

VETERANS INC.
and Affiliate

FINANCIAL STATEMENTS
June 30, 2014

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Hurley, O'Neill & Company, P.C.
Certified Public Accountants

J. Thomas Hurley, C.P.A.

Gene O'Neill, C.P.A.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Veterans Inc.
Worcester, MA

We have audited the accompanying combined financial statements of Veterans Inc., (a not-for-profit organization) and affiliate, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Veterans Inc., as of June 30, 2014, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Veterans Inc.'s basic financial statements. The supplemental information presented on pages 16 through 21 is presented for purposes of additional analysis and are not a required part of the basic financial statements

The supplemental information presented on pages 16 through 21 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information presented on pages 16 through 21 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplemental information presented on pages 16 through 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited Veterans Inc.'s June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have issued our report dated November 21, 2014 on our consideration of Veterans Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.



Quincy, Massachusetts
November 21, 2014

VETERANS INC. AND AFFILIATE

STATEMENTS OF FINANCIAL POSITION
June 30, 2014, with summarized comparative totals for 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 458,647	\$ 501,824
Investments	94,128	96,730
Accounts receivable, program services	549,610	474,610
Grants receivable - Note 13	52,552	-
Prepaid expenses and other current assets	<u>112,636</u>	<u>78,280</u>
Total Current Assets	<u>1,267,573</u>	<u>1,151,444</u>
Non Current Assets:		
Capital assets, net of accumulated depreciation - Note 5	<u>8,564,595</u>	<u>6,898,678</u>
Total Non Current Assets	<u>8,564,595</u>	<u>6,898,678</u>
TOTAL ASSETS	<u><u>\$ 9,832,168</u></u>	<u><u>\$ 8,050,122</u></u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities:		
Current portion long-term debt - Note 8	\$ 53,404	\$ 50,859
Accounts payable	126,188	306,294
Accrued expenses and other current liabilities	<u>490,440</u>	<u>458,309</u>
Total Current Liabilities	<u>670,032</u>	<u>815,462</u>
Non Current Liabilities:		
Long-term debt - Note 8	<u>1,964,134</u>	<u>2,017,370</u>
Total Non Current Liabilities	<u>1,964,134</u>	<u>2,017,370</u>
TOTAL LIABILITIES	<u>2,634,166</u>	<u>2,832,832</u>
Net Assets:		
Unrestricted	6,850,259	4,936,180
Temporarily restricted - Note 12	<u>347,743</u>	<u>281,110</u>
TOTAL NET ASSETS	<u>7,198,002</u>	<u>5,217,290</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,832,168</u></u>	<u><u>\$ 8,050,122</u></u>

VETERANS INC. AND AFFILIATE

STATEMENTS OF ACTIVITIES

For the year ended June 30, 2014, with summarized comparative totals for 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2013</u>
REVENUES AND SUPPORT				
Grants and other contributions	\$ 686,265	\$ 110,142	\$ 796,407	\$ 1,263,104
Capital acquisition and construction grants	1,202,381	209,041	1,411,422	361,636
Net assets released from restrictions	252,550	(252,550)	-	-
In-kind contributions	1,578,109	-	1,578,109	568,581
Program service fees	7,262,881	-	7,262,881	5,770,597
Investment and miscellaneous revenue	<u>15,924</u>	<u>-</u>	<u>15,924</u>	<u>8,254</u>
TOTAL REVENUES AND SUPPORT	<u>10,998,110</u>	<u>66,633</u>	<u>11,064,743</u>	<u>7,972,172</u>
EXPENSES				
Administration	1,081,221	-	1,081,221	685,233
Fundraising	151,599	-	151,599	252,515
Program Services:				
Supportive housing for veterans	4,314,710	-	4,314,710	4,333,567
Training and employment	1,418,601	-	1,418,601	1,131,897
Outreach	<u>2,117,900</u>	<u>-</u>	<u>2,117,900</u>	<u>1,095,623</u>
TOTAL EXPENSES	<u>9,084,031</u>	<u>-</u>	<u>9,084,031</u>	<u>7,498,835</u>
CHANGES IN NET ASSETS	1,914,079	66,633	1,980,712	473,337
NET ASSETS AT BEGINNING OF YEAR	<u>4,936,180</u>	<u>281,110</u>	<u>5,217,290</u>	<u>4,793,953</u>
ADJUSTMENT TO BEGINNING NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,850,259</u>	<u>\$ 347,743</u>	<u>\$ 7,198,002</u>	<u>\$ 5,217,290</u>

See Accompanying Notes

VETERANS INC. AND AFFILIATE

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2014, with summarized comparative totals for 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,980,712	\$ 473,337
Adjustments to reconcile change In net assets to net cash provided by operating activities:		
Prior year adjustment	-	(50,000)
Donation of capital assets	(703,000)	-
Donation of investments	-	(96,730)
Depreciation	250,307	221,923
Unrealized loss (gain) on investments	2,602	-
(Increase) decrease in accounts receivable	(75,000)	31,626
(Increase) decrease in grants receivable	(52,552)	-
(Increase) decrease in prepaid expenses and other current assets	(34,356)	(9,308)
(Decrease) increase in accounts payable	(180,106)	83,056
(Decrease) increase in accrued expenses and other current liabilities	<u>32,131</u>	<u>105,492</u>
Net cash provided by operating activities	<u>1,220,738</u>	<u>759,396</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets	<u>(1,213,224)</u>	<u>(947,385)</u>
Net cash used in investing activities	<u>(1,213,224)</u>	<u>(947,385)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	44,628
Payments on long-term debt	<u>(50,691)</u>	<u>(139,965)</u>
Net cash provided by (used in) financing activities	<u>(50,691)</u>	<u>(95,337)</u>
Net decrease in cash and cash equivalents	(43,177)	(283,326)
Cash and cash equivalents at beginning of year	<u>501,824</u>	<u>785,150</u>
Cash and cash equivalents at end of year	<u>\$ 458,647</u>	<u>\$ 501,824</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 135,896</u>	<u>\$ 140,028</u>
Debt issued during the year for purchase of capital assets	<u>\$ 402,530</u>	<u>\$ 44,628</u>

VETERANS INC. AND AFFILIATE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014

	<u>SUPPORTIVE SERVICES</u>			<u>PROGRAM SERVICES</u>		
	<u>TOTALS</u>	<u>MANAGEMENT & GENERAL</u>	<u>FUNDRAISING</u>	<u>SUPPORTIVE HOUSING FOR VETERANS</u>	<u>TRAINING & EMPLOYMENT</u>	<u>OUTREACH & SUPPORTIVE SERVICES</u>
Employee Compensation & Related Expenses	\$ 4,828,788	\$ 701,415	\$ 110,393	\$ 1,569,374	\$ 1,172,442	\$ 1,275,164
Occupancy	\$ 876,256	23,675	-	774,542	44,064	33,975
Other Program / Operating Expense	\$ 2,477,838	113,972	828	1,504,723	199,859	658,456
Special Events	\$ 40,378	-	40,378	-	-	-
Direct Administrative Expense	\$ 245,156	64,864	-	27,751	2,236	150,305
Other Expenses	\$ 365,308	151,964	-	213,344	-	-
Depreciation of Buildings and Equipment	<u>\$ 250,307</u>	<u>25,331</u>	<u>-</u>	<u>224,976</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u>\$ 9,084,031</u>	<u>\$ 1,081,221</u>	<u>\$ 151,599</u>	<u>\$ 4,314,710</u>	<u>\$ 1,418,601</u>	<u>\$ 2,117,900</u>

See Accompanying Notes

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 1 – ORGANIZATION

Organization – Veterans Inc. (the Organization) was incorporated in 1990 and is devoted to the care of veterans and their families in need throughout New England. Approximately one third of our nation’s homeless are veterans. It is the Organization’s goal to help veterans re-gain control of their lives and eliminate homelessness among veterans. Veterans Inc. aims to remain a leading provider of services that improve the lives of veterans and their families by providing the highest quality services; and continuing to create new opportunities in the areas of health, employment and housing. The organization’s philosophy is summed up with the phrase “*They were there when we needed them... We must be there now that they need us.*”

Description of Programs - The Organization services have been divided into three programs as follows:

- Supportive Housing Program - The Supportive Housing Program provides the basic human needs of food, clothing and housing to homeless veterans. In addition all participants are afforded medical or substance abuse treatment, transportation assistance and other forms of counseling and support services. Supportive housing is currently offered in six locations, with three locations in Worcester, Massachusetts, one location in Shrewsbury, Massachusetts, one location in Devens, Massachusetts and one location in Bradford, Vermont.
- Employment & Training Program - Veterans Inc.’s nationally recognized Employment & Training Program helps veterans obtain and retain jobs so they can stabilize their lives. Veterans receive job counseling, support services, training, and job placement and retention services. Employment specialists conduct assessments of veterans’ needs, aspirations, employment objectives, and skills and create employment development plans with set, attainable goals. Barriers to employment and prior work history are explored, and a determination made as to what type of training is appropriate. Onsite and offsite training and education are provided by qualified instructors. The program takes into account that success in the workplace often hinges on employees’ ability to successfully manage other areas of their lives. Clients are counseled in Life Skills, Money Management, Stress Management and related areas. Clients also have access to Resume Writing, Mock Interview Training, Dress for Success, and Career Counseling Services. Veterans Inc. offers transportation and child care, further eliminating potential obstacles to job success. Approximately 70% of veterans in the program, who are able to work, obtain jobs.
- Outreach and Supportive Services - The Program serves veterans in the community on an outpatient basis, and offers training, therapeutic group sessions, and individual counseling, benefits counseling and advocacy, employment support, and other support services such as food and clothing. The Program works in collaboration with the Department of Veterans Affairs, including the VA Outpatient Clinic in Worcester, as well as other veterans’ and social service providers. The Program is focused on the removal of barriers that prevent people from receiving critical services. The primary goals of the program are for clients to improve their mental health status and residential stability, increase their skill level or income, and achieve greater self-determination. Support services to veteran families focus on housing stabilization and may include temporary financial assistance to help low-income families obtain or remain in housing.

VETERANS INC. AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(with summarized information for the year ended June 30, 2013)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that will be met either by actions of the Organization or the passage of time. When a restriction expires, net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restriction. The Organization had \$347,743 and \$281,110 in temporarily restricted net assets at June 30, 2014 and 2013, respectively.

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the use of all or part of the income earned from these assets for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2014 and 2013.

B. Principles of Combination

The accounts of Veterans Inc. and Massachusetts Veterans Inc. have been combined in accordance with Statement of Position 94-3. All significant inter-organization transactions and accounts have been eliminated. As of June 30, 2014 and 2013, the Affiliated Organization maintains ownership in mortgaged properties used by the Organization to operate programs and has no employees. The corresponding inter-organization receivable and payable balance was approximately \$29,000.

C. Revenue Recognition

Contributions - Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are received.

Program Service – Revenue arises principally from the provision of shelter, training and counseling under various federal and state contracts. Revenue is recognized as the services are provided.

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Income Taxes

The Organization and Subsidiary are exempt from federal income taxes as Organizations, not as private foundations, formed for charitable purposes under Section 501 (c)(3) of the Internal Revenue Code. Donors may deduct contributions made to the Organization within the Internal Revenue Code regulations.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

E. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and other debt securities that are readily convertible into cash and purchased with original maturities of three months or less.

G. Donated Services and Goods

The Organization receives non-cash donations of materials, facilities and services that are recorded as support and related expense or increase in net assets at the estimated fair value of the good and services received.

H. Inventory

Inventory is stated at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) basis.

VETERANS INC. AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(with summarized information for the year ended June 30, 2013)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

I. Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is estimated from historical performance and projections of trends. In the opinion of management, substantially all of the accounts receivable are considered realizable at the amounts stated in the accompanying statement of combined financial position, and no allowance for doubtful accounts is considered necessary.

J. Capital Assets

Capital assets include property, furniture, and equipment with initial costs that exceed \$10,000 and estimated useful life of more than one year. Capital assets are stated at cost. When assets are disposed of the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. Depreciation is provided for using straight-line or accelerated methods over the following estimated useful lives:

Buildings	40 years
Building Improvements	10 - 39 years
Furniture, Fixtures and Equipment	3 - 7 years

K. Expense Allocation

Expenses directly related to a program are distributed to that program and other expenses are allocated based upon management's estimate of the percentage attributable to each program.

L. Prior Year Financial Information

The combined financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended June 30, 2013, from which the summarized information was derived.

M. Concentration of Credit Risk

The Organization places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. Management monitors the creditworthiness of the institutions with which it does business. The Organization has not experienced any losses in such accounts.

Approximately 19% of the accounts receivable at June 30, 2014 are due from contracts with the Commonwealth of Massachusetts. Approximately 52% of the accounts receivable at June 30, 2014 were due from contracts with the federal government.

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 3 - INVESTMENTS

Investments measured and reported at fair value are classified and disclosed in one of the following hierarchies of measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market – corroborated inputs.

Level 3: Unobservable inputs for the asset or liability and should be used to measure fair value to the extent that relevant observable inputs are not available.

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on recurring basis as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>			
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Equities	<u>\$ 94,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,128</u>
	<u>2013</u>			
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Equities	<u>\$ 96,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,730</u>

NOTE 4 - INVENTORIES

At June 30, 2014 and 2013, donated inventories consisted of the following:

<u>Inventory Class</u>	<u>2014</u>	<u>2013</u>
Clothing	\$ 865	\$ 1,362
Meal Services	2,623	4,729
Feed-A-Vet	<u>13,098</u>	<u>3,805</u>
	<u>\$ 16,586</u>	<u>\$ 9,896</u>

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 5 – CAPITAL ASSETS

The following is a summary of capital assets and accumulated depreciation:

<u>Capital Asset Class</u>	<u>Cost</u>	<u>Life</u>
Buildings and Leasehold Improvements	\$ 6,739,568	10 - 40 years
Land	809,453	
Motor Vehicles	397,385	3 - 7 years
Equipment	337,174	3 - 7 years
Construction in Progress	<u>1,856,628</u>	
Total	10,140,208	
Less Accumulated Depreciation	<u>(1,575,613)</u>	
Net Capital Assets	<u>\$ 8,564,595</u>	

NOTE 6 – CONSTRUCTION COMMITMENTS

At June 30, 2014, the Organization had the following construction projects in progress:

<u>Project</u>	<u>Total Estimated Costs</u>	<u>Costs Through June 30, 2014</u>
Sheridan Street	\$ 77,585	\$ 49,316
Maine	1,328,234	1,251,309
Connecticut	1,119,226	409,702
Shrewsbury	<u>4,828,055</u>	<u>146,301</u>
	<u>\$ 7,353,100</u>	<u>\$ 1,856,628</u>

NOTE 7 – LEASED FACILITIES

The Organization leases a 3-story building in Worcester, MA, from the Commonwealth of Massachusetts for operations and maintaining a veteran's shelter. The Organization and the Commonwealth negotiated a lease agreement that incorporates the fair market rental value for the space less a credit for all past and future leasehold improvements incurred by the Organization (paid for with non-State Aid). The amount of the credit was determined by the Commonwealth and applied to the fair market rent each period. The resulting agreement stipulates a payment of \$100 per month for the next 60 years. During 2014, the Organization purchased this building from the Commonwealth of Massachusetts for \$1. The resulting gain on the transaction has been recorded as an in-kind donation for the year ended June 30, 2014.

In 2002, the Organization entered into a 15-year operating lease with Massachusetts Development Finance Agency for use of 10 condo units and 4 townhouses in Devens, MA. The monthly payment is based on budgeted operating costs and varies annually. Currently the payment is \$3,428 per month.

The Organization also rents additional office space in Maine, Massachusetts, New Hampshire and Rhode Island in order to further its operations in the respective States. Aggregate rental payments for this office space during the year ended June 30, 2014 amounted to \$49,545.

All facility leases have been accounted for as operating leases.

VETERANS INC. AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(with summarized information for the year ended June 30, 2013)

NOTE 8 – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Predevelopment note payable to Community Economic Development Assistance Corporation (CEDAC). Interest only payments, with full principal due at maturity, December 2014	\$ 1,176,000	\$ 1,176,000
Predevelopment note payable to CEDAC. Interest only payments, with full principal due at maturity, June 2020	162,000	162,000
Predevelopment note payable to CEDAC. Interest only payments, with full principal due at maturity, June 2020	133,793	133,793
Loan payable to People's United Bank, initial amount of \$400,000. Payable in monthly installments of \$2,655, including interest at 5%. Collateralized by real property and due at maturity, 10/20/2020	245,980	264,849
Loan payable to People's United Bank, initial amount of \$290,000. Payable in monthly installments of \$2,236, including interest at 6.83%. Collateralized by real property and due at maturity, 6/9/2018	240,126	249,914
Loans payable to Toyota Financial Services, initial aggregate amount of \$84,052. Payable in aggregate monthly installments of \$1,447, including interest which varies from 0% to 1.93%, depending on the loan. All loans are collateralized by underlying vehicle and are due at maturity, February 2017.	49,788	66,926
Loan payable to Ascentium Equipment Finance, initial amount of \$15,872. Payable in monthly installments of \$523, including interest at 11.49%. Collateralized by equipment and due at maturity, 6/1/2016	9,851	14,747
Total debt	\$ 2,017,538	\$ 2,068,229
Less: current portion	53,404	1,226,859
Long-term debt, less current portion	<u>\$ 1,964,134</u>	<u>\$ 841,370</u>

The CEDAC loan in the amount of \$1,176,000 is due within one year, but has been classified as long-term because the Organization has secured a commitment of permanent financing from Massachusetts DHCD. The CEDAC loan will be converted to permanent financing upon closing.

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 8 – LONG-TERM DEBT – (Continued)

Principal payments on the loans for the next five years and thereafter are as follows:

2015	\$	53,404
2016		54,530
2017		49,271
2018		229,996
2019		24,725
Thereafter		<u>1,605,612</u>
Total		<u>\$ 2,017,538</u>

NOTE 9 – FEES FROM GOVERNMENT AGENCIES

Payments for services rendered are based partly on pre-determined rates per unit of service with other reimbursements based upon allowable costs incurred. All reimbursements under various contracts are subject to audit by funding agencies.

In addition, the Commonwealth of Massachusetts has established regulations, which limit the amount of surplus revenue an organization may retain in any year and cumulatively under state unit rate contracts. Specifically, an organization may retain annually a surplus of up to five percent of total revenues attributable to or generated by Commonwealth agreements for the provision of Social Services and a cumulative amount of such surpluses up to a maximum of twenty percent of the organization's prior year's gross revenues derived from Commonwealth purchasing agencies. Any excess revenues above the aforementioned limits are subject to recovery by the Commonwealth. The Organization currently has no unit rate contracts with the Commonwealth of Massachusetts.

NOTE 10 – CONTRIBUTED GOODS AND SERVICES

The Organization receives contributions of services and equipment from various healthcare and private professionals. The services and equipment are made available to residents of the shelter and other clients. The total value of the services received was \$92,900 and \$66,400 for the years ended June 30, 2014 and 2013, respectively.

The Organization also receives donations of food, clothing and durable goods from the general public and other government and private agencies. The total value of the materials donated aggregated \$755,413 and \$440,533 for the years ended June 30, 2014 and 2013, respectively.

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 11 – EMPLOYEE PENSION PLAN

The Organization maintains a qualified contributory pension plan as defined in Internal Revenue Code 403(b) for all full-time employees. There is a matching contribution by the Organization on behalf of the employees that choose to participate. The Organization matches dollar for dollar up to a \$2,000 maximum the amount contributed by the employees. For fiscal years 2014 and 2013 employee contributions totaled \$65,133 and \$50,648, respectively, and employer contributions totaled \$45,199 and \$36,075, respectively.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets balance of \$347,743 include the following: \$209,041 of grant funds received from various donors restricted for the purpose of renovating the Organization's properties, \$120,002 in grant funds restricted to the Outreach and Supportive Services program and \$18,700 in grant funds restricted to the Training and Employment program. As the grants are expended on its intended program, it is released from restriction. In addition, \$455,082 of temporarily restricted net assets were received and expended during the fiscal year. See Note 13 for further detail.

NOTE 13 – FUTURE COMMITMENTS

The Organization received \$455,082 in funds during 2014 that have been reported as grant revenue. The funds received are in the legal form of a forgivable loan. The loan and related documents contain conditional requirements or covenants that the property continue to operate within its intended purpose of the development as described in the loan documents, the property not be sold, assigned, or transferred and that the Organization not default under the deferred forgivable promissory note. Should the Organization fail to comply with the covenants at any time during the compliance period, the grants, at the option of the grantor, would be callable as a noninterest bearing loan. The grant is considered conditional and in accordance with FASB 116 would be reported as deferred revenue until the conditions have been met unless the possibility that the condition will not be met is remote. Since the Organization's charter and not-for-profit exempt function includes the development of housing for veterans, a violation of the conditions of the grant would also jeopardize their not-for-profit status. Management intends to comply with the restrictive covenants of the grants and believes that the possibility that the Organization will not comply is remote.

NOTE 14 – ASSET RETIREMENT OBLIGATIONS

Veterans Inc. currently owns and operates rehabilitated residential properties. Asset retirement obligations must be considered as part of the cost of the asset, including environmental contamination cleanup costs associated with it. These obligations stem from the acquisition, construction, development, or normal operation of a long-lived asset. A company must recognize a liability for an asset retirement obligation in the period in which the obligation meets the definition of a liability and this liability can be reasonably estimated. Management is not aware of any asset retirement obligation pertaining to the property and equipment currently owned.

VETERANS INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

(with summarized information for the year ended June 30, 2013)

NOTE 15 – SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through November 21, 2014 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION

Hurley, O'Neill & Company, P.C.
Certified Public Accountants

J. Thomas Hurley, C.P.A.

Gene O'Neill, C.P.A.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To The Board of Directors
Veterans Inc.
Worcester, MA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Veterans Inc. as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Veterans Inc.'s basic financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Veterans Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Veterans Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Veterans Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Veterans Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Quincy, Massachusetts
November 21, 2014

Hurley, O'Neill & Company, P.C.
Certified Public Accountants

J. Thomas Hurley, C.P.A.

Gene O'Neill, C.P.A.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To The Board of Directors
Veterans Inc.
Worcester, MA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Veterans Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Veterans Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Veterans Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Veterans Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Veterans Inc.'s compliance.

Opinion

In our opinion, Veterans Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Veterans Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Veterans Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Veterans Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Healy & Co., PC

Quincy, Massachusetts
November 21, 2014

VETERANS INC. AND AFFILIATE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

	<u>Major Program</u>	<u>Direct Award</u>	<u>Pass Through Entity</u>	<u>Pass Through Entity Number</u>	<u>CFDA Number</u>	<u>Federal Financial Assistance Received</u>	<u>Total Federal Financial Assistance Expenditures</u>
Department of Veterans Affairs Homeless Providers Grant and Per Diem Program	Yes	Yes	N/A		64.024	\$ 3,700,571	\$ 3,700,571
Department of Labor Homeless Veterans Reintegration Project	Yes	Yes	N/A		17.805	<u>1,316,908</u>	<u>1,316,908</u>
Total Major Programs						<u>5,017,479</u>	<u>5,017,479</u>
Department of Veterans Affairs Supportive Services for Veterans and Families	No	Yes	N/A		64.033	1,657,424	1,657,424
Veterans Affairs Supportive Housing	No	Yes	N/A		64.999	68,469	68,469
Department of Housing and Urban Development Supportive Housing Program	No	No	Commonwealth of MA	WORSUP	14.235	153,769	153,769
Emergency Shelter Program	No	No	City of Worcester		14.231	78,000	78,000
HOME Investments Partnership Program	No	No	City of New Britain		14.239	33,132	33,132
Supportive Housing Program	No	No	Central MA Housing Alliance		14.235	77,151	77,151
Department of Education Rehabilitation Services - Vocational Rehab Grants	No	No	Commonwealth of MA		84.126	8,558	8,558
Department of Homeland Security Emergency Food and Shelter National Board Program	No	Yes	N/A		97.024	3,774	3,774
Department of Agriculture Emergency Food Assistance Program	No	No	Worcester County Food Bank		10.569	<u>29,312</u>	<u>29,312</u>
Total Non Major Programs						<u>2,109,589</u>	<u>2,109,589</u>
Total All Programs						<u>\$ 7,127,068</u>	<u>\$ 7,127,068</u>

VETERANS INC. AND AFFILIATE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Veterans Inc. under programs of the federal government for year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Veterans Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Veterans Inc..

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

VETERANS INC. AND AFFILIATE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014**

The audits for the years ended June 30, 2014 and 2013 disclosed no material instances of noncompliance with laws and regulations, material weaknesses in internal control structure or questioned costs.

I. Summary of Audit Results

1. Type of report issued on the financial statements - Unmodified
2. The report on internal control over financial reporting did not disclose any material weaknesses.
3. The report on internal control over financial reporting did not disclose any significant deficiencies.
4. The report on compliance did not disclose instances of non-compliance material to the financial statements.
5. Type of report issued on compliance for major programs - Unmodified
6. The report on internal control over major programs did not disclose any material weaknesses.
7. The report on internal control over major programs did not disclose any significant deficiencies.
8. There are no audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a).
9. Major federal assistance programs are identified in the Schedule of Expenditures of Federal Awards. The dollar threshold to distinguish type A and type B programs was \$300,000.
10. The following program was tested as a major program in accordance with OMB A-133:

CFDA Number

Homeless Providers Grant and Per Diem Program	64.024
Homeless Veterans Reintegration Project	17.805

11. The auditee qualified as a low-risk auditee.
12. The prior audit report did not disclose any findings or questioned costs.

II. Findings related to the Financial Statements which are required to be reported in accordance with GAGAS - NONE

III. Findings and Questioned Costs for Federal Awards which shall include Audit Findings as defined in paragraph 510(a) - NONE