

UNITED SOUTH END SETTLEMENTS

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

UNITED SOUTH END SETTLEMENTS

Financial Statements

June 30, 2017 and 2016

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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 statements of financial position as of June 30, 2017 and 2016, 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 auditors consider 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, 2017 and 2016, and the respective changes in net assets, cash flows and functional expenses 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 dated November 13, 2017, 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 Duen, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 13, 2017

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30, 2017 and 2016

UNITED SOUTH END SETTLEMENTS

Statements of Financial Position

June 30,

Assets

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and equivalents	\$ 322,000	\$ 247,789
Fiscal agent restricted cash	-	50,000
Accounts receivable	170,896	245,140
Campaign pledges receivable net, current portion	409,500	-
Non-campaign pledges receivable net, current portion	139,739	174,855
Prepaid expenses and other current assets	<u>99,592</u>	<u>162,089</u>
Total Current Assets	<u>1,141,727</u>	<u>879,873</u>
Property and Equipment, net	<u>901,764</u>	<u>1,074,113</u>
Non-Current Assets:		
Investments, at fair value	1,262,606	1,696,731
Campaign pledges receivable net, current portion	361,019	-
Non-campaign pledges receivable net, current portion	<u>254,980</u>	<u>80,750</u>
Total Non-Current Assets	<u>1,878,605</u>	<u>1,777,481</u>
Total Assets	<u>\$ 3,922,096</u>	<u>\$ 3,731,467</u>

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

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current Liabilities:		
Accounts payable	\$ 71,228	\$ 236,078
Deferred revenues	196,896	52,506
Accrued expenses	200,582	85,193
Current portion of deferred compensation	1,860	2,635
Fiscal agent funds	<u>-</u>	<u>50,000</u>
Total Current Liabilities	<u>470,566</u>	<u>426,412</u>
Non-Current Liability:		
Deferred compensation, net of current portion	<u>5,613</u>	<u>8,099</u>
Total Liabilities	<u>476,179</u>	<u>434,511</u>
Net Assets:		
Unrestricted	1,999,330	2,839,023
Temporarily restricted	1,370,226	381,572
Permanently restricted	<u>76,361</u>	<u>76,361</u>
Total Net Assets	<u>3,445,917</u>	<u>3,296,956</u>
Total Liabilities and Net Assets	<u>\$ 3,922,096</u>	<u>\$ 3,731,467</u>

UNITED SOUTH END SETTLEMENTS

Statements of Activities and Changes in Net Assets

For the Years Ended June 30,

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Program service contracts and fees	\$ 1,982,206	\$ -	\$ -	\$ 1,982,206	\$ 1,963,541	\$ -	\$ -	\$ 1,963,541
Contributions and grants	753,413	362,153	-	1,115,566	906,503	330,236	-	1,236,739
Rental income	205,631	-	-	205,631	216,844	-	-	216,844
Investment return designated for operations	94,400	-	-	94,400	107,500	-	-	107,500
United Way allocation	67,467	-	-	67,467	69,791	-	-	69,791
Donated goods and services	82,384	-	-	82,384	26,497	-	-	26,497
Miscellaneous	21,304	-	-	21,304	8,055	-	-	8,055
Net assets released from purpose restrictions	204,419	(204,419)	-	-	5,000	(5,000)	-	-
Special events:								
Revenues	415,800	-	-	415,800	276,988	-	-	276,988
Expenses	(103,598)	-	-	(103,598)	(41,947)	-	-	(41,947)
Special events, net	312,202	-	-	312,202	235,041	-	-	235,041
Total Revenues and Support	3,723,426	157,734	-	3,881,160	3,538,772	325,236	-	3,864,008
Operating Expenses:								
Program Services:								
Child development	1,001,596	-	-	1,001,596	942,494	-	-	942,494
Youth Resource Center	401,705	-	-	401,705	367,197	-	-	367,197
Adult education	772,024	-	-	772,024	629,378	-	-	629,378
Community and cultural affairs	227,669	-	-	227,669	207,242	-	-	207,242
Other programs	1,375,920	-	-	1,375,920	1,420,113	-	-	1,420,113
Total Program Services	3,778,914	-	-	3,778,914	3,566,424	-	-	3,566,424
Supporting Services:								
Management and general	590,156	-	-	590,156	595,358	-	-	595,358
Fundraising	252,059	-	-	252,059	158,222	-	-	158,222
Total Supporting Services	842,215	-	-	842,215	753,580	-	-	753,580
Total Operating Expenses	4,621,129	-	-	4,621,129	4,320,004	-	-	4,320,004
Changes in Net Assets Before Non-Operating Activities	(897,703)	157,734	-	(739,969)	(781,232)	325,236	-	(455,996)
Non-Operating Activities:								
Net realized and unrealized losses	147,320	-	-	147,320	(83,824)	-	-	(83,824)
Investment income	4,410	-	-	4,410	20,760	-	-	20,760
Campaign grants	17,000	830,920	-	847,920	-	-	-	-
Campaign expense	(16,320)	-	-	(16,320)	-	-	-	-
Investment return designated for operations	(94,400)	-	-	(94,400)	(107,500)	-	-	(107,500)
Total Non-Operating Activities	58,010	830,920	-	888,930	(170,564)	-	-	(170,564)
Changes in Net Assets	(839,693)	988,654	-	148,961	(951,796)	325,236	-	(626,560)
Net Assets, Beginning of Year	2,839,023	381,572	76,361	3,296,956	3,790,819	56,336	76,361	3,923,516
Net Assets, End of Year	\$ 1,999,330	\$ 1,370,226	\$ 76,361	\$ 3,445,917	\$ 2,839,023	\$ 381,572	\$ 76,361	\$ 3,296,956

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>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 148,961	\$ (626,560)
Adjustments to reconcile changes in net assets to net cash applied to operating activities:		
Depreciation	212,677	284,981
Donated equipment	(8,000)	-
Discount on pledge receivable	29,001	-
Receipt of donated stock	(31,541)	-
Realized and unrealized (gain) loss on investments	(147,320)	83,824
Bad debts	-	9,723
Changes in operating assets and liabilities:		
Accounts receivable	74,244	(66,547)
Pledges receivable	(938,634)	(249,005)
Prepaid expenses and other current assets	62,497	(13,168)
Accounts payable	(164,850)	95,682
Deferred revenues	144,390	(31,046)
Accrued expenses	115,389	42,335
Deferred compensation	(3,261)	(1,087)
Fiscal agent funds	<u>(50,000)</u>	<u>25,435</u>
Net Cash Applied to Operating Activities	<u>(556,447)</u>	<u>(445,433)</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(32,328)	(45,621)
Proceeds from sale of investments	<u>612,986</u>	<u>257,069</u>
Net Cash Provided by Investing Activities	<u>580,658</u>	<u>211,448</u>
Net Increase (Decrease) in Cash and Equivalents	24,211	(233,985)
Cash and Equivalents, Beginning of Year	<u>297,789</u>	<u>531,774</u>
Cash and Equivalents, End of Year	<u>\$ 322,000</u>	<u>\$ 297,789</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 111</u>	<u>\$ 670</u>
Donated stock	<u>\$ 31,541</u>	<u>\$ -</u>
Donated building improvements	<u>\$ 8,000</u>	<u>\$ -</u>

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

UNITED SOUTH END SETTLEMENTS

Statements of Functional Expenses

For the Year Ended June 30, 2017
(with comparative totals for the year ended June 30, 2016)

	PROGRAM SERVICES					SUPPORTING SERVICES		June 30, 2017 <u>Total</u>	June 30, 2016 <u>Total</u>	
	<u>Child Development</u>	<u>Youth Resource Center</u>	<u>Adult Education</u>	<u>Community and Cultural Affairs</u>	<u>Other Programs</u>	<u>Total Program Services</u>	<u>Management and General</u>			<u>Fundraising</u>
Salaries and Related Costs:										
Salaries	\$ 633,452	\$ 230,946	\$ 476,619	\$ 109,416	\$ 616,673	\$ 2,067,106	\$ 169,339	\$ 181,042	\$ 2,417,487	\$ 2,222,256
Employee benefits and payroll taxes	<u>109,701</u>	<u>34,409</u>	<u>81,203</u>	<u>14,891</u>	<u>104,557</u>	<u>\$ 344,761</u>	<u>25,870</u>	<u>21,934</u>	<u>392,565</u>	<u>379,573</u>
Total Salaries and Related Costs	743,153	265,355	557,822	124,307	721,230	2,411,867	195,209	202,976	2,810,052	2,601,829
Expenses:										
Depreciation	58,939	31,618	17,969	25,826	72,111	206,463	5,314	900	212,677	284,981
Facility and program other	33,097	17,896	37,536	12,617	137,698	238,844	13,371	2,205	254,420	313,843
Direct care consultant	249	300	75,126	638	71,041	147,354	-	-	147,354	97,994
Staff training	2,823	1,035	582	865	2,799	8,104	2,010	1,175	11,289	9,492
Staff mileage/travel	56	134	1,178	45	11,079	12,492	1,382	164	14,038	11,791
Meals	65,931	24,421	706	10,143	41,142	142,343	3,962	1,044	147,349	157,186
Client transportation	960	41	-	-	20,563	21,564	-	-	21,564	18,681
Program supplies & materials	14,786	11,515	11,634	10,511	51,919	100,365	-	-	100,365	91,414
Audit fees	-	-	-	-	-	-	37,325	-	37,325	29,000
Legal fees	-	-	-	-	-	-	3,048	-	3,048	5,370
Other professional fees	47,607	35,025	43,197	34,523	178,339	338,691	263,315	11,067	613,073	467,583
Interest	-	-	-	-	-	-	111	-	111	670
Insurance	18,337	6,615	13,422	3,162	27,152	68,688	5,607	5,305	79,600	76,946
Other administrative	<u>15,658</u>	<u>7,750</u>	<u>12,852</u>	<u>5,032</u>	<u>40,847</u>	<u>82,139</u>	<u>59,502</u>	<u>27,223</u>	<u>168,864</u>	<u>153,224</u>
Total Expenses	\$ 1,001,596	\$ 401,705	\$ 772,024	\$ 227,669	\$ 1,375,920	\$ 3,778,914	\$ 590,156	\$ 252,059	\$ 4,621,129	\$ 4,320,004

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

UNITED SOUTH END SETTLEMENTS

Statements of Functional Expenses

For the Year Ended June 30, 2016

	PROGRAM SERVICES					SUPPORTING SERVICES			June 30, 2016 Total
	Child Development	Youth Resource Center	Adult Education	Community & Cultural Affairs	Other Programs	Total Program Services	Management & General	Fundraising	
Salaries and Related Costs:									
Salaries	\$ 587,049	\$ 217,215	\$ 411,947	\$ 108,357	\$ 643,403	\$ 1,967,971	\$ 156,053	\$ 98,232	\$ 2,222,256
Employee benefits and payroll taxes	<u>110,347</u>	<u>30,219</u>	<u>65,914</u>	<u>14,100</u>	<u>106,889</u>	<u>327,469</u>	<u>40,629</u>	<u>11,475</u>	<u>379,573</u>
Total Salaries and Related Costs	697,396	247,434	477,861	122,457	750,292	2,295,440	196,682	109,707	2,601,829
Expenses:									
Depreciation	55,687	29,358	32,903	27,861	115,084	260,893	12,054	12,034	284,981
Facility and program other	36,579	19,266	43,301	15,224	160,525	274,895	31,441	7,507	313,843
Direct care consultant	-	-	16,286	6,390	75,318	97,994	-	-	97,994
Staff training	1,104	868	210	667	2,805	5,654	3,358	480	9,492
Staff mileage/travel	3	91	678	3	7,940	8,715	2,880	196	11,791
Meals	66,945	27,510	1,742	10,805	41,257	148,259	7,766	1,161	157,186
Client transportation	12	551	37	633	16,094	17,327	1,351	3	18,681
Program supplies & materials	24,689	9,308	9,267	4,056	44,094	91,414	-	-	91,414
Audit fees	-	-	-	-	-	-	29,000	-	29,000
Legal fees	-	-	-	-	-	-	5,370	-	5,370
Other professional fees	27,646	19,550	22,146	11,450	131,514	212,306	242,332	12,945	467,583
Interest	-	-	-	-	-	-	670	-	670
Insurance	17,722	6,557	12,436	3,271	29,502	69,488	4,493	2,965	76,946
Other administrative	<u>14,711</u>	<u>6,704</u>	<u>12,511</u>	<u>4,425</u>	<u>45,688</u>	<u>84,039</u>	<u>57,961</u>	<u>11,224</u>	<u>153,224</u>
Total Expenses	<u>\$ 942,494</u>	<u>\$ 367,197</u>	<u>\$ 629,378</u>	<u>\$ 207,242</u>	<u>\$ 1,420,113</u>	<u>\$ 3,566,424</u>	<u>\$ 595,358</u>	<u>\$ 158,222</u>	<u>\$ 4,320,004</u>

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

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies

Operations

United South End Settlements' ("USES") mission is to harness the power of their diverse community (Boston's South End) to disrupt the cycle of poverty for children and their families. USES invests in a two-generation model that is comprehensive, multi-dimensional, and supports the whole family. USES works with parents and caregivers to develop their own capacity to reach their goals through coaching, increase their income and assets through job training and placement, and expand their social networks through community connections. USES provides children with education & enrichment opportunities through early childhood education, after school enrichment, and a summer sleepaway camp that promotes their own development, expands their horizons, and readies them for school and beyond. USES is implementing its 5-year strategic growth plan which is highlighted with these statements including preliminary contributions which will support growth capital and long-term program investments.

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"). United South End Settlements is a 501c(3) nonprofit corporation.

The statements 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. Unconditional promises to give are included in the financial statements as pledges receivable and revenue for the appropriate net asset category. 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 are 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.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Revenue Recognition and Expense Allocation - continued

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other

factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of donated assets and accounts receivable, and estimating depreciation, amortization, net pension liability assumptions and the recoverability of long-lived assets.

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.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

Accounts Receivable

Accounts receivable are periodically evaluated for collectability based on past history with customers. Management has reviewed accounts receivable as of June 30, 2017 and 2016 and considered the balances to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

Pledges Receivable

Pledges receivable at June 30, 2017 and 2016 consist of contributions committed to various programs. Pledges are recorded when unconditionally committed. Pledges receivable due in periods greater than one year are discounted to their net present value. Management has reviewed pledges receivable as of June 30, 2017 and 2016 and believes all receivables to be materially collectible and therefore has not provided an allowance. Management has recorded a time value discount on the pledges receivable. At June 30, 2017 and 2016, the discount was \$29,001 and \$0 respectively.

Prepaid Expenses

Prepaid expenses consist of payments related to insurance and an unemployment services trust fund for the years ended June 30, 2017 and 2016.

Deferred Revenues

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

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

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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. In previous years, the Board has designated a portion of its unrestricted net assets as follows (see also Note 10):

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

Investment in Property and Equipment- These net assets represent amounts expended for property and equipment, net of accumulated depreciation.

Board Designated Funds - Special Purpose:

Board Designated - 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.

Board Designated - 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.

Board Designated - 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.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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.

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, 2017 and 2016

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, and
 - 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, 2017 and 2016

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 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.

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.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

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 statements 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 years 2017 and 2016, USES received donated goods and services totaling \$82,384 and \$26,497, respectively. During fiscal years 2017 and 2016, \$74,384 and \$26,497 were recognized in event expense for these donated goods and services, respectively and during fiscal year 2017 \$8,000 was capitalized in fixed assets as donated equipment.

Allocation of Joint Costs

During the years ended June 30, 2017 and 2016, USES incurred certain joint costs for fundraising activities as presented on the statements of functional expenses.

New Accounting Pronouncements

Leases - The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-02 ("ASU" 2016-02) effective for non-public and most not-for-profit entities for fiscal years beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of financial position with the rights and obligations resulting from leases categorized as operating leases as assets and liabilities. It provides for an election on leases with terms of less than twelve months to be excluded from this standard. Management is in the process of evaluating this standard and has not yet determined its impact on the financial statements.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

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

New Accounting Pronouncements -continued

Presentation of Financial Statements of Not-for-Profit Entities ASU 2016-14, an amendment to Topic 958, Not-for-Profit Entities, was issued by the Financial Accounting Standards Board in June 2016 with an effective date for fiscal years beginning after December 15, 2017. The purpose of this amendment is to improve the transparency and utility of information contained in the financial statements of such entities. Net assets will be presented in two categories, net assets with donor restrictions and net assets without donor restrictions, as opposed to the current three categories. Additional information and disclosures will be required to enable a reader to more readily understand liquidity limitations due to restrictions on net assets. Early application is permitted. Management has not begun its review of the standard, but does not expect implementation to have a material effect on financial position or results of operations.

Reclassifications

Certain prior year amounts have been reclassified to agree to the current year financial statement presentation.

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.

Investment income is recorded as net of investment fees of \$4,764 and \$3,279 in fiscal years 2017 and 2016, respectively.

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, 2017 and 2016.

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, 2017 and 2016

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. At June 30, 2017 and 2016, approximately 98% and 100%, respectively, of USES' investments were in the Multi-Asset Fund. The following tables set forth by level, based on an allocation of the Multi-Asset Fund as of June 30, 2017 and 2016, respectively, pursuant to unaudited financial information of the Fund, USES' assets measured on a recurring basis.

	<u>June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 300,328	\$ 357,210	\$ -	\$ 657,539
Short-term investments	189,848	-	-	189,848
Mutual funds	46,571	-	-	46,571
U.S. Treasury notes/bonds	109,828	-	-	109,828
Government money market	25,682	-	-	25,682
Private investment funds	-	-	222,068	222,068
Corporate debt securities	-	9,493	-	9,493
Warrants	<u>1,578</u>	<u>-</u>	<u>-</u>	<u>1,578</u>
Total Assets at Fair Value	\$ <u>673,835</u>	\$ <u>366,703</u>	\$ <u>222,068</u>	\$ <u>1,262,606</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 2 - **Investments - Continued**

Fair Value Measurements - continued

	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 495,915	\$ 547,668	\$ -	\$ 1,043,583
Short-term investments	217,765	-	-	217,765
Mutual funds	18,471	-	-	18,471
U.S. Treasury notes/bonds	188,706	-	-	188,706
Private investment funds	-	-	209,551	209,551
Corporate debt securities	-	17,703	-	17,703
Warrants	<u>952</u>	<u>-</u>	<u>-</u>	<u>952</u>
 Total Assets at Fair Value	 \$ <u>921,809</u>	 \$ <u>565,371</u>	 \$ <u>209,551</u>	 \$ <u>1,696,731</u>

USES' assets at fair value classified within Level 3 were \$222,068 and \$209,551 at June 30, 2017 and 2016, respectively. Such amounts were 17.5% and 12% of total assets measured at fair value as of June 30, 2017 and 2016, respectively.

The following tables set forth a summary of changes in fair value of the Level 3 assets for the years ended June 30,:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 209,551	\$ 367,767
Changes 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>12,517</u>	<u>(158,216)</u>
Balance, end of year	\$ <u>222,068</u>	\$ <u>209,551</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 3 - **Campaign Pledges Receivable and Non-Campaign Pledges Receivable**

Pledges receivable are from foundations, corporations and individuals located throughout Massachusetts.

Campaign and non-campaign pledges receivable are as follows as of June 30,:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 549,239	\$ 174,855
Due within two-four years	645,000	80,750
Time value discount	<u>(29,001)</u>	-
Balance, end of year	\$ <u>1,165,238</u>	\$ <u>255,605</u>

Note 4 - **Property and Equipment**

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

	<u>2017</u>	<u>2016</u>
Land	\$ 111,960	\$ 111,960
Buildings	2,046,661	2,046,661
Building improvements	5,473,805	5,440,977
Equipment	796,049	788,549
Furniture and fixtures	146,478	146,478
Vehicle	<u>4,815</u>	<u>4,815</u>
	8,579,768	8,539,440
Less: accumulated depreciation	<u>7,678,004</u>	<u>7,465,327</u>
	\$ <u>901,764</u>	\$ <u>1,074,113</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 5 - **Fiscal Agent Funds**

During the years ended June 30, 2017 and 2016, USES acted as a lead fiscal agent for an organization that was in the process of applying for IRS recognition of tax exempt status. At June 30, 2016, USES was holding \$50,000 on behalf of this organization, which was included in fiscal agent restricted cash and fiscal agent funds liability in the accompanying statement of financial position. Under this agreement, USES was entitled to an administrative fee of 5% of all amounts paid to the organization. During the year ended June 30, 2017, USES paid the \$50,000 to the organization, and the organization also received its tax exempt status, which ended the agency agreement.

Note 6 - **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, 2017 and 2016.

USES has a deferred compensation plan, which allows for compensation to be paid to a former supervisory employee. The liability for these payments, discounted at a rate of 7% and incorporating life expectancy, is \$7,473 and \$10,734 as of June 30, 2017 and 2016, respectively.

Note 7 - **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 her 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, 2017 and 2016, remaining amounts under the agreement were \$3,000 and \$6,000, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 8 - **Rental Income**

USES rents program and parking space to several not-for-profit and for-profit organizations under tenant-at-will and lease agreements having initial terms from eighteen months to ten years and expiring at various dates through August 2020.

Rental income was \$205,631 and \$216,844 for the years ended June 30, 2017 and 2016, respectively.

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

Years Ending <u>June 30,</u>	
2018	\$ 30,938
2019	18,000
2020	18,000
2021	<u>1,500</u>
	\$ <u>68,438</u>

Note 9 - **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 \$11,398 and \$9,354 from the trustee for the years ended June 30, 2017 and 2016, respectively.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 10 - **Endowment**

Changes in endowment net assets by class are as follows:

	Unrestricted			
	Board Designated <u>Endowment</u>	Special Purpose	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 1,544,659	\$ 433,124	\$ 76,361	\$ 2,054,144
Investment return:				
Investment income, net of fees	12,717	4,723	-	17,440
Realized and unrealized losses	(64,672)	(19,152)	-	(83,824)
Appropriation to operations	(107,500)	-	-	(107,500)
Transfers to operations	<u>(169,368)</u>	<u>-</u>	<u>-</u>	<u>(169,368)</u>
Endowment net assets, June 30, 2016	1,215,836	418,695	76,361	1,710,892
Investment return:				
Investment income, net of fees	(1,705)	1,308	-	(397)
Realized and unrealized gains	103,262	44,167	-	147,429
Appropriation to operations	(94,400)	-	-	(94,400)
Transfers to operations	<u>(499,827)</u>	<u>-</u>	<u>-</u>	<u>(499,827)</u>
Endowment net assets, June 30, 2017	\$ <u>723,166</u>	\$ <u>464,170</u>	\$ <u>76,361</u>	\$ <u>1,263,697</u>

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 11 - **Operating Lease**

USES has various lease agreements for use of equipment with monthly payments ranging from \$50 to \$2,025 and expiring at various times from December 2017 through February 2021. Rental expense under the various leases aggregated \$28,780 and \$26,744 for the years ended June 30, 2017 and 2016, respectively.

Future minimum annual lease payments are as follows:

Years Ending <u>June 30,</u>	
2018	\$ 28,488
2019	6,213
2020	4,188
2021	<u>2,544</u>
	\$ <u>41,433</u>

Note 12 - **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, 2017 and 2016, or on the changes in its net assets for the years then ended.

Litigation

USES is periodically involved in legal actions arising in the ordinary course of business. Costs for all known claims not covered by insurance, if any, are recognized in the financial statements.

UNITED SOUTH END SETTLEMENTS

Notes to the Financial Statements - Continued

June 30, 2017 and 2016

Note 13 - **Concentrations and Risks**

Concentration of Credit Risk

During fiscal years 2017 and 2016, USES received 25% and 24% of its total operating revenues from various departments of the Commonwealth of Massachusetts, respectively. At June 30, 2017 and 2016, 76% and 55%, were due from various departments of the Commonwealth of Massachusetts and the City of Boston, respectively.

USES received 45% of total contributions and campaign grants and 82% of the campaign pledge receivable balance and from one donor as of June 30, 2017.

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 14 - **Management's Acceptance of Financial Statements and Subsequent Event**

Management has evaluated subsequent events through November 13, 2017, the date for which the financial statements were available for issuance. Management agreed to a \$4 million mortgage line of credit and management has not yet drawn funds from the agreement. Management has accepted the financial statements and did not identify any events subsequent to June 30, 2017 requiring disclosure in the financial statements, other than those events disclosed above.

**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, 2017, 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 13, 2017.

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'Connell and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 13, 2017