

# **UNITED SOUTH END SETTLEMENTS**

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## **FINANCIAL STATEMENTS**

**JUNE 30, 2015**

# UNITED SOUTH END SETTLEMENTS

## Financial Statements

June 30, 2015

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## **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 statement of financial position as of June 30, 2015, the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit 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 audit 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, 2015, and the respective changes in net assets and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As further discussed in Note 2 to the financial statements, it was discovered that certain deferred revenues, prepaid expenses and accrued expenses were not accurately reflected in the previously reported financial statements. Accordingly, adjustments have been made to reflect the proper balances in these accounts as of July 1, 2014.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2015, 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'Connell and O'Connell, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

November 3, 2015

**UNITED SOUTH END SETTLEMENTS**

**Statement of Financial Position**

**June 30, 2015**

# UNITED SOUTH END SETTLEMENTS

## Statement of Financial Position

June 30, 2015

### Assets

**Current Assets:**

Cash and equivalents	\$ 507,209
Fiscal agent restricted cash	24,565
Accounts receivable	196,142
Pledges receivable	6,600
Prepaid expenses	<u>141,095</u>

**Total Current Assets** 875,611

**Property and Equipment, net** 1,313,473

**Other Asset:**

Investments	<u>2,037,624</u>
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**Total Assets** \$ 4,226,708

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

## Liabilities and Net Assets

**Current Liabilities:**

Accounts payable	\$ 140,396
Deferred revenues	83,552
Accrued expenses	42,858
Current portion of deferred compensation	1,860
Fiscal agent funds	<u>24,565</u>

**Total Current Liabilities** 293,231

**Non-Current Liability:**

Deferred compensation, net of current portion	<u>9,961</u>
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**Total Liabilities** 303,192

**Net Assets:**

Unrestricted:	
Operating	499,563
Property and equipment	1,313,473
Special purpose	433,124
Board designated endowment fund	1,544,659
Temporarily restricted	56,336
Permanently restricted	<u>76,361</u>

**Total Net Assets** 3,923,516

**Total Liabilities and Net Assets** \$ 4,226,708

# UNITED SOUTH END SETTLEMENTS

## Statement of Activities

For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Operating Revenues:</b>				
Program service contracts and fees	\$ 2,105,048	\$ -	\$ -	\$ 2,105,048
Contributions and grants	1,129,548	6,600	-	1,136,148
Rental income	181,387	-	-	181,387
Investment return designated for operations	151,710	-	-	151,710
United Way allocation	61,785	-	-	61,785
Miscellaneous	53,151	-	-	53,151
Donated goods and services	19,327	-	-	19,327
Net assets released from purpose restrictions	<u>99,220</u>	<u>(99,220)</u>	<u>-</u>	<u>-</u>
<b>Total Operating Revenues</b>	<u>3,801,176</u>	<u>(92,620)</u>	<u>-</u>	<u>3,708,556</u>
<b>Operating Expenses:</b>				
Program Services:				
Child development	885,365	-	-	885,365
Youth Resource Center	298,714	-	-	298,714
Adult education	663,233	-	-	663,233
Community and cultural affairs	255,310	-	-	255,310
Other programs	<u>1,348,850</u>	<u>-</u>	<u>-</u>	<u>1,348,850</u>
<b>Total Program Services</b>	<u>3,451,472</u>	<u>-</u>	<u>-</u>	<u>3,451,472</u>
Supporting Services:				
Management and general	515,596	-	-	515,596
Fundraising	<u>293,332</u>	<u>-</u>	<u>-</u>	<u>293,332</u>
<b>Total Supporting Services</b>	<u>808,928</u>	<u>-</u>	<u>-</u>	<u>808,928</u>
<b>Total Operating Expenses</b>	<u>4,260,400</u>	<u>-</u>	<u>-</u>	<u>4,260,400</u>
Loss Before Non-Operating Activities	<u>(459,224)</u>	<u>(92,620)</u>	<u>-</u>	<u>(551,844)</u>
<b>Non-Operating Activities:</b>				
Net realized and unrealized losses	(27,611)	-	-	(27,611)
Investment loss	(5,155)	-	-	(5,155)
Investment return designated for operations	<u>(151,710)</u>	<u>-</u>	<u>-</u>	<u>(151,710)</u>
<b>Total Non-Operating Activities</b>	<u>(184,476)</u>	<u>-</u>	<u>-</u>	<u>(184,476)</u>
<b>Changes in Net Assets</b>	<u>\$ (643,700)</u>	<u>\$ (92,620)</u>	<u>\$ -</u>	<u>\$ (736,320)</u>

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



# UNITED SOUTH END SETTLEMENTS

## Statement of Changes in Net Assets

For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2014, as previously reported	\$ 4,547,890	\$ 148,956	\$ 76,361	\$ 4,773,207
Prior period adjustments (Note 2)	<u>(113,371)</u>	<u>-</u>	<u>-</u>	<u>(113,371)</u>
Balance, June 30, 2014, as restated	4,434,519	148,956	76,361	4,659,836
Changes in net assets	<u>(643,700)</u>	<u>(92,620)</u>	<u>-</u>	<u>(736,320)</u>
Balance, June 30, 2015	<u>\$ 3,790,819</u>	<u>\$ 56,336</u>	<u>\$ 76,361</u>	<u>\$ 3,923,516</u>

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

# UNITED SOUTH END SETTLEMENTS

## Statement of Cash Flows

For the Year Ended June 30, 2015

<b>Cash Flows from Operating Activities:</b>	
Changes in net assets	\$ (736,320)
Adjustments to reconcile changes in net assets to net cash applied to operating activities:	
Depreciation	303,582
Donated equipment	(5,000)
Realized and unrealized gains on investments	27,611
Changes in operating assets and liabilities:	
Accounts receivable	(43,875)
Pledges receivable	10,510
Prepaid expenses	2,304
Accounts payable	(103,261)
Deferred revenues	(5,690)
Accrued expenses	(6,791)
Deferred compensation	<u>(1,242)</u>
Net Cash Applied to Operating Activities	<u>(558,172)</u>
<b>Cash Flows from Investing Activities:</b>	
Acquisition of property and equipment	(26,688)
Proceeds from sale of investments	<u>1,063,407</u>
Net Cash Provided by Investing Activities	<u>1,036,719</u>
<b>Cash Flows from Financing Activities:</b>	
Payments on line of credit	(118,892)
Principal payments of long-term debt	<u>(1,402)</u>
Net Cash Applied to Financing Activities	<u>(120,294)</u>
<b>Net Increase in Cash and Equivalents</b>	<b>358,253</b>
Cash and Equivalents, Beginning of Year	<u>148,956</u>
<b>Cash and Equivalents, End of Year</b>	<b>\$ <u>507,209</u></b>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash paid for interest	\$ <u>1,239</u>
Donated equipment	\$ <u>5,000</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, 2015

	PROGRAM SERVICES						SUPPORTING SERVICES		
	Child Development	Youth Resource Center	Adult Education	Community & Cultural Affairs	Other Programs	Total Program Services	Management & General	Fundraising	Total
Salaries	\$ 583,752	\$ 168,368	\$ 448,332	\$ 132,062	\$ 543,118	\$ 1,875,632	\$ 90,254	\$ 137,427	\$ 2,103,313
Employee benefits and payroll taxes	94,414	28,126	72,847	21,965	114,188	331,540	36,160	28,457	396,157
<b>Total Salaries and Related Costs</b>	678,166	196,494	521,179	154,027	657,306	2,207,172	126,414	165,884	2,499,470
Depreciation	60,418	29,727	35,594	31,894	122,922	280,555	10,431	12,596	303,582
Facility and program other	34,322	17,033	47,956	12,311	185,326	296,948	24,415	7,150	328,513
Direct care consultant	1,795	-	8,400	4,120	73,106	87,421	-	-	87,421
Staff training	1,076	1,052	117	460	4,942	7,647	3,468	945	12,060
Staff mileage/travel	229	269	1,513	345	1,841	4,197	705	537	5,439
Meals	67,219	24,971	3,230	9,875	64,284	169,579	5,290	1,765	176,634
Vehicle expense	75	639	79	19	29,475	30,287	120	16	30,423
Program supplies & materials	9,119	9,639	7,911	5,486	32,473	64,628	1,630	2,967	69,225
Event	9	9	9	9,015	47	9,089	-	66,145	75,234
Audit fees	-	-	-	-	-	-	29,500	-	29,500
Other professional fees	14,940	7,707	24,158	5,520	98,823	151,148	261,665	14,001	426,814
Interest	-	-	-	-	-	-	1,239	-	1,239
Insurance	6,610	4,558	2,715	5,596	48,188	67,667	3,719	4,879	76,265
Other administrative	11,387	6,616	10,372	16,642	30,117	75,134	47,000	16,447	138,581
<b>Total Expenses</b>	\$ 885,365	\$ 298,714	\$ 663,233	\$ 255,310	\$ 1,348,850	\$ 3,451,472	\$ 515,596	\$ 293,332	\$ 4,260,400

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

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements

June 30, 2015

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 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 statement of activities as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

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

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

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

*Estimates - Continued*

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.

*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, 2015 and considered the balances to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

*Pledges Receivable*

Pledges receivable at June 30, 2015 consists of contributions committed to various programs. Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2015 are expected to be collected in full by fiscal year 2016.

*Prepaid Expenses*

Prepaid expenses consist of payments related to insurance and an unemployment services trust fund for the year ended June 30, 2015.

*Deferred Revenues*

Deferred revenues represent unearned income related to certain summer programs that occur in the following fiscal year.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Property and Equipment and Depreciation

Property and equipment is 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

Compensated Absences

Eligible employees accrue vacation time for each month they actually work or receive pay from USES. Upon termination of employment, the employees are entitled to receive payment of their unused balance.

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.

**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.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

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

*Unrestricted Net Assets - Continued*

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.

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, 2015

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.

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.



# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

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

*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.

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.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

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

*Income Taxes*

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. 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).

Accounting principles generally accepted in the United States 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. 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.

As a not-for-profit entity exempt from income taxes, USES may, however, be subject to tax on unrelated business income.

*Donated Equipment, Goods and Services*

USES receives donated equipment, goods and services in support of its various programs. These amounts are reflected in the accompanying statement of activities 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 2015, USES received donated equipment totaling \$5,000, which was capitalized. During fiscal year 2015, USES received donated goods and services totaling \$14,327, which are included in event expense.

*Allocation of Joint Costs*

During the year ended June 30, 2015, USES incurred certain joint costs for fundraising activities as presented on the Statements of Functional Expenses.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 2 - **Prior Period Adjustment**

Unrestricted net assets as of July 1, 2014 has been restated because of certain deferred revenues, prepaid expenses and accrued expenses that were not accurately reflected in the financial statements. The restatement had a net effect on the changes in net assets of \$113,371.

The effect of the restatement of the financial position as of the year ended June 30, 2014 is as follows:

	As previously <u>reported</u>	<u>Restated</u>
Deferred revenues	\$ -	\$ 89,242
Prepaid expenses	125,157	143,399
Accrued expenses	7,278	49,649
Unrestricted net assets	4,547,890	4,434,519

Note 3 - **Investments**

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

Included in investment income on the statement of activities are the dividends recognized based on date of receipt and interest earned on cash, money market accounts, and investment accounts of \$61 for the year ended June 30, 2015. Investment income is recorded as net of investment fees of \$5,216 in fiscal year 2015.

**Fair Value Measurements**

The 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, 2015.

*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, 2015

Note 3 - **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. At June 30, 2015, approximately 99.8% of USES' investments were in the Multi-Asset Fund. The following table sets forth by level, based on an allocation of the Multi-Asset Fund as of June 30, 2015 pursuant to unaudited financial information of the Fund, USES' assets measured on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 599,234	\$ 577,063	\$ 149	\$ 1,176,446
Short-term investments	98,832	-	-	98,832
Mutual funds	106,338	-	-	106,338
U.S. Treasury notes/bonds	233,348	-	-	233,348
Private investment funds	-	-	367,618	367,618
Corporate debt securities	-	54,366	-	54,366
Warrants	<u>676</u>	<u>-</u>	<u>-</u>	<u>676</u>
Total Assets at Fair Value	\$ <u>1,038,428</u>	\$ <u>631,429</u>	\$ <u>367,767</u>	\$ <u>2,037,624</u>

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 3 - **Investments - Continued**

*Fair Value Measurements - Continued*

USES' assets at fair value classified within Level 3 were \$367,767 at June 30, 2015. Such amounts were 18% of total assets measured at fair value as of June 30, 2015. The following table sets forth a summary of changes in fair value of the Level 3 assets for the year ended June 30, 2015:

Balance, beginning of year	\$ 248,966
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>118,801</u>
Balance, end of year	\$ <u>367,767</u>

Note 4 - **Property and Equipment**

Property and equipment consists of the following at June 30, 2015:

Land	\$ 111,960
Buildings	2,046,661
Building improvements	5,450,713
Equipment	733,192
Furniture and fixtures	146,478
Vehicle	<u>4,815</u>
	8,493,819
Less: accumulated depreciation	<u>(7,180,346)</u>
	\$ <u>1,313,473</u>

Note 5 - **Fiscal Agent Funds**

USES acts as a lead fiscal agent for two organizations in Boston, Massachusetts. As of June 30, 2015, USES was holding \$24,565 on behalf of these organizations, which is included in fiscal agent restricted cash and fiscal agent funds in the accompanying statement of financial position.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 6 - **Notes Payable**

USES paid off the line of credit and loan payable balance during fiscal year 2015.

Note 7 - **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 year ended June 30, 2015.

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, was \$11,821 as of June 30, 2015.

Note 8 - **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, 2015, the remaining balance under the agreement is \$10,000.

Note 9 - **Rental Income**

USES has rental arrangements with other entities under tenant-at-will and lease agreements that have varying terms expiring through June 2016. Rental income was \$181,387 for the year ended June 30, 2015.

Minimum annual rentals expected to be received from these agreements is \$77,514 for the year ending June 30, 2016.

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

**June 30, 2015**

**Note 10 - 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 control over the assets held in the trust fund and, accordingly, has not recorded the asset in its financial statements. USES received contributions of \$10,334 from the trustee for the year ended June 30, 2015.

**Note 11 - Endowment**

Changes in endowment net assets by class are as follows:

	Unrestricted			
	Board Designated <u>Endowment</u>	Special Purpose	Permanently Restricted	<u>Total</u>
<b>Endowment net assets, June 30, 2014</b>	<b>\$ 2,648,667</b>	<b>\$ 438,570</b>	<b>\$ 76,361</b>	<b>\$ 3,163,598</b>
Investment return:				
Investment fees	(2,614)	-	-	(2,614)
Realized and unrealized losses	(24,260)	(5,446)	-	(29,706)
Appropriation to operations	(151,710)	-	-	(151,710)
Transfers to operations	<u>(925,424)</u>	<u>-</u>	<u>-</u>	<u>(925,424)</u>
<b>Endowment net assets, June 30, 2015</b>	<b><u>\$ 1,544,659</u></b>	<b><u>\$ 433,124</u></b>	<b><u>\$ 76,361</u></b>	<b><u>\$ 2,054,144</u></b>

# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 12 - **Operating Lease**

USES has a five year lease agreement for use of three copiers with monthly payments of \$2,025 expiring July 2018. Rental expense under the lease aggregated \$24,300 for the year ended June 30, 2015.

Future minimum annual lease payments are as follows:

Years Ending <u>June 30,</u>	
2016	\$ 24,300
2017	24,300
2018	24,300
2019	<u>2,025</u>
	\$ <u>74,925</u>

Note 13 - **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, 2015, or on the changes in its net assets for the year then ended.

Note 14 - **Concentrations and Risks**

**Concentration of Credit Risk**

During fiscal year 2015, USES received 5% of its total operating revenues from various departments of the City of Boston, and 29% of its total operating revenues from various departments of the Commonwealth of Massachusetts. At June 30, 2015, 69% of accounts receivable were due from various departments of the City of Boston, and 31% were due from various departments of the Commonwealth of Massachusetts.

**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.



# UNITED SOUTH END SETTLEMENTS

## Notes to the Financial Statements - Continued

June 30, 2015

Note 15 - **Management's Acceptance of Financial Statements**

Management has evaluated subsequent events through November 3, 2015, the date for which the financial statements were available for issuance.

**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***



**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, 2015, the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated November 3, 2015.

**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 USES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the USES' 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 3, 2015