

UNITED SOUTH END SETTLEMENTS

FINANCIAL STATEMENTS

JUNE 30, 2013

UNITED SOUTH END SETTLEMENTS

Financial Statements

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
United South End Settlements
Boston, Massachusetts

Report on Financial Statements

We have audited the accompanying financial statements of United South End Settlements ("USES") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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; 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 an opinion on the 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of USES as of June 30, 2013 and 2012, and the respective changes in net assets and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report November 5, 2013, on our consideration of USES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the USES' internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 5, 2013

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30, 2013 and 2012

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30,

Assets

	2013			2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:							
Cash and equivalents	-	\$ 248,105	-	\$ 164,813	\$ 286,700	-	\$ 451,513
Fiscal agent restricted cash	27,688	-	-	25,112	-	-	25,112
Accounts receivable	146,273	-	-	129,499	-	-	129,499
Pledges receivable	59,600	-	-	5,500	-	-	5,500
Prepaid expenses	<u>156,266</u>	-	-	<u>165,593</u>	-	-	<u>165,593</u>
Total Current Assets	<u>389,827</u>	<u>248,105</u>	-	<u>490,517</u>	<u>286,700</u>	-	<u>777,217</u>
Property and Equipment, net	<u>1,828,526</u>	-	-	<u>2,070,294</u>	-	-	<u>2,070,294</u>
Other Assets:							
Investments	2,975,035	-	76,361	2,789,770	-	76,361	2,866,131
Senior home repair loans receivable	-	<u>2,628</u>	-	-	<u>2,628</u>	-	<u>2,628</u>
Total Other Assets	<u>2,975,035</u>	<u>2,628</u>	<u>76,361</u>	<u>2,789,770</u>	<u>2,628</u>	<u>76,361</u>	<u>2,868,759</u>
Total Assets	<u>\$ 5,193,388</u>	<u>\$ 250,733</u>	<u>\$ 76,361</u>	<u>\$ 5,350,581</u>	<u>\$ 289,328</u>	<u>\$ 76,361</u>	<u>\$ 5,716,270</u>

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

Liabilities and Net Assets

	2013		2012					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Liabilities:								
Current portion of long-term debt	\$ 18,628	\$ -	\$ -	\$ 18,628	\$ 17,810	\$ -	\$ -	\$ 17,810
Accounts payable	199,262	-	-	199,262	131,839	-	-	131,839
Current portion of deferred compensation	1,860	-	-	1,860	1,860	-	-	1,860
Fiscal agent funds	27,688	-	-	27,688	25,112	-	-	25,112
Total Current Liabilities	247,438	-	-	247,438	176,621	-	-	176,621
Non-Current Liabilities:								
Long-term debt, net of current portion	1,681	-	-	1,681	20,292	-	-	20,292
Deferred compensation, net of current portion	13,222	-	-	13,222	15,085	-	-	15,085
Total Non-Current Liabilities	14,903	-	-	14,903	35,377	-	-	35,377
Total Liabilities	262,341	-	-	262,341	211,998	-	-	211,998
Net Assets:								
Unrestricted:								
Operating	114,436	-	-	114,436	(11,235)	-	-	(11,235)
Property and equipment	1,808,217	-	-	1,808,217	2,032,192	-	-	2,032,192
Special purpose	387,506	-	-	387,506	343,995	-	-	343,995
Board designated endowment fund	2,620,888	-	-	2,620,888	2,806,652	-	-	2,806,652
Depreciation of permanently restricted endowment	-	-	-	-	(33,021)	-	-	(33,021)
Total Unrestricted	4,931,047	-	-	4,931,047	5,138,583	-	-	5,138,583
Restricted net assets	-	250,733	76,361	327,094	-	289,328	76,361	365,689
Total Net Assets	4,931,047	250,733	76,361	5,258,141	5,138,583	289,328	76,361	5,504,272
Total Liabilities and Net Assets	\$ 5,193,388	\$ 250,733	\$ 76,361	\$ 5,520,482	\$ 5,350,581	\$ 289,328	\$ 76,361	\$ 5,716,270

UNITED SOUTH END SETTLEMENTS

Statements of Activities and Changes in Net Assets

For the Years Ended June 30,

	2013			2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Operating Revenues:						
Program service contracts and fees	\$ 2,080,753	-	\$ -	\$ 1,801,572	-	-
Contributions and grants	649,016	509,131	-	425,365	585,610	-
Rental income	190,124	-	-	190,520	-	-
Investment return designated for operations	128,059	-	-	209,445	-	-
United Way allocation	102,033	-	-	103,097	-	-
Miscellaneous	81	-	-	4,355	-	-
Donated goods and services	29,247	-	-	62,014	-	-
Net assets released from purpose restrictions	547,726	(547,726)	-	549,107	(549,107)	-
Total Operating Revenues	<u>3,727,039</u>	<u>(38,595)</u>	<u>3,688,444</u>	<u>3,345,475</u>	<u>36,503</u>	<u>-</u>
Operating Expenses:						
Program Services:						
Child development	825,942	-	-	830,035	-	-
Education and training	621,318	-	-	486,441	-	-
Camp Hale	307,238	-	-	348,736	-	-
Afterschool program	301,541	-	-	343,330	-	-
Children's Art Center	283,665	-	-	244,834	-	-
Senior services	263,232	-	-	277,101	-	-
Community center	347,675	-	-	447,883	-	-
Children Thrive in 5	151,382	-	-	66,654	-	-
Technology education	110,703	-	-	131,748	-	-
Total Program Services	<u>3,212,696</u>	<u>-</u>	<u>3,212,696</u>	<u>3,176,763</u>	<u>-</u>	<u>3,176,763</u>
Supporting Services:						
General and administrative	568,421	-	-	548,770	-	-
Planning and fundraising	328,718	-	-	359,865	-	-
Total Supporting Services	<u>897,139</u>	<u>-</u>	<u>897,139</u>	<u>908,635</u>	<u>-</u>	<u>908,635</u>
Total Operating Expenses	<u>4,109,835</u>	<u>-</u>	<u>4,109,835</u>	<u>4,085,398</u>	<u>-</u>	<u>4,085,398</u>
Income (less) before other non-operating activities	(382,796)	(38,595)	(421,391)	(739,922)	36,503	(703,419)
Non-Operating Activities:						
Net realized and unrealized gains	300,135	-	-	49,847	-	-
Investment income	3,184	-	-	15,465	-	-
Investment return designated for operations	(128,059)	-	-	(209,445)	-	-
Total Non-Operating Activities	<u>175,260</u>	<u>-</u>	<u>175,260</u>	<u>(144,133)</u>	<u>-</u>	<u>(144,133)</u>
Changes in Net Assets	<u>(207,536)</u>	<u>(38,595)</u>	<u>(246,131)</u>	<u>(884,055)</u>	<u>36,503</u>	<u>-</u>
Net Assets, Beginning of Year	5,138,583	289,328	5,504,272	6,022,638	252,825	76,361
Net Assets, End of Year	<u>\$ 4,931,047</u>	<u>\$ 250,733</u>	<u>\$ 5,258,141</u>	<u>\$ 5,138,583</u>	<u>\$ 289,328</u>	<u>\$ 76,361</u>

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

UNITED SOUTH END SETTLEMENTS

Statements of Cash Flows

For the Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (246,131)	\$ (847,552)
Adjustments to reconcile changes in net assets to net cash applied to operating activities:		
Depreciation	324,871	357,604
Unrealized (gains) losses on investments	(300,135)	702,889
Realized gains on investments	-	(752,736)
Bad debts	1,300	-
Changes in operating assets and liabilities:		
Accounts receivable	(18,074)	80,249
Pledges receivable	(54,100)	6,150
Prepaid expenses	9,327	(10,359)
Senior home repair loans receivable	-	1,600
Accounts payable	67,423	53,684
Deferred compensation	<u>(1,863)</u>	<u>(4,050)</u>
Net Cash Applied to Operating Activities	<u>(217,382)</u>	<u>(412,521)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(83,103)	(100,015)
Purchase of investments	(301,194)	(2,494,191)
Proceeds from sale of investments	<u>416,064</u>	<u>3,244,158</u>
Net Cash Provided by Investing Activities	<u>31,767</u>	<u>649,952</u>
Cash Flows from Financing Activities:		
Payments on note payable	-	(400,000)
Principal payments of long-term debt	<u>(17,793)</u>	<u>(15,600)</u>
Net Cash Applied to Financing Activities	<u>(17,793)</u>	<u>(415,600)</u>
Net Decrease in Cash and Equivalents	(203,408)	(178,169)
Cash and Equivalents, Beginning of Year	<u>451,513</u>	<u>629,682</u>
Cash and Equivalents, End of Year	\$ <u>248,105</u>	\$ <u>451,513</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,875</u>	<u>\$ 8,761</u>

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

UNITED SOUTH END SETTLEMENTS

Statement of Functional Expenses

For the Year Ended June 30, 2013

	PROGRAM SERVICES										SUPPORTING SERVICES		
	Child Development	Afterschool Program	Camp Hale	Community Center	Children's Art Center	Senior Services	Education and Training	Technology Education	Children Thrive in 5	Total Program Services	General Administrative	Facilities	Planning and Fundraising
Salaries	\$ 507,735	\$ 143,615	\$ 108,310	\$ 43,669	\$ 129,520	\$ 148,212	\$ 355,537	\$ 61,112	\$ 47,801	\$ 1,545,511	\$ 236,877	\$ 61,078	\$ 165,706
Employee benefits and payroll taxes	104,311	29,639	29,094	9,653	26,822	30,366	74,933	13,110	3,722	321,650	18,355	12,889	35,673
Total Salaries and Related Costs	612,046	173,254	137,404	53,322	156,342	178,578	430,470	74,222	51,523	1,867,161	255,232	73,967	201,379
Consultants/contract services	6,587	345	34,181	-	5,138	26,203	43,750	4,618	76,975	197,797	197,782	132,124	16,064
Depreciation	-	-	-	-	-	-	-	-	-	-	-	324,871	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	163,128	-
Food	62,251	21,609	40,650	-	8,120	2,578	695	1,057	9,072	146,032	4,220	-	1,065
Program expenses	10,301	7,422	12,515	195	18,649	12,111	10,143	1,028	9,349	81,713	-	-	-
Insurance	1,661	1,413	5,015	-	556	-	-	-	-	8,645	1,325	66,645	-
Maintenance	-	-	-	-	-	-	-	-	-	-	-	71,444	-
Event	-	-	-	-	2,205	-	-	-	-	2,205	-	-	55,315
Dues and training	4,529	3,775	12,886	495	1,466	654	2,330	663	985	27,783	15,717	3,333	7,132
Reproduction	3,870	2,931	1,639	2,077	2,025	1,669	9,058	4,021	47	27,337	3,729	608	924
Office supplies and postage	3,029	1,510	1,810	49	2,251	1,078	2,021	242	640	12,630	5,045	538	8,040
Printing and public relations	-	80	291	-	2,495	16	27	-	263	3,172	637	-	22,021
Vehicle rent and maintenance	-	1,768	19,483	-	-	-	-	-	735	21,986	-	-	-
Telephone	1,579	666	2,614	777	565	2,513	4,008	771	271	13,764	3,819	1,202	2,203
Household supplies	-	94	3,047	-	-	-	-	-	-	3,141	-	17,664	-
Interest and bank fees	-	-	-	-	-	-	-	-	-	-	19,090	5	-
Equipment and furnishings	57	19	121	-	14	1,189	1,710	-	835	3,945	2,282	751	-
Advertising	1,423	108	909	-	124	714	173	-	17	3,468	-	95	2,755
Travel	31	162	217	-	-	-	2,580	227	670	3,887	1,205	114	373
Bad debt	-	-	-	-	-	-	-	-	-	-	1,300	-	-
Miscellaneous	-	-	-	-	-	26	-	-	-	26	-	-	-
Total Expenses Before Allocations	707,364	215,156	272,782	56,915	199,950	227,329	506,965	86,849	151,382	2,424,692	511,383	856,489	317,271
Facilities allocation	118,578	86,385	34,456	290,760	83,715	35,903	114,353	23,854	-	788,004	57,038	(856,489)	11,447
Total Expenses	\$ 825,942	\$ 301,541	\$ 307,238	\$ 347,675	\$ 283,665	\$ 263,232	\$ 621,318	\$ 110,703	\$ 151,382	\$ 3,212,696	\$ 568,421	\$ -	\$ 328,718

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

UNITED SOUTH END SETTLEMENTS

Statement of Functional Expenses

For the Year Ended June 30, 2012

	PROGRAM SERVICES										SUPPORTING SERVICES		
	Child Development	Afterschool Program	Camp Hale	Community Center	Senior Services	Education and Training	Technology Education	Children's Art Center	Children Thrive in 5	Total Program Services	General and Administrative	Facilities	Planning and Fundraising
Salaries	\$ 508,497	\$ 170,813	\$ 107,196	\$ 56,907	\$ 132,256	\$ 258,753	\$ 55,820	\$ 107,887	\$ 410	\$ 1,398,539	\$ 239,142	\$ 54,068	\$ 177,506
Employee benefits and payroll taxes	186,341	36,393	28,937	12,316	29,594	50,927	12,105	21,093	34	297,740	11,908	14,375	38,054
Total Salaries and Related Costs	614,838	207,206	136,133	69,223	161,850	309,680	67,925	128,980	444	1,696,279	251,050	68,443	215,560
Consultants/contract services	15,226	15	37,354	473	44,287	46,211	-	14,879	42,716	201,161	175,175	164,763	8,159
Depreciation	-	-	-	-	-	-	-	-	-	-	-	357,604	-
Utilities	-	184	-	-	-	-	-	-	-	184	-	174,111	-
Food	65,836	20,401	47,864	24	6,004	1,254	707	6,234	4,633	152,957	2,134	-	3,328
Program expenses	23,736	9,473	13,015	1,607	11,424	3,971	28,034	7,222	15,743	114,225	-	-	516
Insurance	245	197	6,483	-	-	-	-	155	-	7,080	6,297	72,218	-
Maintenance	-	-	6,028	-	760	-	-	-	-	6,788	-	66,516	-
Event	-	-	-	-	-	-	-	2,909	-	2,909	-	-	62,738
Dues and training	7,916	3,256	7,440	3,890	156	3,479	2,111	1,233	2,518	31,998	4,227	945	7,791
Reproduction	1,302	2,456	211	2,849	1,326	19,984	1,951	153	-	30,232	1,816	4,216	1,890
Printing and public relations	80	348	246	-	306	555	-	2,505	600	4,640	5,152	490	25,758
Telephone	2,000	1,000	6,055	1,100	3,299	5,527	1,100	469	-	20,550	12,103	-	2,834
Interest and bank fees	-	-	-	-	-	-	-	-	-	-	29,274	-	-
Vehicle rent and maintenance	228	660	27,088	-	-	-	-	-	-	27,976	-	-	-
Household supplies	-	83	4,396	-	-	-	-	-	-	4,479	-	20,138	-
Office supplies and postage	790	772	1,351	426	493	1,293	336	1,576	-	7,038	3,390	61	11,605
Equipment and furnishings	502	137	450	-	2,932	273	189	228	-	4,711	2,395	216	560
Advertising	340	-	139	142	23	-	-	130	-	775	952	70	2,622
Travel	-	148	1,433	-	-	2,215	-	-	-	3,797	239	-	262
Total Expenses Before Allocations	733,041	246,336	295,686	79,734	232,860	394,442	102,353	166,673	66,654	2,317,779	494,204	929,791	343,623
Facilities allocation	96,994	96,994	53,050	368,149	44,241	91,999	29,395	78,161	-	858,983	54,566	(929,791)	16,242
Total Expenses	\$ 830,035	\$ 343,330	\$ 348,736	\$ 447,883	\$ 277,101	\$ 486,441	\$ 131,748	\$ 244,834	\$ 66,654	\$ 3,176,762	\$ 548,770	\$ -	\$ 359,865

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

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 - **Summary of Significant Accounting Policies**

Operations

United South End Settlements (“USES”) is a nonprofit corporation providing social services and other community services for residents in the South End/Lower Roxbury area of Boston.

USES prepares its financial statements on the accrual basis of accounting in accordance with the guidelines for non-profit organizations established by the Financial Accounting Standards Board (FASB).

The statement of activities reports the change in net position from operating and non-operating activities. Amounts approved by the Board of Directors to be used in operations are reclassified from non-operating investment income to operating investment income.

Revenue Recognition and Expense Allocation

Revenues from program service contracts and fees are recorded as the services are performed. Contributions and grants and United Way allocations committed or received are recorded as unrestricted or temporarily restricted revenues, depending on the existence and/or nature of any donor restrictions. All other income is recorded as revenue when earned.

Contributions and grants that are restricted by the donor are reported as an increase in temporarily restricted net position. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the statements of activities and changes in net position as net position released from restrictions.

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Advertising

USES records advertising costs as they are incurred.

Cash and Equivalents

USES considers investments with an original maturity of three months or less at date of purchase to be cash equivalents.

Investments

USES records its investments at market value. Interest on investments are recognized when earned and dividends are recognized on the date of receipt. Gains and losses are recognized as realized or based on market value changes during the period.

Accounts Receivable

Accounts receivable are periodically evaluated for collectability based on past history with customers. Management has reviewed accounts receivable as of June 30, 2013 and 2012 and considered the balances to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Pledges Receivable

Pledges receivable at June 30, 2013 and 2012 consist of contributions committed to various programs. Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2013 are expected to be collected in full by fiscal year 2014.

Prepaid Expenses

Prepaid expenses consist of payments related to insurance and an unemployment services trust fund for the years ended June 30, 2013 and 2012.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 - **Summary of Significant Accounting Policies - Continued**

Property and Equipment and Depreciation

Property and equipment are recorded at cost when purchased or at fair market value at the time of donation. All fixed asset purchases over the \$3,000 threshold are capitalized in accordance with USES' capitalization policy, while repairs and maintenance are expensed as they are incurred. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Building improvements	5-20 years
Equipment	5-10 years
Furniture and fixtures	5-10 years
Vehicle	5 years

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by USES. USES has grouped its unrestricted net assets into the following categories:

Operating - These net assets represent resources available for operations and bear no external restrictions.

Property and Equipment - These net assets represent resources available and amounts expended for property and equipment, net of related debt.

Special Purpose:

Charlotte Dempsey Fund Net Assets

These net assets are an accumulation of individual contributions made in memory of a previous director of the Children's Art Center. All expenditures from these net assets require approval from the Board of Directors.

Sanders Fund Net Assets

These net assets are Board designated for staff and family emergencies. All expenditures from these net assets require approval of the Board of Directors.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 - **Summary of Significant Accounting Policies - Continued**

Unrestricted Net Assets - Continued

Pamela Smith Fund Net Assets

These net assets function as a Board Designated Endowment Fund. Income is to be used to support programs at the Children's Art Center.

Board Designated Endowment Fund - The Board of Directors has established a Board Designated Endowment to be invested in a long-term investment portfolio. USES has a spending policy under which an amount representing 5% of the average fair market value of the Board Designated Endowment for the previous three years, adjusted for extraordinary deposits and withdrawals, will be transferred from the Board Designated Endowment net assets to Operating net assets. The amounts transferred from the net assets of the Board Designated Endowment Fund to operating net assets were determined through the budgeting process and approved by the Board of Directors.

Depreciation of Permanently Restricted Endowment - Includes the cumulative depreciation of those funds invested as permanently restricted endowment.

Temporarily Restricted Net Assets

Temporarily restricted net assets include donor restricted funds that have not yet been expended for their designated purpose.

In accordance with Massachusetts law regarding permanently restricted endowments, temporarily restricted net assets also includes the accumulated unspent realized and unrealized appreciation, if any, of permanently restricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets include a donor restricted contribution for which the principal must be held as a permanent source of income for the Children's Art Center.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Permanently Restricted Net Assets Investment Spending Policy

The Board of Directors has implemented an investment spending policy, which allows USES to designate a portion of USES' cumulative investment return for support of operations. Massachusetts state law allows the Board of Directors to appropriate from donor restricted endowments as much of the funds as is prudent considering USES' long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

Under USES' spending policy, the Board may appropriate 5% of the average fair value of permanently restricted investments for the previous three fiscal years, adjusted for extraordinary deposits and withdrawals, to support operations. Under this policy, the Board of Directors has made no appropriations to support operations for the years ended June 30, 2013 and 2012 from the permanently restricted endowment.

Fair Value Measurements

Promulgations of the Financial Accounting Standards Board have established a framework for measuring fair value, which provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The highest priority is assigned to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that USES has the ability to access. |
|---------|---|

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Fair Value Measurements - Continued

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Endowment Funds

Massachusetts law requires not-for-profit organizations and other entities that receive donor contributions to operate in conformity with its enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In the absence of overriding explicit donor stipulations, UPMIFA prescribes guidelines for expenditures of donor restricted funds and focuses on the prudent spending of the entire donor restricted fund, including accumulated earnings, rather than the historical dollar concept. UPMIFA's requirement that amounts may be appropriated for expenditure only after careful consideration of the seven factors outlined in its spending guidelines is bolstered by its intent to have the governing board of the organization make its decisions in light of the donor's intended purpose of the endowment fund, stipulated or otherwise.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Endowment Funds - Continued

UPMIFA requires donor restricted funds to be classified in accordance with their restrictions. Gains on endowment funds and other amounts permitted to be disbursed in accordance with the donors' stipulations must be classified as temporarily restricted net position until approved for expenditure by the organization. Earnings on endowment funds that have not yet been specifically approved for expenditure, but will be, must be classified as temporarily restricted net positions until approved for expenditure by USES.

USES board classifies donor restricted funds and earnings thereon in accordance with applicable state law as interpreted by the Attorney General. Endowment fund assets are appropriated for expenditure in accordance with the directions and/or intent of the donor. Unrealized losses that reduce fair value to an amount below the donated value are charged to unrestricted net assets. Unrealized gains will be classified as unrestricted net position to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with USES spending policy.

USES investment policy for endowment funds is intended to preserve capital to the extent possible and provide a reasonably predictable stream of revenue to provide appropriate funding to the programs supported by endowment funds.

Income Taxes

United States generally accepted accounting principles require an entity to assess the probability that a tax position has a "more likely than not" (MLTN) sustainability after review by tax authorities. If a tax position is deemed not to meet this threshold, any unrecognized tax benefits and costs are estimated and recognized. Interest and penalties, if any, related to assessments by tax authorities will be classified as a component of interest expense and other expense, respectively, in the statement of activities. A tax position may be considered as taken any time a taxpayer chooses amongst alternatives that affect the amount of their tax obligations and include for example: tax exempt status; status as a pass-through entity (S Corporations); decisions made in the process of conforming with tax laws; decisions not to file in certain jurisdictions; allocation of income between jurisdictions and the characterization of income or expenses. Tax returns are routinely open for review by the tax authorities for three years from their due date. In certain circumstances the statute of limitations may remain open indefinitely.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 1 - **Summary of Significant Accounting Policies - Continued**

Income Taxes - Continued

USES has been notified by the Internal Revenue Service that it meets the qualifications to be classified as a tax exempt entity under section 501(c)(3) of the Internal Revenue Code. Since the continuance of this status is based upon continuing qualification, USES has identified this as a tax position. However, it has determined that this tax position meets MLTN sustainability and does not result in an uncertainty requiring recognition.

USES has also been classified as an entity that is not a private foundation within the meaning of 509(a) and qualifies for deductible contributions as provided in Section 170 (b) (1) (A) (VI).

Donated Equipment, Goods and Services

USES receives donated equipment, goods and services in support of its technology education programs. These amounts are reflected in the accompanying statements of activities and changes in net assets based upon the value assigned to the equipment, goods and services by the donating individuals and management. Donations of equipment and goods, which meet the criteria of USES's capitalization policy are capitalized and depreciated pursuant to the policy described above.

Allocation of Joint Costs

During the years ended June 30, 2013 and 2012, USES incurred certain joint costs for fundraising activities as presented on the Statement of Functional Expenses.

Note 2 - **Investments**

Investments

Investments are not insured and are subject to ongoing market fluctuations. Investments are reported as long-term in the accompanying statements of financial position, as management's intention is to hold the assets for long-term purposes.

Included in investment income on the statements of activities and changes in net assets are the dividends recognized based on date of receipt and interest earned on cash, money market accounts, and investment accounts of \$5,384 and \$45,242 for the years ended June 30, 2013 and 2012, respectively. Investment income is recorded net of investment fees of \$2,200 and \$29,777 in fiscal years 2013 and 2012, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Investments - Continued**

Fair Value Measurements

During the fiscal year ended 2012, USES, at the direction of its Board of Directors, changed its investment policies. Instead of investing in specific equities and mutual funds, USES has placed the bulk of its investable assets in a single Multi-Asset Fund managed by The Investment Fund for Foundations.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013.

Common and Preferred Stocks: Valued at quoted market prices.

Short-term Investments, Mutual Funds, US Treasury Notes/Bonds, Private Investment Funds, and Corporate Debt Securities: Net asset value of the shares held at fiscal year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although USES believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, based on an allocation of the Multi-Asset Fund as of June 30, 2013 and 2012 pursuant to unaudited financial information of the Fund, USES's assets measured on a recurring basis. At June 30, 2013 and 2012 approximately 87% and 86% of USES's investments were in the Multi-Asset Fund, respectively.

	<u>June 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 675,775	\$ 556,882	\$ -	\$ 1,232,657
Short-term investments	614,956	-	-	614,956
Mutual funds	442,386	-	-	442,386
US Treasury notes/bonds	344,339	-	-	344,339
Private investment funds	-	-	361,572	361,572
Corporate debt securities	-	55,486	-	55,486
Total assets at fair value	\$ <u>2,077,456</u>	\$ <u>612,368</u>	\$ <u>361,572</u>	\$ <u>3,051,396</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - Investments - Continued

	<u>June 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 598,111	\$ 536,092	\$ -	\$ 1,134,203
Short-term investments	489,990	-	-	489,990
Mutual funds	460,054	-	-	460,054
US Treasury notes/bonds	359,339	-	-	359,339
Private investment funds	-	-	308,419	308,419
Corporate debt securities	<u>-</u>	<u>114,126</u>	<u>-</u>	<u>114,126</u>
Total assets at fair value	<u>\$ 1,907,494</u>	<u>\$ 650,218</u>	<u>\$ 308,419</u>	<u>\$ 2,866,131</u>

USES's assets at fair value classified within Level 3 were \$361,572 and 308,419 at June 30, 2013 and 2012, respectively. Such amounts were 12% and 11% of total assets measured at fair value as of June 30, 2013 and 2012, respectively. The following table sets forth a summary of changes in fair value of the Level 3 assets for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 308,419	\$ -
Additional investment	-	308,419
Net unrealized gains (losses)	<u>53,153</u>	<u>-</u>
Balance, end of year	<u>\$ 361,572</u>	<u>\$ 308,419</u>
Change in unrealized gains or losses for the period included in the change in temporarily restricted net assets, for assets held at the end of the reporting period	<u>\$ 53,153</u>	<u>\$ -</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 111,960	\$ 111,960
Buildings	2,046,661	2,046,661
Building improvements	5,402,386	5,228,789
Equipment	675,588	674,082
Furniture and fixtures	146,478	146,478
Vehicle	4,815	4,815
Construction in progress	<u>-</u>	<u>92,000</u>
	8,387,888	8,304,785
Less: accumulated depreciation	<u>6,559,362</u>	<u>6,234,491</u>
	<u>\$ 1,828,526</u>	<u>\$ 2,070,294</u>

Note 4 - Related Parties

A member of USES' Board of Directors is of counsel at the law firm, that serves as legal counsel to USES. Fees invoiced by the law firm for services rendered were \$7,895 and \$1,000 for the years ended June 30, 2013 and 2012, respectively, and are included in consultants/contract services in the accompanying statements of functional expenses.

Note 5 - Fiscal Agent Funds

USES acts as a lead fiscal agent for two organizations in Boston, Massachusetts. As of June 30, 2013 and 2012, USES was holding \$27,688 and \$25,112, respectively, on behalf of these organizations, which is included in fiscal agent restricted cash and fiscal agent funds in the accompanying statements of financial position.

Note 6 - Notes Payable

USES has available up to \$350,000 under a line of credit agreement that expires in November 2014. Borrowings under the agreement are due on demand and interest is payable monthly based on the lenders index (3.25% at June 30, 2013 and 2012), less 0.50%. There was no balance outstanding at June 30, 2013 and 2012, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 7 - **Long-Term Debt**

In July 2010, USES entered into a \$70,000 loan payable to a bank, due in monthly installments of \$1,596 including principal and interest fixed at 4.5%, due July 2014. Aggregate principal maturities of the loan as of June 30, 2013 are as follows:

Years Ending <u>June 30,</u>	
2014	\$ 18,628
2015	<u>1,681</u>
	\$ <u>20,309</u>

Note 8 - **Retirement Plan and Deferred Compensation**

All of USES' employees who work at least 20 hours per week are eligible to participate in an Internal Revenue Code Section 403(b) Tax Deferred Annuity Plan. Payments are made by participating employees in the form of voluntary salary reductions. The Board of Directors decides annually if and how much any employer contribution to the plan will be. USES did not make any contributions during the years ended June 30, 2013 and 2012.

USES has a deferred compensation plan, which allows for compensation to be paid to a select group of former supervisory employees at the discretion of the Board of Directors. The liability for these payments, discounted at a rate of 7% and incorporating life expectancy, is \$15,082 and \$16,945 as of June 30, 2013 and 2012, respectively.

Note 9 - **Consulting Agreement**

USES entered into a consulting agreement with a former Executive Director (the "individual") for compensation aggregating \$150,000 in connection with the performance of specified services. In the event of disability or death, the unpaid balance will be paid to the individual or their estate. In the event of non-performance for reasons other than death or disability, the remaining payments will be forfeited. Accordingly, the liability is recorded as amounts are earned. Services may be performed at any time as mutually agreed to by the parties over an unspecified period of time. At June 30, 2013 and 2012, remaining amounts under the agreement were \$24,100 and \$27,100, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 10 - Rental Income

USES has rental arrangements with other entities under tenant-at-will and lease agreements having varying terms up to years expiring through August 2016. Rental income was \$190,124 and \$190,520 for the years ended June 30, 2013 and 2012, respectively.

Minimum annual rentals expected to be received from these agreements over the next three years are as follows:

Years Ending <u>June 30,</u>	
2014	\$ 156,938
2015	89,880
2016	<u>11,816</u>
	\$ <u>258,634</u>

Note 11 - Trust Agreement

USES is the sole beneficiary of a trust agreement from which USES receives quarterly contributions based on the investment earnings on the trust fund. These contributions are to be used for the support and maintenance of Camp Hale. USES will continue to receive contributions from the trust fund as long as USES continues to operate Camp Hale and uses the funds as specified in the trust agreement.

If in the judgment of the trustee, Camp Hale is not being properly and efficiently operated and maintained, the trust fund will cease and USES will no longer receive any contributions from the trustee. USES does not have variance power over the assets held in the trust fund and, accordingly, has not recorded the asset in its financial statements. USES received contributions of \$9,757 and \$6,461 from the trustee for the years ended June 30, 2013 and 2012, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 12 - **Endowment**

Changes in endowment net assets by class are as follows:

	Unrestricted				
	Board Designated <u>Endowment</u>	Special Purpose	Depreciation of Permanently Restricted	Permanently Restricted	<u>Total</u>
Endowment net assets, June 30, 2011	\$ 3,624,051	\$ 341,390	\$ (35,036)	\$ 76,361	\$ 4,006,766
Investment return:					
Investment income	23,887	1,214	-	-	25,101
Realized and unrealized gains	33,336	1,391	2,015	-	36,742
Appropriation to operations	(209,445)	-	-	-	(209,445)
Transfers to operations	<u>(665,177)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(665,177)</u>
Endowment net assets, June 30, 2012	2,806,652	343,995	(33,021)	76,361	3,193,987
Investment return:					
Investment income	4,260	-	-	-	4,260
Realized and unrealized gains	224,548	43,511	33,021	-	301,080
Appropriation to operations	(128,059)	-	-	-	(128,059)
Transfers to operations	<u>(286,513)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(286,513)</u>
Endowment net assets, June 30, 2013	\$ <u>2,620,888</u>	\$ <u>387,506</u>	\$ <u>-</u>	\$ <u>76,361</u>	\$ <u>3,084,755</u>

Note 13 - **Operating Lease**

In May 2009 USES entered into a five-year lease agreement for the use of three copiers with monthly payments of \$1,900. Future minimum annual lease payments subsequent to June 30, 2013 are \$22,800 for the year ended June 30, 2014.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 14 - **Commitments and Contingencies**

USES receives a portion of its funding from government agencies under cost reimbursement and unit-rate programs. These reimbursements are subject to audit by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of USES as of June 30, 2013 and 2012, or on the changes in its net assets for the years then ended.

Note 15 - **Concentrations and Risks**

Concentration of Credit Risk

During fiscal years 2013 and 2012, USES received 8% and 10% of its total operating revenues from various departments of the City of Boston, and 22% and 21% of its total operating revenues from various departments of the Commonwealth of Massachusetts, respectively. At June 30, 2013 and 2012, 43% and 37%, respectively, of accounts receivable were due from various departments of the City of Boston, and 19% and 22%, respectively, were due from various departments of the Commonwealth of Massachusetts.

Cash

From time to time, USES's cash balances at financial banking institutions exceeded the Federally insured limit. Management places its funds in financial institutions in which it believes it has minimized the risk of loss.

Note 16 - **Subsequent Events**

Management has evaluated subsequent events through November 5, 2013, the date for which the financial statements were available for issuance.

**INDEPENDENT AUDITOR'S 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***



INDEPENDENT AUDITOR'S 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 of
United South End Settlements, Inc.
Boston, Massachusetts

We have audited, in accordance with the 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 United South End Settlements (a non-profit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered United South End Settlement's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of United South End Settlement's internal control. Accordingly, we do not express an opinion on the effectiveness of United South End Settlement'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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 United South End Settlements financial statements are free from 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.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 5, 2013