

Combined Financial Statements
The May Institute, Inc. and Affiliates
June 30, 2009 and 2008



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Financial Statements

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Independent Auditors' Report

Boards of Directors
The May Institute, Inc. and Affiliates
Randolph, Massachusetts

We have audited the accompanying combined statement of financial position of The May Institute, Inc. and Affiliates (the "Organization") as of June 30, 2009, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year's summarized financial information has been derived from the Organization's fiscal year 2008 combined financial statements. The financial statements of the Organization, as of June 30, 2008, were audited by other auditors, Tofias P.C., whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008 and whose report dated December 2, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The May Institute, Inc. and Affiliates as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

December 11, 2009
Cambridge, Massachusetts

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Statements of Financial Position

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Assets		
Cash and cash equivalents	\$ 2,544,352	\$ 2,338,311
Escrow deposits	1,946,973	2,430,983
Accounts receivable, net of allowance for doubtful accounts	7,092,446	7,498,244
Pledges receivable	-	25,000
Prepaid and deferred expenses	156,886	1,319,388
Investments	5,284,892	8,142,331
Deposits	410,950	403,820
Loan origination costs, less accumulated amortization	24,811	26,037
Capitalized interest costs, less accumulated amortization	43,922	46,091
Bond issuance costs, less accumulated amortization	722,678	756,098
Property, plant and equipment, at cost, less accumulated depreciation and amortization	33,786,064	31,697,762
Construction in progress	110,781	938,816
	<hr/>	<hr/>
Total assets	\$ 52,124,755	\$ 55,622,881
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Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,280,291	\$ 1,533,890
Accrued expenses	4,554,179	5,240,864
Deferred revenue	726,068	753,101
Deferred gains on sale-leaseback transactions	-	2,745,013
Third-party payor settlements	1,094,435	1,469,435
Estimated third-party payor liabilities	409,554	941,816
Line-of-credit	3,123,609	3,251,857
Interest rate swap agreement	652,715	272,610
Mortgage notes payable	6,070,666	4,648,928
Bonds payable, net of unamortized discount	19,108,455	19,541,214
	<hr/>	<hr/>
Total liabilities	37,019,972	40,398,728
	<hr/>	<hr/>
Net assets:		
Unrestricted	13,489,816	13,774,014
Temporarily restricted	1,613,967	1,449,139
Permanently restricted	1,000	1,000
	<hr/>	<hr/>
Total net assets	15,104,783	15,224,153
	<hr/>	<hr/>
Total liabilities and net assets	\$ 52,124,755	\$ 55,622,881
	<hr/>	<hr/>

See accompanying notes to the combined financial statements.

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Statements of Activities

Year Ended June 30, 2009

(With Summarized Financial Information for June 30, 2008)

				2009	2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains, losses and other support:					
Tuition	\$ 31,951,371	\$ -	\$ -	\$ 31,951,371	\$ 32,039,004
Contract revenue	53,474,842	-	-	53,474,842	53,896,851
Consulting and management services	5,046,272	-	-	5,046,272	4,534,831
Third Party fees - net of free services and contractual adjustments	6,406,929	-	-	6,406,929	5,588,378
Consumer revenue	3,685,344	-	-	3,685,344	3,613,516
Other program revenue	561,920	339,176	-	901,096	833,352
Contributions, grants and subsidies	1,111,472	-	-	1,111,472	883,015
Interest income	284,758	-	-	284,758	440,876
Net loss on investment transactions	(625,609)	-	-	(625,609)	(395,265)
Unrealized loss on interest rate swap agreement	(380,105)	-	-	(380,105)	(387,325)
Gains on sales of property and equipment	144,260	-	-	144,260	115,280
Gains on sale-leaseback transactions	2,745,013	-	-	2,745,013	1,597,769
Other sources	392,342	-	-	392,342	1,073,244
Net assets released from restrictions	174,348	(174,348)	-	-	-
Total revenues, gains, losses and other support	104,973,157	164,828	-	105,137,985	103,833,526
Expenses:					
The May Institute, Inc. Program Services					
Educational Services	27,080,441	-	-	27,080,441	28,700,220
Residential and Day Services	43,174,840	-	-	43,174,840	38,055,673
Consulting and Home Based Services	6,655,228	-	-	6,655,228	4,436,577
Special Projects	2,250,924	-	-	2,250,924	1,684,579
Behavioral Health Services	9,520,312	-	-	9,520,312	9,601,642
May South, Inc. Program Services	-	-	-	-	7,881,125
Greater Springfield Residences, Inc. Program Services	64,757	-	-	64,757	51,170
The May-West Roxbury Residences, Inc. Program Services	53,037	-	-	53,037	36,087
The Bay School, Inc. Program Services	3,430,023	-	-	3,430,023	2,600,690
National Autism Center, Inc. Program Services	5,047	-	-	5,047	91,514
Total program services	92,234,609	-	-	92,234,609	93,139,277
Management and General	12,675,303	-	-	12,675,303	10,598,585
Fundraising	347,443	-	-	347,443	405,001
Total expenses	105,257,355	-	-	105,257,355	104,142,863
Change in net assets	(284,198)	164,828	-	(119,370)	(309,337)
Net assets at beginning of year	13,774,014	1,449,139	1,000	15,224,153	15,533,490
Net assets at end of year	\$ 13,489,816	\$ 1,613,967	\$ 1,000	\$ 15,104,783	\$ 15,224,153

See accompanying notes to the combined financial statements

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Statement of Functional Expenses

Year Ended June 30, 2009

	<i>The May Institute, Inc</i>					
	<i>Educational Services</i>	<i>Residential and Day Services</i>	<i>Consulting and Home Based Services</i>	<i>Special Projects</i>	<i>Behavioral Health Services</i>	<i>Balance Forward</i>
Salaries and wages	\$ 17,830,434	\$ 28,103,830	\$ 4,756,232	\$ 1,074,691	\$ 5,576,696	\$ 57,341,883
Employee benefits and payroll taxes	3,575,754	5,158,876	982,442	190,306	1,098,958	11,006,336
Total payroll and employee benefits	21,406,188	33,262,706	5,738,674	1,264,997	6,675,654	68,348,219
Professional fees and contracted services	552,126	572,701	195,118	630,574	131,648	2,082,167
Occupancy	2,259,040	4,209,893	173,870	158,490	1,343,858	8,145,151
Supplies	440,653	855,511	78,766	106,880	223,573	1,705,383
Transportation	437,787	2,005,241	305,293	28,803	358,800	3,135,924
Dietary expense	445,294	1,014,904	5,641	5,287	271,707	1,742,833
Interest expense	601,765	423,450	-	-	43,898	1,069,113
Depreciation and amortization	738,151	447,904	29,994	22,722	107,358	1,346,129
Other	199,437	382,530	127,872	33,171	363,816	1,106,826
Total expenses	\$ 27,080,441	\$ 43,174,840	\$ 6,655,228	\$ 2,250,924	\$ 9,520,312	\$ 88,681,745

See accompanying notes to the combined financial statements

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Statement of Functional Expenses (Continued)

Year Ended June 30, 2009

	2009								
	<i>Balance Forward</i>	<i>Greater Springfield Residences, Inc.</i>	<i>The May-West Roxbury Residences, Inc.</i>	<i>The Bay School, Inc.</i>	<i>National Autism Center, Inc.</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total Expenses</i>
Salaries and wages	\$ 57,341,883	\$ 3,968	\$ -	\$ 2,047,111	\$ -	\$ 59,392,962	\$ 6,164,782	\$ 249,404	\$ 65,807,148
Employee benefits and payroll taxes	11,006,336	-	-	426,143	-	11,432,479	1,812,504	58,082	13,303,065
Total payroll and employee benefits	68,348,219	3,968	-	2,473,254	-	70,825,441	7,977,286	307,486	79,110,213
Professional fees and contracted services	2,082,167	-	-	136,961	-	2,219,128	998,279	372	3,217,779
Occupancy	8,145,151	37,269	24,120	447,690	-	8,654,230	1,506,906	4,199	10,165,335
Supplies	1,705,383	-	-	128,847	-	1,834,230	268,939	15,943	2,119,112
Transportation	3,135,924	-	-	102,875	-	3,238,799	564,619	4,468	3,807,886
Dietary expense	1,742,833	-	-	-	-	1,742,833	31,995	573	1,775,401
Interest expense	1,069,113	-	-	-	-	1,069,113	439,482	-	1,508,595
Depreciation and amortization	1,346,129	23,520	28,917	87,716	-	1,486,282	410,650	1,066	1,897,998
Other	1,106,826	-	-	52,680	5,047	1,164,553	477,147	13,336	1,655,036
Total expenses	\$ 88,681,745	\$ 64,757	\$ 53,037	\$ 3,430,023	\$ 5,047	\$ 92,234,609	\$ 12,675,303	\$ 347,443	\$ 105,257,355

THE MAY INSTITUTE, INC. AND AFFILIATES

Combined Statements of Cash Flows

Year Ended June 30,

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (119,370)	\$ (309,337)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,897,998	1,813,086
Net losses on investment transactions	625,609	395,265
Unrealized loss on interest rate swap agreement	380,105	387,325
Loss on disposal of assets	964	-
Gain on sale-leaseback transactions	(2,745,013)	(1,597,769)
Change in:		
Accounts receivable	405,798	1,210,074
Pledge receivables	25,000	102,400
Prepaid and deferred expenses	1,162,502	121,484
Deposits	(7,130)	(23,312)
Accounts payable	(253,599)	335,038
Accrued expenses	(686,685)	318,114
Deferred revenue	(27,033)	(53,807)
Third-party payor settlements and estimated third party payor liabilities	(907,262)	(1,587,736)
Net cash provided by (used in) operating activities	<u>(248,116)</u>	<u>1,110,825</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,933,208)	(5,441,825)
Proceeds from investment sales	2,508,931	-
Net purchases of investments	(277,101)	318,504
Change in escrow deposits	484,010	2,632,628
Change in restricted cash	-	(180,000)
Change in construction in progress	828,035	(437,634)
Net cash used in investing activities	<u>(389,333)</u>	<u>(3,108,327)</u>
Cash flows from financing activities:		
Proceeds from mortgage notes payable	1,648,000	2,124,800
Repayments of mortgage notes payable	(226,262)	(129,897)
Repayments of bonds payable	(450,000)	(1,530,000)
Net advance on line-of-credit	(128,248)	210,735
Net cash provided by financing activities	<u>843,490</u>	<u>675,638</u>
Net increase (decrease) in cash and equivalents	206,041	(1,321,864)
Cash and cash equivalents at beginning of year	<u>2,338,311</u>	<u>3,660,175</u>
Cash and cash equivalents at end of year	\$ <u><u>2,544,352</u></u>	\$ <u><u>2,338,311</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u><u>1,513,342</u></u>	\$ <u><u>1,506,029</u></u>

See accompanying notes to the combined financial statements.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

The May Institute, Inc. and Affiliates (the “Organization”) are not-for-profit organizations established for the purpose of providing educational and rehabilitative services for individuals and the families of individuals with autism, developmental disabilities, behavior disorders, and mental illness.

A summary of the Organization's significant accounting policies follows:

Basis of Combination

The combined financial statements include the accounts of The May Institute, Inc., May South, Inc., May Professional Associates, Inc., Greater Springfield Residences, Inc., The May-West Roxbury Residences, Inc., The Bay School, and National Autism Center, Inc. These corporations are under common management and control. All significant intercompany account balances and transactions have been eliminated in combination.

On July 1, 2008, May South, Inc. was dissolved and all assets and liabilities of the former entity merged into The May Institute, Inc. The merger was to facilitate clinical and financial integration of services and provide for a more efficient administrative structure.

Classification and Reporting of Net Assets

The Organization classifies net assets into three net asset classes according to donor-imposed restrictions. A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. The combined financial statements include estimates for third party payor settlements, allowances for uncollectible accounts and estimated useful lives for property, plant and equipment. Actual results could differ from those estimates.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

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

Cash and Cash Equivalents

The Organization defines cash equivalents as short-term highly liquid investments with original maturities of three months or less. The Organization maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable consists mainly of accounts receivable from third party payor sources and grants and contracts receivable from state and local governments. Accounts receivables where a third party payor is responsible for paying the amount are carried at the original charge for the service provided. Consumer receivables due directly from the consumers are carried at the original charge for services provided. Grants and contracts receivable are carried at original invoice amount.

Management determines the allowance for doubtful accounts by regularly evaluating individual receivables and considering the services provided and the current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.

Investments and Investment Income

Investments in equity securities with readily determinable fair value and all investments in debt securities are measured at fair value at the date of the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues, gains, losses and other support.

Amortization

Loan origination costs, capitalized interest costs, and bond issuance costs are being amortized over thirty years on a straight-line basis. Amortization expense for each of the next five years will amount to \$36,814, and \$607,341 to be amortized thereafter.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

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

Property and Equipment and Depreciation

Property and equipment are recorded at cost except for contributed assets, which are recorded at estimated fair value at the date of gift.

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

Buildings and building improvements	10 - 40 years
Leasehold improvements	5 - 40 years
Furniture and fixtures	3 - 10 years
Equipment	3 - 10 years
Motor vehicles	3 - 5 years

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Construction in Progress

Costs associated with the construction of major projects are accumulated until completion. The completed asset is then depreciated over its useful life after being placed in service.

Bond Issuance Costs

Costs incurred in connection with procuring long-term bond financing, consisting primarily of legal fees and underwriting costs, are deferred and amortized over the life of the related bond payable.

Derivative Financial Instruments

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS 133") and Statement of Financial Accounting Standards No. 138, Accounting for Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 138") establish accounting and reporting standards for derivative and hedging activities, and require organizations to record derivative instruments as assets or liabilities, measured at fair value. These instruments are classified on the balance sheet as an interest rate swap agreement, and the recognition of gains or losses resulting from changes in the values of the interest rate swap is recorded as changes in unrestricted net assets. The Organization entered into an interest rate swap agreement as part of its overall strategy to reduce exposure to fluctuations in interest rates.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

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

Revenue Recognition

All of the Organization's students and consumers are supported by a variety of funding sources, including local education authorities, the Massachusetts Departments of Mental Retardation, Mental Health, Education, and other governmental purchasing agencies in Massachusetts and other states. The Organization is subject to the regulations and rate formulas of the various funding agencies. Revenue is being recorded at the Organization's rates of reimbursement as certified by the applicable funding agencies.

Excess of revenue over expenses from Commonwealth of Massachusetts supported programs, up to certain defined limits, can be utilized by the Organization 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.

Additionally, the Organization derives a significant amount of its revenue through third party billings (Blue Cross, Medicaid, Medicare, and private insurance). Third party revenues are recorded net of fee allowances and adjustments for free services.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. 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 reported at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of fund raising activities.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with stipulations are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a nonfinancial asset or would typically need to be purchased, require specialized skills, and be provided by individuals with those skills. Contributions of goods and space to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods or space is received.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

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

Fair Value

The Organization measures the fair market values of its financial instruments in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. Also in accordance with SFAS 157, the Organization categorizes its financial instruments, based on the priority of inputs to the valuation technique, into a three-level hierarchy, as discussed below. Investments and deposits held by trustees are carried at fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments included in Level 1 include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Instruments which are generally included in this category include less liquid and restricted equity securities and over-the-counter derivatives including corporate bonds and loans and public company equity securities with legal restrictions.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include investments in privately held portfolio companies, promissory notes to privately held companies and interests in other investment partnerships.

In some instances, the inputs are used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For more information on the fair value of the Organization’s financial instruments, see Note 5 – Fair Value Measurements.

Income Tax Status

The Organizations are qualified under Section 501(c)(3) of the Internal Revenue Code and are exempt from Federal and state income taxes.

Advertising

The Organization expenses advertising costs as incurred.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

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

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 financial statements presentation.

Subsequent Events

The Organization has evaluated subsequent events through December 11, 2009, the date the Board of Directors approved and authorized the financial statements to be issued.

Note 2 - Escrow Deposits

Mortgage escrow deposits consist of the following at June 30:

	2009	2008
Debt service reserve fund	\$ 1,185,217	\$ 1,180,712
Debt service fund	685,730	666,128
HUD required escrow accounts	36,727	33,773
Construction/project fund	34,180	502,020
Capitalized interest fund	3,818	-
Cost of issuance escrow	-	47,208
Other	1,301	1,142
	\$ 1,946,973	\$ 2,430,983

Note 3 - Accounts Receivable

Accounts receivable are reported in the combined financial statements net of an allowance for doubtful accounts totaling \$566,714 and \$581,679 at June 30, 2009 and 2008.

Note 4 - Investments

The market value of investments consists of the following at June 30:

	2009	2008
Mutual funds	\$ 5,078,773	\$ 7,971,217
Fidelity cash and cash reserves	203,908	165,519
Stocks	2,211	5,595
	\$ 5,284,892	\$ 8,142,331

During the year ended June 30, 2009 and 2008, losses from investment transactions totaled \$625,609 and \$395,265, respectively.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 5 - Fair Value Measurements

The Organization adopted SFAS 157 as of July 1, 2008, which among other matters, requires enhanced disclosures about instruments that are measured and reported at fair value. SFAS 157 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price used in measuring instruments at fair value. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available quoted prices or for which fair value can be measured for actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The implementation of SFAS 157 had no impact on reported amounts.

The valuation of the Organization's instruments using the fair value hierarchy consisted of the following at June 30, 2009:

<i>Description</i>	<i>Total</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Investments	\$ <u>5,284,892</u>	\$ <u>5,284,892</u>	\$ <u>-</u>	\$ <u>-</u>
Interest rate swap agreement	\$ <u>(652,715)</u>	\$ <u>-</u>	\$ <u>(652,715)</u>	\$ <u>-</u>

Fair values of financial instruments for which the Organization did not elect the fair value option are included in the table below. The fair values of such instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimates presented below at June 30, 2009. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Organization.

The following methods and assumptions were used in estimating the fair value of additional financial instruments not described above:

Cash and cash equivalents	Carrying amount approximates fair value
Escrow deposits	Carrying amount approximates fair value
Accounts receivable, net	Carrying amount approximates fair value
Prepaid and defined expenses	Carrying amount approximates fair value
Deposits	Carrying amount approximates fair value
Mortgage notes payable	Carrying amount approximates fair value
Bonds payable	Carrying amount approximates fair value

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 6 - Property, Plant and Equipment

Following is a summary of property, plant and equipment as of June 30:

	2009	2008
Land	\$ 8,378,548	\$ 7,902,030
Buildings and improvements	27,093,460	25,904,793
Leasehold improvements	4,190,987	2,876,720
Furniture and fixtures	1,107,791	808,512
Equipment	4,980,087	4,606,040
Motor vehicles	402,383	420,722
	<hr/>	<hr/>
	46,153,256	42,518,817
Less accumulated depreciation and amortization	(12,367,192)	(10,821,055)
	<hr/>	<hr/>
	\$ 33,786,064	\$ 31,697,762

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 7 - Construction in Progress

Construction in progress totaled \$110,781 and \$938,816 as of June 30, 2009 and 2008, respectively. The June 30, 2009 balance consists primarily of costs incurred for software and computer projects. The estimated remaining cost to complete these projects is approximately \$145,000 and they are expected to all be operational by December 2009. The June 30, 2008 construction in progress was placed in service during the year ended June 30, 2009.

Note 8 - Mortgage Notes Payable

Mortgage notes payable consists of the following at June 30, 2009 and 2008:

	2009	2008
Various mortgage notes payable to a financial institution in monthly installments totaling \$15,720, including interest at rates ranging from 2.36% to 2.89% as of June 30, 2009, through rates ranging from 2012 to 2014. The notes are secured by real property.	\$ 3,555,300	\$ 2,065,407
Various mortgage notes payable to financial institutions in monthly installments totaling \$14,170, including interest at rates ranging from 2.45% to 6.94% through dates ranging from 2012 to 2030. The notes are secured by real property.	1,801,962	1,870,117
Non-interest bearing mortgage note payable to a Housing Authority with total principal due November 2032. The note is secured by a second mortgage on real property.	72,557	72,557
Mortgage note payable to the Facility Consolidation Fund with total principal plus interest at 0% due June 2029. This note is secured by a second mortgage on real property.	263,901	263,901
Mortgage note payable to the Facility Consolidation Fund with total principal plus interest at 0% due November 2033. This note is secured by a second mortgage on real property.	<u>376,946</u>	<u>376,946</u>
Total mortgage notes payable	\$ <u>6,070,666</u>	\$ <u>4,648,928</u>

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 8 - Mortgage Notes Payable (Continued)

Future maturities of mortgage notes payable are as follows:

Years Ending June 30,

2010	\$	262,725
2011		264,710
2012		703,173
2013		1,781,329
2014		1,327,462
Thereafter		1,731,267
	\$	<u><u>6,070,666</u></u>

Note 9 - Line-of-Credit

The Organization has a \$5,000,000 line-of-credit agreement with a bank, expiring on January 26, 2009 with interest at the bank's prime rate plus 1% (6% at June 30, 2008). The agreement is secured by all assets of The May Institute, Inc. The line-of-credit agreement was extended through January 26, 2010 with interest at the greater of 6.5% or the bank's prime rate plus 2.25% (6.5% at June 30, 2009). Outstanding borrowings on this line of credit totaled \$3,123,609 and \$3,251,857 at June 30, 2009 and 2008, respectively.

The Organization had a \$4,000,000 non-revolving line-of-credit agreement with a bank which expired on June 30, 2009. The line was used to secure the purchase of real property which had a balance on of \$3,555,300 and \$2,065,407 at June 30, 2009 and 2008, respectively. The balance is included in mortgage notes payable at June 30, 2009 and 2008 (see Note 8).

Note 10 - Bonds Payable

On September 29, 1999, the Organization closed on a \$16,400,000, 30-year bond offering issued by the Massachusetts Development Finance Agency. Chittenden Trust Company serves as the trustee. Interest is payable on the bonds at rates ranging from 4% to 6%. The bonds were sold at yields ranging from 4.10% to 6.10%, which resulted in a net original issue discount of \$395,095.

Under the terms of the bond, annual installments of principal are due on September 1 of each year, commencing on September 1, 2000. The annual principal installments start at \$70,000 in 2000 escalating each year to \$1,120,000 in 2029. Interest payments are due each March 1 and September 1, and commenced on March 1, 2000. Escrow deposits are required to be maintained (See Note 2).

The bonds are a general obligation of the Organization and secured by a subordinate lien on its gross receipts and a mortgage on its office building in Mashpee, Massachusetts. The bond agreement contains restrictive covenants concerning certain financial statement ratios.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 10 - Bonds Payable (Continued)

On October 1, 2006, the Organization issued \$6,500,000, in Massachusetts Development Finance Agency Variable Rate Demand Revenue Bonds, The May Institute, Inc. Series 2006. Sinking fund redemptions begin October 1, 2007 with final maturity on October 1, 2036. The proceeds from the bonds were used to refinance existing debt, reimburse the Organization for building improvements previously made, pay certain fees related to the bonds and fund Expense and Project Funds.

The interest rate on the Series 2006 variable rate demand bonds are determined by a bond-remarketing agent, reset weekly and payable monthly, and cannot exceed a rate of 10% per year. The Series 2006 carried a variable rate of 1.55% for the week ended June 27, 2008. The bonds are secured by a letter of credit that is collateralized by a mortgage on the Organization's building located in Randolph, Massachusetts. Escrow deposits are required to be maintained (See Note 2). The bond agreement contains restrictive covenants concerning certain financial statement ratios.

On October 4, 2006, the Organization entered into an agreement (interest rate swap) for a notional amount of \$6,500,000 with a bank to lock in the cash outflows for interest on its variable rate bonds. This agreement changes the Organization's variable interest rate bonds to a fixed interest rate. Under the terms of the swap, the Organization pays or receives a monthly fixed-rate interest based on the difference between sixty-seven percent (67%) of USD-LIBOR-BBA and the fixed rate of 3.61%. The estimated fair value of the swap agreement at June 30, 2009 and 2008 was a liability of \$652,715 and \$272,610, respectively, and is recorded on the statement of financial position, with the respective unrealized loss reported as a change in unrestricted net assets. The agreement terminates on October 1, 2026.

Future maturities of bonds payable are as follows:

Years Ending June 30,

2010	\$	475,000
2011		500,000
2012		525,000
2013		555,000
2014		580,000
Thereafter		16,735,000
Unamortized discount		(261,545)
	\$	<u><u>19,108,455</u></u>

Note 11 - Sales and Leaseback Transactions

During 2006, the Organization sold a school campus and several of its group homes for \$8,801,697 realizing a gain of \$6,759,887. Simultaneous with the sale, the Organization entered into an agreement to lease back the buildings for initial terms of three and five years. The gains resulting from the sales have been recorded as deferred income and are being amortized over the lease terms. At June 30, 2008, the unamortized gains totaled \$2,745,013. The gain on sale leaseback transactions recognized during the year ended June 30, 2008 totaled \$1,597,769. During the year ended June 30, 2009 the Organization terminated the lease and the remaining unamortized gain was recognized as revenue.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 12 - Operating Leases

Building

The Organization leases facilities under operating leases expiring at various dates through 2021. Included in occupancy expense is rental expense of \$4,724,511 and \$4,217,862 for the year ended June 30, 2009 and 2008, respectively.

Motor Vehicles

The Organization leases motor vehicles under operating leases expiring at various dates through 2012. Included in transportation expense is rental expense of \$1,319,936 and \$1,249,144 for the year ended June 30, 2009 and 2008, respectively.

Copiers

The Organization leases numerous copiers under operating leases expiring at various dates through 2011. Included in occupancy expense is rental expense of \$265,044 and \$251,207 for the year ended June 30, 2009 and 2008, respectively.

Equipment

The Organization leases pieces of office and other equipment under operating leases expiring at various dates through 2012. Included in occupancy expense are lease and rental expenses of \$23,672 and \$42,843 for the year ended June 30, 2009 and 2008, respectively.

Future minimum rental payments under the aforementioned leases in the aggregate and for the next five years, under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2008 are as follows:

<i>Years Ending June 30,</i>	<i>Buildings</i>	<i>Motor Vehicles</i>	<i>Copiers</i>	<i>Equipment</i>	<i>Total</i>
2010	\$ 3,212,567	\$ 1,177,674	\$ 221,068	\$ 36,347	\$ 4,647,656
2011	2,396,870	737,370	202,917	34,651	3,371,808
2012	1,952,217	409,701	145,262	27,787	2,534,967
2013	1,357,364	121,576	71,958	11,696	1,562,594
2014	974,057	3,531	26,900	3,113	1,007,601
Thereafter	4,007,236	-	-	-	4,007,236
	<u>\$ 13,900,311</u>	<u>\$ 2,449,852</u>	<u>\$ 668,105</u>	<u>\$ 113,594</u>	<u>\$ 17,131,862</u>

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 13 - Net Assets and Endowment Matters

Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

Fixed assets - The value of buildings and equipment, net of depreciation, used in the Organization's operations. This amount is offset by outstanding liabilities related to the assets, such as bond debt.

Operating - Discretionary funds available for carrying on the operating activities of the Organization.

Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following:

Contributions with purpose restrictions:	2009	2008
Education ASD Parents Workshop	\$ 63,672	\$ -
Pediatric Supplement Medical & Health	33,661	-
Trustees awards	20,350	17,550
Social Skills Training Group	15,000	-
Mashpee greenhouse	3,923	3,923
Residence in Easton, Massachusetts	-	25,000
Bridgewater Group Home	-	2,000
Randolph School	-	7,500
Springfield autism grant	-	35,000
Hire - Regain Employment Program	-	5,000
NAC - Local & Regional Services	20,000	-
NAC - Early Screening and Diagnostic	6,762	-
NAC - Western Mass Satellite Clinic	-	4,771
TBS - Treatment Project for Dr. J.Rapp	99,704	-
TBS - Early Intervention	14,308	14,308
TBS - Residential Program	3,287	3,287
TBS - Research and Education for Children	2,500	-
Contributions with time restrictions:		
Capital advances from HUD*	1,330,800	1,330,800
Total temporarily restricted net assets	\$ 1,613,967	\$ 1,449,139

*Under the terms of the capital advance program, no repayment of principal is required so long as the residences area occupied for no less than 40 years by very low-income persons with disabilities. If for any reason the capital advance is not continued to be used for the specific purpose, repayment of principal and interest will be required.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 13 - Net Assets and Endowment Matters (Continued)

Net Assets Released from Restrictions

Net assets were released from donor restrictions as a result of the incurrence of expenses satisfying the restricted purposes, the occurrence of events specified by donors or by the change of restrictions specified by the donors. Net assets released from restriction were for the following purposes for the years ended June 30:

Donor restrictions satisfied as to:	2009	2008
Pediatric Supplement Med & Health	\$ 66,339	\$ -
Springfield autism grant	35,000	-
Residence in Easton, Massachusetts	25,000	246,367
Randolph School	7,500	165
Hire - Regain Employment Program	5,000	-
Trustee awards	3,500	-
Bridgewater Group Home	2,000	902
Foundation gifts	-	4,000
NAC - Child Assessment Clinic	-	26,182
NAC - Western Mass Satellite Clinic	4,835	5,165
NAC - Local and Regional Services	20,000	60,000
NAC - Early Screening & Diagnostic	5,174	-
TBS - Early Intervention	-	5,104
TBS - CFF-ABA & Training	-	18,278
	<u>\$ 174,348</u>	<u>\$ 366,163</u>

Permanently Restricted Net Assets

Permanently restricted net assets totaling \$1,000 consist of cash to be held in perpetuity. The earnings on the investment of the cash are expendable to support the operations of the Organization.

New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) has issued FASB staff position 117-1 (FSP 117-1) effective for fiscal years ending after December 15, 2008. The Organization adopted FSP 117-1 as of the July 1, 2008. FSP 117-1 requires enhanced disclosures for each period for which the organization presents financial statements. The adoption of FSP 117-1 had no impact on reported amounts.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 13 - Net Assets and Endowment Matters (Continued)

Endowment Matters

The Organization's endowment fund consists of one donor restricted fund of \$1,000. The fund is invested in cash, mutual funds and equity securities. The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) signed into law in the state of Massachusetts on July 2, 2009, requiring the preservation of the original value of the original gift as of the gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Interest and dividend income may be distributed to the Organization for operating purposes. Appreciation is recorded as temporarily restricted net assets and may be appropriated by the Board of Directors.

Note 14 - Forward Delivery Agreement

During the year ended June 30, 2000, the Organization entered into a forward delivery agreement to sell the rights to income earned on the Organization's Debt Service Reserve Fund and Debt Service Fund to Bank of America, N.A. Pursuant to the agreement, the Organization received \$828,000 from Bank of America, N.A. during the year ended June 30, 2000. The proceeds from the agreement were treated as deferred revenue by the Organization and are being amortized over the thirty-year life of the bonds payable. As of June 30, 2009 and 2008, deferred revenue related to the forward purchase agreement was \$547,425 and \$574,458, respectively. The remaining balance in deferred revenue represents advances received for program services.

Note 15 - Third Party Payor Settlements

In connection with an administrative review during 2004 of three of its programs conducted by the Commonwealth of Massachusetts Operational Services Division (OSD) for the year ended June 30, 2003, The May Institute, Inc. entered into an agreement to repay \$800,000 to the Commonwealth. As of June 30, 2008, \$400,000 remained in estimated third party payor settlements, which was repaid in January 2009.

The Organization has entered into a settlement agreement with OSD for the same programs, for fiscal years 2005 and 2007. As a result, a liability of \$375,000 and \$719,435 for the fiscal year 2005 settlement and the fiscal year 2007 settlement remains due at June 30, 2009, respectively. The liability related to the fiscal year 2005 settlement will be repaid by June 15, 2010. The liability related to the fiscal year 2007 settlement will be repaid by June 15, 2012 in accordance with a payment schedule.

The settlements are based on a methodology agreed to by OSD for other settlements the Organization has entered into. In addition, the Organization has adjusted tuition revenue for the years ended June 30, 2009 and 2008 based on the above settlements.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 15 - Third Party Payor Settlements (Continued)

Repayments for these liabilities are as follows:

<i>Due in Years Ended June 30,</i>	<i>Total</i>
2010	\$ 525,000
2011	225,000
2012	344,435
	<u>\$ 1,094,435</u>

At June 30, 2008, total scheduled payments related to the settlements totaled \$1,469,435.

Note 16 - Estimated Third Party Payor Liabilities

The Organization has recorded estimated liabilities to other governmental agencies. The estimated liability totaled \$409,554 and \$941,816 at June 30, 2009 and 2008, respectively.

Note 17 - Employee Benefit Plans

The Organization maintains a tax deferred annuity plan as described in IRS code section 403(b) covering all eligible employees beginning on their date of hire. The plan allows the Organization to make matching contributions based on years of continuous service, as set forth in the plan, subject to IRS limitations. The Organization recognized an expense of \$665,857 and \$1,256,020 related to the plan during the year ended June 30, 2009 and 2008 of which \$391,829 is included in accrued expenses as of June 30, 2008 (zero at June 30, 2009).

The Organization maintained a deferred compensation plan for certain key executives. The plan was terminated during the year ended June 30, 2009. The plan was funded through split dollar life insurance policies that were owned by the Organization and were cancelled during fiscal year 2009. The key executives became fully vested in November 2008, at which point the plan's funds were distributed to the employees. During the year ended June 30, 2009 and 2008, the Organization contributed \$79,065 and \$42,625 to the plan, respectively.

In addition, the Organization maintains a deferred compensation plan for certain key employees under the provisions of Internal Revenue Code Section 457(b). During the year ended June 30, 2009 and 2008, the Organization contributed \$175,750 and \$184,586 to this plan, respectively.

THE MAY INSTITUTE, INC. AND AFFILIATES

Notes to Combined Financial Statements

Note 17 - Employee Benefit Plans (Continued)

Additionally, during the year ended June 30, 2009, the Organization created a deferred compensation plan for certain key employees under the provisions of Internal Revenue Code Section 457(f). During the year ended June 30, 2009, the Organization contributed \$30,134 to this plan.

Note 18 - Legal Matters

The Organization is involved in legal proceedings, claims, and disputes which arise in the ordinary course of business. In management's opinion, these matters will not have a material adverse effect on the financial position of the Organization.