

UNITED SOUTH END SETTLEMENTS

FINANCIAL STATEMENTS

JUNE 30, 2014

UNITED SOUTH END SETTLEMENTS

Financial Statements

June 30, 2014 and 2013

CONTENTS

Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Statements of Functional Expenses	6-7
Notes to the Financial Statements	8-23
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24-25



INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2014 and 2013, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 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 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, 2014 and 2013, 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 4, 2014, 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 4, 2014

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30, 2014 and 2013

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30,

Assets

	2014			2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:							
Cash and equivalents	\$ -	\$ 148,956	\$ -	\$ -	\$ 248,105	\$ -	\$ 248,105
Fiscal agent restricted cash	24,565	-	-	27,688	-	-	27,688
Accounts receivable	152,267	-	-	146,273	-	-	146,273
Pledges receivable	17,110	-	-	59,600	-	-	59,600
Prepaid expenses	125,157	-	-	156,266	-	-	156,266
Total Current Assets	319,099	148,956	-	389,827	248,105	-	637,932
Property and Equipment, net	1,585,367	-	-	1,828,526	-	-	1,828,526
Other Assets:							
Investments	3,052,281	-	76,361	2,975,035	-	76,361	3,051,396
Senior home repair loans receivable	-	-	-	-	2,628	-	2,628
Total Other Assets	3,052,281	-	76,361	2,975,035	2,628	76,361	3,054,024
Total Assets	\$ 4,956,747	\$ 148,956	\$ 76,361	\$ 5,193,388	\$ 250,733	\$ 76,361	\$ 5,520,482

Liabilities and Net Assets

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Liabilities:								
Current portion of long-term debt	\$ 1,402	\$ -	\$ -	\$ 1,402	\$ 18,628	\$ -	\$ -	\$ 18,628
Line of credit	118,892	-	-	118,892	-	-	-	-
Accounts payable	250,935	-	-	250,935	199,262	-	-	199,262
Current portion of deferred compensation	1,860	-	-	1,860	1,860	-	-	1,860
Fiscal agent funds	24,565	-	-	24,565	27,688	-	-	27,688
Total Current Liabilities	397,654	-	-	397,654	247,438	-	-	247,438
Non-Current Liabilities:								
Long-term debt, net of current portion	-	-	-	-	1,681	-	-	1,681
Deferred compensation, net of current portion	11,203	-	-	11,203	13,222	-	-	13,222
Total Non-Current Liabilities	11,203	-	-	11,203	14,903	-	-	14,903
Total Liabilities	408,857	-	-	408,857	262,341	-	-	262,341
Net Assets:								
Unrestricted:								
Operating	(123,312)	-	-	(123,312)	114,436	-	-	114,436
Property and equipment	1,583,965	-	-	1,583,965	1,808,217	-	-	1,808,217
Special purpose	438,570	-	-	438,570	387,506	-	-	387,506
Board designated endowment fund	2,648,667	-	-	2,648,667	2,620,888	-	-	2,620,888
Restricted net assets	-	148,956	76,361	225,317	-	250,733	76,361	327,094
Total Net Assets	4,547,890	148,956	76,361	4,773,207	4,931,047	250,733	76,361	5,258,141
Total Liabilities and Net Assets	\$ 4,956,747	\$ 148,956	\$ 76,361	\$ 5,182,064	\$ 5,193,388	\$ 250,733	\$ 76,361	\$ 5,520,482

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

UNITED SOUTH END SETTLEMENTS

Statements of Activities and Changes in Net Assets

For the Years Ended June 30,

	2014			2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:							
Program service contracts and fees	\$ 2,065,364	-	-	\$ 2,065,364	-	-	\$ 2,065,364
Contributions and grants	296,915	553,268	-	850,183	509,131	-	1,158,147
Rental income	238,500	-	-	238,500	-	-	190,124
Investment return designated for operations	54,545	-	-	54,545	-	-	128,059
United Way allocation	104,714	-	-	104,714	-	-	102,033
Miscellaneous	4,622	-	-	4,622	81	-	81
Donated goods and services	49,653	-	-	49,653	29,247	-	29,247
Net assets released from purpose restrictions	<u>655,045</u>	<u>(655,045)</u>	-	<u>547,726</u>	<u>(547,726)</u>	-	<u>29,247</u>
Total Operating Revenues	<u>3,469,358</u>	<u>(101,777)</u>	<u>-</u>	<u>3,727,039</u>	<u>(38,595)</u>	<u>-</u>	<u>3,688,444</u>
Operating Expenses:							
Program Services:							
Child development	817,757	-	-	825,942	-	-	825,942
Education and training	583,982	-	-	621,318	-	-	621,318
Camp Hale	352,379	-	-	307,238	-	-	307,238
Afterschool program	305,796	-	-	301,541	-	-	301,541
Community center	296,255	-	-	347,675	-	-	347,675
Senior services	285,523	-	-	263,232	-	-	263,232
Children's Art Center	249,160	-	-	283,665	-	-	283,665
Children Thrive in 5	107,413	-	-	151,382	-	-	151,382
Technology education	104,104	-	-	110,703	-	-	110,703
Total Program Services	<u>3,102,369</u>	<u>-</u>	<u>-</u>	<u>3,212,696</u>	<u>-</u>	<u>-</u>	<u>3,212,696</u>
Supporting Services:							
General and administrative	680,323	-	-	568,421	-	-	568,421
Planning and fundraising	363,721	-	-	328,718	-	-	328,718
Total Supporting Services	<u>1,044,044</u>	<u>-</u>	<u>-</u>	<u>897,139</u>	<u>-</u>	<u>-</u>	<u>897,139</u>
Total Operating Expenses	<u>4,146,413</u>	<u>-</u>	<u>-</u>	<u>4,109,835</u>	<u>-</u>	<u>-</u>	<u>4,109,835</u>
Loss Before Other Non-Operating Activities	<u>(677,055)</u>	<u>(101,777)</u>	<u>-</u>	<u>(382,796)</u>	<u>(38,595)</u>	<u>-</u>	<u>(421,391)</u>
Non-Operating Activities:							
Net realized and unrealized gains	344,334	-	-	300,135	-	-	300,135
Investment income	4,109	-	-	3,184	-	-	3,184
Investment return designated for operations	<u>(54,545)</u>	<u>-</u>	<u>-</u>	<u>(128,059)</u>	<u>-</u>	<u>-</u>	<u>(128,059)</u>
Total Non-Operating Activities	<u>293,898</u>	<u>-</u>	<u>-</u>	<u>175,260</u>	<u>-</u>	<u>-</u>	<u>175,260</u>
Changes in Net Assets	<u>(383,157)</u>	<u>(101,777)</u>	<u>-</u>	<u>(207,536)</u>	<u>(38,595)</u>	<u>-</u>	<u>(246,131)</u>
Net Assets, Beginning of Year	<u>4,931,047</u>	<u>250,733</u>	<u>76,361</u>	<u>5,138,583</u>	<u>289,328</u>	<u>76,361</u>	<u>5,504,272</u>
Net Assets, End of Year	<u>\$ 4,547,890</u>	<u>\$ 148,956</u>	<u>\$ 76,361</u>	<u>\$ 4,931,047</u>	<u>\$ 250,733</u>	<u>\$ 76,361</u>	<u>\$ 5,258,141</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>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (484,934)	\$ (246,131)
Adjustments to reconcile changes in net assets to net cash applied to operating activities:		
Depreciation	317,403	324,871
Donated equipment	(31,724)	-
Realized and unrealized gains on investments	(344,334)	(300,135)
Bad debts	2,728	1,300
Changes in operating assets and liabilities:		
Accounts receivable	(6,094)	(18,074)
Pledges receivable	42,490	(54,100)
Prepaid expenses	31,109	9,327
Accounts payable	51,673	67,423
Deferred compensation	<u>(2,019)</u>	<u>(1,863)</u>
Net Cash Applied to Operating Activities	<u>(423,702)</u>	<u>(217,382)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(42,520)	(83,103)
Purchase of investments	(147,484)	(301,194)
Proceeds from sale of investments	<u>414,572</u>	<u>416,064</u>
Net Cash Provided by Investing Activities	<u>224,568</u>	<u>31,767</u>
Cash Flows from Financing Activities:		
Advances on line of credit	118,892	-
Principal payments of long-term debt	<u>(18,907)</u>	<u>(17,793)</u>
Net Cash Applied (Provided by) to Financing Activities	<u>99,985</u>	<u>(17,793)</u>
Net Decrease in Cash and Equivalents	(99,149)	(203,408)
Cash and Equivalents, Beginning of Year	<u>248,105</u>	<u>451,513</u>
Cash and Equivalents, End of Year	<u>\$ 148,956</u>	<u>\$ 248,105</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 3,540</u>	<u>\$ 1,875</u>
Donated equipment	<u>\$ 31,724</u>	<u>\$ -</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, 2014

	PROGRAM SERVICES										SUPPORTING SERVICES		
	Child Development	Education and Training	Camp Hale	Afterschool Program	Community Center	Senior Services	Children's Art Center	Children Thrive in S	Technology Education	Total Program Services	General Administrative	Facilities	Planning and Fundraising
Salaries	\$ 520,493	\$ 369,846	\$ 111,505	\$ 154,984	\$ 39,906	\$ 154,929	\$ 125,327	\$ 71,642	\$ 55,216	\$ 1,603,848	\$ 289,296	\$ 60,714	\$ 193,125
Employee benefits and payroll taxes	86,142	61,210	18,454	25,650	6,604	25,641	20,742	11,856	9,138	265,437	39,354	12,136	38,582
Total Salaries and Related Costs	606,635	431,056	129,959	180,634	46,510	180,570	146,069	83,498	64,354	1,869,285	328,650	72,850	231,707
Consultants/contract services	250	5,990	45,233	-	298	41,978	4,230	8,024	10,500	116,503	156,564	167,238	12,853
Depreciation	-	-	-	-	-	-	-	-	-	-	-	317,403	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	224,830	-
Food	62,311	1,742	41,552	19,458	-	358	8,202	7,238	272	141,133	6,324	447	720
Program expenses	9,352	5,935	9,823	8,072	68	11,129	4,002	4,092	1,299	53,772	2,000	-	-
Insurance	988	-	2,927	1,000	-	2,897	355	-	-	8,167	14,680	49,840	-
Maintenance	-	-	60	-	-	-	-	-	-	60	-	33,250	-
Event	-	-	-	-	-	-	2,816	-	-	2,816	-	-	72,647
Dues and training	4,508	3,400	7,821	2,895	-	360	815	430	610	20,839	10,075	1,966	4,688
Reproduction	3,906	10,636	1,049	2,343	1,725	1,409	926	915	1,753	24,662	6,759	8	13
Office supplies and postage	323	461	1,629	438	240	875	913	616	12	5,507	8,918	100	5,877
Printing and public relations	143	604	946	18	-	761	1,120	-	-	3,592	1,185	197	16,256
Vehicle rent and maintenance	50	-	34,229	719	-	-	-	741	-	35,739	-	84	-
Telephone	791	5,450	2,203	395	1,085	3,384	823	500	1,086	15,717	6,705	858	818
Household supplies	-	-	6,727	1,160	-	-	-	-	-	7,887	-	19,931	-
Interest and bank fees	-	-	-	-	-	-	-	-	-	-	24,904	6	-
Equipment and furnishings	5,920	513	-	879	-	-	-	-	-	7,312	6,578	5,513	928
Advertising	1,163	1,090	175	-	-	2,701	75	-	-	5,204	50	-	5,178
Travel	96	1,107	904	157	-	52	-	321	20	2,657	262	7	325
Bad debt	-	-	-	-	-	2,628	-	-	-	2,628	-	-	100
Miscellaneous	1,036	-	369	-	-	-	-	1,038	-	2,443	195	3	-
Total Expenses Before Allocations	697,472	467,984	285,606	218,168	49,926	249,102	170,346	107,413	79,906	2,325,923	573,849	894,531	352,110
Facilities Allocation	120,285	115,998	66,773	87,628	246,329	36,421	78,814	-	24,198	776,446	106,474	(894,531)	11,611
Total Expenses	\$ 817,757	\$ 583,982	\$ 352,379	\$ 305,796	\$ 296,255	\$ 285,523	\$ 249,160	\$ 107,413	\$ 104,104	\$ 3,102,369	\$ 680,323	\$ -	\$ 363,721

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

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

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements

June 30, 2014 and 2013

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 and changes in net assets reports the change in net assets 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 increases in temporarily restricted net assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets is reclassified to unrestricted net assets and reported in the statements of activities and changes in net position as net assets 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 - Continued

June 30, 2014 and 2013

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 is 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, 2014 and 2013 and considered the balances to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Pledges Receivable

Pledges receivable at June 30, 2014 and 2013 consist of contributions committed to various programs. Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2014 are expected to be collected in full by fiscal year 2015.

Prepaid Expenses

Prepaid expenses consist of payments related to insurance and an unemployment services trust fund for the years ended June 30, 2014 and 2013.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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 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 - Continued

June 30, 2014 and 2013

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.

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, 2014 and 2013

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

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.

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.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Fair Value Measurements - Continued

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.

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 assets 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 assets 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 assets to the extent fair value again equals donated cost, at which time unrealized gains will be classified in accordance with USES spending policy.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

Endowment Funds - Continued

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 and changes in net assets. 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.

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).

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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

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. During fiscal year 2014, USES received donated equipment totaling \$31,724, which was capitalized. USES did not receive any donated equipment in fiscal year 2013. During fiscal years 2014 and 2013, USES received donated goods and services totaling \$17,929 and \$29,247, respectively, which are included in event expense.

Allocation of Joint Costs

During the years ended June 30, 2014 and 2013, USES incurred certain joint costs for fundraising activities as presented on the Statements of Functional Expenses.

Note 2 - **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 \$6,309 and \$5,384 for the years ended June 30, 2014 and 2013, respectively. Investment income is recorded as net of investment fees of \$2,200 in fiscal years 2014 and 2013.

Fair Value Measurements

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, 2014.

Common and Preferred Stocks: Valued at quoted market prices.

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

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - **Investments - Continued**

Fair Value Measurements - Continued

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.

USES has placed the bulk of its investable assets in a single Multi-Asset Fund managed by The Investment Fund for Foundations. The following tables set forth by level, based on an allocation of the Multi-Asset Fund as of June 30, 2014 and 2013 pursuant to unaudited financial information of the Fund, USES' assets measured on a recurring basis. At June 30, 2014 and 2013 approximately 87% of USES' investments were in the Multi-Asset Fund.

	<u>June 30, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 564,451	\$ 555,640	\$ 202	\$ 1,120,293
Short-term investments	775,800	-	-	775,800
Mutual funds	575,660	-	-	575,660
U.S. Treasury notes/bonds	343,660	-	-	343,660
Private investment funds	-	-	248,764	248,764
Corporate debt securities	<u>-</u>	<u>64,465</u>	<u>-</u>	<u>64,465</u>
Total Assets at Fair Value	\$ <u>2,259,571</u>	\$ <u>620,105</u>	\$ <u>248,966</u>	\$ <u>3,128,642</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - **Investments - Continued**

Fair Value Measurements - Continued

	<i><u>June 30, 2013</u></i>			
	<i><u>Level 1</u></i>	<i><u>Level 2</u></i>	<i><u>Level 3</u></i>	<i><u>Total</u></i>
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	<u>-</u>	<u>55,486</u>	<u>-</u>	<u>55,486</u>
 Total Assets at Fair Value	 <u>\$ 2,077,456</u>	 <u>\$ 612,368</u>	 <u>\$ 361,572</u>	 <u>\$ 3,051,396</u>

USES' assets at fair value classified within Level 3 were \$248,966 and \$361,572 at June 30, 2014 and 2013, respectively. Such amounts were 8% and 12% of total assets measured at fair value as of June 30, 2014 and 2013, 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>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 361,572	\$ 308,419
Additional investment	202	-
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>(112,808)</u>	<u>53,153</u>
Balance, end of year	<u>\$ 248,966</u>	<u>\$ 361,572</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - **Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 111,960	\$ 111,960
Buildings	2,046,661	2,046,661
Building improvements	5,433,010	5,402,386
Equipment	719,207	675,588
Furniture and fixtures	146,478	146,478
Vehicle	<u>4,815</u>	<u>4,815</u>
	8,462,131	8,387,888
Less: accumulated depreciation	<u>6,876,764</u>	<u>6,559,362</u>
	<u>\$ 1,585,367</u>	<u>\$ 1,828,526</u>

Note 4 - **Related Parties**

A member of USES' Board of Directors is of counsel at a law firm that serves as legal counsel to USES. Fees invoiced by the law firm for services rendered were \$0 and \$7,895 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, USES was holding \$24,565 and \$27,688, 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, which is collateralized by the investment management account held at Boston Private Bank. Borrowings under the agreement are due on demand, and interest is payable monthly based on the lenders index (3.25% at June 30, 2014 and 2013), less 0.50%. The balance outstanding at June 30, 2014 was \$118,892.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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 and secured by all of the business assets. Aggregate principal maturities of the loan as of June 30, 2014 are \$1,402 for the year ending June 30, 2015.

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 (the "Plan"). Payments are made by participating employees in the form of voluntary salary reductions. The Board of Directors decides annually if, and how much, employer contributions to the Plan. USES did not make any contributions during the years ended June 30, 2014 and 2013.

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 \$13,063 and \$15,082 as of June 30, 2014 and 2013, 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, 2014 and 2013, remaining amounts under the agreement were \$21,100 and \$24,100, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 10 - **Rental Income**

USES has rental arrangements with other entities under tenant-at-will and lease agreements that have varying terms expiring through February 2016. Rental income was \$238,500 and \$190,124 for the years ended June 30, 2014 and 2013, respectively.

Minimum annual rentals expected to be received from these agreements are as follows:

Years Ending <u>June 30,</u>	
2015	\$ 131,040
2016	<u>11,816</u>
	\$ <u>142,856</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 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 \$9,917 and \$9,757 from the trustee for the years ended June 30, 2014 and 2013, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

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, 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	2,620,888	387,506	-	76,361	3,084,755
Investment return:					
Investment income	3,661	-	-	-	3,661
Realized and unrealized gains	293,270	51,064	-	-	344,334
Appropriation to operations	(54,545)	-	-	-	(54,545)
Transfers to operations	<u>(214,607)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(214,607)</u>
Endowment net assets, June 30, 2014	<u>\$ 2,648,667</u>	<u>\$ 438,570</u>	<u>\$ -</u>	<u>\$ 76,361</u>	<u>\$ 3,163,598</u>

Note 13 - **Operating Lease**

During the fiscal year ended June 30, 2014, USES renegotiated an expiring copier lease agreement. USES entered into a five year lease agreement for use of three copiers with monthly payments of \$2,025. Rental expense under the lease aggregated \$24,175 and \$22,800 for the years ended June 30, 2014 and 2013, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 13 - **Operating Lease - Continued**

Future minimum annual lease payments are as follows:

Years Ending June 30,	
2015	\$ 24,300
2016	24,300
2017	24,300
2018	24,300
2019	<u>2,025</u>
	\$ <u>99,225</u>

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, 2014 and 2013, 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 2014 and 2013, USES received 8% of its total operating revenues from various departments of the City of Boston, and 24% and 22% of its total operating revenues from various departments of the Commonwealth of Massachusetts, respectively. At June 30, 2014 and 2013, 47% and 43%, respectively, of accounts receivable were due from various departments of the City of Boston, and 7% and 19%, respectively, were due from various departments of the Commonwealth of Massachusetts.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2014 and 2013

Note 15 - **Concentrations and Risks - Continued**

Cash

From time to time, USES' 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 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through November 4, 2014, 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 AUDITORS' 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
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 ("USES") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USES' internal control over financial reporting (internal control) 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 USES' internal control. Accordingly, we do not express an opinion on the effectiveness of USES' 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 USES' 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 organization'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 organization'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 4, 2014