

Consolidated Financial Statements and  
Report of Independent Certified Public  
Accountants

**South Middlesex Opportunity Council, Inc.  
and Affiliates**

June 30, 2023 and 2022

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
South Middlesex Opportunity Council, Inc.

**Opinion**

We have audited the consolidated financial statements of South Middlesex Opportunity Council, Inc. and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other matter**

The financial statements of the Organization as of and for the year ended June 30, 2022 were audited by other auditors who expressed an unmodified opinion on those financial statements in their report dated January 13, 2023.

**Basis for opinion**

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 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 the financial statements are available to be issued.

**Auditor's responsibilities for the audit of the 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 auditor's 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 US 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 US 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 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.

*Grant Thornton LLP*

Boston, Massachusetts  
December 14, 2023

**South Middlesex Opportunity Council, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30,**

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,804,528	\$ 14,254,537
Certificates of deposit	2,337,774	2,335,791
Restricted cash	556,832	644,789
Restricted cash, Home modification loan program	3,218,580	3,081,052
Accounts receivable	18,225,956	15,302,369
Prepaid expenses and other assets	241,128	626,475
Investments	560,965	511,192
Home modification program receivable	10,818,064	16,225,436
Property, plant and equipment, net	91,612,801	88,702,822
Investment in affiliate	25,000	25,000
	<b>\$ 140,401,628</b>	<b>\$ 141,709,463</b>
Total assets	<b>\$ 140,401,628</b>	<b>\$ 141,709,463</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 6,139,484	\$ 4,318,457
Accrued expenses and other liabilities	3,015,011	1,935,827
Refundable advances	7,412,673	7,123,651
Lines of credit	2,278,767	441,413
Lease liabilities	2,655,469	236,396
Bonds and mortgage notes payable	77,812,742	79,022,222
Home modification loan program advances payable	10,818,064	16,225,436
Home modification loan program pool payable	3,218,580	3,081,052
	<b>113,350,790</b>	<b>112,384,454</b>
Total liabilities	<b>113,350,790</b>	<b>112,384,454</b>
<b>Net assets</b>		
Without donor restrictions	25,426,284	27,807,149
With donor restrictions	1,624,554	1,517,860
	<b>27,050,838</b>	<b>29,325,009</b>
Total net assets	<b>27,050,838</b>	<b>29,325,009</b>
Total liabilities and net assets	<b>\$ 140,401,628</b>	<b>\$ 141,709,463</b>

The accompanying notes are an integral part of these consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30,

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains and other support</b>						
Contracts and grants	\$ 133,591,339	\$ -	\$ 133,591,339	\$ 129,538,805	\$ 1,306,784	\$ 130,845,589
Third-party billings, net of free services and contractual allowances	8,897,948	-	8,897,948	8,832,098	-	8,832,098
Tuition income	309,421	-	309,421	240,820	-	240,820
Other program revenue	1,030,088	-	1,030,088	1,379,024	-	1,379,024
Donated goods and services	1,147,169	-	1,147,169	1,019,035	-	1,019,035
Contributions	657,466	1,445,067	2,102,533	2,384,260	-	2,384,260
Rental income	7,554,953	-	7,554,953	7,116,514	-	7,116,514
Other income	1,050,748	-	1,050,748	1,774,853	-	1,774,853
Total revenue and gains and other support	154,239,132	1,445,067	155,684,199	152,285,409	1,306,784	153,592,193
Net assets released from restriction	1,338,373	(1,338,373)	-	1,852,474	(1,852,474)	-
Total revenue, gains and other support	155,577,505	106,694	155,684,199	154,137,883	(545,690)	153,592,193
<b>Expenses and losses</b>						
Program services						
Housing	9,379,592	-	9,379,592	8,083,118	-	8,083,118
Individual and family services	33,384,145	-	33,384,145	26,996,015	-	26,996,015
Education and child care	12,510,076	-	12,510,076	12,587,691	-	12,587,691
Domestic violence	2,182,399	-	2,182,399	1,417,418	-	1,417,418
Substance abuse and mental health services	9,284,293	-	9,284,293	8,535,086	-	8,535,086
Energy and financial assistance	80,259,252	-	80,259,252	84,674,288	-	84,674,288
Nutrition	1,175,630	-	1,175,630	1,011,053	-	1,011,053
Total program services before depreciation and amortization	148,175,387	-	148,175,387	143,304,669	-	143,304,669
Supporting services						
General and administrative	6,238,370	-	6,238,370	4,576,997	-	4,576,997
Total expenses and losses before depreciation and amortization	154,413,757	-	154,413,757	147,881,666	-	147,881,666
<b>Change in net assets before depreciation and amortization</b>	1,163,748	106,694	1,270,442	6,256,217	(545,690)	5,710,527
Depreciation and amortization expense	3,544,613	-	3,544,613	3,398,629	-	3,398,629
<b>CHANGE IN NET ASSETS</b>	(2,380,865)	106,694	(2,274,171)	2,857,588	(545,690)	2,311,898
<b>Net assets, beginning of year</b>	27,807,149	1,517,860	29,325,009	24,949,561	2,063,550	27,013,111
<b>Net assets, end of year</b>	\$ 25,426,284	\$ 1,624,554	\$ 27,050,838	\$ 27,807,149	\$ 1,517,860	\$ 29,325,009

The accompanying notes are an integral part of these consolidated financial statements.

South Middlesex Opportunity Council, Inc. and Affiliates

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2023

	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
<b>Expenses and losses</b>										
Salaries and wages	\$ 2,263,786	\$ 9,277,403	\$ 6,176,684	\$ 1,435,994	\$ 5,344,129	\$ 3,847,914	\$ 762,069	\$ 29,107,979	\$ 3,418,992	\$ 32,526,971
Employee benefits and payroll taxes	451,421	2,331,851	1,423,815	372,357	1,021,099	888,936	214,360	6,703,839	855,634	7,559,473
Total salaries and related expenses	2,715,207	11,609,254	7,600,499	1,808,351	6,365,228	4,736,850	976,429	35,811,818	4,274,626	40,086,444
Client assistance	-	4,568,619	2,600	10,979	353,267	63,067,367	-	68,002,832	11,296	68,014,128
Professional fees and contracted services	89,693	2,967,781	1,690,381	15,701	193,462	652,554	-	5,609,572	936,076	6,545,648
Occupancy	1,604,431	6,511,311	1,571,275	125,816	1,306,416	437,359	139,957	11,696,565	155,991	11,852,556
Equipment expenses	53,143	451,472	166,887	5,805	89,097	339,422	4,385	1,110,211	135,468	1,245,679
Dietary	13,761	467,742	409,616	3,572	161,201	672,998	154	1,729,044	15,272	1,744,316
Donated goods and services	-	897,345	237,100	-	12,723	-	-	1,147,168	-	1,147,168
Transportation	207,808	233,434	199,138	24,480	77,977	82,382	20	825,239	6,990	832,229
Supplies	1,151,995	5,063,631	377,983	135,251	134,532	9,601,841	24,111	16,489,344	483,647	16,972,991
Telephone	130,385	229,037	52,889	12,121	105,013	46,309	15,380	591,134	37,182	628,316
Insurance	847,470	244,854	148,546	14,789	133,910	71,106	15,094	1,475,769	73,384	1,549,153
Advertising	250	2,013	-	361	8,998	38,920	-	50,542	8,638	59,180
Training	-	47,489	32,371	22,229	12,106	487,992	-	602,187	24,386	626,573
Interest expense	2,421,856	18,282	-	-	5,433	7,899	-	2,453,470	901	2,454,371
Bad debt expense	143,538	19,252	20,791	150	324,930	13,346	100	522,107	-	522,107
Other	55	788	-	-	-	57	-	900	66,450	67,350
Fundraising	-	51,841	-	2,794	-	2,850	-	57,485	8,063	65,548
Expenses and losses before depreciation and amortization	9,379,592	33,384,145	12,510,076	2,182,399	9,284,293	80,259,252	1,175,630	148,175,387	6,238,370	154,413,757
Depreciation and amortization	3,285,056	137,069	-	-	-	-	-	3,422,125	122,488	3,544,613
Total expenses	\$ 12,664,648	\$ 33,521,214	\$ 12,510,076	\$ 2,182,399	\$ 9,284,293	\$ 80,259,252	\$ 1,175,630	\$ 151,597,512	\$ 6,360,858	\$ 157,958,370

The accompanying notes are an integral part of this consolidated financial statement.

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
<b>Expenses and losses</b>										
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	209,387	387,136	-	4,825,971	854,385	5,680,356
Occupancy	927,147	5,744,961	1,250,391	108,222	1,140,602	428,444	133,225	9,732,992	158,762	9,891,754
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	4,298,881	23,607	8,652,738	22,325	8,675,063
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	418,214	128	491,448	6,686	498,134
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
Fundraising	-	-	-	-	-	-	-	-	41,031	41,031
Other	164,382	2,242	-	1,000	6	923	-	168,553	4,227	172,780
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

The accompanying notes are an integral part of this consolidated financial statement.



**South Middlesex Opportunity Council, Inc. and Affiliates**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended June 30,

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,274,171)	\$ 2,311,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,544,613	3,398,629
Gains on sale/disposal of property	(339,521)	(426,392)
(Gain) loss on investments	(36,157)	65,599
Changes in:		
Accounts receivable	(2,923,587)	(1,730,998)
Prepaid expenses and other assets	385,347	(274,470)
Accounts payable	1,697,386	463,462
Accrued expenses and other liabilities	1,079,184	(575,775)
Refundable advances	289,022	(846,640)
Home modification loan program pool payable	137,528	815,738
Net cash provided by operating activities	1,559,644	3,201,051
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(3,854,971)	(4,583,136)
Proceeds from sale of property and equipment	494,101	965,629
Interest earned on certificates of deposit	(1,983)	(2,203)
Purchases of investments	(13,616)	(16,449)
Net cash used in investing activities	(3,376,469)	(3,636,159)
<b>Cash flows from financing activities:</b>		
Proceeds from obligations under finance leases	132,565	-
Repayment of obligations under finance/capital leases	(153,052)	(121,651)
Proceeds from mortgage notes payable	-	1,659,500
Repayment of mortgage notes payable	(1,400,480)	(3,032,051)
Net drawdowns from (repayments on) revolving line of credit	1,837,354	(43,084)
Mortgage acquisition costs incurred	-	(113,154)
Net cash provided by (used in) financing activities	416,387	(1,650,440)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,400,438)	(2,085,548)
<b>Cash, cash equivalents and restricted cash, beginning of year</b>	17,980,378	20,065,926
<b>Cash, cash equivalents and restricted cash, end of year</b>	<b>\$ 16,579,940</b>	<b>\$ 17,980,378</b>
Cash and cash equivalents	\$ 12,804,528	\$ 14,254,537
Restricted cash	556,832	644,789
Restricted cash, Home modification program	3,218,580	3,081,052
Total cash, cash equivalents and restricted cash	<b>\$ 16,579,940</b>	<b>\$ 17,980,378</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	\$ 2,522,645	\$ 2,523,232
Construction in progress costs incurred remaining in accounts payable	\$ 123,641	\$ 898,846

The accompanying notes are an integral part of these consolidated financial statements.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**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 ("US GAAP"), 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.

***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.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

***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 \$3,142,693 and \$2,656,563 at June 30, 2023 and 2022, 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.

***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.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

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.

***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:

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 - CONTINUED**

**June 30, 2023 and 2022**

***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 recognized \$133.6 million and \$129.5 million of revenue from non-exchange conditional grants and contracts during the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 the Organization had \$10.5 million of conditional grants and contracts not recognized as revenue in the consolidated statements of activities that will be recognized as revenue in future years as costs are incurred. 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.

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.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

The Organization's in-kind revenue and expense from donations are summarized for the years ended June 30, 2023 and 2022 as follows:

	2023	2022
Contributions of nonfinancial assets	\$ 1,147,169	\$ 1,019,035
In-kind expenses	\$ 289,555	\$ 321,812
Professional services		
Food	775,412	681,023
Donated facilities	82,202	16,200
Total expenses	\$ 1,147,169	\$ 1,019,035

All contributed nonfinancial services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Contributed services were valued at the estimated fair market value for similar services provided, using current rates of other skilled professionals.

Contributed food was valued using the USDA average per pound value of foods. These donations are weighed upon receipt and the value per pound is recorded.

Donated facilities are valued using the estimated fair market value per square foot for similar program spaces.

***Investment Return***

Net investment return is included in other income in the accompanying consolidated statements of activities, and 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 US GAAP 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.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

***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.

***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***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). This guidance requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendment is effective for annual reporting periods beginning after December 15, 2021 (fiscal year 2023). Management adopted this standard in fiscal year 2023. The adoption of this standard did not have a material impact on the consolidated financial statements. In adopting Accounting Standards Codification ("ASC") 842, the Organization elected to use practical expedients, including but not limited to, not reassessing past lease and easement accounting, and not recording assets or liabilities for leases with terms of one year or less.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, to update its guidance on recognition and measurement of financial assets and liabilities, and replace the incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Organization is currently evaluating the impact of adopting ASU 2016-13 on the Organization's consolidated financial position, results of operations and statement of cash flows.

***Reclassifications***

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

***Subsequent Events***

The Organization evaluated subsequent events through December 14, 2023, the date the consolidated financial statements were available to be issued.

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**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, 2023 and 2022.

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:

	2023	2022
Cash and cash equivalents	\$ 12,804,528	\$ 14,254,537
Certificates of deposit	2,337,774	2,335,791
Short-term accounts receivable	15,083,263	12,645,806
Investments	560,965	511,192
	\$ 30,786,530	\$ 29,747,326

**NOTE 3 - RELATED PARTY TRANSACTIONS**

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 \$5,568,700 and \$806,000 during 2023 and 2022, 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:

	2023	2022
Cash and cash equivalents	\$ 30,202	\$ 31,766
Exchange traded products	13,576	11,246
Equity securities	330,296	302,654
Debt securities	186,891	165,526
	\$ 560,965	\$ 511,192

Investment gains (losses) were \$36,157 and \$(65,599) for the years ended June 30, 2023 and 2022, respectively, and are included in other income.



**South Middlesex Opportunity Council, Inc. and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

Following is a summary as of June 30:

	2023	2022
Land	\$ 12,882,464	\$ 12,900,521
Buildings and building improvements	108,733,994	103,410,984
Leasehold improvements	2,554,170	2,554,170
Furnishings and equipment	4,149,667	3,981,134
Motor vehicles	1,338,394	1,111,429
Construction in progress	3,697,234	3,347,089
	133,355,923	127,305,327
Less: accumulated depreciation and amortization	41,743,122	38,602,505
	<b>\$ 91,612,801</b>	<b>\$ 88,702,822</b>

Construction commitments amounted to approximately \$776,000 and \$3,000,000 as of June 30, 2023 and 2022, respectively.

**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, 2024 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 8.50% and 5.00% at June 30, 2023 and 2022, 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 microloan 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:

	2023	2022
Revolving line of credit	\$ 1,938,659	\$ -
SMOC Financial services microloan program	340,108	441,413
	<b>\$ 2,278,767</b>	<b>\$ 441,413</b>

**South Middlesex Opportunity Council, Inc. and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

**NOTE 7 - BONDS AND MORTGAGE NOTES PAYABLE**

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

	2023	2022
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 2023 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.	\$ 56,991,759	\$ 58,392,954
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.	22,085,296	22,085,296
Total mortgage notes payable	79,077,055	80,478,250
Less: mortgage acquisition costs	(3,428,726)	(3,429,441)
Plus: accumulated amortization	2,164,413	1,973,413
Total	\$ 77,812,742	\$ 79,022,222

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

	Total	Balloon Payments	Annual Payments
2024	\$ 1,987,394	\$ 1,780,255	\$ 207,139
2025	1,787,626	1,594,492	193,134
2026	1,528,041	1,325,892	202,149
2027	2,183,639	1,988,697	194,942
2028	2,337,392	2,137,438	199,954
Thereafter	69,252,963	66,451,728	2,801,235
	\$ 79,077,055	\$ 75,278,502	\$ 3,798,553

**NOTE 8 - OBLIGATIONS UNDER FINANCE/CAPITAL LEASES**

The Organization leased motor vehicles under leases that expire at various times through 2028. The liabilities under capital/finance leases have been recorded at the present value of the minimum lease payments. The assets are amortized over their estimated lives.

The Organization had \$767,406 and \$745,919 of gross property under finance/capital lease agreements as of June 30, 2023 and 2022, respectively. Accumulated depreciation on these assets was \$395,413 and \$564,658 as of June 30, 2023 and 2022, respectively.

**South Middlesex Opportunity Council, Inc. and Affiliates**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

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

2024		\$	123,188
2025			90,986
2026			51,002
2027			30,501
2028			11,539
			11,539
		\$	307,216

**NOTE 9 - OPERATING LEASES**

The Organization leases facilities under tenant-at-will and under multi-year operating lease agreements. Total lease expense was \$3,834,391 and \$3,304,703 for the years ended June 30, 2023 and 2022, respectively, which is included in occupancy expenses and equipment rental expenses.

Multi-year lease agreements have a ROU value of \$2,348,252 as of June 30, 2023, which is included in property, plant and equipment in the consolidated statements of financial position. Lease commitments totaling \$2,348,252 under these agreements are included in lease liabilities at June 30, 2023 in the consolidated statements of financial position.

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

2024		\$	1,358,145
2025			941,383
2026			48,725
			48,725
		\$	2,348,253

**NOTE 10 - NET ASSETS**

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

	2023	2022
Operating - undesignated	\$ 14,677,294	\$ 18,748,545
Net investment in property and equipment	10,748,990	9,058,604
Total net assets without donor restrictions	\$ 25,426,284	\$ 27,807,149

**South Middlesex Opportunity Council, Inc. and Affiliates**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023 and 2022**

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

	2023	2022
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	1,070,479	996,747
Grant in support of equipment and capital projects	168,475	135,513
Total	\$ 1,624,554	\$ 1,517,860

**NOTE 11 - RETIREMENT PLAN**

The Organization has a qualified tax deferred annuity plan as described in Internal Revenue Service (“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 \$248,427 and \$236,891 for the years ended June 30, 2023 and 2022, respectively.

**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.