



Consolidated Financial Statements
South Middlesex Opportunity Council, Inc.
and Affiliates

June 30, 2022 and 2021



**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Financial Statements

Table of Contents

Consolidated Financial Statements:

Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-20



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Independent Auditors' Report

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

Opinion

We have audited the 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, 2022 and 2021, and 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of South Middlesex Opportunity Council, Inc. and Affiliates as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maye Hoffman McCann P.C.

Boston, Massachusetts
January 13, 2023

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Statements of Financial Position

June 30,

	2022	2021
Assets		
Cash and cash equivalents	\$ 14,254,537	\$ 17,020,840
Certificates of deposit	2,335,791	2,333,588
Restricted cash	644,789	779,772
Restricted cash, Home modification loan program	3,081,052	2,265,314
Accounts receivable	15,302,369	13,571,371
Prepaid expenses and other assets	626,475	352,005
Investments	511,192	560,342
Home modification program receivable	16,225,436	16,700,013
Property, plant and equipment, net	88,702,822	87,001,096
Investment in affiliate	25,000	25,000
	\$ 141,709,463	\$ 140,609,341
Total assets	\$ 141,709,463	\$ 140,609,341
Liabilities and Net Assets		
Accounts payable	\$ 4,318,457	\$ 2,956,149
Accrued expenses and other liabilities	1,935,827	2,511,602
Refundable advances	7,123,651	7,970,291
Lines of credit	441,413	484,497
Obligations under capital lease	236,396	358,047
Bonds and mortgage notes payable	79,022,222	80,350,317
Home modification loan program advances payable	16,225,436	16,700,013
Home modification loan program pool payable	3,081,052	2,265,314
	112,384,454	113,596,230
Total liabilities	112,384,454	113,596,230
Net assets:		
Without donor restrictions	27,807,149	24,949,561
With donor restrictions	1,517,860	2,063,550
	29,325,009	27,013,111
Total net assets	29,325,009	27,013,111
Total liabilities and net assets	\$ 141,709,463	\$ 140,609,341

See accompanying notes to the consolidated financial statements.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Statements of Activities

Years Ended June 30,

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:						
Contracts and grants	\$ 129,538,805	\$ 1,306,784	\$ 130,845,589	\$ 91,631,834	\$ 2,673,072	\$ 94,304,906
Third party billings, net of free services and contractual allowances	8,832,098	-	8,832,098	8,430,286	-	8,430,286
Tuition income	240,820	-	240,820	239,057	-	239,057
Other program revenue	1,379,024	-	1,379,024	1,502,231	-	1,502,231
Donated goods and services	1,019,035	-	1,019,035	1,132,914	-	1,132,914
Contributions	2,384,260	-	2,384,260	2,837,247	-	2,837,247
Rental income	7,116,514	-	7,116,514	7,253,486	-	7,253,486
Other income	1,774,853	-	1,774,853	4,162,314	-	4,162,314
Total revenue and gains and other support	152,285,409	1,306,784	153,592,193	117,189,369	2,673,072	119,862,441
Net assets released from restriction	1,852,474	(1,852,474)	-	2,262,060	(2,262,060)	-
Total revenue, gains and other support	154,137,883	(545,690)	153,592,193	119,451,429	411,012	119,862,441
Expenses and losses:						
Program services:						
Housing	8,083,118	-	8,083,118	8,385,049	-	8,385,049
Individual and Family Services	26,996,015	-	26,996,015	20,710,501	-	20,710,501
Education and Child Care	12,587,691	-	12,587,691	12,776,710	-	12,776,710
Domestic Violence	1,417,418	-	1,417,418	1,127,909	-	1,127,909
Substance Abuse and Mental Health Services	8,535,086	-	8,535,086	12,774,245	-	12,774,245
Energy and Financial Assistance	84,674,288	-	84,674,288	50,415,764	-	50,415,764
Nutrition	1,011,053	-	1,011,053	945,522	-	945,522
Total program services before depreciation and amortization	143,304,669	-	143,304,669	107,135,700	-	107,135,700
Supporting services:						
General and administrative	4,576,997	-	4,576,997	6,214,869	-	6,214,869
Total expenses and losses before depreciation and amortization	147,881,666	-	147,881,666	113,350,569	-	113,350,569
Change in net assets before depreciation and amortization	6,256,217	(545,690)	5,710,527	6,100,860	411,012	6,511,872
Depreciation and amortization expense	3,398,629	-	3,398,629	3,185,529	-	3,185,529
Change in net assets	2,857,588	(545,690)	2,311,898	2,915,331	411,012	3,326,343
Net assets, beginning of year	24,949,561	2,063,550	27,013,111	22,034,230	1,652,538	23,686,768
Net assets, end of year	\$ 27,807,149	\$ 1,517,860	\$ 29,325,009	\$ 24,949,561	\$ 2,063,550	\$ 27,013,111

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	Housing	Individual and Family Services	Education and Child Care	Domestic Violence	Substance Abuse and Mental Health Services	Energy and Financial Assistance	Nutrition	Total Program Services	Total Supporting Services	Total Expenses
Expenses and losses:										
Salaries and wages	\$ 2,270,995	\$ 8,344,749	\$ 6,028,922	\$ 859,132	\$ 5,647,907	\$ 3,449,596	\$ 636,771	\$ 27,238,072	\$ 2,600,901	\$ 29,838,973
Employee benefits and payroll taxes	135,247	2,473,656	1,756,882	235,119	502,588	1,069,135	183,534	6,356,161	195,068	6,551,229
Total salaries and related expenses	2,406,242	10,818,405	7,785,804	1,094,251	6,150,495	4,518,731	820,305	33,594,233	2,795,969	36,390,202
Client assistance	6,822	3,605,764	2,388	8,312	218,335	73,708,648	-	77,550,269	2,382	77,552,651
Professional fees and contracted services	349,051	2,018,371	1,848,860	13,166	304,458	387,136	-	4,921,042	854,385	5,775,427
Occupancy	3,965,573	5,744,961	1,250,391	108,222	1,140,602	428,444	133,225	12,771,418	158,762	12,930,180
Equipment expenses	59,501	215,456	94,030	3,687	109,315	204,799	3,927	690,715	167,817	858,532
Dietary	765	241,838	469,156	1,459	118,605	430,066	24	1,261,913	6,786	1,268,699
Donated goods and services	-	774,433	229,099	-	15,502	-	-	1,019,034	6,577	1,025,611
Transportation	222,498	183,488	124,662	12,324	75,660	40,510	-	659,142	351,061	1,010,203
Supplies	616,921	2,859,310	568,101	132,400	153,518	4,341,316	23,607	8,695,173	22,325	8,717,498
Telephone	125,995	191,110	50,486	12,599	97,865	58,950	16,306	553,311	74,178	627,489
Insurance	748,923	218,881	124,705	14,975	97,689	59,813	13,531	1,278,517	14,473	1,292,990
Advertising	-	3,030	48	-	7,390	78,609	-	89,077	13,000	102,077
Training	5	18,885	32,919	15,023	6,274	853,591	128	926,825	6,686	933,511
Interest expense	2,454,866	19,386	-	-	11,461	6,142	-	2,491,855	-	2,491,855
Bad debt expense	-	80,455	7,042	-	122,982	34,422	-	244,901	57,338	302,239
Other	164,382	2,242	-	1,000	6	923	-	168,553	5,033	173,586
Fundraising	-	-	-	-	-	-	-	-	41,031	41,031
Management fees	-	-	-	-	-	-	-	-	5,750,606	5,750,606
Eliminating entries	(3,038,426)	-	-	-	(95,071)	(477,812)	-	(3,611,309)	(5,751,412)	(9,362,721)
Expenses and losses before depreciation and amortization	8,083,118	26,996,015	12,587,691	1,417,418	8,535,086	84,674,288	1,011,053	143,304,669	4,576,997	147,881,666
Depreciation and amortization	3,095,471	127,635	-	-	-	-	-	3,223,106	175,523	3,398,629
Total expenses	\$ 11,178,589	\$ 27,123,650	\$ 12,587,691	\$ 1,417,418	\$ 8,535,086	\$ 84,674,288	\$ 1,011,053	\$ 146,527,775	\$ 4,752,520	\$ 151,280,295

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	<i>Housing</i>	<i>Individual and Family Services</i>	<i>Education and Child Care</i>	<i>Domestic Violence</i>	<i>Substance Abuse and Mental Health Services</i>	<i>Energy and Financial Assistance</i>	<i>Nutrition</i>	<i>Total Program Services</i>	<i>Total Supporting Services</i>	<i>Total Expenses</i>
Expenses and losses:										
Salaries and wages	\$ 1,679,917	\$ 7,036,281	\$ 5,776,116	\$ 674,002	\$ 6,723,089	\$ 1,909,461	\$ 608,997	\$ 24,407,863	\$ 3,807,883	\$ 28,215,746
Employee benefits and payroll taxes	386,423	1,923,263	1,760,861	156,117	1,501,030	583,123	186,552	6,497,369	302,544	6,799,913
Total salaries and related expenses	2,066,340	8,959,544	7,536,977	830,119	8,224,119	2,492,584	795,549	30,905,232	4,110,427	35,015,659
Client assistance	1,530,862	2,762,205	13,766	17,243	70,028	45,318,773	-	49,712,877	10,436	49,723,313
Professional fees and contracted services	242,342	1,769,306	1,688,403	10,489	189,481	95,118	737	3,995,876	1,010,822	5,006,698
Occupancy	4,036,007	4,927,291	1,888,745	81,311	1,240,980	181,780	90,458	12,446,572	150,696	12,597,268
Equipment expenses	19,022	164,738	84,669	6,786	74,150	36,707	10,796	396,868	100,295	497,163
Dietary	1,379	152,454	252,891	277	164,807	276,252	-	848,060	569	848,629
Donated goods and services	-	769,851	321,837	-	41,229	-	-	1,132,917	-	1,132,917
Transportation	198,964	170,403	199,092	9,955	49,917	6,570	-	634,901	65,156	700,057
Supplies	580,604	1,062,778	496,880	142,669	484,370	1,528,346	23,718	4,319,365	510,700	4,830,065
Telephone	130,138	155,915	50,293	16,484	97,271	32,103	13,567	495,771	54,697	550,468
Insurance	649,715	150,895	102,582	12,534	81,753	27,603	10,371	1,035,453	46,212	1,081,665
Advertising	-	4,343	891	-	1,388	2,832	285	9,739	13,843	23,582
Training	489	21,748	20,588	42	8,083	392,257	41	443,248	12,636	455,884
Interest expense	2,362,848	3,388	5,788	-	8,630	9,255	-	2,389,909	37,584	2,427,493
Bad debt expense	388,669	13,616	109,267	-	2,127,199	15,584	-	2,654,335	-	2,654,335
Other	478	6,961	4,041	-	807	-	-	12,287	65,940	78,227
Fundraising	-	-	-	-	-	-	-	-	24,858	24,858
Management fees	-	-	-	-	-	-	-	-	5,242,306	5,242,306
Eliminating entries	(3,822,808)	(384,935)	-	-	(89,967)	-	-	(4,297,710)	(5,242,308)	(9,540,018)
Expenses and losses before depreciation and amortization	8,385,049	20,710,501	12,776,710	1,127,909	12,774,245	50,415,764	945,522	107,135,700	6,214,869	113,350,569
Depreciation and amortization	2,872,691	118,304	-	-	-	-	-	2,990,995	194,534	3,185,529
Total expenses	\$ 11,257,740	\$ 20,828,805	\$ 12,776,710	\$ 1,127,909	\$ 12,774,245	\$ 50,415,764	\$ 945,522	\$ 110,126,695	\$ 6,409,403	\$ 116,536,098

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Consolidated Statements of Cash Flows

Years Ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 2,311,898	\$ 3,326,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,398,629	3,185,529
Gains on sale/disposal of property	(426,392)	(1,124,544)
(Gain) loss on investments	65,599	(96,272)
Changes in:		
Accounts receivable	(1,730,998)	(1,770,710)
Prepaid expenses and other assets	(274,470)	(82,288)
Accounts payable	463,462	(1,796,476)
Accrued expenses and other liabilities	(575,775)	(57,832)
Refundable advances	(846,640)	2,884,310
Home modification loan program pool payable	815,738	275,964
Net cash provided by operating activities	<u>3,201,051</u>	<u>4,744,024</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,583,136)	(6,294,103)
Proceeds from sale of property and equipment	965,629	1,124,544
Sales of certificates of deposit	-	84,204
Interest earned on certificates of deposit	(2,203)	(4,025)
Purchases of investments	(16,449)	(10,433)
Net cash used in investing activities	<u>(3,636,159)</u>	<u>(5,099,813)</u>
Cash flows from financing activities:		
Repayment of obligations under capital leases	(121,651)	(124,469)
Proceeds from mortgage notes payable	1,659,500	14,285,488
Repayment of mortgage notes payable	(3,032,051)	(798,146)
Net repayments on revolving line of credit	(43,084)	(2,243,058)
Mortgage acquisition costs incurred	(113,154)	(546,712)
Net cash provided by (used in) financing activities	<u>(1,650,440)</u>	<u>10,573,103</u>
Net change in cash and cash equivalents	<u>(2,085,548)</u>	<u>10,217,314</u>
Cash and cash equivalents and restricted cash, beginning of year	20,065,926	9,848,612
Cash and cash equivalents and restricted cash, end of year	<u>\$ 17,980,378</u>	<u>\$ 20,065,926</u>
Cash and cash equivalents	14,254,537	17,020,840
Restricted cash	644,789	779,772
Restricted cash, Home modification program	3,081,052	2,265,314
Total cash, cash equivalents and restricted cash	<u>\$ 17,980,378</u>	<u>\$ 20,065,926</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,523,232	2,405,916
Construction in progress costs incurred remaining in accounts payable	\$ 898,846	\$ -
Capital lease obligations incurred for use of equipment	\$ -	\$ 109,935

See accompanying notes to the consolidated financial statements.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Entity

South Middlesex Opportunity Council, Inc. and Affiliates (collectively the “Organization”) are dedicated to supporting the improvement of the quality of life for low-income residents of the South Middlesex area of Massachusetts and the greater community at large.

The Organization consolidates the financial statements of South Middlesex Opportunity Council, Inc. (“SMOC”), South Middlesex Non-Profit Housing Corporation, Inc., South Middlesex Opportunity Properties, Inc., Open Pantry Community Services, Inc., Freedom Village LLC, and Lowell Transitional Living Center, Inc. These entities are under common management and control and significant intercompany account balances and transactions have been eliminated in consolidation.

In November of 2021, the Organization merged the following affiliates into SMOC: Worcester Public Inebriate Program, Inc., P.I.P. Foundation, Inc., the Martin Luther King, Jr. Business Empowerment Center, and Chandler 237 Realty, Inc. All activities for the fiscal year ended June 30, 2022 are reported on SMOC’s books and records.

Financial Statement Presentation

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

The consolidated financial statements have been presented on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America, which required the Organization report information regarding its financial policies and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions represent the portion of net assets of the Organization that is available for general use and not subject to donor restrictions. Net assets without donor restrictions also include investment in property, plant and equipment, net of accumulated depreciation and related debt obligations.

Net assets with donor restrictions 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.

Cash and Cash Equivalents

The Organization defines cash equivalents as short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are reported at cost plus earned interest. Cash and cash equivalents held by investment managers are considered part of investments given the expectation of near-term reinvestment. The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Certificates of Deposit

The Organization has fixed rate certificates of deposit with banks with maturities at purchase of more than three months. The certificates of deposit are valued at cost plus accrued interest.

Restricted Cash and Restricted Cash - Home Modification Loan Program

Restricted cash represents escrow accounts associated with financing arrangements, tenant security deposits and funds held for clients. Restricted cash - Home Modification Loan Program ("HMP") represents cash associated with the program. These amounts are carried at cost.

Accounts Receivable

Accounts receivable are reported at their net realizable value. Accounts receivable consist mainly of accounts receivable from contracts and grants receivable from state and local governments and third-party payors.

Management estimates the allowance for doubtful accounts based on history of collections and knowledge acquired about specific terms. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. An account is considered uncollectible when all efforts to collect the account have been exhausted. Interest is not charged on accounts receivable.

Accounts receivable also includes advances to Bixby Road 19, LLC ("Bixby"), an unconsolidated related party for construction costs, developer fees, overhead and operating advances for a property. SMOC is the sponsor of the LLC. The property houses one of the Organization's programs. The advances are due annually based on net cash flows. Amounts due to the Organization from Bixby totaled \$2,656,563 and \$2,093,840 at June 30, 2022 and 2021, respectively. All outstanding amounts are due on the earlier of August 2030, the liquidation of Bixby or the removal of the Managing Member of Bixby. Interest is not charged on the advances. Management believes these amounts are fully realizable.

Investments

Investments are reported at fair value in accordance with the fair value standards of accounting. Fair value is determined as per the fair value policies below. The investment objective of the Organization is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to increase investment values after inflation.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Fair Value Measurements

The Organization reports certain assets and liabilities at fair value. Fair value is defined as 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. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Items reported at fair value on a recurring basis include the Organization's investments.

The fair value standards require that for each item carried at fair value that such be disclosed in accordance with the valuation methods used which fall into three categories as follows:

Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at measurement date.

Level 2 – inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable.

Level 3 – inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

Home Modification Loan Program Receivable, Program Advances and Loan Pool Payable

The majority of this account represents home modification loans to qualified low-income individuals to complete property repairs and renovations. The Organization administers this program for the Community Economic Development Assistance Corporation ("CEDAC"). When the loans are repaid, the funds are put back into the loan pool payable for potential new loans. The Organization carries no risk of loss on this program. If a borrower cannot repay the loan, CEDAC absorbs the loss. There is a corresponding liability due to CEDAC included in home modification loan program advances payable on the consolidated statements of financial position. A smaller program within this line likewise operates with micro-loans to small businesses.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when such amounts are above management's threshold for capitalization and have a useful life of one year or more. Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

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

	Years
Buildings and building improvements	20-40
Leasehold improvements	3-35
Motor vehicles	5
Furnishings and equipment	3-10

Management is unaware of any liabilities related to asset retirement or environmental obligations associated with its property, plant and equipment and accordingly has not recorded any asset retirement obligations.

Refundable Advances

Refundable advances represent advances on rent payments from funding sources as well as the amount of unearned related services that are in progress as of year-end related to the Organization's programs. Such amounts are reflected as revenue ratably over time which is generally under one year in length.

Bonds and Mortgage Notes Payable

Bonds and mortgage notes payable are reported at the remaining unpaid amounts under the related debt issue, net of any issuance costs. Issuance costs are amortized over twenty years which management has estimated as the average life of its related debt.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. The Organization has both earned revenues and contributed revenues.

Earned Revenue

Earned revenues are considered exchange transactions and are measured via a principles-based process that requires the entities: 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied. Exchange transaction revenues are under arrangements that are one year or less in length. Exchange transactions include the following:

Third-party billings revenue (primarily Medicare, Medicaid, MBHP, and Private Insurance) is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and is recorded when performance obligations are satisfied which is generally as services are rendered. Management does not consider there to be significant judgement involved in the timing of satisfaction of performance obligations as those are linked to the service performed. Third-party insurance companies are billed on a monthly basis.

Rental income is recorded associated with the period of occupancy. Payments received in advance are deferred until earned.

Contributed Support

Contract and grant revenue are considered conditional contributed support and consist of cost-reimbursement and unit rate grants from federal, state and local agencies. The Organization's funding is considered conditional in that a barrier to entitlement must be met prior to having a right to the related resources. Revenue is recognized when it has met the barrier to entitlement such as meeting a service delivery requirement, matching provision or incurring specified qualifying expenses in accordance with a framework of allowable costs or other barriers as stipulated in the grants and contracts such as performance requirements and/or the incurrence of allowable qualifying expenses. The Organization bills funding sources primarily on a monthly basis following the month in which expenses have incurred or services rendered to a client subject to the limits provided for in those grants and contracts. If amounts are received in advance of meeting a barrier to entitlement, such amounts are considered refundable advances.

Unconditional contributions are considered revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions and reported as "net assets released from restrictions" when such time or purpose restrictions have been satisfied.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Revenue Recognition (Continued)

Contributed Support (Continued)

The Organization also receives support in the form of donated goods and services when they meet the standards of recording. These are recorded at their estimated fair value as per the fair value policies elsewhere in these notes. Donated goods and services are reported on their own line in the consolidated statements of activities.

Investment Return

Net investment return consists of interest and dividend income and realized and unrealized capital gains and losses, less external and direct investment expenses.

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail by function. Expenses related directly to a program are distributed to that program while other expenses are allocated to functional classifications based on percentage of effort, usage, square footage and other criteria as determined by management. Interest expense is allocated to functional classifications that benefited from the use of proceeds of debt. Expenses are reported as decreases in net assets without donor restrictions.

Income Tax Status

The Organization and related corporations (other than the LLC) are organized under Section 501(c)(3) of the Internal Revenue Code and are generally exempt from Federal and state income taxes on related income. The LLC is considered a disregarded entity for tax purposes and thus is in effect tax exempt as well.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

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

Uncertain Tax Positions

The Organization has determined that it has no uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity and its determination as to its income being related or unrelated as its only significant tax positions. The Organization is not currently under examination by any taxing jurisdiction. The Organization's Federal and state tax returns are generally open for examination for three years following the date filed.

Future Accounting Pronouncements

The Organization expects to adopt new accounting standards for leases in fiscal 2023. Management is evaluating the impact this will have on the consolidated financial statements.

Management believes that other pending accounting standards will be of limited impact.

Subsequent Events

The Organization evaluated subsequent events through January 13, 2023, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

The Organization regularly monitors liquidity to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposit and lines of credit.

In addition to financial assets available to meet general expenditures over the next twelve months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted funds. Refer to the consolidated statements of cash flows which identify the sources and uses of the Organization's cash and show positive cash generated by operations for the years ended June 30, 2022 and 2021.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 2 - Liquidity and Availability (Continued)

The following table shows the amounts held by the Organization that could readily be made available within one year of the consolidated statement of financial position date to meet general expenditures:

	2022	2021
Cash and equivalents	\$ 14,254,537	\$ 17,020,840
Certificates of deposit	2,335,791	2,333,588
Accounts receivable	12,645,806	11,477,531
Investments	<u>511,192</u>	<u>560,342</u>
	<u>\$ 29,747,326</u>	<u>\$ 31,392,301</u>

Note 3 - Related Party Transactions

The corporate clerk of the Organization (non-voting) is a retired partner in a law firm that represents the Organization. The Organization incurred fees of approximately \$178,000 and \$342,000 during 2022 and 2021, respectively. Amounts included in accrued expenses and accounts payable relating to these transactions totaled \$154,000 and \$211,000 as of June 30, 2022 and 2021, respectively.

A member of the Organization's board of directors is an employee of an insurance agency that brokers insurance on behalf of the Organization. The Organization incurred insurance expenses of approximately \$806,000 and \$449,000 during 2022 and 2021, respectively.

The Organization believes that these transactions are commercially reasonable or on terms more advantageous than otherwise generally available.

Note 4 - Investments

Investments use Level 1 fair value methods and consist of the following as of June 30:

	2022	2021
Cash and cash equivalents	\$ 31,766	\$ 23,877
Exchange traded products	11,246	11,886
Equity securities	302,654	353,513
Debt securities	<u>165,526</u>	<u>171,066</u>
	<u>\$ 511,192</u>	<u>\$ 560,342</u>

Investment (losses) gains were \$(65,599) and \$96,272 for the years ended June 30, 2022 and 2021, respectively, and are included in other income.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 5 - Property, Plant and Equipment

Following is a summary as of June 30:

	2022	2021
Land	\$ 12,900,521	\$ 12,823,138
Buildings and building improvements	103,410,984	96,077,198
Leasehold improvements	2,554,170	2,517,515
Furnishings and equipment	3,981,134	3,941,380
Motor vehicles	1,111,429	1,111,429
Construction in progress	<u>3,347,089</u>	<u>6,825,040</u>
	127,305,327	123,295,700
Less: accumulated depreciation and amortization	<u>38,602,505</u>	<u>36,294,604</u>
	<u>\$ 88,702,822</u>	<u>\$ 87,001,096</u>

Construction commitments amounted to approximately \$3,000,000 as of June 30, 2022 and 2021.

Note 6 - Lines of Credit

The Organization has a revolving line of credit agreement with a bank in the amount of \$7,500,000 that expires on January 31, 2023 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 4.25%. The interest rate was 5.00% and 4.25% at June 30, 2022 and 2021, respectively. The line is secured by all business assets.

The Organization also had a revolving line of credit with six banks participating within the Organization's Financial Services program with the combined amount of \$500,000. Interest is calculated at 2.00%. The agreement does not specify an expiration date.

Outstanding balances on the lines of credit are as follows as of June 30:

	2022	2021
Financial Services Program	<u>\$ 441,413</u>	<u>\$ 484,497</u>

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 7 - Bonds and Mortgage Notes Payable

Bonds and mortgage notes payable are as follows at June 30:

	2022	2021
<p>Various bonds and mortgage notes payable to financial institutions in monthly installments totaling \$292,239, including interest at rates ranging from 3.0% to 6.4%, with balloon payments totaling \$40,632,195, due on various dates ranging from 2022 to 2045. 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.</p>	\$ 58,392,954	\$ 59,765,732
<p>Non-interest bearing mortgage notes payable on dates ranging from 2029 to 2063. No principal is due on these notes prior to those dates. The notes are secured by mortgages on real property.</p>	<u>22,085,296</u>	<u>22,085,296</u>
<p>Total mortgage notes payable</p> <p>Less: mortgage acquisition costs</p> <p>Plus: accumulated amortization</p>	<p>80,478,250</p> <p>(3,429,441)</p> <p><u>1,973,413</u></p>	<p>81,851,028</p> <p>(3,318,893)</p> <p><u>1,818,182</u></p>
Total	<u>\$ 79,022,222</u>	<u>\$ 80,350,317</u>

Maturities of mortgage notes payable mature as follows as of June 30:

	Total	Balloon Payments	Annual Payments
2023	\$ 1,684,054	\$ 1,448,230	\$ 235,824
2024	1,735,592	1,531,430	204,162
2025	1,789,223	1,594,353	194,870
2026	1,664,836	1,460,874	203,962
2027	2,057,843	1,853,715	204,128
Thereafter	<u>71,546,702</u>	<u>68,597,160</u>	<u>2,949,542</u>
	<u>\$ 80,478,250</u>	<u>\$ 76,485,762</u>	<u>\$ 3,992,488</u>

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 8 - Obligations Under Capital Leases

The Organization leased motor vehicles under capital leases that expire at various times through 2026. The liabilities under capital leases have been recorded at the present value of the minimum lease payments. The assets are amortized over their estimated lives.

Leased property under the capital lease was as follows as of June 30:

	2022	2021
Motor vehicles	\$ 745,919	\$ 778,926
Less: accumulated depreciation	<u>(564,658)</u>	<u>(495,558)</u>
	<u>\$ 181,261</u>	<u>\$ 283,368</u>

Capital lease obligations are due as follows for the years ending June 30:

2023	\$ 103,297
2024	74,534
2025	45,131
2026	<u>13,434</u>
	<u>\$ 236,396</u>

Note 9 - Operating Leases

The Organization leases facilities under operating leases expiring at various dates through 2029, as well as under tenant-at-will agreements. Total lease expense was \$3,304,703 and \$3,156,842 for the years ended June 30, 2022 and 2021, respectively, which is included in occupancy expenses and equipment rental expenses.

Future minimum rental payments under operating leases are as follows at June 30:

2023	\$ 583,264
2024	424,414
2025	352,400
2026	208,291
2027	178,661
Thereafter	<u>358,444</u>
	<u>\$ 2,105,474</u>

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 10 - Net Assets

Following is a summary of net assets without donor restrictions as of June 30:

	2022	2021
Operating - undesignated	\$ 18,748,545	\$ 19,042,429
Net investment in property and equipment	<u>9,058,604</u>	<u>5,907,132</u>
Total net assets without donor restrictions	<u>\$ 27,807,149</u>	<u>\$ 24,949,561</u>

Following is a summary of net assets with donor restrictions as of June 30:

	2022	2021
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
Grant in support of specific program needs	996,747	1,534,568
Grant in support of equipment and capital projects	<u>135,513</u>	<u>143,382</u>
Total	<u>\$ 1,517,860</u>	<u>\$ 2,063,550</u>

Note 11 - Retirement Plan

The Organization has a qualified 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. Retirement expense under the plan was \$236,891 and \$230,363 for the years ended June 30, 2022 and 2021, respectively.

**SOUTH MIDDLESEX OPPORTUNITY COUNCIL, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

Note 12 - Commitments and Contingencies

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

The Organization is self-insured relative to unemployment costs and has accrued an estimated amount for such costs at year end.

The Organization is subject to the regulations and rate formulas of the Massachusetts Executive Office for Administration and Finance Operational Services Division. Revenue is recorded by the individual programs either at the rate approved under negotiated contracts or at the rate of reimbursement as certified by the Massachusetts 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 purposes provided such expenditures are reimbursable under the Operational Services Division regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment and are reported as a liability.

Certain contracts, grants and subsidies may be subject to audit by the funding sources. Such audits might result in the disallowance of costs submitted for reimbursement. Management is of the opinion that such cost allowances, if any, will not have a material effect on the accompanying consolidated financial statements. Accordingly, no amounts have been provided in the accompanying consolidated financial statements for such potential disallowances.