

South Middlesex Opportunity Council, Inc.
and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

South Middlesex Opportunity Council, Inc. and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS Years Ended June 30, 2011 and 2010

C O N T E N T S

| | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report | 1 |
| Consolidated Financial Statements: | |
| Statements of Financial Position..... | 2 |
| Statements of Activities..... | 3 |
| Statements of Functional Expenses | 4-8 |
| Statements of Cash Flows | 9 |
| Notes to Financial Statements | 10-22 |
| Supplementary Information: | |
| Independent Auditor's Report on Supplementary Information..... | 23 |
| Consolidating Schedule of Financial Position | 24 |
| Consolidating Schedule of Activities | 25 |



INDEPENDENT AUDITOR'S REPORT

Boards of Directors
South Middlesex Opportunity Council, Inc. and Affiliates
Framingham, Massachusetts

We have audited the accompanying consolidated statements of financial position of South Middlesex Opportunity Council, Inc. and Affiliates (the "Organization") as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Middlesex Opportunity Council, Inc. and Affiliates as of June 30, 2011 and 2010, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

November 15, 2011
Boston, Massachusetts

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,026,077 | \$ 4,349,866 |
| Certificates of deposit (Note 5) | 689,420 | 687,646 |
| Cash - restricted (Note 3) | 362,522 | 329,839 |
| Accounts receivable: | | |
| Contracts and grants | 2,885,303 | 3,354,372 |
| Third parties - net of allowance for doubtful accounts | 200,980 | 208,233 |
| Other | 550,393 | 224,956 |
| Investments (Notes 4 and 5) | 253,195 | 215,747 |
| Prepaid expenses and deposits | 581,887 | 197,014 |
| Property, plant and equipment, net (Notes 6, 8, and 9) | 49,345,870 | 44,243,948 |
| Construction in progress (Note 7) | 2,776,187 | 3,431,569 |
| Mortgage acquisition costs, net | 2,547,151 | 2,493,962 |
| | <u>61,218,985</u> | <u>59,737,152</u> |
| Total assets | <u>\$ 61,218,985</u> | <u>\$ 59,737,152</u> |
| LIABILITIES AND NET ASSETS | | |
| Lines of credit (Note 10) | \$ 711,000 | \$ 300,000 |
| Accounts payable (Note 2) | 1,681,630 | 1,911,627 |
| Accrued expenses (Notes 2 and 12) | 1,144,556 | 1,354,716 |
| Notes payable (Note 9) | 44,118 | 60,402 |
| Mortgage notes payable (Note 8) | 40,253,442 | 39,595,801 |
| Deferred revenue | 3,131,289 | 3,628,621 |
| Other liabilities | 892,531 | 755,073 |
| | <u>47,858,566</u> | <u>47,606,240</u> |
| Total liabilities | <u>47,858,566</u> | <u>47,606,240</u> |
| Commitments (Notes 8, 9, and 11) | | |
| Net assets/members equity: | | |
| Unrestricted/members equity | 12,059,886 | 11,122,003 |
| Temporarily restricted (Note 14) | 890,600 | 895,600 |
| | <u>12,950,486</u> | <u>12,017,603</u> |
| Net assets/members equity | <u>12,950,486</u> | <u>12,017,603</u> |
| Noncontrolling interest | 409,933 | 113,309 |
| | <u>13,360,419</u> | <u>12,130,912</u> |
| Total net assets/members equity | <u>13,360,419</u> | <u>12,130,912</u> |
| | <u>\$ 61,218,985</u> | <u>\$ 59,737,152</u> |
| Total liabilities and net assets/members equity | <u>\$ 61,218,985</u> | <u>\$ 59,737,152</u> |

See Notes to Consolidated Financial Statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2011 and 2010

| | 2011 | | | 2010 | | |
|---|---------------|------------------------|---------------|---------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Totals | Unrestricted | Temporarily Restricted | Totals |
| Revenue, gains and other support: | | | | | | |
| Contracts and grants (Note 16) | \$ 62,517,409 | \$ - | \$ 62,517,409 | \$ 60,114,010 | \$ - | \$ 60,114,010 |
| Third party billings, net of free services and contractual allowances | 3,167,350 | - | 3,167,350 | 2,685,779 | - | 2,685,779 |
| Tuition income | 412,160 | - | 412,160 | 362,880 | - | 362,880 |
| Other program revenue | 1,494,385 | - | 1,494,385 | 1,010,897 | - | 1,010,897 |
| Donated goods and services (Note 2) | 1,449,252 | - | 1,449,252 | 1,236,264 | - | 1,236,264 |
| Contributions | 663,713 | - | 663,713 | 716,952 | - | 716,952 |
| Donated real property | 745,671 | - | 745,671 | 572,635 | - | 572,635 |
| Rental income | 4,673,990 | - | 4,673,990 | 4,704,173 | - | 4,704,173 |
| Miscellaneous income (Note 17) | 1,272,497 | - | 1,272,497 | - | - | - |
| Interest income | 13,891 | - | 13,891 | 14,185 | - | 14,185 |
| Gain on sale of building | - | - | - | 363,374 | - | 363,374 |
| Impairment loss on real property (Note 6) | (1,400,000) | - | (1,400,000) | - | - | - |
| Unrealized gain on investments | 27,791 | - | 27,791 | 13,189 | - | 13,189 |
| Realized gain (loss) on investments | 2,966 | - | 2,966 | (1,453) | - | (1,453) |
| Dividend income | 3,090 | - | 3,090 | 2,330 | - | 2,330 |
| Total revenue and gains | 75,044,165 | - | 75,044,165 | 71,795,215 | - | 71,795,215 |
| Net assets released from restrictions (Note 15) | 5,000 | (5,000) | - | 24,675 | (24,675) | - |
| Total revenue, gains and other support | 75,049,165 | (5,000) | 75,044,165 | 71,819,890 | (24,675) | 71,795,215 |
| Expenses and losses (Notes 2, 11, 12, 13 and 18): | | | | | | |
| Program services: | | | | | | |
| Education and Child Care | 7,452,189 | - | 7,452,189 | 7,301,421 | - | 7,301,421 |
| Crisis Intervention | 916,295 | - | 916,295 | 967,338 | - | 967,338 |
| Substance Abuse | 2,991,538 | - | 2,991,538 | 3,174,163 | - | 3,174,163 |
| Energy and Financial Assistance | 30,693,823 | - | 30,693,823 | 30,238,192 | - | 30,238,192 |
| Shelter | 4,375,459 | - | 4,375,459 | 4,692,295 | - | 4,692,295 |
| Advocacy | 7,478,083 | - | 7,478,083 | 6,466,123 | - | 6,466,123 |
| Mental Health Services | 2,891,291 | - | 2,891,291 | 2,669,907 | - | 2,669,907 |
| Nutrition | 911,708 | - | 911,708 | 983,760 | - | 983,760 |
| Non-Profit Housing | 6,987,020 | - | 6,987,020 | 6,248,852 | - | 6,248,852 |
| Opportunity Properties | 48,065 | - | 48,065 | 47,252 | - | 47,252 |
| Worcester Public Inebriate Program, Inc. | 2,691,479 | - | 2,691,479 | 1,803,513 | - | 1,803,513 |
| P.I.P. Foundation, Inc. | 88,531 | - | 88,531 | 70,038 | - | 70,038 |
| Open Pantry Community Services, Inc. | 2,885,570 | - | 2,885,570 | 2,627,871 | - | 2,627,871 |
| Freedom Village | 73,514 | - | 73,514 | 5,129 | - | 5,129 |
| Total program services | 70,484,565 | - | 70,484,565 | 67,295,854 | - | 67,295,854 |
| General and administrative | 3,229,770 | - | 3,229,770 | 2,870,951 | - | 2,870,951 |
| Fundraising | 100,323 | - | 100,323 | 71,688 | - | 71,688 |
| Total supporting services | 3,330,093 | - | 3,330,093 | 2,942,639 | - | 2,942,639 |
| Total expenses and losses | 73,814,658 | - | 73,814,658 | 70,238,493 | - | 70,238,493 |
| Change in net assets/members equity before income attributable to noncontrolling interest | 1,234,507 | (5,000) | 1,229,507 | 1,581,397 | (24,675) | 1,556,722 |
| Income attributable to noncontrolling interest | 296,624 | - | 296,624 | 113,309 | - | 113,309 |
| Change in net assets/members equity | 937,883 | (5,000) | 932,883 | 1,468,088 | (24,675) | 1,443,413 |
| Net assets/members equity, beginning of year | 11,235,312 | 895,600 | 12,130,912 | 9,653,915 | 920,275 | 10,574,190 |
| Net assets/members equity, end of year | \$ 12,469,819 | \$ 890,600 | \$ 13,360,419 | \$ 11,235,312 | \$ 895,600 | \$ 12,130,912 |

See Notes to Consolidated Financial Statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Functional Expenses
Years Ended June 30, 2011 and 2010

| | 2011 | | | 2010 | | |
|---|------------------------------|------------------------|-------------------|------------------------------|------------------------|-------------------|
| | Total Program Services | Supporting Services | Total Expenses | Total Program Services | Supporting Services | Total Expenses |
| Expenses and losses: | | | | | | |
| Salaries and wages | \$ 16,749,235 | \$ 1,312,218 | \$ 18,061,453 | \$ 16,470,069 | \$ 1,331,456 | \$ 17,801,525 |
| Employee benefits and payroll taxes (Notes 5, 12, and 13) | 5,000,387 | 500,364 | 5,500,751 | 4,784,483 | 610,045 | 5,394,528 |
| Total salaries and related expenses | 21,749,622 | 1,812,582 | 23,562,204 | 21,254,552 | 1,941,501 | 23,196,053 |
| Client assistance | 27,044,608 | - | 27,044,608 | 26,871,846 | - | 26,871,846 |
| Professional fees and contracted services (Note 2) | 2,098,283 | 627,091 | 2,725,374 | 2,159,653 | 523,202 | 2,682,855 |
| Occupancy (Note 11) | 6,830,011 | 182,742 | 7,012,753 | 6,036,998 | 163,583 | 6,200,581 |
| Equipment expenses (Note 11) | 186,006 | 65,976 | 251,982 | 239,228 | 56,791 | 296,019 |
| Dietary | 34,226 | - | 34,226 | 439,255 | 8,769 | 448,024 |
| Donated goods and services (Note 2) | 2,194,923 | - | 2,194,923 | 1,869,102 | - | 1,869,102 |
| Transportation (Note 11) | 712,290 | 38,137 | 750,427 | 746,041 | 29,784 | 775,825 |
| Supplies | 7,051,137 | 87,861 | 7,138,998 | 5,200,739 | 53,656 | 5,254,395 |
| Telephone | 258,847 | 31,200 | 290,047 | 214,450 | 13,369 | 227,819 |
| Insurance | 373,567 | 15,436 | 389,003 | 341,600 | 17,861 | 359,461 |
| Advertising | 26,894 | 5,675 | 32,569 | 31,942 | 1,155 | 33,097 |
| Training | 124,022 | 24,037 | 148,059 | 101,269 | - | 101,269 |
| Interest expense (Notes 8, 9 and 10) | 1,437,777 | 2,606 | 1,440,383 | 1,363,552 | 4,501 | 1,368,053 |
| Depreciation and amortization | 1,536,772 | 63,479 | 1,600,251 | 1,531,369 | 56,332 | 1,587,701 |
| Bad debt expense | 21,100 | 272,597 | 293,697 | 6,500 | - | 6,500 |
| Other | 14 | 351 | 365 | 192 | 447 | 639 |
| Fundraising | - | 100,323 | 100,323 | - | 71,688 | 71,688 |
| Management fees (Note 2) | - | 221,135 | 221,135 | - | 208,560 | 208,560 |
| Eliminating entries (Note 2) | (1,195,534) | (221,135) | (1,416,669) | (1,112,434) | (208,560) | (1,320,994) |
| Total expenses and losses | \$ 70,484,565 | \$ 3,330,093 | \$ 73,814,658 | \$ 67,295,854 | \$ 2,942,639 | \$ 70,238,493 |

See Notes to Consolidated Financial Statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011

| | Program Services | | | | | | | | Balance Forward |
|---|--------------------------------|------------------------|------------------------------|------------|--------------------|---------------------------------------|--------------|--------------|--------------------|
| | Education and Child Care | Crisis Intervention | Mental Health Services | Nutrition | Substance Abuse | Energy and Financial Assistance | Shelter | Advocacy | |
| Expenses and losses: | | | | | | | | | |
| Salaries and wages | \$ 3,706,455 | \$ 557,955 | \$ 1,999,731 | \$ 547,906 | \$ 1,702,801 | \$ 1,685,920 | \$ 1,661,396 | \$ 2,189,863 | \$ 14,052,027 |
| Employee benefits and payroll taxes (Notes 12 and 13) | 1,174,849 | 176,301 | 418,889 | 174,903 | 486,531 | 537,166 | 529,279 | 649,787 | 4,147,705 |
| Total salaries and related expenses | 4,881,304 | 734,256 | 2,418,620 | 722,809 | 2,189,332 | 2,223,086 | 2,190,675 | 2,839,650 | 18,199,732 |
| Client assistance | - | - | - | - | - | 22,021,965 | 78,798 | 3,921,498 | 26,022,261 |
| Professional fees and contracted services (Note 2) | 908,043 | 16,008 | 85,250 | 26,593 | 17,986 | 451,556 | 5,864 | 186,208 | 1,697,508 |
| Occupancy (Note 11) | 709,861 | 99,224 | 253,933 | 89,077 | 545,577 | 340,286 | 1,838,390 | 241,644 | 4,117,992 |
| Equipment expenses (Note 11) | 34,605 | 2,520 | 10,163 | 4,638 | 14,848 | 48,660 | 20,839 | 18,154 | 154,427 |
| Dietary | - | - | - | - | - | - | - | - | - |
| Donated goods and services (Note 2) | 141,224 | - | - | - | - | - | - | - | 141,224 |
| Transportation (Note 11) | 138,751 | 11,039 | 13,651 | 28,142 | 59,264 | 75,707 | 71,746 | 67,952 | 466,252 |
| Supplies | 507,979 | 38,352 | 44,543 | 21,141 | 115,543 | 5,426,208 | 119,238 | 150,749 | 6,423,753 |
| Telephone | 30,442 | 6,052 | 21,190 | 9,331 | 23,775 | 19,627 | 25,183 | 22,694 | 158,294 |
| Insurance | 40,726 | 8,304 | 20,568 | 7,152 | 20,268 | 31,945 | 19,745 | 23,807 | 172,515 |
| Advertising | 5,064 | 200 | 4,123 | 1,776 | 1,185 | 4,240 | 474 | 1,063 | 18,125 |
| Training | 54,190 | 340 | 950 | 1,049 | 4,960 | 50,543 | 4,507 | 4,664 | 121,203 |
| Interest expense (Notes 8, 9 and 10) | - | - | - | - | - | - | - | - | - |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - |
| Bad debt expense | - | - | 18,300 | - | (1,200) | - | - | - | 17,100 |
| Other | - | - | - | - | - | - | - | - | - |
| Eliminating entries (Note 2) | - | - | - | - | - | - | - | - | - |
| Total expenses and losses | \$ 7,452,189 | \$ 916,295 | \$ 2,891,291 | \$ 911,708 | \$ 2,991,538 | \$ 30,693,823 | \$ 4,375,459 | \$ 7,478,083 | \$ 57,710,386 |

See Notes to Consolidated Financial Statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses...continued
Year Ended June 30, 2011

| | Program Services | | | | | | | |
|---|-------------------------|--------------------|------------------------|-----------------|--|-------------------------|--------------------------------|------------------------|
| | Balance Brought Forward | Non-Profit Housing | Opportunity Properties | Freedom Village | Worcester Public Inebriate Program, Inc. | P.I.P. Foundation, Inc. | Open Pantry Community Services | Total Program Services |
| Expenses and losses: | | | | | | | | |
| Salaries and wages | \$ 14,052,027 | \$ 1,099,088 | \$ 14,524 | \$ - | \$ 790,292 | \$ - | \$ 793,304 | \$ 16,749,235 |
| Employee benefits and payroll taxes (Notes 12 and 13) | 4,147,705 | 351,714 | 4,693 | - | 243,818 | - | 252,457 | 5,000,387 |
| Total salaries and related expenses | 18,199,732 | 1,450,802 | 19,217 | - | 1,034,110 | - | 1,045,761 | 21,749,622 |
| Client assistance | 26,022,261 | - | - | - | 1,022,347 | - | - | 27,044,608 |
| Professional fees and contracted services (Note 2) | 1,697,508 | 71,801 | 717 | 2,622 | 189,954 | 263 | 135,418 | 2,098,283 |
| Occupancy (Note 11) | 4,117,992 | 2,089,753 | 14,826 | 5,147 | 381,725 | 72,999 | 147,569 | 6,830,011 |
| Equipment expenses (Note 11) | 154,427 | 18,639 | - | - | 5,863 | - | 7,077 | 186,006 |
| Dietary | - | - | - | - | 34,226 | - | - | 34,226 |
| Donated goods and services (Note 2) | 141,224 | 745,671 | - | - | - | - | 1,308,028 | 2,194,923 |
| Transportation (Note 11) | 466,252 | 196,749 | - | - | 15,595 | - | 33,694 | 712,290 |
| Supplies | 6,423,753 | 455,662 | 3,395 | 509 | 33,206 | 378 | 134,234 | 7,051,137 |
| Telephone | 158,294 | 61,533 | 1,378 | 962 | 11,810 | - | 24,870 | 258,847 |
| Insurance | 172,515 | 168,880 | 948 | 3,192 | 8,580 | 5,700 | 13,752 | 373,567 |
| Advertising | 18,125 | 505 | - | 7,914 | - | - | 350 | 26,894 |
| Training | 121,203 | 1,940 | - | - | 128 | - | 751 | 124,022 |
| Interest expense (Notes 8, 9 and 10) | - | 1,409,377 | - | 8,957 | - | 3,186 | 16,257 | 1,437,777 |
| Depreciation and amortization | - | 1,447,242 | 7,570 | 44,211 | 13,935 | 6,005 | 17,809 | 1,536,772 |
| Bad debt expense | 17,100 | 4,000 | - | - | - | - | - | 21,100 |
| Other | - | - | 14 | - | - | - | - | 14 |
| Eliminating entries (Note 2) | - | (1,135,534) | - | - | (60,000) | - | - | (1,195,534) |
| Total expenses and losses | \$ 57,710,386 | \$ 6,987,020 | \$ 48,065 | \$ 73,514 | \$ 2,691,479 | \$ 88,531 | \$ 2,885,570 | \$ 70,484,565 |

See Notes to Consolidated Financial Statements.

Consolidated Statement of Functional Expenses
 Year Ended June 30, 2010

| | Program Services | | | | | | | | Balance Forward |
|---|--------------------------|---------------------|------------------------|------------|-----------------|---------------------------------|--------------|--------------|-----------------|
| | Education and Child Care | Crisis Intervention | Mental Health Services | Nutrition | Substance Abuse | Energy and Financial Assistance | Shelter | Advocacy | |
| Expenses and losses: | | | | | | | | | |
| Salaries and wages | \$ 3,682,367 | \$ 600,170 | \$ 1,729,316 | \$ 602,213 | \$ 1,779,351 | \$ 1,415,368 | \$ 1,843,844 | \$ 2,144,563 | \$ 13,797,192 |
| Employee benefits and payroll taxes (Notes 12 and 13) | 1,093,671 | 177,872 | 374,050 | 179,170 | 479,670 | 438,134 | 549,543 | 617,163 | 3,909,273 |
| Total salaries and related expenses | 4,776,038 | 778,042 | 2,103,366 | 781,383 | 2,259,021 | 1,853,502 | 2,393,387 | 2,761,726 | 17,706,465 |
| Client assistance | 250 | 9,278 | 193,679 | 6,340 | 36,500 | 23,352,076 | 91,911 | 3,015,220 | 26,705,254 |
| Professional fees and contracted services (Note 2) | 910,993 | 103,696 | 225,788 | 89,898 | 49,743 | 359,194 | 13,203 | 191,132 | 1,943,647 |
| Occupancy (Note 11) | 723,268 | 338 | 19,984 | 8,420 | 584,192 | 238,356 | 1,910,293 | 285,726 | 3,770,577 |
| Equipment expenses (Note 11) | 41,604 | 9,163 | - | 8,347 | 20,994 | 60,309 | 40,158 | 14,737 | 195,312 |
| Dietary | 232,540 | - | - | - | 40,299 | - | 31,336 | - | 304,175 |
| Donated goods and services (Note 2) | 137,624 | 13,856 | 17,757 | 28,590 | - | - | - | - | 197,827 |
| Transportation (Note 11) | 124,902 | 38,110 | 60,879 | 46,065 | 52,788 | 53,533 | 65,215 | 75,591 | 517,083 |
| Supplies | 223,131 | 3,533 | 16,415 | 4,770 | 84,462 | 4,246,099 | 104,747 | 80,965 | 4,764,122 |
| Telephone | 19,198 | 7,305 | 20,645 | 7,217 | 16,682 | 11,945 | 15,084 | 12,238 | 110,314 |
| Insurance | 48,102 | - | 5,515 | 861 | 24,467 | 22,356 | 23,581 | 21,730 | 146,612 |
| Advertising | 10,595 | 4,017 | 879 | 1,869 | 1,689 | 3,559 | 1,250 | 1,474 | 25,332 |
| Training | 53,176 | - | - | - | 1,826 | 37,263 | 2,130 | 5,472 | 99,867 |
| Interest expense (Notes 8, 9 and 10) | - | - | - | - | - | - | - | - | - |
| Depreciation and amortization | - | - | - | - | - | - | - | - | - |
| Bad debt expense | - | - | 5,000 | - | 1,500 | - | - | - | 6,500 |
| Other | - | - | - | - | - | - | - | 112 | 112 |
| Eliminating entries (Note 2) | - | - | - | - | - | - | - | - | - |
| Total expenses and losses | \$ 7,301,421 | \$ 967,338 | \$ 2,669,907 | \$ 983,760 | \$ 3,174,163 | \$ 30,238,192 | \$ 4,692,295 | \$ 6,466,123 | \$ 56,493,199 |

Consolidated Statement of Functional Expenses...continued
 Year Ended June 30, 2010

| | Program Services | | | | | | | Total Program Services |
|---|-------------------------------|-----------------------|---------------------------|--------------------|--|-------------------------------|--------------------------------------|------------------------------|
| | Balance Brought Forward | Non-Profit Housing | Opportunity Properties | Freedom Village | Worcester Public Inebriate Program, Inc. | P.I.P. Foundation, Inc. | Open Pantry Community Services | |
| Expenses and losses: | | | | | | | | |
| Salaries and wages | \$ 13,797,192 | \$ 1,028,291 | \$ 15,697 | \$ - | \$ 845,924 | \$ 9,044 | \$ 773,921 | \$ 16,470,069 |
| Employee benefits and payroll taxes (Notes 12 and 13) | 3,909,273 | 373,906 | 5,058 | - | 259,935 | 2,668 | 233,643 | 4,784,483 |
| Total salaries and related expenses | 17,706,465 | 1,402,197 | 20,755 | - | 1,105,859 | 11,712 | 1,007,564 | 21,254,552 |
| Client assistance | 26,705,254 | - | - | - | 166,592 | - | - | 26,871,846 |
| Professional fees and contracted services (Note 2) | 1,943,647 | 43,723 | 692 | - | 43,008 | 258 | 128,325 | 2,159,653 |
| Occupancy (Note 11) | 3,770,577 | 1,725,470 | 13,012 | - | 372,036 | 22,109 | 133,794 | 6,036,998 |
| Equipment expenses (Note 11) | 195,312 | 5,400 | - | - | 12,444 | - | 26,072 | 239,228 |
| Dietary | 304,175 | - | - | - | 60,467 | - | 74,613 | 439,255 |
| Donated goods and services (Note 2) | 197,827 | 572,635 | - | - | - | - | 1,098,640 | 1,869,102 |
| Transportation (Note 11) | 517,083 | 182,174 | - | - | 18,456 | - | 28,328 | 746,041 |
| Supplies | 4,764,122 | 318,410 | 3,029 | - | 63,589 | 85 | 51,504 | 5,200,739 |
| Telephone | 110,314 | 68,867 | 1,166 | - | 11,180 | - | 22,923 | 214,450 |
| Insurance | 146,612 | 162,615 | 948 | - | 11,095 | 6,732 | 13,598 | 341,600 |
| Advertising | 25,332 | 3,381 | - | - | 940 | - | 2,289 | 31,942 |
| Training | 99,867 | 59 | - | - | 660 | - | 683 | 101,269 |
| Interest expense (Notes 8, 9 and 10) | - | 1,336,538 | - | - | - | 9,134 | 17,880 | 1,363,552 |
| Depreciation and amortization | - | 1,464,817 | 7,570 | 5,129 | 12,187 | 20,008 | 21,658 | 1,531,369 |
| Bad debt expense | 6,500 | - | - | - | - | - | - | 6,500 |
| Other | 112 | - | 80 | - | - | - | - | 192 |
| Eliminating entries (Note 2) | - | (1,037,434) | - | - | (75,000) | - | - | (1,112,434) |
| Total expenses and losses | \$ 56,493,199 | \$ 6,248,852 | \$ 47,252 | \$ 5,129 | \$ 1,803,513 | \$ 70,038 | \$ 2,627,871 | \$ 67,295,854 |

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,229,507 | \$ 1,556,722 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,600,251 | 1,587,701 |
| Gain on sale of building | - | (363,374) |
| Impairment loss on real property | 1,400,000 | - |
| Unrealized gain on investments | (27,791) | (13,189) |
| Realized (gain) loss on investments | (2,966) | 1,453 |
| Change in accounts receivable | 150,885 | (1,273,256) |
| Change in prepaid expenses and deposits | (384,873) | (155,583) |
| Change in accounts payable | (229,997) | (615,168) |
| Change in accrued expenses | (210,160) | 282,563 |
| Change in deferred revenue | (497,332) | 1,627,709 |
| Change in other liabilities | 137,458 | 117,325 |
| Total adjustments | 1,935,475 | 1,196,181 |
| Net cash provided by operating activities | 3,164,982 | 2,752,903 |
| Cash flows from investing activities: | | |
| Change in restricted cash | (32,683) | (24,694) |
| Change in certificates of deposits | (1,774) | (2,293) |
| Net purchases of property and equipment | (198,040) | (2,094,884) |
| Proceeds from sale of property and equipment | - | 1,097,003 |
| Construction in progress costs incurred | (7,050,662) | (3,388,366) |
| Purchases of investments | (6,691) | (70,972) |
| Proceeds from sale of investments | - | 66,025 |
| Net cash used in investing activities | (7,289,850) | (4,418,181) |
| Cash flows from financing activities: | | |
| Proceeds from notes and mortgage notes payable | 4,322,460 | 6,027,182 |
| Repayment of notes and mortgage notes payable | (3,681,103) | (1,579,686) |
| Net proceeds (payments) on/from revolving line of credit | 411,000 | (100,000) |
| Mortgage acquisition costs incurred | (251,278) | (522,333) |
| Net cash provided by financing activities | 801,079 | 3,825,163 |
| Net change in cash and cash equivalents: | (3,323,789) | 2,159,885 |
| Cash and cash equivalents, beginning of year | 4,349,866 | 2,189,981 |
| Cash and cash equivalents, end of year | \$ 1,026,077 | \$ 4,349,866 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | \$ 1,440,905 | \$ 1,375,684 |

See Notes to Consolidated Financial Statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

South Middlesex Opportunity Council, Inc. ("SMOC") and Affiliates (the "Organization") are not-for-profit corporations (excluding ENSOFT Solutions, Inc. and Freedom Village LLC) originally established in 1965 to support the improvement of the quality of life for low-income residents of the South Middlesex area and the greater community at large.

South Middlesex Opportunity Council, Inc. formed ENSOFT Solutions, Inc. ("ENSOFT") (formerly known as SMOC Ventures, Inc.), a Massachusetts corporation formed under the provisions of Subchapter C of the Internal Revenue Code. ENSOFT was formed for the purpose of producing and marketing a software package, developed by SMOC, for a profit. During the year ended June 30, 2011, ENSOFT ceased operations and was dissolved.

In March 2010, Freedom Village LLC, a Massachusetts corporation, became a 90% owned subsidiary of South Middlesex Non-Profit Housing Corporation, Inc., a wholly-owned subsidiary of SMOC. Based in West Boylston, Freedom Village LLC will provide low income and affordable housing. This entity began operations in 2011.

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

Basis of Consolidation

The consolidated financial statements for the years ended June 30, 2011 and 2010 include the accounts of South Middlesex Opportunity Council, Inc., South Middlesex Non-Profit Housing Corporation, Inc., Framingham Community Land Trust, South Middlesex Opportunity Properties, Inc., ENSOFT Solutions, Inc., Worcester Public Inebriate Program, Inc., P.I.P. Foundation, Inc., Open Pantry Community Services, Inc. and Freedom Village LLC. These corporations are under common management and control and are consolidated for financial statement purposes. All significant intercompany account balances and transactions have been eliminated in consolidation.

Method of Accounting

The Organization's financial statements are prepared utilizing the accrual method of accounting.

Accounting Standards Codification

The Organization follows Financial Accounting Standards Board ("FASB") ASC 105, which established the FASB Accounting Standards Codification as the source of authoritative US generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Organization has applied this guidance in the preparation of the Organization's financial statements as of June 30, 2011 and 2010.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Classification and Reporting of Net Assets

The Organization's financial statement presentation follows the recommendations of FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization does not have any permanently restricted net assets. A description of the two 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.

Contributions

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

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

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

Liquidity

In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to their nearness to their estimated maturity.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Accounts Receivable

Accounts receivable are reported at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts by applying an uncollectible percentage to receivables over a certain age based on collection history. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as revenue when received.

Property, Plant and Equipment

Plant assets are recorded at cost or, if received by donation, at estimated fair market value at the time such properties were received. Depreciation and amortization are provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

| | <u>Years</u> |
|-------------------------------------|--------------|
| Buildings and building improvements | 20-40 |
| Leasehold improvements | 20 |
| Motor vehicles | 5 |
| Furnishings and equipment | 3-10 |

Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Furniture, equipment and improvements purchased under contracts and grants are capitalized as acquired.

The Organization follows FASB ASC 410, *Asset Retirement and Environmental Obligations*. This standard requires that a liability be recorded for the fair value of an asset retirement specific to certain legal environmental obligations such as asbestos and lead paint removal. The recording of a liability is required if the fair value of the obligation can be reasonably estimated. As of June 30, 2011 and 2010, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which they become aware of such liability and sufficient information is available to reasonably estimate its fair value.

Impairment of Long-Lived Assets

The Organization has given consideration to FASB ASC 360, *Property and Equipment* as it relates to the accounting for the impairment or disposal of long-lived assets in its presentation of those financial statements. (See Note 6)

Mortgage Acquisition Costs

The Organization incurs debt issuance costs, including bank and professional fees, in connection with certain financing arrangements. In addition, the Organization incurs payroll and other administrative costs in negotiating property acquisitions and obtaining financing. These costs were capitalized and are being amortized on a straight-line method over the life of the related debt or twenty years, whichever is shorter.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Donated Goods and Services

The Organization receives a significant amount of support in the form of donated services. Services meeting the criteria for recognition established in FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*, performed by trained professionals for services that would have been purchased if not donated, are recorded at their estimated fair market values at the time the services are rendered and are reflected in the financial statements as both revenues and expenses. Donated goods and facility rentals are also recorded at their estimated fair market values at the time the goods or rental commitments are provided and are reflected in the financial statements as both revenues and expenses.

Use of Estimates

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

Revenue Recognition

The programs of the Organization are, in part, supported by contracts negotiated with various agencies of the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division.

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 purpose, provided such expenditures are reimbursable under the Operational Services Division's regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment, and are reported as a liability.

Certain programs of the Organization are funded by grants and contracts with the United States Government. Amounts paid under these grants and contracts are subject to review and adjustment after performance.

Additionally, the Organization derives a portion of its revenue through third party billings (Medicare, Medicaid, MBHP and Private Insurance). Third party revenues are recorded net of fee allowances and adjustments for free services.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Income Tax Status

The Organization and related corporations, excluding ENSOFT and Freedom Village LLC, are qualified under Section 501(c)(3) of the Internal Revenue Code and are exempt from Federal and state income taxes. As described in Note 1, ENSOFT Solutions, Inc. is organized under the provisions of Subchapter C of the Internal Revenue Code; therefore, its earnings are subject to Federal and state income taxes at applicable rates. Also as described in Note 1, Freedom Village LLC, a Massachusetts limited liability corporation, is taxed as a partnership. As such, the individual members are liable for their portions of Federal and state income taxes related to Freedom Village LLC's taxable income. No provision for income taxes has been included in the accompanying financial statements since Freedom Village LLC's income or loss passes through to, and is reportable by, the individual members on their respective tax returns.

The Organization follows FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management believes that the Organization has no material uncertainties in income taxes.

The Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2008.

Cash and Cash Equivalents

The Organization maintains some of its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization also maintains its cash in Massachusetts savings banks, deposits which have unlimited insurance under Massachusetts banking relations. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on cash or cash equivalents. The Organization defines cash equivalents as short-term highly liquid investments with original maturities of three months or less.

Investments and Investment Income

Marketable securities included in investment portfolios are carried at fair value. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Effective for the year ended June 30, 2011, the Organization adopted Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This new accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, was issued by the FASB on January 21, 2010. The additional disclosures required about fair value measurements include, among other things, (a) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs, (b) the gross, rather than net, basis for certain Level 3 roll-forward information, (c) use of a "class" basis rather than a "major category" basis for assets and liabilities, and (d) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The following information incorporates these new disclosure requirements except for the Level 3 roll-forward information which is not required until the first quarter of 2012.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Investments and Investment Income...continued

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 Organizations uses the market approach method. Based on this approach, the Organization 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 Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 - Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or 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; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Equity Securities and Bonds

The fair value of equity securities and bonds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Advertising Costs

The Organization expenses advertising costs as incurred.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES...continued

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in this update to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of this guidance is not expected to have a material impact on the Organization's financial statements.

2. RELATED PARTY TRANSACTIONS

A member of the Organization's board of directors is a partner in a law firm that represents the Organization. During the years ended June 30, 2011 and 2010, legal fees incurred by the Organization to this firm totaled \$529,884 and \$527,184, respectively, which is net of discounts totaling \$137,269 and \$186,906. In addition, the law firm provided donated services in its capacity as general counsel to the Organization totaling \$37,500 and \$43,125 in fiscal years 2011 and 2010, respectively. Amounts included in accrued expenses and accounts payable relating to these transactions totaled \$122,699 and \$317,800 as of June 30, 2011 and 2010, respectively.

A member of the Organization's board of directors is an employee of a family owned insurance agency that is a member of a consortium which provides services to the Organization. During the years ended June 30, 2011 and 2010, the Organization incurred \$165,733 and \$162,942, respectively, in insurance expense for policies serviced by the insurance agency.

An officer of a bank whom the Organization is indebted through various loan agreements is also a member of the board of directors as of June 30, 2011. Two loan officers of banks with whom the Organization is indebted through various loan agreements were also members of the board of directors as of June 30, 2010.

SMOC charges management fees and rent to its affiliated corporations for administrative services and space provided during the year, which have been eliminated in consolidation.

3. CASH – RESTRICTED

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|------------------------|-------------------|-------------------|
| Tenant/client deposits | <u>\$ 362,522</u> | <u>\$ 329,839</u> |

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

4. INVESTMENTS

Investments as of June 30, 2011 and 2010 consist of the following:

| | <u>2011</u> | <u>2010</u> |
|---------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 6,921 | \$ 22,601 |
| Equity securities | 164,328 | 132,558 |
| Bonds | <u>81,946</u> | <u>60,588</u> |
| | <u>\$ 253,195</u> | <u>\$ 215,747</u> |

5. FAIR VALUE MEASUREMENTS

The following table summarizes the valuation of the Organization's investments by fair value hierarchy levels as of June 30, 2011 and 2010:

| <u>Investments</u> | <u>2011</u> | | | <u>Total</u> |
|----------------------------|--------------------------------------|--|--|-------------------|
| | <u>Quoted Prices Level 1</u> | <u>Observable Inputs Level 2</u> | <u>Unobservable Inputs Level 3</u> | |
| Cash and cash equivalents | \$ 6,921 | \$ - | \$ - | \$ 6,921 |
| Equity securities | 164,328 | - | - | 164,328 |
| Bonds | <u>81,946</u> | - | - | <u>81,946</u> |
| Total investments (Note 4) | <u>253,195</u> | <u>-</u> | <u>-</u> | <u>253,195</u> |
| Certificates of deposits | <u>-</u> | <u>689,420</u> | <u>-</u> | <u>689,420</u> |
| | <u>\$ 253,195</u> | <u>\$ 689,420</u> | <u>\$ -</u> | <u>\$ 942,615</u> |
| <u>Investments</u> | <u>2010</u> | | | <u>Total</u> |
| | <u>Quoted Prices Level 1</u> | <u>Observable Inputs Level 2</u> | <u>Unobservable Inputs Level 3</u> | |
| Cash and cash equivalents | \$ 22,601 | \$ - | \$ - | \$ 22,601 |
| Equity securities | 132,558 | - | - | 132,558 |
| Bonds | <u>60,588</u> | - | - | <u>60,588</u> |
| Total investments (Note 4) | <u>215,747</u> | <u>-</u> | <u>-</u> | <u>215,747</u> |
| Certificates of deposits | <u>-</u> | <u>687,646</u> | <u>-</u> | <u>687,646</u> |
| | <u>\$ 215,747</u> | <u>\$ 687,646</u> | <u>\$ -</u> | <u>\$ 903,393</u> |

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

6. PROPERTY, PLANT AND EQUIPMENT

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Land | \$ 11,354,257 | \$ 11,173,740 |
| Buildings and building improvements | 52,340,565 | 46,203,676 |
| Leasehold improvements | 1,845,496 | 1,740,273 |
| Furnishings and equipment | 1,772,358 | 1,732,491 |
| Motor vehicles | <u>244,917</u> | <u>224,917</u> |
| | 67,557,593 | 61,075,097 |
| Less - accumulated depreciation and amortization | <u>18,211,723</u> | <u>16,831,149</u> |
| | <u>\$ 49,345,870</u> | <u>\$ 44,243,948</u> |

Management determined that certain real property was impaired as of June 30, 2011. Based on management's estimated fair value of the property, an impairment loss of \$1.4 million was recognized. The impairment loss is reported as a separate line item on the income statement for the year ended June 30, 2011. The Organization did not recognize any reduction in the carrying value of its property as of June 30, 2010.

7. CONSTRUCTION IN PROGRESS

As of June 30, 2011, the Organization is in the process of renovating 11 properties for various programs. The sites are in various stages of completion. As of June 30, 2011, costs of \$2,776,187 have been incurred. The estimated cost to complete the projects is \$4,526,151.

As of June 30, 2010, the Organization is in the process of renovating 11 properties for various programs. The sites are in various stages of completion. As of June 30, 2010, costs of \$3,431,569 were incurred. The estimated cost to complete the projects was \$10,427,174.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

8. MORTGAGE NOTES PAYABLE

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Various mortgage notes payable to financial institutions in monthly installments totaling \$235,703 (\$184,903 in 2010), including interest at rates ranging from 3% to 7.5% with balloon payments totaling \$13,735,307, due on various dates ranging from 2011 to 2031. The notes are secured by first, second, third and fourth mortgages on real property. The Organization intends to refinance the balloon payments and continue the 20-30 year amortization schedules. | \$ 26,774,040 | \$ 27,444,482 |
| Non-interest bearing mortgage notes payable on dates ranging from 2013 to 2057. No principal is due on these notes prior to those dates. Interest has been imputed and accrued on these notes at a rate of 5% at June 30, 2011. The notes are secured by mortgages on real property. | <u>13,479,402</u> | <u>12,151,319</u> |
| Total mortgage notes payable | <u>\$ 40,253,442</u> | <u>\$ 39,595,801</u> |

Maturities of mortgage notes payable, including balloon payments, which the Organization intends to refinance, are as follows:

| <u>Year ending June 30,</u> | <u>Total</u> | <u>Balloon Payments</u> |
|-----------------------------|----------------------|-----------------------------|
| 2012 | \$ 3,555,827 | \$ 2,094,011 |
| 2013 | 3,177,655 | 379,695 |
| 2014 | 1,976,593 | 1,367,588 |
| 2015 | 908,226 | 277,015 |
| 2016 | 879,467 | 272,470 |
| Thereafter | <u>29,755,674</u> | <u>9,344,528</u> |
| | <u>\$ 40,253,442</u> | <u>\$ 13,735,307</u> |

The fair value of the mortgage notes payable is approximately equal to its carrying value.

As of June 30, 2011 and 2010, \$200,000 of cash is used as collateral for mortgage notes payable.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

9. NOTES PAYABLE

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Vehicle note payable to a credit institution in monthly installments totaling \$602, including interest at 7.25%, maturing in November 2012. The note is secured by a motor vehicle. | \$ 9,118 | \$ 15,402 |
| Non-interest bearing information technology note payable to the Department of Housing and Community Development (DHCD) in quarterly installments of \$2,500 and a balloon payment of \$30,000 due on December 31, 2011 if a contract with DHCD is not renewed. | <u>35,000</u> | <u>45,000</u> |
| Total notes payable | <u>\$ 44,118</u> | <u>\$ 60,402</u> |

Maturity of note payable is as follows:

| <u>Years ending June 30,</u> | | |
|------------------------------|--|------------------|
| 2012 | | \$ 41,755 |
| 2013 | | <u>2,363</u> |
| | | <u>\$ 44,118</u> |

10. LINES OF CREDIT

The Organization has a commercial revolving line of credit agreement with a bank in the amount of \$3,500,000 expiring on December 31, 2011. Interest is calculated at the bank's prime lending rate plus 0.25% with a floor of 4.00% (4.00% as of June 30, 2011 and 4.50% as of June 30, 2010). As of June 30, 2011 and 2010, the line of credit had no outstanding balance.

The Organization has a development revolving line of credit agreement with a bank in the amount of \$1,000,000 expiring on June 30, 2015. Interest is calculated at the bank's prime lending rate plus 0.25% with a floor of 6.50% (6.50% as of June 30, 2011 and 4.50% as of June 30, 2010). The line of credit had an outstanding balance of \$711,000 and \$300,000 as of June 30, 2011 and 2010, respectively.

11. OPERATING LEASES

Vehicles

The Organization leases motor vehicles under operating leases expiring at various dates through 2016. Included in transportation expenses for the years ended June 30, 2011 and 2010 is rental expense of \$110,282 and \$112,462, respectively.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

11. OPERATING LEASES...continued

Buildings

The Organization leases facilities under operating leases expiring at various dates through 2023. Included in occupancy expenses for the years ended June 30, 2011 and 2010 is rental expense of \$1,331,103 and \$1,294,970, respectively.

Equipment

The Organization leases equipment under operating leases expiring at various dates through 2016. Included in equipment expenses for the years ended June 30, 2011 and 2010 is equipment rental expense totaling \$56,239 and \$51,322, respectively.

Future minimum rental payments under vehicle, building and equipment leases for the next five years, under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2011, are as follows:

| | <u>Vehicles</u> | <u>Buildings</u> | <u>Equipment</u> | <u>Total</u> |
|------|-------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 114,497 | \$ 389,400 | \$ 53,776 | \$ 557,673 |
| 2013 | 79,579 | 305,412 | 43,103 | 428,094 |
| 2014 | 66,165 | 302,612 | 30,351 | 399,128 |
| 2015 | 46,284 | 302,612 | 17,607 | 366,503 |
| 2016 | <u>8,282</u> | <u>302,612</u> | <u>7,164</u> | <u>318,058</u> |
| | <u>\$ 314,807</u> | <u>\$ 1,602,648</u> | <u>\$ 152,001</u> | <u>\$ 2,069,456</u> |

12. UNEMPLOYMENT RESERVE

The Organization has elected to pay for the costs of unemployment compensation by reimbursing the Commonwealth of Massachusetts for unemployment compensation paid. As of June 30, 2011 and 2010, the Organization has accrued \$82,534 and \$86,989 for claims incurred prior to June 30, 2011 and 2010, respectively, but not paid on those dates.

13. RETIREMENT PLAN

The Organization has a tax deferred annuity plan as described in IRS code section 403(b) covering all eligible employees beginning upon their first full month of service. The plan allows the Organization to make discretionary contributions, as determined by the board of directors, subject to IRS limitations. The amount contributed for the years ended June 30, 2011 and 2010 was \$205,929 and \$207,342, respectively.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2011 and 2010

14. TEMPORARILY RESTRICTED NET ASSETS

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| \$500,000 non-interest bearing mortgage note payable to a city. The total principal balance will be forgiven in its entirety in 2014 provided the use of the property remains affordable housing for income eligible residents. The note is secured by a mortgage on real property. | \$ 500,000 | \$ 500,000 |
| Advances on a \$385,600 non-interest bearing construction loan payable to HUD. Upon completion of the project, the construction loan converted to a non-interest bearing mortgage note payable due in September 2033. Repayment of this loan will be waived if very low-income individuals occupy the building through this date. The note is secured by a mortgage on real property. | 385,600 | 385,600 |
| Pledges receivable restricted due to time. | <u>5,000</u> | <u>10,000</u> |
| | <u>\$ 890,600</u> | <u>\$ 895,600</u> |

15. NET ASSETS RELEASED FROM RESTRICTIONS

Following is a summary as of June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|-----------------|------------------|
| Purpose restrictions accomplished | \$ - | \$ 19,675 |
| Pledges received | <u>5,000</u> | <u>5,000</u> |
| | <u>\$ 5,000</u> | <u>\$ 24,675</u> |

16. MAJOR REVENUE SOURCE

Contract and grants revenue represents approximately 82% and 84% of the Organization's revenue for the years ended June 30, 2011 and 2010. A significant portion of that revenue is earned on contracts between the Organization and the various public agencies of the Commonwealth of Massachusetts.

17. LEGAL MATTERS

During the year ended June 30, 2008, the Organization entered into litigation for which it is the plaintiff. On October 26, 2010, a settlement agreement was finalized and the Organization was awarded \$1,000,000, which was recognized upon receipt.

18. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through November 15, 2011 when the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Boards of Directors
South Middlesex Opportunity Council, Inc. and Affiliates
Framingham, Massachusetts

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information included is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations. The accompanying information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

November 15, 2011
Boston, Massachusetts

South Middlesex Opportunity Council, Inc. and Affiliate

Consolidating Schedule of Financial Position
June 30, 2011

| | SMOC | Non-Profit Housing | Land Trust | SMOP | Worcester Public Inebriate Program, Inc. | P.I.P. Foundation, Inc. | Open Pantry Community Services | Freedom Village, LLC | Eliminations | Consolidated Totals |
|---|----------------------|-----------------------|-------------------|-------------------|---|----------------------------|--------------------------------------|-------------------------|------------------------|------------------------|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 855,134 | \$ 99,971 | \$ - | \$ 19,191 | \$ - | \$ - | \$ 31,380 | \$ 20,401 | \$ - | \$ 1,026,077 |
| Certificates of deposit | 112,439 | 576,981 | - | - | - | - | - | - | - | 689,420 |
| Cash restricted | 147,906 | 213,902 | - | 714 | - | - | - | - | - | 362,522 |
| Accounts receivable: | | | | | | | | | | |
| Contracts and grants | 2,589,280 | 15,793 | - | - | 203,417 | - | 76,813 | - | - | 2,885,303 |
| Third parties - net of allowance for doubtful accounts | 200,980 | - | - | - | - | - | - | - | - | 200,980 |
| Other | 60,036 | 191,988 | - | - | - | 22,000 | 5,000 | 271,369 | - | 550,393 |
| Investments | - | 253,195 | - | - | - | - | - | - | - | 253,195 |
| Investment in affiliate | - | 3,689,393 | - | - | - | - | - | - | (3,689,393) | - |
| Prepaid expenses and deposits | 447,941 | 129,691 | - | - | - | - | 3,800 | 455 | - | 581,887 |
| Property, plant and equipment, net | 174,049 | 41,910,278 | 50,000 | 255,417 | 32,250 | 78,376 | 283,266 | 6,562,234 | - | 49,345,870 |
| Construction in progress | - | 2,619,644 | - | - | - | 156,543 | - | - | - | 2,776,187 |
| Mortgage acquisition costs, net | - | 2,358,055 | - | - | - | 13,126 | - | 175,970 | - | 2,547,151 |
| Intercompany balances | 5,483,276 | - | 50,000 | - | - | 781,303 | 2,330 | - | (6,316,909) | - |
| Total assets | \$ 10,071,041 | \$ 52,058,891 | \$ 100,000 | \$ 275,322 | \$ 235,667 | \$ 1,051,348 | \$ 402,589 | \$ 7,030,429 | \$ (10,006,302) | \$ 61,218,985 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | |
| Lines of credit | \$ - | \$ 711,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 711,000 |
| Accounts payable | 1,042,763 | 433,097 | - | 1,685 | 62,718 | 60,202 | 62,822 | 18,343 | - | 1,681,630 |
| Accrued expenses | 978,371 | 157,966 | - | 42 | 5,742 | 59 | 2,376 | - | - | 1,144,556 |
| Notes payable | 35,000 | 9,118 | - | - | - | - | - | - | - | 44,118 |
| Mortgage notes payable | - | 37,193,700 | - | - | - | 67,564 | 252,029 | 2,740,149 | - | 40,253,442 |
| Deferred revenue | 3,129,986 | 1,303 | - | - | - | - | - | - | - | 3,131,289 |
| Other liabilities | 678,492 | 213,325 | - | 714 | - | - | - | - | - | 892,531 |
| Intercompany balances | - | 5,541,213 | - | 129,870 | 473,215 | - | - | 172,611 | (6,316,909) | - |
| Total liabilities | 5,864,612 | 44,260,722 | - | 132,311 | 541,675 | 127,825 | 317,227 | 2,931,103 | (6,316,909) | 47,858,566 |
| Net assets/members equity: | | | | | | | | | | |
| Unrestricted/members equity | 4,206,429 | 7,298,169 | 100,000 | (242,589) | (306,008) | 923,523 | 80,362 | 3,689,393 | (3,689,393) | 12,059,886 |
| Temporarily restricted | - | 500,000 | - | 385,600 | - | - | 5,000 | - | - | 890,600 |
| Noncontrolling interest | - | - | - | - | - | - | - | 409,933 | - | 409,933 |
| Total net assets/members equity | 4,206,429 | 7,798,169 | 100,000 | 143,011 | (306,008) | 923,523 | 85,362 | 4,099,326 | (3,689,393) | 13,360,419 |
| Total liabilities and net assets/members equity | \$ 10,071,041 | \$ 52,058,891 | \$ 100,000 | \$ 275,322 | \$ 235,667 | \$ 1,051,348 | \$ 402,589 | \$ 7,030,429 | \$ (10,006,302) | \$ 61,218,985 |

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidating Schedule of Activities
Year Ended June 30, 2011

| | SMOC | Non-Profit Housing | Land Trust | SMOP | ENSOFT | Worcester Public Inebriate Program, Inc. | P.I.P. Foundation | Open Pantry Community Services | Freedom Village, LLC | Eliminations | Consolidated Totals |
|--|---------------------|-----------------------|-------------------|-------------------|------------------|---|----------------------|--------------------------------------|-------------------------|-----------------------|------------------------|
| Revenues, gains and other support: | | | | | | | | | | | |
| Contracts and grants | \$ 55,500,132 | \$ 154,195 | \$ - | \$ 16,721 | \$ - | \$ 2,566,479 | \$ - | \$ 1,256,957 | \$ 3,022,925 | \$ - | \$ 62,517,409 |
| Third party billings, net of free services and contractual allowances | 3,167,350 | - | - | - | - | - | - | - | - | - | 3,167,350 |
| Tuition income | 412,160 | - | - | - | - | - | - | - | - | - | 412,160 |
| Other program revenue (expense) | 1,546,038 | 272,041 | - | 570 | - | 30,385 | (6,270) | (127,344) | - | (221,035) | 1,494,385 |
| Donated goods and services | 141,224 | - | - | - | - | - | - | 1,308,028 | - | - | 1,449,252 |
| Contributions | 227,072 | - | - | - | - | 6,741 | - | 429,900 | - | - | 663,713 |
| Donated real property | - | 745,671 | - | - | - | - | - | - | - | - | 745,671 |
| Rental income | 39,517 | 5,730,891 | - | 9,398 | - | - | 58,750 | 14,138 | 16,830 | (1,195,534) | 4,673,990 |
| Miscellaneous income | 1,000,000 | - | - | - | 272,497 | - | - | - | - | - | 1,272,497 |
| Interest income | 1,741 | 12,056 | - | 38 | - | - | - | 56 | - | - | 13,891 |
| Gain on sale of building | - | - | - | - | - | - | - | - | - | - | - |
| Impairment loss on real property | - | (1,400,000) | - | - | - | - | - | - | - | - | (1,400,000) |
| Gain on investment in affiliate | - | 2,669,617 | - | - | - | - | - | - | - | (2,669,617) | - |
| Unrealized gain on investments | - | 27,791 | - | - | - | - | - | - | - | - | 27,791 |
| Realized gain on investments | - | - | - | - | - | - | - | - | - | - | 2,966 |
| Dividend income | - | 3,090 | - | - | - | - | - | - | - | - | 3,090 |
| Total revenue, gains and other support | 62,035,234 | 8,218,318 | - | 26,727 | 272,497 | 2,603,605 | 52,480 | 2,881,735 | 3,039,755 | (4,086,186) | 75,044,165 |
| Expenses and losses: | | | | | | | | | | | |
| Program services: | | | | | | | | | | | |
| Education and Child Care | 7,452,189 | - | - | - | - | - | - | - | - | - | 7,452,189 |
| Crisis Intervention | 916,295 | - | - | - | - | - | - | - | - | - | 916,295 |
| Substance Abuse | 2,991,538 | - | - | - | - | - | - | - | - | - | 2,991,538 |
| Energy and Financial Assistance | 30,693,823 | - | - | - | - | - | - | - | - | - | 30,693,823 |
| Shelter | 4,375,459 | - | - | - | - | - | - | - | - | - | 4,375,459 |
| Advocacy | 7,478,083 | - | - | - | - | - | - | - | - | - | 7,478,083 |
| Mental Health Services | 2,891,291 | - | - | - | - | - | - | - | - | - | 2,891,291 |
| Nutrition | 911,708 | - | - | - | - | - | - | - | - | - | 911,708 |
| Non-Profit Housing | - | 8,122,554 | - | - | - | - | - | - | - | (1,135,534) | 6,987,020 |
| Opportunity Properties | - | - | - | 48,065 | - | - | - | - | - | - | 48,065 |
| Worcester Public Inebriate Program, Inc. | - | - | - | - | - | 2,751,479 | - | - | - | (60,000) | 2,691,479 |
| P.I.P. Foundation | - | - | - | - | - | - | 88,531 | - | - | - | 88,531 |
| Open Pantry Community Services, Inc. | - | - | - | - | - | - | - | 2,885,570 | - | - | 2,885,570 |
| Freedom Village, LLC | - | - | - | - | - | - | - | - | 73,514 | - | 73,514 |
| Total program services | 57,710,386 | 8,122,554 | - | 48,065 | - | 2,751,479 | 88,531 | 2,885,570 | 73,514 | (1,195,534) | 70,484,565 |
| Supporting Services | | | | | | | | | | | |
| General and administrative | 3,229,873 | 60,000 | - | - | - | 161,032 | - | - | - | (221,135) | 3,229,770 |
| Fundraising | 84,126 | 2,949 | - | - | - | - | - | 13,248 | - | - | 100,323 |
| Total supporting services | 3,313,999 | 62,949 | - | - | - | 161,032 | - | 13,248 | - | (221,135) | 3,330,093 |
| Total expenses and losses | 61,024,385 | 8,185,503 | - | 48,065 | - | 2,912,511 | 88,531 | 2,898,818 | 73,514 | (1,416,669) | 73,814,658 |
| Change in net assets/members equity before income attributable to noncontrolling interest | 1,010,849 | 32,815 | - | (21,338) | 272,497 | (308,906) | (36,051) | (17,083) | 2,966,241 | (2,669,517) | 1,229,507 |
| Income attributable to noncontrolling interest | - | - | - | - | - | - | - | - | 296,624 | - | 296,624 |
| Change in net assets/members equity | 1,010,849 | 32,815 | - | (21,338) | 272,497 | (308,906) | (36,051) | (17,083) | 2,669,617 | (2,669,517) | 932,883 |
| Net assets/members equity, beginning of year | 3,195,580 | 7,765,354 | 100,000 | 164,349 | (272,497) | 2,898 | 959,574 | 102,445 | 1,133,085 | (1,019,876) | 12,130,912 |
| Net assets/members equity, end of year | \$ 4,206,429 | \$ 7,798,169 | \$ 100,000 | \$ 143,011 | \$ - | \$ (306,008) | \$ 923,523 | \$ 85,362 | \$ 4,099,326 | \$ (3,689,393) | \$ 13,360,419 |