

South Middlesex Opportunity Council, Inc.
and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2012 and 2011

South Middlesex Opportunity Council, Inc. and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS Years Ended June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 LLP

Boston, Massachusetts
January 14, 2013

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 3,528,592	\$ 1,026,077
Certificates of deposit (Note 5)	691,207	689,420
Cash - restricted (Note 3)	405,374	362,522
Accounts receivable:		
Contracts and grants	3,057,127	2,885,303
Third parties - net of allowance for doubtful accounts	238,198	200,980
Other	160,295	550,393
Investments (Notes 4 and 5)	251,118	253,195
Prepaid expenses and deposits	515,875	581,887
Property, plant and equipment, net (Notes 6, 8, and 9)	54,382,175	49,345,870
Construction in progress (Note 7)	2,299,868	2,776,187
Mortgage acquisition costs, net	2,822,575	2,547,151
	\$ 68,352,404	\$ 61,218,985
LIABILITIES AND NET ASSETS		
Lines of credit (Note 10)	\$ 4,196,264	\$ 711,000
Accounts payable (Note 2)	2,183,598	1,681,630
Accrued expenses (Notes 2 and 12)	1,206,035	1,144,556
Deferred revenue	2,283,997	3,131,289
Notes payable (Note 9)	83,613	44,118
Mortgage notes payable (Note 8)	44,573,676	40,253,442
Other liabilities	1,258,285	892,531
Total liabilities	55,785,468	47,858,566
Commitments (Notes 8, 9, and 11)		
Net assets/members equity:		
Unrestricted/members equity	11,681,336	12,059,886
Temporarily restricted (Note 14)	885,600	890,600
Net assets/members equity	12,566,936	12,950,486
Noncontrolling interest (Note 19)	-	409,933
Total net assets/members equity	12,566,936	13,360,419
	\$ 68,352,404	\$ 61,218,985

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
Revenue, gains and other support:						
Contracts and grants (Note 16)	\$ 60,442,479	\$ -	\$ 60,442,479	\$ 62,517,409	\$ -	\$ 62,517,409
Third party billings, net of free services and contractual allowances	3,326,057	-	3,326,057	3,167,350	-	3,167,350
Tuition income	371,479	-	371,479	412,160	-	412,160
Other program revenue	1,854,174	-	1,854,174	1,494,385	-	1,494,385
Donated goods and services (Note 2)	1,319,581	-	1,319,581	1,449,252	-	1,449,252
Contributions	644,215	-	644,215	663,713	-	663,713
Donated real property	756,519	-	756,519	745,671	-	745,671
Rental income	4,938,680	-	4,938,680	4,673,990	-	4,673,990
Miscellaneous income (Note 17)	-	-	-	1,272,497	-	1,272,497
Interest income	12,966	-	12,966	13,891	-	13,891
Loss on sale of building	(144,221)	-	(144,221)	-	-	-
Gain on affiliation	641,908	16,546	658,454	-	-	-
Impairment loss on real property (Note 6)	-	-	-	(1,400,000)	-	(1,400,000)
Unrealized gain (loss) on investments	(6,944)	-	(6,944)	27,791	-	27,791
Realized gain (loss) on investments	(2,746)	-	(2,746)	2,966	-	2,966
Dividend income	2,915	-	2,915	3,090	-	3,090
Total revenue and gains	74,157,062	16,546	74,173,608	75,044,165	-	75,044,165
Net assets released from restrictions (Note 15)	21,546	(21,546)	-	5,000	(5,000)	-
Total revenue, gains and other support	74,178,608	(5,000)	74,173,608	75,049,165	(5,000)	75,044,165
Expenses and losses (Notes 2, 11, 12, 13 and 18):						
Program services:						
Education and Child Care	7,451,938	-	7,451,938	7,452,189	-	7,452,189
Crisis Intervention	966,979	-	966,979	916,295	-	916,295
Mental Health Services	2,829,322	-	2,829,322	2,891,291	-	2,891,291
Nutrition	847,326	-	847,326	911,708	-	911,708
Substance Abuse	2,796,154	-	2,796,154	2,991,538	-	2,991,538
Energy and Financial Assistance	30,987,328	-	30,987,328	30,693,823	-	30,693,823
Shelter	5,532,277	-	5,532,277	4,375,459	-	4,375,459
Advocacy	7,700,126	-	7,700,126	7,478,083	-	7,478,083
Non-Profit Housing	7,153,114	-	7,153,114	6,987,020	-	6,987,020
Opportunity Properties	50,450	-	50,450	48,065	-	48,065
Freedom Village	435,763	-	435,763	73,514	-	73,514
Worcester Public Inebriate Program, Inc.	1,874,019	-	1,874,019	2,691,479	-	2,691,479
P.I.P. Foundation, Inc.	45,879	-	45,879	88,531	-	88,531
Martin Luther King Jr. Business Empowerment Ctr.	142,257	-	142,257	-	-	-
Open Pantry Community Services, Inc.	2,680,055	-	2,680,055	2,885,570	-	2,885,570
Total program services	71,492,987	-	71,492,987	70,484,565	-	70,484,565
Supporting Services	3,374,808	-	3,374,808	3,229,770	-	3,229,770
Fundraising	38,594	-	38,594	100,323	-	100,323
Total supporting services	3,413,402	-	3,413,402	3,330,093	-	3,330,093
Total expenses and losses	74,906,389	-	74,906,389	73,814,658	-	73,814,658
Change in net assets/members equity before income attributable to noncontrolling interest	(727,781)	(5,000)	(732,781)	1,234,507	(5,000)	1,229,507
Income attributable to noncontrolling interest	-	-	-	296,624	-	296,624
Change in net assets/members equity	(727,781)	(5,000)	(732,781)	937,883	(5,000)	932,883
Net assets/members equity, beginning of year	12,469,819	890,600	13,360,419	11,235,312	895,600	12,130,912
Transfer of Noncontrolling Interest	(60,702)	-	(60,702)	-	-	-
Net assets/members equity, end of year	\$ 11,681,336	\$ 885,600	\$ 12,566,936	\$ 12,469,819	\$ 890,600	\$ 13,360,419

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Functional Expenses
Years Ended June 30, 2012 and 2011

	2012			2011		
	Total Program Services	Supporting Services	Total Expenses	Total Program Services	Supporting Services	Total Expenses
Expenses and losses:						
Salaries and wages	\$ 16,092,002	\$ 1,402,839	\$ 17,494,841	\$ 16,749,235	\$ 1,312,218	\$ 18,061,453
Employee benefits and payroll taxes (Notes 5, 12, and 13)	4,764,810	730,127	5,494,937	5,000,387	500,364	5,500,751
Total salaries and related expenses	20,856,812	2,132,966	22,989,778	21,749,622	1,812,582	23,562,204
Client assistance	25,778,591	-	25,778,591	27,044,608	-	27,044,608
Professional fees and contracted services (Note 2)	2,535,497	707,527	3,243,024	2,098,283	627,091	2,725,374
Occupancy (Note 11)	6,896,621	127,589	7,024,210	6,830,011	182,742	7,012,753
Equipment expenses (Note 11)	195,945	22,573	218,518	186,006	65,976	251,982
Dietary	365,533	7,255	372,788	34,226	-	34,226
Donated goods and services (Note 2)	2,076,100	-	2,076,100	2,194,923	-	2,194,923
Transportation (Note 11)	688,720	37,141	725,861	712,290	38,137	750,427
Supplies	8,921,832	101,297	9,023,129	7,051,137	87,861	7,138,998
Telephone	268,693	14,946	283,639	258,847	31,200	290,047
Insurance	418,320	8,282	426,602	373,567	15,436	389,003
Advertising	34,696	4,629	39,325	26,894	5,675	32,569
Training	214,387	5,578	219,965	124,022	24,037	148,059
Interest expense (Notes 8, 9 and 10)	1,497,390	38,963	1,536,353	1,437,777	2,606	1,440,383
Depreciation and amortization	1,763,956	80,843	1,844,799	1,536,772	63,479	1,600,251
Bad debt expense	25,400	-	25,400	21,100	272,597	293,697
Other	953	85,219	86,172	14	351	365
Fundraising	-	38,594	38,594	-	100,323	100,323
Management fees (Note 2)	-	245,553	245,553	-	221,135	221,135
Eliminating entries (Note 2)	(1,046,459)	(245,553)	(1,292,012)	(1,195,534)	(221,135)	(1,416,669)
Total expenses and losses	\$ 71,492,987	\$ 3,413,402	\$ 74,906,389	\$ 70,484,565	\$ 3,330,093	\$ 73,814,658

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2012

	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	\$ 3,698,152	\$ 536,420	\$ 1,785,844	\$ 500,830	\$ 1,561,642	\$ 1,486,734	\$ 1,858,580	\$ 2,258,054	\$ 13,686,256
Employee benefits and payroll taxes (Notes 5, 12, and 13)	1,174,806	170,178	358,578	160,263	444,873	477,197	592,931	616,073	3,994,899
Total salaries and related expenses	4,872,958	706,598	2,144,422	661,093	2,006,515	1,963,931	2,451,511	2,874,127	17,681,155
Client assistance	-	74,965	105,040	-	-	20,477,130	462,961	4,276,196	25,396,292
Professional fees and contracted services (Note 2)	902,009	13,085	146,882	25,959	16,592	285,629	345,323	72,505	1,807,984
Occupancy (Note 11)	726,508	102,760	256,863	114,190	537,503	136,806	1,978,414	198,209	4,051,253
Equipment expenses (Note 11)	27,893	1,275	10,887	3,878	10,762	57,743	27,326	12,536	152,300
Dietary	267,401	-	-	2,209	39,880	7,260	23,619	-	340,369
Donated goods and services (Note 2)	141,212	-	-	-	-	-	-	-	141,212
Transportation (Note 11)	144,332	10,785	5,641	3,561	61,315	68,679	66,685	80,445	441,443
Supplies	229,348	39,371	72,925	18,851	68,754	7,828,699	109,921	97,297	8,465,166
Telephone	27,801	6,462	19,260	8,244	22,980	22,026	36,232	24,816	167,821
Insurance	48,743	6,660	24,990	6,624	19,608	33,435	22,434	29,784	192,278
Advertising	3,357	70	10,721	1,811	5,289	4,526	930	3,138	29,842
Training	49,527	4,948	9,991	906	3,756	100,632	7,421	31,070	208,251
Interest expense (Notes 8, 9 and 10)	-	-	-	-	-	-	-	-	-
Depreciation and amortization	10,849	-	-	-	-	832	-	-	11,681
Bad debt expense	-	-	21,700	-	3,200	-	(500)	-	24,400
Other	-	-	-	-	-	-	-	3	3
Eliminating entries (Note 2)	-	-	-	-	-	-	-	-	-
Total expenses and losses	\$ 7,451,938	\$ 966,979	\$ 2,829,322	\$ 847,326	\$ 2,796,154	\$ 30,987,328	\$ 5,532,277	\$ 7,700,126	\$ 59,111,450

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses...continued
Year Ended June 30, 2012

	Program Services								
	Balance Brought Forward	Non-Profit Housing	Opportunity Properties	Freedom Village	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation, Inc.	Martin Luther King Jr. Business Empowerment Ctr.	Open Pantry Community Services	Total Program Services
Expenses and losses:									
Salaries and wages	\$ 13,686,256	\$ 1,181,455	\$ 15,623	\$ -	\$ 421,696	\$ -	\$ 27,230	\$ 759,742	\$ 16,092,002
Employee benefits and payroll taxes (Notes 5, 12, and 13)	3,994,899	378,066	4,999	-	134,942	-	8,786	243,118	4,764,810
Total salaries and related expenses	17,681,155	1,559,521	20,622	-	556,638	-	36,016	1,002,860	20,856,812
Client assistance	25,396,292	-	-	-	382,299	-	-	-	25,778,591
Professional fees and contracted services (Note 2)	1,807,984	118,613	753	86,753	321,246	958	70,128	129,062	2,535,497
Occupancy (Note 11)	4,051,253	2,011,024	18,015	100,371	506,577	27,615	27,381	154,385	6,896,621
Equipment expenses (Note 11)	152,300	8,488	-	-	27,702	-	598	6,857	195,945
Dietary	340,369	-	-	-	25,142	-	-	22	365,533
Donated goods and services (Note 2)	141,212	756,519	-	-	-	-	-	1,178,369	2,076,100
Transportation (Note 11)	441,443	204,106	-	-	14,030	-	368	28,773	688,720
Supplies	8,465,166	306,450	1,268	5,343	30,633	2,390	4,499	106,083	8,921,832
Telephone	167,821	59,703	1,238	3,557	10,920	-	2,035	23,419	268,693
Insurance	192,278	171,459	984	21,180	11,187	5,604	1,228	14,400	418,320
Advertising	29,842	2,579	-	833	582	-	-	860	34,696
Training	208,251	2,401	-	-	1,771	-	-	1,964	214,387
Interest expense (Notes 8, 9 and 10)	-	1,418,202	-	61,988	-	2,661	4	14,535	1,497,390
Depreciation and amortization	11,681	1,554,558	7,570	155,738	9,292	6,651	-	18,466	1,763,956
Bad debt expense	24,400	1,000	-	-	-	-	-	-	25,400
Other	3	950	-	-	-	-	-	-	953
Eliminating entries (Note 2)	-	(1,022,459)	-	-	(24,000)	-	-	-	(1,046,459)
Total expenses and losses	\$ 59,111,450	\$ 7,153,114	\$ 50,450	\$ 435,763	\$ 1,874,019	\$ 45,879	\$ 142,257	\$ 2,680,055	\$ 71,492,987

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 5, 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							Total
	Brought Forward	Non-Profit Housing	Opportunity Properties	Freedom Village	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation, Inc.	Open Pantry Community Services	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 5,12, 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.

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets/members equity	\$ (732,781)	\$ 932,883
Adjustments to reconcile change in net assets/members equity to net cash provided by operating activities:		
Depreciation and amortization	1,844,799	1,600,251
Income attributable to noncontrolling interest	-	296,624
Contribution recognized on acquisition	(658,454)	-
Loss on sale of building	144,221	-
Impairment loss on real property	-	1,400,000
Unrealized (gain) loss on investments	6,944	(27,791)
Realized (gain) loss on investments	2,746	(2,966)
Change in certificates of deposits	(1,787)	(1,774)
Change in accounts receivable	197,383	150,885
Change in prepaid expenses and deposits	66,012	(384,873)
Change in accounts payable	464,091	(229,997)
Change in accrued expenses	61,479	(210,160)
Change in deferred revenue	(847,292)	(497,332)
Change in other liabilities	357,558	137,458
Total adjustments	1,637,700	2,230,325
Net cash provided by operating activities	904,919	3,163,208
Cash flows from investing activities:		
Change in restricted cash	(42,852)	(32,683)
Net purchases of property and equipment	(4,209,636)	(198,040)
Proceeds from sale of property and equipment	366,000	-
Construction in progress costs incurred	(1,514,499)	(7,050,662)
Cash received from acquisition	4,134	-
Purchases of investments	(7,237)	(6,691)
Purchase of notes payable	(250,000)	-
Transfer of noncontrolling interest	(60,702)	-
Net cash used in investing activities	(5,714,792)	(7,288,076)
Cash flows from financing activities:		
Proceeds from notes and mortgage notes payable	7,207,263	4,322,460
Repayment of notes and mortgage notes payable	(2,903,784)	(3,681,103)
Net proceeds from revolving line of credit	3,485,264	411,000
Mortgage acquisition costs incurred	(476,355)	(251,278)
Net cash provided by financing activities	7,312,388	801,079
Net change in cash and cash equivalents:	2,502,515	(3,323,789)
Cash and cash equivalents, beginning of year	1,026,077	4,349,866
Cash and cash equivalents, end of year	\$ 3,528,592	\$ 1,026,077
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,536,593	\$ 1,440,905

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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. In October 2012, South Middlesex Non-Profit Housing Corporation, Inc. purchased the remaining 10% of Freedom Village LLC, thereby becoming the sole member.

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

Basis of Consolidation

The consolidated financial statements for the years ended June 30, 2012 and 2011 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., Freedom Village LLC., the Martin Luther King, Jr. Business Empowerment Center, and Chandler 237 Realty, Inc. 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 U.S. 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, 2012 and 2011.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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, 2012 and 2011

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, 2012 and 2011, 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 twenty years, which has been deemed by the Organization to be a reasonable average life for their debt.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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, 2012 and 2011

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 fiscal years before 2009. The Organization will account for interest and penalties, if any as part of operating expenses.

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 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.

The Organization follows Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. This accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*, requires disclosures about fair value measurements including, 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 disclosure requirements.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

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:

Cash Equivalents, Equity Securities and Bonds

The fair value of cash equivalents, 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.

There have been no changes in valuation methodologies during the years ended June 30, 2012 and 2011.

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, 2012 and 2011

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 effective July 1, 2012. It 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 was a partner in a law firm that represents the Organization. During 2012, this individual resigned from the board and became secretary of the Organization. For the years ended June 30, 2012 and 2011, legal fees incurred by the Organization to this firm totaled \$847,744 and \$529,884, respectively, which is net of discounts totaling \$210,212 and \$137,269. In addition, the law firm provided donated services in its capacity as general counsel to the Organization totaling \$40,000 and \$37,500 in fiscal years 2012 and 2011, respectively. Amounts included in accrued expenses and accounts payable relating to these transactions totaled \$482,825 and \$122,699 as of June 30, 2012 and 2011, 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, 2012 and 2011, the Organization incurred \$509,806 and \$165,733, respectively, in insurance expense for policies serviced by the consortium.

An officer of a bank whom the Organization is indebted through various loan agreements was also a member of the board of directors as of June 30, 2012. This individual resigned from the board subsequent to year-end. 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, 2011.

3. CASH – RESTRICTED

Following is a summary as of June 30,:

	<u>2012</u>	<u>2011</u>
Tenant/client deposits	<u>\$ 405,374</u>	<u>\$ 362,522</u>

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

4. INVESTMENTS

Investments consist of the following as of June 30,:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 24,194	\$ 6,921
Equity securities	148,546	164,328
Bonds	<u>78,378</u>	<u>81,946</u>
	<u>\$ 251,118</u>	<u>\$ 253,195</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 :

	<u>Assets Measured at Fair Value on a Recurring Basis Using</u>			
	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	<u>Total</u>
<u>2012</u>				
Cash and cash equivalents	\$ 24,194	\$ -	\$ -	\$ 24,194
Equity securities	148,546	-	-	148,546
Bonds	<u>78,378</u>	<u>-</u>	<u>-</u>	<u>78,378</u>
	<u>\$ 251,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 251,118</u>

	<u>Assets Measured at Fair Value on a Recurring Basis Using</u>			
	Quoted Prices in Active Markets For Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	<u>Total</u>
<u>2011</u>				
Cash and cash equivalents	\$ 6,921	\$ -	\$ -	\$ 6,921
Equity securities	164,328	-	-	164,328
Bonds	<u>81,946</u>	<u>-</u>	<u>-</u>	<u>81,946</u>
	<u>\$ 253,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 253,195</u>

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

6. PROPERTY, PLANT AND EQUIPMENT

Following is a summary as of June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 12,182,062	\$ 11,354,257
Buildings and building improvements	57,606,186	52,340,565
Leasehold improvements	1,997,693	1,845,496
Furnishings and equipment	2,062,275	1,772,358
Motor vehicles	<u>166,737</u>	<u>244,917</u>
	74,014,953	67,557,593
Less - accumulated depreciation and amortization	<u>19,632,778</u>	<u>18,211,723</u>
	<u>\$ 54,382,175</u>	<u>\$ 49,345,870</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, 2012.

7. CONSTRUCTION IN PROGRESS

As of June 30, 2012, the Organization is in the process of renovating 14 properties for various programs. The sites are in various stages of completion. As of June 30, 2012, costs of \$2,299,868 have been incurred. The estimated cost to complete the projects is \$6,764,433.

As of June 30, 2011, the Organization was in the process of renovating 11 properties for various programs. The sites remain in various stages of completion as of June 30, 2012. As of June 30, 2011, costs of \$2,776,187 have been incurred.

8. MORTGAGE NOTES PAYABLE

Following is a summary as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Various mortgage notes payable to financial institutions in monthly installments totaling \$235,743 (\$235,703 in 2011), including interest at rates ranging from 3.4% to 7.5% with balloon payments totaling \$16,603,065, due on various dates ranging from 2011 to 2032. 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.	\$ 30,045,791	\$ 26,774,040
Non-interest bearing mortgage notes payable on dates ranging from 2012 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, 2012. The notes are secured by mortgages on real property.	<u>14,527,885</u>	<u>13,479,402</u>
Total mortgage notes payable	<u>\$ 44,573,676</u>	<u>\$ 40,253,442</u>

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

8. MORTGAGE NOTES PAYABLE...continued

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>
2013	\$ 1,908,291	\$ 254,642
2014	1,136,803	365,974
2015	1,621,919	822,084
2016	1,083,308	301,068
2017	2,613,106	1,808,022
Thereafter	<u>36,210,249</u>	<u>13,057,170</u>
	<u>\$ 44,573,676</u>	<u>\$ 16,608,960</u>

As of June 30, 2011, \$200,000 of cash was used as collateral for mortgage notes payable, respectively. There was no such requirement in place during the year ended June 30, 2012.

9. NOTES PAYABLE

Following is a summary as of June 30:

	<u>2012</u>	<u>2011</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.	\$ 2,363	\$ 9,118
Non-interest bearing information technology note payable to the Department of Housing and Community Development (DHCD) in quarterly installments of \$2,500.	25,000	35,000
Non-interest bearing, unsecured loan, from Mass Development, a state agency, in connection with a specific project proposal. The original maturity was November 2004, but payment has not been requested by the agency. Amount was transferred in the CY through the acquisition of MLK.	25,000	-
Unsecured loan, with the Diocese of Western Massachusetts, a private not-for-profit agency, due in quarterly principal installments of \$1,250 plus interest at 4.00%, through April 2011. The Terms of the loan were renegotiated in March 2011 to be quarterly interest payments only. Amount was transferred in the CY through the acquisition of MLK.	<u>31,250</u>	<u>-</u>
Total notes payable	<u>\$ 83,613</u>	<u>\$ 44,118</u>

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

9. NOTES PAYABLE...continued

Maturity of note payable is as follows:

<u>Years ending June 30, 2012</u>	
2013	\$ 42,363
2014	15,000
2015	10,000
2016	5,000
2017	5,000
Thereafter	<u>6,250</u>
	<u>\$ 83,613</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 that is scheduled to mature on December 31, 2011. This agreement was modified to increase the amount to \$5,000,000 and extended the maturity date to December 31, 2012. Interest is calculated at the bank's prime lending rate plus 0.25% with a floor of 4.00% (4% as of June 30, 2012 and June 30, 2011). As of June 30, 2012, the line of credit had outstanding balance of \$2,500,000. There was no outstanding balance as of June 30, 2011.

The Organization has a development revolving line of credit agreement with a bank in the amount of \$1,750,000 expiring on June 30, 2015. Interest is calculated at the bank's prime lending rate plus 0.25% with a floor of 6.50% (6.5% as of June 30, 2012 and June 30, 2011). The line of credit had an outstanding balance of \$1,696,264 and \$711,000 as of June 30, 2012 and 2011, 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, 2012 and 2011 is rental expense of \$156,588 and \$110,282, respectively.

Buildings

The Organization leases facilities under operating leases expiring at various dates through 2023. Included in occupancy expenses for the years ended June 30, 2012 and 2011 is rental expense of \$2,727,366 and \$1,331,103, 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, 2012 and 2011 is equipment rental expense totaling \$55,149 and \$56,239, respectively.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

11. OPERATING LEASES...continued

Equipment...continued

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, 2012, are as follows:

	<u>Vehicles</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
2013	\$ 89,718	\$ 839,861	\$ 50,018	\$ 979,597
2014	65,200	665,277	38,966	769,443
2015	48,519	588,662	25,277	662,458
2016	10,761	586,712	10,110	607,583
2017	-	589,874	807	590,681
	<u>\$ 214,198</u>	<u>\$ 3,270,386</u>	<u>\$ 125,178</u>	<u>\$ 3,609,762</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, 2012 and 2011, the Organization has accrued \$139,803 and \$82,534 for claims incurred prior to June 30, 2012 and 2011, 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 to the plan by the Organization for the years ended June 30, 2012 and 2011 was \$194,422 and \$205,929, respectively.

14. TEMPORARILY RESTRICTED NET ASSETS

Following is a summary as of June 30:

	<u>2012</u>	<u>2011</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.	-	5,000
	<u>\$ 885,600</u>	<u>\$ 890,600</u>

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

15. NET ASSETS RELEASED FROM RESTRICTIONS

Following is a summary as of June 30:

	<u>2012</u>	<u>2011</u>
Pledges received	\$ <u>21,546</u>	\$ <u>5,000</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, 2012 and 2011. A significant portion of that revenue is earned on contracts between the Organization and the various public agencies of the Commonwealth of Massachusetts.

17. ACQUISITION

On March 16, 2012, the Organization executed an affiliation agreement with The Martin Luther King, Jr. Business Empowerment Center, Inc. ("MLK"). MLK is a Worcester based non-profit organization that provides advisory and management services to minority-owned and start-up businesses, assists such entities in the application process for financial assistance, and provides job training and workforce development programs to help displaced and unskilled minority workers in the area. The purpose of the acquisition, for MLK, was to improve the reach and diversity of its services by incorporating with a larger entity that has readily available resources and a well-developed infrastructure. For the Organization, the drive to increase the availability of workforce education, training and business development assistance, and small business resources for the individuals and communities already being serviced, was the motivating factor.

The Organization entered into the agreement on March 16, 2012 with an effective date of March 31, 2012. The Organization acquired MLK and its subsidiary, Chandler 237 Realty, Inc. ("Chandler"), which was created through the affiliation agreement to hold title to MLK's properties upon entering into the agreement. Control was achieved simultaneous with the closing of the agreement on March 19, 2012, at which time debt owed to a bank by MLK totaling \$441,435 was renegotiated and settled by SMOC for \$250,000 and a new loan between SMOC and MLK for \$250,000 was established.

The affiliation was accomplished by the Organization assuming control over both MLK and Chandler on March 19, 2012. On March 19, 2012 100% of the assets and liabilities of MLK and Chandler were adjusted to their fair market values and assumed by the Organization. The Organization did not transfer any consideration as part of the affiliation agreement, a net contribution totaling \$658,454 was recorded on the statement of activities for the year ended June 30, 2012.

South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements
Years Ended June 30, 2012 and 2011

17. ACQUISITION...continued

Following is a summary of the fair value of the assets, liabilities and net assets of MLK and Chandler as of March 19, 2012:

	<u>MLK</u>	<u>Chandler</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 4,134	\$ -	\$ 4,134
Accounts receivable	7,523	-	7,523
Allowance for doubtful accounts	(196)	-	(196)
Grants & donations receivable	57,258	-	57,258
Allowance for doubtful pledges	(48,258)	-	(48,258)
Investments	376	-	376
Property and equipment	<u>2,180</u>	<u>987,760</u>	<u>989,940</u>
Total assets	<u>\$ 23,017</u>	<u>\$ 987,760</u>	<u>\$ 1,010,777</u>
<u>Liabilities</u>			
Accounts payable and accrued expenses	\$ 37,877	\$ -	\$ 37,877
Other liabilities	8,196	-	8,196
Notes payable	<u>306,250</u>	<u>-</u>	<u>306,250</u>
Total liabilities	<u>352,323</u>	<u>-</u>	<u>352,323</u>
<u>Net assets</u>			
Unrestricted	(345,852)	987,760	641,908
Temporarily Restricted	<u>16,546</u>	<u>-</u>	<u>16,546</u>
Total net assets	<u>(329,306)</u>	<u>987,760</u>	<u>658,454</u>
Total liabilities and net assets	<u>\$ 23,017</u>	<u>\$ 987,760</u>	<u>\$ 1,010,777</u>

18. TRANSFER OF NONCONTROLLING INTEREST

On October 6, 2012, the Organization executed an agreement to purchase a 10% interest in Freedom Village, LLC. for \$60,702. The transaction between South Middlesex Non-Profit Housing Corporation and FWC Affordable Housing, LLC. resulted in the Organization owning 100% of Freedom Village, LLC. The adjustment related to this investment was shown net of the purchase price, resulting in a \$349,231 addition to the net assets as of June 30, 2012.

The Following is a schedule of the changes in the non-controlling interest at June 30:

	<u>2012</u>	<u>2011</u>
Non-controlling interest – beginning of year	\$ 409,933	\$ 113,309
Transfer of non-controlling interest	(409,933)	-
Net Income attributed to non-controlling interest	<u>-</u>	<u>296,624</u>
Non-controlling interest – end of year	<u>\$ -</u>	<u>\$ 409,933</u>

19. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through January 14, 2013, 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 conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and statement of activities of the individual organizations and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Boston, Massachusetts
January 14, 2013

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidating Schedule of Financial Position
June 30, 2012

	SMOC	Non-Profit Housing	Land Trust	SMOP	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation, Inc.	Open Pantry Community Services	Freedom Village, LLC	Martin Luther King Jr. Business Empowerment Ctr.	Chandler	Eliminations	Consolidated Totals
ASSETS												
Cash and cash equivalents	\$ 3,032,074	\$ 100,207	\$ -	\$ 20,322	\$ 15,436	\$ -	\$ 41,414	\$ 290,495	\$ 28,644	\$ -	\$ -	\$ 3,528,592
Certificates of deposit	113,383	577,824	-	-	-	-	-	-	-	-	-	691,207
Cash - restricted	182,681	222,129	-	564	-	-	-	-	-	-	-	405,374
Accounts receivable:												
Contracts and grants	2,795,702	19,698	-	-	179,704	-	62,023	-	-	-	-	3,057,127
Third parties - net of allowance for doubtful accounts	238,198	-	-	-	-	-	-	-	-	-	-	238,198
Other	-	139,498	-	-	-	-	-	2,584	18,213	-	-	160,295
Investments	-	250,742	-	-	-	-	-	-	376	-	-	251,118
Investment in affiliate	-	4,397,888	-	-	-	-	-	-	-	-	(4,397,888)	-
Prepaid expenses and deposits	429,475	65,503	-	-	-	-	3,800	17,097	-	-	-	515,875
Property, plant and equipment, net	437,835	45,395,616	50,000	247,847	48,768	89,620	264,855	6,903,725	43,339	900,570	-	54,382,175
Construction in progress	-	1,999,494	-	-	-	213,184	-	-	-	87,190	-	2,299,868
Mortgage acquisition costs, net	-	2,555,524	-	-	-	12,598	2,151	252,302	-	-	-	2,822,575
Intercompany balances	5,848,722	-	50,000	-	-	648,331	145,420	-	-	-	(6,692,473)	-
Total assets	\$ 13,078,070	\$ 55,724,123	\$ 100,000	\$ 268,733	\$ 243,908	\$ 963,733	\$ 519,663	\$ 7,466,203	\$ 90,572	\$ 987,760	\$ (11,090,361)	\$ 68,352,404
LIABILITIES AND NET ASSETS												
Lines of credit	\$ 2,500,000	\$ 1,696,264	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,196,264
Accounts payable	1,356,712	665,942	-	1,511	39,124	8,054	50,924	2,094	59,237	-	-	2,183,598
Accrued expenses	1,106,773	89,044	-	42	2,776	48	1,680	5,672	-	-	-	1,206,035
Notes payable	25,000	2,363	-	-	-	-	-	-	56,250	-	-	83,613
Mortgage notes payable	-	41,315,187	-	-	-	54,960	238,170	2,965,359	-	-	-	44,573,676
Deferred revenue	2,191,663	72,334	-	-	-	-	20,000	-	-	-	-	2,283,997
Other liabilities	1,033,449	215,560	-	564	-	-	-	-	8,712	-	-	1,258,285
Intercompany balances	-	4,645,146	-	147,414	860,329	-	-	95,190	70,647	873,747	(6,692,473)	-
Total liabilities	8,213,597	48,701,840	-	149,531	902,229	63,062	310,774	3,068,315	194,846	873,747	(6,692,473)	55,785,468
Net assets/members equity:												
Unrestricted/members equity	4,864,473	6,522,283	100,000	(266,398)	(658,321)	900,671	208,889	4,397,888	(104,274)	114,013	(4,397,888)	11,681,336
Temporarily restricted	-	500,000	-	385,600	-	-	-	-	-	-	-	885,600
Total net assets/members equity	4,864,473	7,022,283	100,000	119,202	(658,321)	900,671	208,889	4,397,888	(104,274)	114,013	(4,397,888)	12,566,936
Total liabilities and net assets/members equity	\$ 13,078,070	\$ 55,724,123	\$ 100,000	\$ 268,733	\$ 243,908	\$ 963,733	\$ 519,663	\$ 7,466,203	\$ 90,572	\$ 987,760	\$ (11,090,361)	\$ 68,352,404

South Middlesex Opportunity Council, Inc. and Affiliates

Consolidating Schedule of Activities
Year Ended June 30, 2012

	SMOC	Non-Profit Housing	Land Trust	SMOP	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation	Open Pantry Community Services	Freedom Village, LLC	MLK	Chandler	Eliminations	Consolidated Totals
Revenues, gains and other support:												
Contracts and grants	\$ 56,575,270	\$ 589,277	\$ -	\$ -	\$ 1,600,992	\$ -	\$ 1,204,223	\$ 457,022	\$ 15,695	\$ -	\$ -	\$ 60,442,479
Third party billings, net of free services and contractual allowances	3,326,057	-	-	-	-	-	-	-	-	-	-	3,326,057
Tuition income	371,479	-	-	-	-	-	-	-	-	-	-	371,479
Other program revenue (expense)	1,939,457	77,007	-	230	64,065	(941)	18,299	1,610	-	-	(245,553)	1,854,174
Donated goods and services	141,212	-	-	-	-	-	1,178,369	-	-	-	-	1,319,581
Contributions	231,075	-	-	-	6,200	-	406,685	-	255	-	-	644,215
Donated real property	-	756,519	-	-	-	-	-	-	-	-	-	756,519
Rental income	33,379	5,588,584	-	26,385	-	24,000	15,170	275,595	22,026	-	(1,046,459)	4,938,680
Miscellaneous income	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	1,327	11,471	-	26	2	-	35	98	7	-	-	12,966
Loss on sale of building	-	(144,189)	-	-	-	(32)	-	-	-	-	-	(144,221)
Gain on investment in affiliate	-	298,562	-	-	-	-	-	-	-	-	(298,562)	-
Unrealized loss on investments	-	(6,944)	-	-	-	-	-	-	-	-	-	(6,944)
Realized loss on investments	-	(2,746)	-	-	-	-	-	-	-	-	-	(2,746)
Gain on Affiliation	544,441	-	-	-	-	-	-	-	-	114,013	-	658,454
Dividend income	-	2,915	-	-	-	-	-	-	-	-	-	2,915
Total revenue, gains and other support	63,163,697	7,170,456	-	26,641	1,671,259	23,027	2,822,781	734,325	37,983	114,013	(1,590,574)	74,173,608
Expenses and losses:												
Program services:												
Education and Child Care	7,451,938	-	-	-	-	-	-	-	-	-	-	7,451,938
Crisis Intervention	966,979	-	-	-	-	-	-	-	-	-	-	966,979
Substance Abuse	2,796,154	-	-	-	-	-	-	-	-	-	-	2,796,154
Energy and Financial Assistance	30,987,328	-	-	-	-	-	-	-	-	-	-	30,987,328
Shelter	5,532,277	-	-	-	-	-	-	-	-	-	-	5,532,277
Advocacy	7,700,126	-	-	-	-	-	-	-	-	-	-	7,700,126
Mental Health Services	2,829,322	-	-	-	-	-	-	-	-	-	-	2,829,322
Nutrition	847,326	-	-	-	-	-	-	-	-	-	-	847,326
Non-Profit Housing	-	8,175,573	-	-	-	-	-	-	-	-	(1,022,459)	7,153,114
Opportunity Properties	-	-	-	50,450	-	-	-	-	-	-	-	50,450
Worcester Public Inebriate Program, Inc.	-	-	-	-	1,898,019	-	-	-	-	-	(24,000)	1,874,019
P.I.P. Foundation	-	-	-	-	-	45,879	-	-	-	-	-	45,879
Open Pantry Community Services, Inc.	-	-	-	-	-	-	2,680,055	-	-	-	-	2,680,055
Freedom Village, LLC	-	-	-	-	-	-	-	435,763	-	-	-	435,763
Martin Luther King Jr. Business Empowerment Ctr.	-	-	-	-	-	-	-	-	142,257	-	-	142,257
Total program services	59,111,450	8,175,573	-	50,450	1,898,019	45,879	2,680,055	435,763	142,257	-	(1,046,459)	71,492,987
Supporting Services												
General and administrative	3,374,808	120,000	-	-	125,553	-	-	-	-	-	(245,553)	3,374,808
Fundraising	19,395	-	-	-	-	-	19,199	-	-	-	-	38,594
Total supporting services	3,394,203	120,000	-	-	125,553	-	19,199	-	-	-	(245,553)	3,413,402
Total expenses and losses	62,505,653	8,295,573	-	50,450	2,023,572	45,879	2,699,254	435,763	142,257	-	(1,292,012)	74,906,389
Change in net assets/members equity	658,044	(1,125,117)	-	(23,809)	(352,313)	(22,852)	123,527	298,562	(104,274)	114,013	(298,562)	(732,781)
Net assets/members equity, beginning of yea	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
Transfer of Noncontrolling Interest	-	349,231	-	-	-	-	-	-	-	-	(409,933)	(60,702)
Net assets/members equity, end of year	\$ 4,864,473	\$ 7,022,283	\$ 100,000	\$ 119,202	\$ (658,321)	\$ 900,671	\$ 208,889	\$ 4,397,888	\$ (104,274)	\$ 114,013	\$ (4,397,888)	\$ 12,566,936