

South Middlesex Opportunity Council, Inc.  
and Affiliates

Consolidated Financial Statements  
and  
Supplementary Information

Years Ended June 30, 2013 and 2012

# South Middlesex Opportunity Council, Inc. and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
Years Ended June 30, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
South Middlesex Opportunity Council, Inc. and Affiliates  
Framingham, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of South Middlesex Opportunity Council, Inc. and Affiliates (the "Organization") which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Middlesex Opportunity Council, Inc. and Affiliates as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'McGladrey LLP'.

Boston, Massachusetts  
January 20, 2014

# South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Financial Position

June 30, 2013 and 2012

	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,042,032	\$ 3,528,592
Certificates of deposit	729,886	691,207
Cash - restricted	369,972	405,374
Accounts receivable:		
Contracts and grants	3,174,486	3,057,127
Third parties - net of allowance for doubtful accounts	180,907	238,198
Other	161,396	160,295
Notes receivable, current portion	32,061	-
Investments	276,570	251,118
Prepaid expenses and deposits	228,245	515,875
Total current assets	<u>9,195,555</u>	<u>8,847,786</u>
Other assets:		
Notes receivable, long term portion	644,793	-
Property, plant and equipment, net	53,864,042	54,382,175
Construction in progress	6,897,673	2,299,868
Mortgage acquisition costs, net	2,558,600	2,822,575
Total other assets	<u>63,965,108</u>	<u>59,504,618</u>
Total assets	<u>\$ 73,160,663</u>	<u>\$ 68,352,404</u>
<b>LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,885,200	\$ 2,183,598
Accrued expenses	1,265,159	1,206,035
Notes payable, current portion	15,000	24,863
Mortgage notes payable, current portion	3,606,146	1,908,291
Deferred revenue	2,284,641	2,283,997
Total current liabilities	<u>9,056,146</u>	<u>7,606,784</u>
Other liabilities:		
Lines of credit	4,121,206	4,196,264
Notes payable, long term portion	18,750	58,750
Mortgage notes payable, long term portion	45,232,092	42,665,385
Other liabilities	1,513,803	1,258,285
Total other liabilities	<u>50,885,851</u>	<u>48,178,684</u>
Total liabilities	<u>59,941,997</u>	<u>55,785,468</u>
Net assets/members' equity:		
Unrestricted/members' equity	12,283,066	11,681,336
Temporarily restricted	935,600	885,600
Total net assets/members' equity	<u>13,218,666</u>	<u>12,566,936</u>
Total liabilities and net assets/members' equity	<u>\$ 73,160,663</u>	<u>\$ 68,352,404</u>

See notes to consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates  
Consolidated Statements of Activities  
Years Ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
Revenue, gains and other support:						
Contracts and grants	\$ 60,333,331	\$ -	\$ 60,333,331	\$ 60,442,479	\$ -	\$ 60,442,479
Third party billings, net of free services and contractual allowances	3,352,099	-	3,352,099	3,326,057	-	3,326,057
Tuition income	395,273	-	395,273	371,479	-	371,479
Other program revenue	1,596,587	-	1,596,587	1,854,174	-	1,854,174
Donated goods and services	1,687,700	-	1,687,700	1,319,581	-	1,319,581
Contributions	673,017	-	673,017	644,215	-	644,215
Donated real property	868,968	-	868,968	756,519	-	756,519
Rental income	5,947,736	-	5,947,736	4,938,680	-	4,938,680
Miscellaneous income	26,108	-	26,108	-	-	-
Interest income	23,158	-	23,158	12,966	-	12,966
Gain (loss) on sale of property	781,916	-	781,916	(144,221)	-	(144,221)
Excess of assets acquired and liabilities assumed in donation of The Martin Luther King Jr. Business Empowerment Center	-	-	-	641,908	16,546	658,454
Unrealized gain (loss) on investments	15,376	-	15,376	(6,944)	-	(6,944)
Realized gain (loss) on investments	4,017	-	4,017	(2,746)	-	(2,746)
Dividend income	4,813	-	4,813	2,915	-	2,915
Reclassification of net assets	(50,000)	50,000	-	-	-	-
Total revenue and gains	75,660,099	50,000	75,710,099	74,157,062	16,546	74,173,608
Net assets released from restrictions	-	-	-	21,546	(21,546)	-
Total revenue, gains and other support	75,660,099	50,000	75,710,099	74,178,608	(5,000)	74,173,608
Expenses and losses:						
Program services:						
Education and Child Care	7,496,738	-	7,496,738	7,441,089	-	7,441,089
Crisis Intervention	924,194	-	924,194	966,979	-	966,979
Substance Abuse	2,786,694	-	2,786,694	2,796,154	-	2,796,154
Energy and Financial Assistance	30,239,065	-	30,239,065	30,986,496	-	30,986,496
Shelter	5,705,380	-	5,705,380	5,532,277	-	5,532,277
Advocacy	7,544,066	-	7,544,066	7,700,126	-	7,700,126
Mental Health Services	3,001,214	-	3,001,214	2,829,322	-	2,829,322
Nutrition	823,136	-	823,136	847,326	-	847,326
Non-Profit Housing	6,004,145	-	6,004,145	5,598,556	-	5,598,556
Opportunity Properties	39,834	-	39,834	42,880	-	42,880
Worcester Public Inebriate Program, Inc.	1,569,548	-	1,569,548	1,864,727	-	1,864,727
P.I.P. Foundation, Inc.	25,515	-	25,515	39,228	-	39,228
Open Pantry Community Services, Inc.	2,917,608	-	2,917,608	2,661,589	-	2,661,589
Freedom Village, LLC	279,073	-	279,073	280,025	-	280,025
Martin Luther King Jr. Business Empowerment Ctr.	374,320	-	374,320	142,257	-	142,257
Total program services before depreciation and amortization	69,730,530	-	69,730,530	69,729,031	-	69,729,031
Supporting services:						
General and administrative	3,294,747	-	3,294,747	3,293,965	-	3,293,965
Fundraising	35,272	-	35,272	38,594	-	38,594
Total supporting services before depreciation and amortization	3,330,019	-	3,330,019	3,332,559	-	3,332,559
Total expenses and losses before depreciation and amortization	73,060,549	-	73,060,549	73,061,590	-	73,061,590
Change in net assets/members' equity before depreciation and amortization	2,599,550	50,000	2,649,550	1,117,018	(5,000)	1,112,018
Depreciation and amortization expense	1,997,820	-	1,997,820	1,844,799	-	1,844,799
Change in net assets/members' equity	601,730	50,000	651,730	(727,781)	(5,000)	(732,781)
Net assets/members' equity, beginning of year	11,681,336	885,600	12,566,936	12,469,819	890,600	13,360,419
Transfer of noncontrolling interest	-	-	-	(60,702)	-	(60,702)
Net assets/members' equity, end of year	\$ 12,283,066	\$ 935,600	\$ 13,218,666	\$ 11,681,336	\$ 885,600	\$ 12,566,936

See notes to consolidated financial statements.

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Functional Expenses  
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total Program Services	Supporting Services	Total Expenses	Total Program Services	Supporting Services	Total Expenses
Expenses and losses:						
Salaries and wages	\$ 16,093,300	\$ 1,443,398	\$ 17,536,698	\$ 16,092,002	\$ 1,402,839	\$ 17,494,841
Employee benefits and payroll taxes	4,692,894	678,195	5,371,089	4,764,810	730,127	5,494,937
Total salaries and related expenses	<b>20,786,194</b>	<b>2,121,593</b>	<b>22,907,787</b>	20,856,812	2,132,966	22,989,778
Client assistance	27,457,522	-	27,457,522	25,778,591	-	25,778,591
Professional fees and contracted services	3,121,863	610,128	3,731,991	2,535,497	707,527	3,243,024
Occupancy	7,050,485	151,562	7,202,047	6,896,621	127,589	7,024,210
Equipment expenses	200,741	26,064	226,805	195,945	22,573	218,518
Dietary	367,799	7,661	375,460	365,533	7,255	372,788
Donated goods and services	2,556,668	-	2,556,668	2,076,100	-	2,076,100
Transportation	749,508	45,939	795,447	688,720	37,141	725,861
Supplies	9,233,535	154,918	9,388,453	8,921,832	101,297	9,023,129
Telephone	279,825	23,942	303,767	268,693	14,946	283,639
Insurance	512,276	17,999	530,275	418,320	8,282	426,602
Advertising	17,202	15,805	33,007	34,696	4,629	39,325
Training	203,306	5,277	208,583	214,387	5,578	219,965
Interest expense	1,579,020	32,179	1,611,199	1,497,390	38,963	1,536,353
Bad debt expense	28,301	-	28,301	25,400	-	25,400
Other	1,912	81,680	83,592	953	85,219	86,172
Fundraising	-	35,272	35,272	-	38,594	38,594
Management fees	-	420,256	420,256	-	245,553	245,553
Eliminating entries	(4,415,627)	(420,256)	(4,835,883)	(1,046,459)	(245,553)	(1,292,012)
Expenses and losses before depreciation and amortization	<b>69,730,530</b>	<b>3,330,019</b>	<b>73,060,549</b>	69,729,031	3,332,559	73,061,590
Depreciation and amortization	1,874,757	123,063	1,997,820	1,763,956	80,843	1,844,799
Total expenses	<b>\$ 71,605,287</b>	<b>\$ 3,453,082</b>	<b>\$ 75,058,369</b>	\$ 71,492,987	\$ 3,413,402	\$ 74,906,389

See notes to consolidated financial statements.

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses

Year Ended June 30, 2013

	Program Services								Balance Forward
	Education and Child Care	Crisis Intervention	Substance Abuse	Energy and Financial Assistance	Shelter	Advocacy	Mental Health Services	Nutrition	
Expenses and losses:									
Salaries and wages	\$ 3,540,274	\$ 545,763	\$ 1,582,330	\$ 1,332,615	\$ 1,777,967	\$ 2,578,533	\$ 1,960,209	\$ 498,096	\$ 13,815,787
Employee benefits and payroll taxes	1,124,521	174,645	460,816	426,440	567,404	654,814	398,300	159,392	3,966,332
Total salaries and related expenses	4,664,795	720,408	2,043,146	1,759,055	2,345,371	3,233,347	2,358,509	657,488	17,782,119
Client assistance	-	50	-	22,091,356	485,706	4,508,814	19,911	-	27,105,837
Professional fees and contracted services	938,670	18,009	67,878	245,224	389,168	248,424	176,445	30,092	2,113,910
Occupancy	716,294	96,944	447,798	132,648	2,146,585	166,352	327,620	96,455	4,130,696
Equipment expenses	18,307	9,134	19,737	42,676	41,437	11,956	14,319	3,898	161,464
Dietary	253,090	8,561	39,646	7,523	26,617	2,338	-	3,380	341,155
Donated goods and services	212,793	-	-	-	-	-	-	-	212,793
Transportation	197,574	14,273	57,338	55,164	79,039	94,543	7,550	1,031	506,512
Supplies	651,188	135,307	357,372	5,974,950	679,478	448,859	391,890	106,201	8,745,245
Telephone	32,279	5,941	20,374	20,402	33,878	27,434	19,893	7,409	167,610
Insurance	47,841	6,947	14,793	17,990	20,864	31,330	29,220	6,233	175,218
Advertising	417	175	740	1,824	2,055	1,831	3,052	413	10,507
Training	23,383	7,429	3,876	142,889	6,351	6,774	4,196	1,081	195,979
Interest expense	-	-	-	-	22	-	-	-	22
Bad debt expense	-	-	(5,000)	-	500	54,025	(25,000)	-	24,525
Other	67	-	-	-	144	178	-	-	389
Eliminating entries	(259,960)	(98,984)	(281,004)	(252,636)	(551,835)	(1,292,139)	(326,391)	(90,545)	(3,153,494)
Expenses and losses before depreciation and amortization	7,496,738	924,194	2,786,694	30,239,065	5,705,380	7,544,066	3,001,214	823,136	58,520,487
Depreciation and amortization	-	-	-	-	-	-	-	-	-
Total expenses	\$ 7,496,738	\$ 924,194	\$ 2,786,694	\$ 30,239,065	\$ 5,705,380	\$ 7,544,066	\$ 3,001,214	\$ 823,136	\$ 58,520,487

See notes to consolidated financial statements.

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statement of Functional Expenses...continued  
Year Ended June 30, 2013

	Program Services									
	Balance Brought Forward	Non-Profit Housing	Opportunity Properties	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation, Inc.	Open Pantry Community Services	Freedom Village	Martin Luther King Jr. Business Empowerment Ctr.	Chandler	Total Program Services
Expenses and losses:										
Salaries and wages	\$ 13,815,787	\$ 1,018,512	\$ 15,987	\$ 319,521	\$ -	\$ 747,362	\$ 24,452	\$ 151,679	\$ -	\$ 16,093,300
Employee benefits and payroll taxes	3,966,332	326,497	5,117	102,985	-	239,157	4,268	48,538	-	4,692,894
Total salaries and related expenses	17,782,119	1,345,009	21,104	422,506	-	986,519	28,720	200,217	-	20,786,194
Client assistance	27,105,837	-	-	351,654	-	31	-	-	-	27,457,522
Professional fees and contracted services	2,113,910	468,902	1,934	321,662	9,376	128,459	68,333	9,287	-	3,121,863
Occupancy	4,130,696	2,175,984	12,182	359,792	27,854	122,695	103,424	117,858	-	7,050,485
Equipment expenses	161,464	9,113	-	20,992	-	9,172	-	-	-	200,741
Dietary	341,155	54	-	26,370	-	220	-	-	-	367,799
Donated goods and services	212,793	868,968	-	-	-	1,474,907	-	-	-	2,556,668
Transportation	506,512	197,040	-	12,036	-	32,877	-	1,043	-	749,508
Supplies	8,745,245	320,415	3,122	32,163	1,419	111,319	9,213	10,639	-	9,233,535
Telephone	167,610	67,894	388	12,987	-	19,730	5,059	6,157	-	279,825
Insurance	175,218	309,382	1,104	6,865	6,672	13,847	(12,095)	11,283	-	512,276
Advertising	10,507	3,154	-	1,471	-	1,777	25	268	-	17,202
Training	195,979	3,290	-	1,050	-	2,401	250	336	-	203,306
Interest expense	22	1,470,050	-	-	2,194	13,654	75,868	17,232	-	1,579,020
Bad debt expense	24,525	3,500	-	-	-	-	276	-	-	28,301
Other	389	1,523	-	-	-	-	-	-	-	1,912
Eliminating entries	(3,153,494)	(1,240,133)	-	-	(22,000)	-	-	-	-	(4,415,627)
Expenses and losses before depreciation and amortization	58,520,487	6,004,145	39,834	1,569,548	25,515	2,917,608	279,073	374,320	-	69,730,530
Depreciation and amortization	-	1,646,045	7,570	11,137	6,379	15,647	161,895	2,762	23,322	1,874,757
Total expenses	\$ 58,520,487	\$ 7,650,190	\$ 47,404	\$ 1,580,685	\$ 31,894	\$ 2,933,255	\$ 440,968	\$ 377,082	\$ 23,322	\$ 71,605,287

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	Substance Abuse	Energy and Financial Assistance	Shelter	Advocacy	Mental Health Services	Nutrition	
	Expenses and losses:								
Salaries and wages	\$ 3,698,152	\$ 536,420	\$ 1,561,642	\$ 1,486,734	\$ 1,858,580	\$ 2,258,054	\$ 1,785,844	\$ 500,830	\$ 13,686,256
Employee benefits and payroll taxes	1,174,806	170,178	444,873	477,197	592,931	616,073	358,578	160,263	3,994,899
Total salaries and related expenses	4,872,958	706,598	2,006,515	1,963,931	2,451,511	2,874,127	2,144,422	661,093	17,681,155
Client assistance	-	74,965	-	20,477,130	462,961	4,276,196	105,040	-	25,396,292
Professional fees and contracted services	902,009	13,085	16,592	285,629	345,323	72,505	146,882	25,959	1,807,984
Occupancy	726,508	102,760	537,503	136,806	1,978,414	198,209	256,863	114,190	4,051,253
Equipment expenses	27,893	1,275	10,762	57,743	27,326	12,536	10,887	3,878	152,300
Dietary	267,401	-	39,880	7,260	23,619	-	-	2,209	340,369
Donated goods and services	141,212	-	-	-	-	-	-	-	141,212
Transportation	144,332	10,785	61,315	68,679	66,685	80,445	5,641	3,561	441,443
Supplies	229,348	39,371	68,754	7,828,699	109,921	97,297	72,925	18,851	8,465,166
Telephone	27,801	6,462	22,980	22,026	36,232	24,816	19,260	8,244	167,821
Insurance	48,743	6,660	19,608	33,435	22,434	29,784	24,990	6,624	192,278
Advertising	3,357	70	5,289	4,526	930	3,138	10,721	1,811	29,842
Training	49,527	4,948	3,756	100,632	7,421	31,070	9,991	906	208,251
Interest expense	-	-	-	-	-	-	-	-	-
Bad debt expense	-	-	3,200	-	(500)	-	21,700	-	24,400
Other	-	-	-	-	-	3	-	-	3
Eliminating entries	-	-	-	-	-	-	-	-	-
Expenses and losses before depreciation and amortization	7,441,089	966,979	2,796,154	30,986,496	5,532,277	7,700,126	2,829,322	847,326	59,099,769
Depreciation and amortization	10,849	-	-	832	-	-	-	-	11,681
Total expenses	\$ 7,451,938	\$ 966,979	\$ 2,796,154	\$ 30,987,328	\$ 5,532,277	\$ 7,700,126	\$ 2,829,322	\$ 847,326	\$ 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								Total Program Services
	Balance Brought Forward	Non-Profit Housing	Opportunity Properties	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation, Inc.	Open Pantry Community Services	Freedom Village	Martin Luther King Jr. Business Empowerment Ctr.	
Expenses and losses:									
Salaries and wages	\$ 13,686,256	\$ 1,181,455	\$ 15,623	\$ 421,696	\$ -	\$ 759,742	\$ -	\$ 27,230	\$ 16,092,002
Employee benefits and payroll taxes	3,994,899	378,066	4,999	134,942	-	243,118	-	8,786	4,764,810
Total salaries and related expenses	17,681,155	1,559,521	20,622	556,638	-	1,002,860	-	36,016	20,856,812
Client assistance	25,396,292	-	-	382,299	-	-	-	-	25,778,591
Professional fees and contracted services	1,807,984	118,613	753	321,246	958	129,062	86,753	70,128	2,535,497
Occupancy	4,051,253	2,011,024	18,015	506,577	27,615	154,385	100,371	27,381	6,896,621
Equipment expenses	152,300	8,488	-	27,702	-	6,857	-	598	195,945
Dietary	340,369	-	-	25,142	-	22	-	-	365,533
Donated goods and services	141,212	756,519	-	-	-	1,178,369	-	-	2,076,100
Transportation	441,443	204,106	-	14,030	-	28,773	-	368	688,720
Supplies	8,465,166	306,450	1,268	30,633	2,390	106,083	5,343	4,499	8,921,832
Telephone	167,821	59,703	1,238	10,920	-	23,419	3,557	2,035	268,693
Insurance	192,278	171,459	984	11,187	5,604	14,400	21,180	1,228	418,320
Advertising	29,842	2,579	-	582	-	860	833	-	34,696
Training	208,251	2,401	-	1,771	-	1,964	-	-	214,387
Interest expense	-	1,418,202	-	-	2,661	14,535	61,988	4	1,497,390
Bad debt expense	24,400	1,000	-	-	-	-	-	-	25,400
Other	3	950	-	-	-	-	-	-	953
Eliminating entries	-	(1,022,459)	-	(24,000)	-	-	-	-	(1,046,459)
Expenses and losses before depreciation and amortization	59,099,769	5,598,556	42,880	1,864,727	39,228	2,661,589	280,025	142,257	69,729,031
Depreciation and amortization	11,681	1,554,558	7,570	9,292	6,651	18,466	155,738	-	1,763,956
Total expenses	\$ 59,111,450	\$ 7,153,114	\$ 50,450	\$ 1,874,019	\$ 45,879	\$ 2,680,055	\$ 435,763	\$ 142,257	\$ 71,492,987

See notes to consolidated financial statements.

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidated Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets/members' equity	<b>\$ 651,730</b>	<b>\$ (732,781)</b>
Adjustments to reconcile change in net assets/members' equity to net cash provided by operating activities:		
Depreciation and amortization	<b>1,997,820</b>	1,844,799
Contribution recognized on acquisition	-	(658,454)
(Gain) loss on sale of property	<b>(781,916)</b>	144,221
Unrealized (gain) loss on investments	<b>(15,376)</b>	6,944
Realized (gain) loss on investments	<b>(4,017)</b>	2,746
Change in certificates of deposits	<b>(38,679)</b>	(1,787)
Change in accounts receivable	<b>(61,169)</b>	197,383
Change in prepaid expenses and deposits	<b>287,630</b>	66,012
Change in accounts payable	<b>(298,398)</b>	464,091
Change in accrued expenses	<b>59,124</b>	61,479
Change in deferred revenue	<b>644</b>	(847,292)
Change in other liabilities	<b>255,518</b>	357,558
Total adjustments	<b>1,401,181</b>	1,637,700
Net cash provided by operating activities	<b>2,052,911</b>	904,919
Cash flows from investing activities:		
Change in restricted cash	<b>35,402</b>	(42,852)
Net purchases of property and equipment	<b>(2,335,080)</b>	(4,209,636)
Proceeds from sale of property and equipment	<b>3,450,000</b>	366,000
Construction in progress costs incurred	<b>(5,952,534)</b>	(1,514,499)
Cash received from acquisition	-	4,134
Purchases of investments	<b>(6,059)</b>	(7,237)
Issuance of notes receivable	<b>(676,854)</b>	-
Purchase of notes payable	-	(250,000)
Transfer of noncontrolling interest	-	(60,702)
Net cash used in investing activities	<b>(5,485,125)</b>	(5,714,792)
Cash flows from financing activities:		
Proceeds from notes and mortgage notes payable	<b>7,889,813</b>	7,207,263
Repayment of notes and mortgage notes payable	<b>(3,675,115)</b>	(2,903,784)
Net proceeds (repayments) from revolving line of credit	<b>(75,058)</b>	3,485,264
Mortgage acquisition costs incurred	<b>(193,986)</b>	(476,355)
Net cash provided by financing activities	<b>3,945,654</b>	7,312,388
Net change in cash and cash equivalents	<b>513,440</b>	2,502,515
Cash and cash equivalents, beginning of year	<b>3,528,592</b>	1,026,077
Cash and cash equivalents, end of year	<b>\$ 4,042,032</b>	<b>\$ 3,528,592</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	<b>\$ 1,547,995</b>	<b>\$ 1,536,593</b>

See notes to consolidated financial statements.

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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## 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 Freedom Village LLC) originally established in 1965 to support the improvement of the quality of life for low-income residents of the South Middlesex, Massachusetts area and the greater community at large.

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 provides 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, 2013 and 2012 include the accounts of South Middlesex Opportunity Council, Inc., South Middlesex Non-Profit Housing Corporation, Inc., South Middlesex Opportunity Properties, 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.

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, 2013 and 2012.

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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## 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 applicable 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.

### 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.

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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

### 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, 2013 and 2012, 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 these financial statements. As of June 30, 2013 and 2012, the Organization has not recognized any reduction in the carrying value of its property when considering this standard.

### 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.

### 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.

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates made in the preparation of these financial statements include those related to the allowance for doubtful accounts, fair value of investments and the unemployment reserve. 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.

### Income Tax Status

The Organization and related corporations, 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, the Organization is the sole member of Freedom Village LLC, a Massachusetts limited liability corporation. As such, the entity is disregarded for federal tax purposes and a separate return is no longer required. 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 2010. The Organization will account for interest and penalties, if any as part of operating expenses.

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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

### 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 (see Note 6 for a discussion of 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.

### Advertising Costs

The Organization expenses advertising costs as incurred.

### Recently Issued Accounting Pronouncements

In October 2012, the FASB issued guidance which requires a not-for profit entity to classify cash receipts from the sale of donated fixed assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activity, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. This guidance became effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The adoption of this guidance is not expected to have a material impact on the Organization's financial statements.

### Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation, without any effect on the net assets.

## 2. RELATED PARTY TRANSACTIONS

In fiscal year 1988, the Organization entered into a land lease agreement with a related party, Framingham Community Land Trust. The use of this property constitutes a "gift-in-title", the value of which is equal to the fair market value of the land at the commencement of the lease. The agreement calls for the Organization to make payments for taxes, insurance premiums, and any other special assessments related to the property.



## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 2. RELATED PARTY TRANSACTIONS...continued

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, 2013 and 2012, legal fees incurred by the Organization to this firm totaled \$594,127 and \$847,744, respectively, which is net of discounts totaling \$154,044 and \$210,212. In addition, the law firm provided donated services in its capacity as general counsel to the Organization totaling \$41,000 and \$40,000 in fiscal years 2013 and 2012, respectively. Amounts included in accrued expenses and accounts payable relating to these transactions totaled \$399,709 and \$482,825 as of June 30, 2013 and 2012, 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, 2013 and 2012, the Organization incurred \$265,806 and \$509,806, 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.

### 3. CASH – RESTRICTED

Following is a summary as of June 30:

	<u>2013</u>	<u>2012</u>
Tenant/client deposits	\$ <u>369,972</u>	\$ <u>405,374</u>

### 4. NOTES RECEIVABLE

On June 20, 2013 the Organization executed a promissory note related to the sale of 15 Blandin St, Framingham to the Metro West Regional Transit Authority. Under this note, the Organization is to receive monthly interest payments generated at an annual rate of 5% on the outstanding principal balance of \$644,793. This principal will be due on the maturity date, March 31, 2017. Any delayed payments will accrue interest at an annual rate of 9%.

### 5. INVESTMENTS

Investments consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 13,544	\$ 24,194
Equity securities	188,573	148,546
Bonds	<u>74,453</u>	<u>78,378</u>
	<u>\$ 276,570</u>	<u>\$ 251,118</u>

Investment returns of the Organization for the years ended June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Realized and unrealized gains (losses), net of investment fees of \$2,728 and \$2,497 respectively	\$ <u>19,393</u>	\$ <u>(9,690)</u>

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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## 6. FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, 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 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 2 can also include investments carried at the per share NAV with redemption periods of 90 days or less.
- Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined by 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. Level 3 can also include investments carried at the per share NAV with redemption periods of greater than 90 days.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Organization has various processes and controls in place to ensure that fair value is reasonably estimated.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2013 and 2012, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 6. FAIR VALUE MEASUREMENTS...continued

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.

The following table summarizes the valuation of the Organization's investments at fair value on a recurring basis by fair value hierarchy levels as of June 30:

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 13,544	\$ -	\$ -	\$ 13,544
Equity securities	188,573	-	-	188,573
Bonds	<u>74,453</u>	<u>-</u>	<u>-</u>	<u>74,453</u>
	<u>\$ 276,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,570</u>
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</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>

### 7. PROPERTY, PLANT AND EQUIPMENT

Following is a summary as of June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 11,206,338	\$ 12,182,062
Buildings and building improvements	59,008,441	57,606,186
Leasehold improvements	2,210,945	1,997,693
Furnishings and equipment	2,067,577	2,062,275
Motor vehicles	<u>166,737</u>	<u>166,737</u>
	<u>74,660,038</u>	<u>74,014,953</u>
Less - accumulated depreciation and amortization	<u>20,795,996</u>	<u>19,632,778</u>
	<u>\$ 53,864,042</u>	<u>\$ 54,382,175</u>

# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

## 8. CONSTRUCTION IN PROGRESS

As of June 30, 2013, the Organization is in the process of renovating 17 properties for various programs. The sites are in various stages of completion. As of June 30, 2013, costs of \$6,897,673 have been incurred. The estimated cost to complete the projects is \$2,738,535.

As of June 30, 2012, the Organization was in the process of renovating 14 properties for various programs. The sites were in various stages of completion as of June 30, 2012. As of June 30, 2012, costs of \$2,299,868 had been incurred. As of June 30, 2013, nine of these projects continue to progress toward completion.

## 9. MORTGAGE NOTES PAYABLE

Following is a summary as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Various mortgage notes payable to financial institutions in monthly installments totaling \$235,743 (\$235,703 in 2011), including interest at rates ranging from 3.0% to 9.0% with balloon payments totaling \$14,097,032, due on various dates ranging from 2013 to 2040. 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.	\$ 31,088,836	\$ 30,045,791
Non-interest bearing mortgage notes payable on dates ranging from 2013 to 2062. 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, 2013 and 2012. The notes are secured by mortgages on real property.	<u>17,749,402</u>	<u>14,527,885</u>
Total mortgage notes payable	48,838,238	44,573,676
Less - current portion of mortgage notes payable	<u>3,606,146</u>	<u>1,908,291</u>
Mortgage notes payable, net of current portion	<u>\$ 45,232,092</u>	<u>\$ 42,665,385</u>

Maturities of mortgage notes payable, including balloon payments, which the Organization intends to refinance, are as follows for the years ending June 30:

	<u>Total</u>	<u>Balloon Payments</u>
2014	\$ 3,606,146	\$ 873,157
2015	1,100,797	273,096
2016	1,020,982	207,497
2017	1,081,773	247,615
2018	1,125,639	-
Thereafter	<u>40,902,901</u>	<u>12,495,668</u>
	<u>\$ 48,838,238</u>	<u>\$ 14,097,033</u>

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 10. NOTES PAYABLE

Following is a summary as of June 30:

	<u>2013</u>	<u>2012</u>
Vehicle note payable to a credit institution in monthly installments totaling \$602, including interest at 7.25%, was paid off in November 2012. The note was secured by a motor vehicle.	\$ -	\$ 2,363
Non-interest bearing information technology note payable to the Department of Housing and Community Development (DHCD) in quarterly installments of \$2,500. The note matures December 2014.	15,000	25,000
Non-interest bearing, unsecured loan, from Mass Development, a state agency, in connection with a specific project proposal. The loan was forgiven during June 30, 2013 by Mass Development.	-	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. The loan will mature January 1, 2017.	<u>18,750</u>	<u>31,250</u>
Total notes payable	33,750	83,613
Less - current portion of notes payable	<u>15,000</u>	<u>24,863</u>
Notes payable, net of current portion	<u>\$ 18,750</u>	<u>\$ 58,750</u>

Maturity of note payable is as follows for the years ending June 30:

2014	\$ 15,000
2015	10,000
2016	5,000
2017	<u>3,750</u>
	<u>\$ 33,750</u>

### 11. LINES OF CREDIT

The Organization has a commercial revolving line of credit agreement with a bank in the amount of \$5,000,000 that expires on January 31, 2015 and is renewed annually at the bank's discretion. Interest is calculated at the bank's prime lending rate plus 0.25% with a floor of 4.00% (4% as of June 30, 2013 and June 30, 2012). As of June 30, 2013 and 2012, the line of credit had outstanding balances of \$2,510,606 and \$2,500,000, respectively and is secured by all business assets.

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, 2013 and June 30, 2012). The line of credit had outstanding balances of \$1,610,600 and \$1,696,264 as of June 30, 2013 and 2012, respectively.

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 12. OPERATING LEASES

#### Vehicles

The Organization leases motor vehicles under operating leases expiring at various dates through 2018. Included in transportation expenses for the years ended June 30, 2013 and 2012 is rental expense of \$147,795 and \$156,588, respectively.

#### Buildings

The Organization leases facilities under operating leases expiring at various dates through 2023, as well as under tenant-at-will agreements. Included in occupancy expenses for the years ended June 30, 2013 and 2012 is rental expense of \$2,828,866 and \$2,727,366, respectively.

#### Equipment

The Organization leases equipment under operating leases expiring at various dates through 2018. Included in equipment expenses for the years ended June 30, 2013 and 2012 is equipment rental expense totaling \$56,724 and \$55,149, 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, are as follows:

	<u>Vehicles</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
2014	\$ 144,113	\$ 665,277	\$ 58,296	\$ 867,686
2015	135,518	588,662	47,155	771,335
2016	114,490	586,712	31,988	733,190
2017	81,230	593,037	21,267	695,534
2018	56,256	596,200	16,141	668,597
Thereafter	<u>11,757</u>	<u>2,069,820</u>	<u>-</u>	<u>2,081,577</u>
	<u>\$ 543,364</u>	<u>\$ 5,099,708</u>	<u>\$ 174,847</u>	<u>\$ 5,817,919</u>

### 13. 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, 2013 and 2012, the Organization has accrued \$139,803 for claims incurred prior to June 30, 2013 and 2012, respectively, but not paid on those dates.

### 14. 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, 2013 and 2012 was \$195,031 and \$194,422, respectively.

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 15. TEMPORARILY RESTRICTED NET ASSETS

Following is a summary as of June 30:

	<u>2013</u>	<u>2012</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
\$50,000 grant received towards the purchase of a property to be used for low income housing. Repayment of this grant will be waived if low to moderate income individuals occupy the property through fiscal year 2018.	<u>50,000</u>	<u>-</u>
	<u>\$ 935,600</u>	<u>\$ 885,600</u>

### 16. NET ASSETS RELEASED FROM RESTRICTIONS

Following is a summary as of June 30:

	<u>2013</u>	<u>2012</u>
Pledges received	<u>\$ -</u>	<u>\$ 21,546</u>

### 17. MAJOR REVENUE SOURCE

Contract and grants revenue represents approximately 75% and 82% of the Organization's revenue for the years ended June 30, 2013 and 2012. A significant portion of that revenue is earned on contracts between the Organization and the various public agencies of the Commonwealth of Massachusetts.

### 18. ACQUISITIONS

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.

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

### 18. ACQUISITIONS...continued

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.

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>

On November 30, 2012, SMOC entered into an agreement with the Massachusetts Growth Capital Corporation ("MGCC") in order to acquire all outstanding and issued capital stock of New Markets Entrepreneurial Fund, Inc. (NMEF). NMEF was originally established by MLK to promote community development through lending programs in the Worcester region and was sold to MGCC's predecessor in interest in 2005. MLK reestablished control of NMEF with the purpose of utilizing the Community Development Financial Institution (CDFI) certification of the entity, which had not been utilized by MGCC. Under the executed agreement, the Organization paid legal and tax expenses totaling \$3,356 in exchange for the 100 issued and outstanding shares of NMEF. No assets existed and no liabilities were assumed by the Organization. A prepaid license fee was recorded for the expense incurred.



# South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

## 19. 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>2013</u>	<u>2012</u>
Non-controlling interest - beginning of year	\$ -	\$ 409,933
Transfer of non-controlling interest	-	(409,933)
Net Income attributed to non-controlling interest	<u>-</u>	<u>-</u>
Non-controlling interest - end of year	<u>\$ -</u>	<u>\$ -</u>

## 20. SUBSEQUENT EVENTS

On July 1, 2013, the Organization acquired all of the assets of Lowell Transitional Living Center, Inc. ("LTLC"), a Massachusetts not-for-profit corporation which operates a variety of programs in the Lowell, Massachusetts area including those related to emergency and transitional shelter, supportive housing, community meals, case management and other related services. At this time, the Board of Directors of LTLC dissolved and was replaced by SMOC's Board of Directors. The Organization paid no consideration under the affiliation agreement as it was determined by LTLC that their mission would be more effectively carried out by affiliating with SMOC. As a result, a contribution will be recorded for the value of the net assets obtained.

Under the agreement, SMOC assumed the following:

<u>Assets</u>	
Cash and cash equivalents	\$ 214,878
Accounts receivable	73,044
Property and equipment, net	2,897,646
Other assets	<u>34,378</u>
Total assets	<u>\$ 3,219,946</u>
<u>Liabilities</u>	
Accounts payable and accrued expenses	\$ 77,352
Other liabilities	8,614
Loans payable	<u>2,043,223</u>
Total liabilities	<u>2,129,189</u>
<u>Net assets</u>	
Unrestricted	<u>1,090,757</u>
Total net assets	<u>1,090,757</u>
Total liabilities and net assets	<u>\$ 3,219,947</u>

## South Middlesex Opportunity Council, Inc. and Affiliates

Notes to Consolidated Financial Statements  
Years Ended June 30, 2013 and 2012

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### 20. SUBSEQUENT EVENTS...continued

On August 2, 2013 the Organization refinanced two outstanding mortgage loans under a new lender. The executed agreement issued debt totaling \$1,968,000 and requires monthly interest payments at an annual interest rate of 4.25%. The note matures 20 years from the date of execution. On October 11, 2013 the organization refinanced an outstanding mortgage loan with the lender. The executed agreement issued debt totaling \$128,000 requiring monthly interest payments at an annual interest rate of 4.95%. The note matures 10 years from the date of execution. These new terms have been reflected in the future maturities schedule presented at Note 9. On December 18, 2013, the Organization's \$5,000,000 line of credit was renewed by the bank, extending the expiration date to January 31, 2015. This extension has been reflected in the line of credit footnote, Note 11.

The Organization evaluated subsequent events through January 20, 2014, when the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of South Middlesex Opportunity Council, Inc. and Affiliates as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon, dated January 20, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 20, 2014.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*McGladrey LLP*

Boston, Massachusetts  
January 20, 2014

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidating Schedule of Financial Position  
June 30, 2013

	SMOC	Non-Profit Housing	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
<b>ASSETS</b>											
Current assets:											
Cash and cash equivalents	\$ 2,235,158	\$ 1,402,638	\$ 21,447	\$ 243	\$ 410	\$ 1,987	\$ 314,926	\$ 65,223	\$ -	\$ -	\$ 4,042,032
Certificates of deposit	113,894	615,992	-	-	-	-	-	-	-	-	729,886
Cash - restricted	132,180	237,390	402	-	-	-	-	-	-	-	369,972
Accounts receivable:											
Contracts and grants	2,588,971	95,967	-	357,489	-	131,198	-	861	-	-	3,174,486
Third parties - net of allowance for doubtful accounts	180,907	-	-	-	-	-	-	-	-	-	180,907
Other	-	148,957	-	-	-	-	12,439	-	-	-	161,396
Note receivable, current	7,949	32,061	-	-	-	-	-	-	-	(7,949)	32,061
Investments	-	276,194	-	-	-	-	-	376	-	-	276,570
Investment in affiliate	-	4,264,148	-	-	-	-	-	-	-	(4,264,148)	-
Prepaid expenses and deposits	186,737	(22,142)	-	-	-	3,800	56,724	3,126	-	-	228,245
Total current assets	5,445,796	7,051,205	21,849	357,732	410	136,985	384,089	69,586	-	(4,272,097)	9,195,555
Other assets:											
Note receivable, long term	232,657	644,793	-	-	-	-	-	-	-	(232,657)	644,793
Property, plant and equipment, net	504,736	45,105,643	240,277	37,631	90,069	249,318	6,695,255	22,705	918,408	-	53,864,042
Construction in progress	-	6,496,319	-	-	247,264	-	-	-	154,090	-	6,897,673
Mortgage acquisition costs, net	-	2,299,634	-	-	11,825	2,041	245,100	-	-	-	2,558,600
Intercompany balances	7,627,668	50,000	-	-	576,803	133,730	-	-	-	(8,388,201)	-
Total other assets	8,365,061	54,596,389	240,277	37,631	925,961	385,089	6,940,355	22,705	1,072,498	(8,620,858)	63,965,108
Total assets	\$ 13,810,857	\$ 61,647,594	\$ 262,126	\$ 395,363	\$ 926,371	\$ 522,074	\$ 7,324,444	\$ 92,291	\$ 1,072,498	\$ (12,892,955)	\$ 73,160,663
<b>LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>											
Current liabilities:											
Accounts payable	\$ 1,027,541	\$ 726,683	\$ 2,805	\$ 13,457	\$ 3,282	\$ 45,007	\$ 35,914	\$ 19,554	\$ 10,957	\$ -	\$ 1,885,200
Accrued expenses	1,130,087	134,532	1,011	(314)	541	409	5,618	(6,725)	-	-	1,265,159
Notes payable, current portion	10,000	-	-	-	-	-	-	12,949	-	(7,949)	15,000
Mortgage notes payable, current portion	-	3,538,515	-	-	41,796	15,912	9,923	-	-	-	3,606,146
Deferred revenue	2,194,679	34,675	-	-	-	37,500	-	17,787	-	-	2,284,641
Total current liabilities	4,362,307	4,434,405	3,816	13,143	45,619	98,828	51,455	43,565	10,957	(7,949)	9,056,146
Other liabilities:											
Lines of credit	2,510,606	1,610,600	-	-	-	-	-	-	-	-	4,121,206
Notes payable, long term portion	5,000	-	-	-	-	-	-	246,407	-	(232,657)	18,750
Mortgage notes payable, long term portion	-	42,078,449	-	-	-	207,425	2,946,218	-	-	-	45,232,092
Other liabilities	1,267,168	237,521	402	-	-	-	-	8,712	-	-	1,513,803
Intercompany balances	-	5,942,475	158,388	1,218,565	-	-	62,623	35,300	970,850	(8,388,201)	-
Total other liabilities	3,782,774	49,869,045	158,790	1,218,565	-	207,425	3,008,841	290,419	970,850	(8,620,858)	50,885,851
Total liabilities	8,145,081	54,303,450	162,606	1,231,708	45,619	306,253	3,060,296	333,984	981,807	(8,628,807)	59,941,997
Net assets/members' equity:											
Unrestricted/members' equity	5,665,776	6,844,144	(336,080)	(836,345)	880,752	215,821	4,264,148	(241,693)	90,691	(4,264,148)	12,283,066
Temporarily restricted	-	500,000	435,600	-	-	-	-	-	-	-	935,600
Total net assets/members' equity	5,665,776	7,344,144	99,520	(836,345)	880,752	215,821	4,264,148	(241,693)	90,691	(4,264,148)	13,218,666
Total liabilities and net assets/members' equity	\$ 13,810,857	\$ 61,647,594	\$ 262,126	\$ 395,363	\$ 926,371	\$ 522,074	\$ 7,324,444	\$ 92,291	\$ 1,072,498	\$ (12,892,955)	\$ 73,160,663

## South Middlesex Opportunity Council, Inc. and Affiliates

Consolidating Schedule of Activities  
Year Ended June 30, 2013

	SMOC	Non-Profit Housing	SMOP	Worcester Public Inebriate Program, Inc.	P.I.P. Foundation	Open Pantry Community Services	Freedom Village, LLC	Martin Luther King Jr. Business Empowerment Ctr.	Chandler	Eliminations	Consolidated Totals
<b>Revenues, gains and other support:</b>											
Contracts and grants	\$ 56,831,088	\$ 720,109	\$ -	\$ 1,525,014	\$ -	\$ 1,166,031	\$ -	\$ 91,089	\$ -	\$ -	\$ 60,333,331
Third party billings, net of free services and contractual allowances	3,352,099	-	-	-	-	-	-	-	-	-	3,352,099
Tuition income	395,273	-	-	-	-	-	-	-	-	-	395,273
Other program revenue	4,829,881	413,342	112	35,631	-	19,756	3,476	-	-	(3,705,611)	1,596,587
Donated goods and services	212,793	-	-	-	-	1,474,907	-	-	-	-	1,687,700
Contributions	238,468	(250)	-	2,800	-	429,125	-	2,874	-	-	673,017
Donated real property	-	868,968	-	-	-	-	-	-	-	-	868,968
Rental income	40,069	6,550,631	27,590	40	33,975	1,732	303,533	120,438	-	(1,130,272)	5,947,736
Miscellaneous income	-	-	-	500	-	-	-	25,608	-	-	26,108
Interest income	15,865	7,006	20	2	-	26	219	20	-	-	23,158
Gain on sale of property	-	781,916	-	-	-	-	-	-	-	-	781,916
Loss on investment in affiliate	-	(133,740)	-	-	-	-	-	-	-	133,740	-
Unrealized gain on investments	-	15,376	-	-	-	-	-	-	-	-	15,376
Realized gain on investments	-	4,017	-	-	-	-	-	-	-	-	4,017
Dividend income	-	4,809	-	-	-	-	-	4	-	-	4,813
Total revenue, gains and other support	65,915,536	9,232,184	27,722	1,563,987	33,975	3,091,577	307,228	240,033	-	(4,702,143)	75,710,099
<b>Expenses and losses:</b>											
<b>Program services:</b>											
Education and Child Care	7,756,698	-	-	-	-	-	-	-	-	(259,960)	7,496,738
Crisis Intervention	1,023,178	-	-	-	-	-	-	-	-	(98,984)	924,194
Substance Abuse	3,067,698	-	-	-	-	-	-	-	-	(281,004)	2,786,694
Energy and Financial Assistance	30,491,701	-	-	-	-	-	-	-	-	(252,636)	30,239,065
Shelter	6,257,215	-	-	-	-	-	-	-	-	(551,835)	5,705,380
Advocacy	8,836,205	-	-	-	-	-	-	-	-	(1,292,139)	7,544,066
Mental Health Services	3,327,605	-	-	-	-	-	-	-	-	(326,391)	3,001,214
Nutrition	913,681	-	-	-	-	-	-	-	-	(90,545)	823,136
Non-Profit Housing	-	7,244,278	-	-	-	-	-	-	-	(1,240,133)	6,004,145
Opportunity Properties	-	-	39,834	-	-	-	-	-	-	-	39,834
Worcester Public Inebriate Program, Inc.	-	-	-	1,569,548	-	-	-	-	-	-	1,569,548
P.I.P. Foundation	-	-	-	-	47,515	-	-	-	-	(22,000)	25,515
Open Pantry Community Services, Inc.	-	-	-	-	-	2,917,608	-	-	-	-	2,917,608
Freedom Village, LLC	-	-	-	-	-	-	279,073	-	-	-	279,073
Martin Luther King Jr. Business Empowerment Ctr.	-	-	-	-	-	-	-	374,320	-	-	374,320
Total program services before depreciation and amortization	61,673,981	7,244,278	39,834	1,569,548	47,515	2,917,608	279,073	374,320	-	(4,415,627)	69,730,530
<b>Supporting services:</b>											
General and administrative	3,294,747	120,000	-	161,326	-	138,930	-	-	-	(420,256)	3,294,747
Fundraising	22,442	-	-	-	-	12,460	-	370	-	-	35,272
Total supporting services before depreciation and amortization	3,317,189	120,000	-	161,326	-	151,390	-	370	-	(420,256)	3,330,019
Total expenses and losses before depreciation and amortization	64,991,170	7,364,278	39,834	1,730,874	47,515	3,068,998	279,073	374,690	-	(4,835,883)	73,060,549
Change in net assets/members' equity before depreciation and amortization	924,366	1,867,906	(12,112)	(166,887)	(13,540)	22,579	28,155	(134,657)	-	133,740	2,649,550
Depreciation and amortization expense	123,063	1,646,045	7,570	11,137	6,379	15,647	161,895	2,762	23,322	-	1,997,820
Change in net assets/members' equity	801,303	221,861	(19,682)	(178,024)	(19,919)	6,932	(133,740)	(137,419)	(23,322)	133,740	651,730
Net assets/members' equity, beginning of year	4,864,473	7,122,283	119,202	(658,321)	900,671	208,889	4,397,888	(104,274)	114,013	(4,397,888)	12,566,936
Net assets/members' equity, end of year	\$ 5,665,776	\$ 7,344,144	\$ 99,520	\$ (836,345)	\$ 880,752	\$ 215,821	\$ 4,264,148	\$ (241,693)	\$ 90,691	\$ (4,264,148)	\$ 13,218,666