<u>1,134,718</u>

Board of Directors:

Interest	\$	8,587
Residents		6,457
Other		15,020
		<u>30,064</u>
	\$	<u>30,064</u>

4. **Investments**

Investments consist of the following at June 30, 2009:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 83,315	\$ 83,315	\$ -
Common stocks	1,062,357	1,131,569	(69,212)
Equity security mutual funds	958,561	1,224,236	(265,675)
Fixed income security mutual funds	206,576	201,963	4,613
Federal agency notes	54,626	50,036	4,590
Corporate notes	442,828	444,507	(1,679)
	<u>\$ 2,808,263</u>	<u>\$ 3,135,626</u>	<u>\$ (327,363)</u>
	<u>\$ 2,808,263</u>	<u>\$ 3,135,626</u>	<u>\$ (327,363)</u>

**Erie Homes for Children and Adults, Inc.**  
**Notes to Financial Statements**  
**June 30, 2009 and 2008**

4. **Investments (Continued)**

Investment income consists of the following for the years ended June 30, 2009 and 2008:

	<u>Current Operations</u>	<u>Board of Directors</u>	<u>2009 Total</u>	<u>2008 Total</u>
Interest and dividend income	\$ -	\$ 99,831	\$ 99,831	\$ 192,766
Net realized gains (losses)	-	(269,881)	(269,881)	30,734
Net unrealized gains (losses)	-	(511,627)	(511,627)	(346,350)
	<u>\$ -</u>	<u>\$ (681,677)</u>	<u>\$ (681,677)</u>	<u>\$ (122,850)</u>

**Fair Value Measurement**

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No.157), establishes a framework for measuring fair value and requires certain disclosures about the fair value measurement (see Note 1). The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include: 1) Quoted prices for similar assets or liabilities in active markets, 2) Quoted prices for identical or similar assets or liabilities in inactive markets, 3) Inputs other than quoted prices that are observable for the asset or liability, and 4) Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Erie Homes for Children and Adults, Inc.**  
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4. Investments (Continued)

Fair Value Measurement (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009 and 2008.

- When available, quoted market prices are used to determine the fair value of investment securities, and they are included in Level 1. Level 1 securities primarily include common stock and mutual funds.
- When quoted market prices are unobservable, quotes from independent pricing vendors are utilized based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. These investments are included in Level 2. Level 2 securities primarily include money market funds, federal agency & corporate notes.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while EHCA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, EHCA's assets at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Money market funds	\$ -	\$ 83,315	\$ -	\$ 83,315
Common stocks	1,062,357	-	-	1,062,357
Equity security mutual funds	958,561	-	-	958,561
Fixed income security mutual funds	206,576	-	-	206,576
Federal agency notes	-	54,626	-	54,626
Corporate notes	-	442,828	-	442,828
<b>Total fair value of investments</b>	<b>\$ 2,227,494</b>	<b>\$ 580,769</b>	<b>\$ -</b>	<b>\$ 2,808,263</b>

Endowment

EHCA's endowment includes funds designated by the Board of Directors to function as endowments. The purpose of this endowment is to provide financial support to EHCA programs that are not funded by other means. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Erie Homes for Children and Adults, Inc.**  
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4. **Investments (Continued)**

**Interpretation of Relevant Law**

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). Although Act 141 does not apply to EHCA's unrestricted endowment funds, the Board of Directors of EHCA uses Act 141 as a framework for its unrestricted board-designated endowment fund. Act 141 requires an organization to adopt and follow a "total return" investment policy to seek the best total return on the principal whether from capital appreciation, earnings, or both. If Act 141 is applicable and elected by an organization the board is required to make an annual "spending" election of between 2% and 7% of the value of the endowment assets. For purposes of this provision the value of the trust principal is the fair market value of the trust assets averaged over the past three or more years.

EHCA considers the following factors in making a determination to spend or accumulate board designated and donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of EHCA's endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of EHCA
- (7) The investment policies of EHCA

**Return Objectives and Risk Parameters**

EHCA 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 board designated funds and donor-restricted funds. Under this policy, as approved by the Board of Directors, the primary objective of the endowment assets is the long-term growth of principal with generation of income without an undue exposure to risk. Assets are invested in a manner that is intended to achieve a total return, net of fees, and to produce results that meet or exceed various industry benchmarks. Actual returns in any given year may vary.

**Strategies Employed for Achieving Objectives**

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

**Erie Homes for Children and Adults, Inc.**  
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4. **Investments (Continued)**

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

Assets available for distribution shall be determined by a total return calculation based upon the endowment fund's average fair value over the prior three years. The amount to be distributed, if any, will be determined annually by the Board. In establishing this policy, EHCA considered the long-term expected return on its endowment. Accordingly, over the long term, EHCA expects the current spending policy to allow its endowment to grow. This is consistent with EHCA's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. EHCA has not taken a withdrawal from the endowment during 2008 or 2009.

5. **Funds Held by Others**

During the year ended June 30, 2004, EHCA transferred \$50,000 to The Erie Community Foundation to create an endowment fund. The value of the fund was \$55,654 at June 30, 2009. The fund consists of various marketable debt and equity securities, and certain alternative investments.

6. **Land, Buildings and Equipment**

Land, buildings and equipment consists of the following at June 30, 2009 and 2008:

	<u>Current Operations</u>	<u>Board of Directors</u>	<u>2009 Total</u>	<u>2008 Total</u>
Land	\$ 239,368	\$ 12,000	\$ 251,368	\$ 251,368
Buildings and improvements	4,820,839	617,644	5,438,483	5,421,358
Equipment, furniture and fixtures	624,460	19,654	644,114	614,213
Vehicles	1,546,556	-	1,546,556	1,225,589
	7,231,223	649,298	7,880,521	7,512,528
Less accumulated depreciation	<u>(4,198,392)</u>	<u>(344,263)</u>	<u>(4,542,655)</u>	<u>(4,308,176)</u>
	<u>\$ 3,032,831</u>	<u>\$ 305,035</u>	<u>\$ 3,337,866</u>	<u>\$ 3,204,352</u>

7. **Line of Credit and Notes Payable**

The Organization has a \$3,500,000 line of credit with PNC Bank. Borrowings outstanding under the line are \$623,000 at June 30, 2009. Interest is payable monthly at two interest rate options available to EHCA; the rate being charged at June 30, 2009 was 3.25%. The borrowings are collateralized by all real and personal property, receivables, and investments of the Organization. The line is renewable annually and matures in December 2009.

In May 2002, EHCA entered into an agreement with PNC Bank and the Erie County General Authority to refinance its existing term debt with Erie County General Authority \$2,000,000 Tax-Exempt Revenue Notes, Series of 2002. This refinancing is segregated into separate notes and is collateralized by substantially all assets of the Organization excluding the investments of the Board of Directors. The notes consist of the following items (A) and (B).

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7. **Line of Credit and Notes Payable (Continued)**

In December 2005, EHCA entered into another agreement with PNC Bank and the Erie County General Authority to obtain additional funding for the purchase of a new group home, maintenance building, and other capital items with Erie County General Authority \$1,075,000 Tax-Exempt Revenue Notes, Series of 2005. This loan is segregated into two separate notes and is collateralized by all of the Organization's real estate. The notes consist of the following items (D) and (E).

(A) Note payable to PNC Bank. Monthly payments are currently \$1,339 including interest at 5.04% per annum. The monthly payments decline at various times throughout the term of the loan which matures May 2012.	\$ 42,369
(B) Note payable to PNC Bank. Monthly payments are currently \$7,023 including interest at 5.3% per annum. The monthly payments decline at various times throughout the term of the loan which matures May 2017.	417,077
(C) Note payable to PNC Bank. Monthly payments are \$1,018 including interest at 3.96% for 59 months. The original loan matured in September 2008 and was re-financed at that time. The loan is secured by a mortgage on certain real estate. This loan was issued pursuant to a \$138,000 Erie County General Authority Tax-Exempt Revenue Note, Series of 2003.	93,483
(D) Note payable to PNC Bank. Monthly payments are \$5,574 including interest at 5.13% per annum. The loan matures December 2020. This loan was issued pursuant to a \$695,500 Erie County General Authority Tax-Exempt Revenue Note A, Series of 2005.	577,927
(E) Note payable to PNC Bank. Monthly payments are \$7,174 including interest at 5.00% per annum. The loan matures December 2010. This loan was issued pursuant to a \$379,500 Erie County General Authority Tax-Exempt Revenue Note B, Series of 2005.	124,108
(F) Note payable to PNC Bank. Monthly payments are \$15,537 including interest at 6.18% per annum. The loan is collateralized by substantially all assets of the Organization and matures August 2013.	<u>663,013</u>
	<u><u>\$ 1,917,977</u></u>

**Erie Homes for Children and Adults, Inc.**  
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7. **Line of Credit and Notes Payable (Continued)**

Principal maturities on long-term debt are as follows in future years:

	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>(D)</u>	<u>(E)</u>	<u>(F)</u>	<u>Total</u>
2010	\$ 14,199	\$ 63,682	\$ 12,141	\$ 37,644	\$ 81,660	\$ 149,664	\$ 358,990
2011	14,932	67,140	13,240	39,653	42,448	159,179	336,592
2012	13,238	70,750	14,111	41,700	-	169,300	309,099
2013	-	69,237	15,060	43,996	-	180,064	308,357
2014	-	56,390	16,062	46,345	-	4,806	123,603
Thereafter	-	89,878	22,869	368,589	-	-	481,336
	<u>\$ 42,369</u>	<u>\$ 417,077</u>	<u>\$ 93,483</u>	<u>\$ 577,927</u>	<u>\$ 124,108</u>	<u>\$ 663,013</u>	<u>\$ 1,917,977</u>

Interest expense for the above line of credit and notes payable for the year ended June 30, 2009 was \$121,269.

EHCA is subject to certain loan covenants in connection with the line of credit and Tax-Exempt Revenue Notes. There are no known violations of any covenants as of and for the year ended June 30, 2009.

8. **Designated Net Assets – Board of Directors**

The Board of Directors has designated net assets for future contingent expenses of the Organization. The amount designated at June 30, 2009 is \$242,500.

9. **Custodian Funds – Residents and Clients**

The Organization maintains bank accounts as representative payee for certain of its residents and clients. These funds are held to be disbursed only for various personal items of the residents and clients. Since these custodian funds are not assets of Erie Homes for Children and Adults, Inc., they are not included in the accompanying financial statements.

10. **Pension Plan**

The Organization has a deferred compensation [401(k)] plan covering employees who have completed one year of service and are at least 21 years of age. EHCA may make discretionary contributions to the plan. The pension expense for the year ended June 30, 2009 was \$280,386, based on discretionary contributions of 3.75% of eligible participants' compensation.