

**LYNN ECONOMIC OPPORTUNITY, INC.
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017
AND
SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND REPORTS ON COMPLIANCE
AND INTERNAL CONTROL
YEAR ENDED SEPTEMBER 30, 2017**

LYNN ECONOMIC OPPORTUNITY, INC.
YEAR ENDED SEPTEMBER 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lynn Economic Opportunity, Inc.
Lynn, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Lynn Economic Opportunity, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lynn Economic Opportunity, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2018, on our consideration of Lynn Economic Opportunity, Inc.' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lynn Economic Opportunity, Inc.'s 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 Lynn Economic Opportunity, Inc.'s internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 9, 2018

LYNN ECONOMIC OPPORTUNITY, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017

	ASSETS		
	Unrestricted	Temporarily Restricted	Total
Current assets:			
Cash and cash equivalents	\$ 3,772,815	\$ 68,871	\$ 3,841,686
Current portion of contract and other receivables	498,864	-	498,864
Grants receivable	-	57,702	57,702
Prepaid expenses and other current assets	53,314	-	53,314
Total current assets	4,324,993	126,573	4,451,566
Property and equipment, net	4,473,767	894,106	5,367,873
Other assets:			
Grants receivable, net of current portion	-	25,000	25,000
TOTAL ASSETS	\$ 8,798,760	\$ 1,045,679	\$ 9,844,439

	LIABILITIES AND NET ASSETS		
	Unrestricted	Temporarily Restricted	Total
Current liabilities:			
Current portion of bond payable	\$ 84,062	\$ -	\$ 84,062
Accounts payable and accrued expenses	789,899	-	789,899
Deferred revenue	425,787	-	425,787
Total current liabilities	1,299,748	-	1,299,748
Bond payable, net of current portion	1,668,574	-	1,668,574
Total liabilities	2,968,322	-	2,968,322
Net assets:			
Unrestricted	5,830,438	-	5,830,438
Temporarily restricted	-	1,045,679	1,045,679
Total net assets	5,830,438	1,045,679	6,876,117
TOTAL LIABILITIES AND NET ASSETS	\$ 8,798,760	\$ 1,045,679	\$ 9,844,439

See accompanying notes to financial statements.

LYNN ECONOMIC OPPORTUNITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Contracts	\$ 9,958,282	\$ -	\$ 9,958,282
Donated goods and services	629,654	-	629,654
Grants and contributions	101,802	79,500	181,302
Rental income	131,103	-	131,103
Program service fees	119,160	-	119,160
Special events	37,739	-	37,739
Other income	12,117	-	12,117
Net assets released from restrictions	<u>194,197</u>	<u>(194,197)</u>	<u>-</u>
Total revenue and support	<u>11,184,054</u>	<u>(114,697)</u>	<u>11,069,357</u>
Operating expenses:			
Program services:			
Child care	5,526,626	-	5,526,626
Community service	427,849	-	427,849
Energy assistance	<u>3,299,362</u>	<u>-</u>	<u>3,299,362</u>
Total program services	<u>9,253,837</u>	<u>-</u>	<u>9,253,837</u>
General and administrative services:			
General	1,228,176	-	1,228,176
Facilities	<u>247,097</u>	<u>-</u>	<u>247,097</u>
Total general and administrative services	<u>1,475,273</u>	<u>-</u>	<u>1,475,273</u>
Total operating expenses	<u>10,729,110</u>	<u>-</u>	<u>10,729,110</u>
Changes in net assets from operations	<u>454,944</u>	<u>(114,697)</u>	<u>340,247</u>
Non-operating activities:			
Gain on sale of property	1,500	-	1,500
Net assets released from property and equipment restrictions	<u>29,052</u>	<u>(29,052)</u>	<u>-</u>
Total non-operating activities	<u>30,552</u>	<u>(29,052)</u>	<u>1,500</u>
Changes in net assets	485,496	(143,749)	341,747
Net assets - beginning	<u>5,344,942</u>	<u>1,189,428</u>	<u>6,534,370</u>
NET ASSETS - ENDING	<u><u>\$ 5,830,438</u></u>	<u><u>\$ 1,045,679</u></u>	<u><u>\$ 6,876,117</u></u>

See accompanying notes to financial statements.

LYNN ECONOMIC OPPORTUNITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services				General and Administrative Services			Total
	Child Care	Community Service	Energy Assistance	Total Program Services	General	Facilities	Total General and Administrative Services	
Personnel costs:								
Salaries and related	\$ 3,127,711	\$ 256,871	\$ 342,685	\$ 3,727,267	\$ 717,488	\$ 60,289	\$ 777,777	\$ 4,505,044
Payroll taxes and fringe benefits	836,432	41,567	106,676	984,675	186,702	14,013	200,715	1,185,390
Total personnel costs	<u>3,964,143</u>	<u>298,438</u>	<u>449,361</u>	<u>4,711,942</u>	<u>904,190</u>	<u>74,302</u>	<u>978,492</u>	<u>5,690,434</u>
Direct program costs:								
Consumer expenses, supplies and activities	136,823	12	2,753,582	2,890,417	2,094	3,746	5,840	2,896,257
Donated goods and services	629,654	-	-	629,654	-	-	-	629,654
Food	105,853	-	-	105,853	-	-	-	105,853
Staff training and travel	96,578	25,331	3,764	125,673	7,547	-	7,547	133,220
Transportation	41,927	-	-	41,927	1,647	-	1,647	43,574
Grant expense	69,408	-	-	69,408	-	-	-	69,408
Waste disposal	6,134	-	-	6,134	-	4,744	4,744	10,878
Advertising	22,138	-	817	22,955	1,053	-	1,053	24,008
Bad debt	500	-	-	500	-	-	-	500
Total direct program costs	<u>1,109,015</u>	<u>25,343</u>	<u>2,758,163</u>	<u>3,892,521</u>	<u>12,341</u>	<u>8,490</u>	<u>20,831</u>	<u>3,913,352</u>
Occupancy:								
Utilities	69,620	-	-	69,620	10,018	25,171	35,189	104,809
Repairs and maintenance	48,380	1,330	45,878	95,588	4,047	22,604	26,651	122,239
Interest	39,493	-	-	39,493	-	21,907	21,907	61,400
Property taxes	-	-	-	-	-	18,373	18,373	18,373
Total occupancy	<u>157,493</u>	<u>1,330</u>	<u>45,878</u>	<u>204,701</u>	<u>14,065</u>	<u>88,055</u>	<u>102,120</u>	<u>306,821</u>
Other costs:								
Professional fees	72,266	71,533	20,992	164,791	100,732	-	100,732	265,523
Office supplies	43,327	4,037	13,247	60,611	19,588	10,257	29,845	90,456
Insurance	2,076	-	225	2,301	78,418	-	78,418	80,719
Dues and fees	23,629	11,605	241	35,475	24,215	275	24,490	59,965
Telephone	15,751	274	1,126	17,151	42,832	54	42,886	60,037
Special events	-	-	-	-	6,426	-	6,426	6,426
Equipment purchase and rental	-	1,668	-	1,668	15,970	-	15,970	17,638
Printing and postage	549	611	10,129	11,289	1,755	-	1,755	13,044
Miscellaneous	-	10,447	-	10,447	3,614	-	3,614	14,061
Total other costs	<u>157,598</u>	<u>100,175</u>	<u>45,960</u>	<u>303,733</u>	<u>293,550</u>	<u>10,586</u>	<u>304,136</u>	<u>607,869</u>
Total operating expenses before depreciation	<u>5,388,249</u>	<u>425,286</u>	<u>3,299,362</u>	<u>9,112,897</u>	<u>1,224,146</u>	<u>181,433</u>	<u>1,405,579</u>	<u>10,518,476</u>
Depreciation	<u>138,377</u>	<u>2,563</u>	<u>-</u>	<u>140,940</u>	<u>4,030</u>	<u>65,664</u>	<u>69,694</u>	<u>210,634</u>
TOTAL EXPENSES	<u>\$ 5,526,626</u>	<u>\$ 427,849</u>	<u>\$ 3,299,362</u>	<u>\$ 9,253,837</u>	<u>\$ 1,228,176</u>	<u>\$ 247,097</u>	<u>\$ 1,475,273</u>	<u>\$ 10,729,110</u>

See accompanying notes to financial statements.

LYNN ECONOMIC OPPORTUNITY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cash flows from operating activities:	
Changes in net assets	\$ 341,747
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	210,634
Amortization on bond financing	-
Gain on disposal	2,654
Bad debt expense	500
Changes in assets and liabilities:	
(Increase) decrease in:	
Contract and other receivables	347,440
Grants receivable	34,412
Prepaid expenses and other current assets	(7,189)
Increase in:	
Accounts payable and accrued expenses	200,641
Deferred revenue	<u>250,340</u>
Net cash provided by operating activities	<u>1,381,179</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(30,032)</u>
Net cash used in investing activities	<u>(30,032)</u>
Cash flows from financing activities:	
Payments on bond payable	(82,542)
Payments on notes payable	<u>(33,877)</u>
Net cash used in financing activities	<u>(116,419)</u>
Net increase in cash and cash equivalents	1,234,728
Cash and cash equivalents - beginning	<u>2,606,958</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,841,686</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	<u>\$ 61,400</u>

See accompanying notes to financial statements.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 1. ORGANIZATION

Lynn Economic Opportunity, Inc. (the "Agency") was incorporated in 1965 as a Massachusetts not-for-profit community action agency to provide a broad range of programs to eligible low-income residents in Lynn and its surrounding communities. Lynn Economic Opportunity, Inc. provides Head Start and Early Head Start education programs for children ages birth to five, an after-school program, fuel and energy conservation assistance, and other community outreach programs that help to strengthen the region.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Agency have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

The Agency follows the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Subtopic *Presentation of Financial Statements for Not-for-Profit Entities*. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets of the Agency that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the Agency, as well as funds invested in property, plant and equipment. The Agency may designate portions of its unrestricted net assets as board designated for various purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met either by actions of the Agency and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Agency. Generally, the donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes. At September 30, 2017, the Agency had no permanently restricted net assets.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and 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.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Cash and cash equivalents include cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less. The Agency maintains its cash in bank deposit accounts, which, at times, may exceed federal insured limits. The Agency has not experienced any losses in such accounts and management believes the Agency is not exposed to any significant credit risk on cash and cash equivalents.

Grants and Contracts Receivable and Other Receivables

Grants and contracts receivable and other receivables are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of probable uncollectible amounts. Recoveries of receivables previously written off are recorded as income when received. As of September 30, 2017, the Agency recorded an allowance for doubtful accounts of \$5,245.

Property and Equipment

Property and equipment are recorded at cost or fair value, if received by donation. The Agency capitalizes expenditures for property and equipment in excess of \$5,000. Expenditures for major improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets which are as follows:

<u>Description</u>	<u>Years</u>
Building improvements	10 - 40 years
Vehicles and equipment	5 - 10 years
Leasehold improvements	Shorter of lease term or 30 years

Valuation of Long-Lived Assets

The Agency's long-lived assets are reviewed for impairment in accordance with the guidance of the FASB ASC Topic *Property, Plant, and Equipment*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. At September 30, 2017, the management has determined that long-lived assets are not impaired.

Deferred Financing Costs

The Agency has capitalized the costs associated with obtaining bond financing. Loan acquisition costs are amortized over the life of the bond and are presented net of the outstanding long-term debt on the accompanying statement of financial position. Amortization of deferred financing costs is reported as interest expense on the accompanying statement of activities and changes in net assets.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue at September 30, 2017 reflects contract amounts received that exceed earned revenue or costs incurred and security deposits from tenants of the Agency which were collected upon move-in. The contract amounts will be recognized as revenue when they are earned.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash, are reported at their estimated fair value at the time of receipt. Contributions received with time or purpose restrictions are reported as temporarily restricted or permanently restricted in accordance with donor stipulations and are reclassified to unrestricted net assets when those restrictions are fulfilled. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

Contract Revenue

Contract revenue is reported in accordance with the provisions of the applicable contract agreements. The majority of the contracts received by the Agency are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award. These contracts generally provide for payment to the Agency based on a fixed fee per unit of service.

Donated Goods and Services

The Agency receives donated goods and services from organizations and other volunteers in support of various aspects of its programs. Donated goods are recorded as contributions at fair value at the date of the donation. Donated services are recognized as contributions at fair market value if the services create or enhance non-financial assets or require specialized skills, which would otherwise be purchased. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies or by management. The Agency also receives services of volunteers which are not reflected in the financial statements since they do not meet this recognition criteria.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Advertising

The Agency expenses advertising costs when they are incurred. Advertising expense was \$23,191 during the year ended September 30, 2017.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Agency is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The Agency is subject to federal and state income taxes on unrelated business income, if any.

The Agency accounts for uncertain tax positions in accordance with FASB ASC Topic *Income Taxes*. This Topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. This Topic also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At September 30, 2017, management believes that the Agency has no material uncertain tax positions.

Although the Agency is organized as a nonprofit organization, a portion of the net income generated from rental activity, if any, (Note 8) is considered unrelated business income as its facility located at 156 Broad Street, Lynn, Massachusetts is debt financed and partially rented to for-profit corporations. No unrelated business income tax was due as a result of this activity as of and for the year ended September 30, 2017.

Recently Issued but not yet Effective Accounting Pronouncements

Revenue - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which requires an entity to recognize revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance in United States generally accepted accounting principles ("US GAAP"), including industry specific guidance, when it becomes effective. This new guidance is effective for years beginning after December 15, 2018. The Agency is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures.

Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2019, with early adoption permitted. The Agency is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

Financial Statement Presentation - In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* ("ASU 2016-14"), which reduces the number of net asset classes from three to two and increases disclosures about liquidity risks, among other changes. This ASU is effective for years beginning after December 15, 2017. The Agency is evaluating the effect that ASU 2016-14 will have on its financial statements and related disclosures.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Agency has evaluated all events subsequent to the statement of financial position date of September 30, 2017, through the date which the financial statements were available to be issued, January 9, 2018, and has determined that there are no subsequent events that require disclosure under FASB ASC 855 *Subsequent Events*.

NOTE 3. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of September 30:

Land	\$ 1,234,551
Buildings and improvements	5,695,590
Vehicles	86,957
Leasehold improvements	44,069
Equipment	<u>11,098</u>
	7,072,265
Less accumulated depreciation	<u>1,704,392</u>
	<u>\$ 5,367,873</u>

Depreciation expense was \$141,172 for the year ended September 30, 2017 and is included in operating expenses in the accompanying statement of activities.

NOTE 4. BOND PAYABLE

Revenue bond, series 2013, due to Massachusetts Development Finance Agency and a local bank with monthly installments of principal and interest totaling \$11,945. The note requires interest at a rate of 3.25% through November 1, 2018, at which time it will be adjusted to 75% of the Federal Home Loan Bank Rate, plus 2.50%. Principal and interest payments are to be made through the bond's maturity, November 22, 2023

	\$ 1,803,282
Less deferred financing costs, net	<u>50,646</u>
Bond payable, net	<u>\$ 1,752,636</u>

The bond payable has certain financial and non-financial covenants with which the Agency must comply. The Agency was in compliance with these covenants as of September 30, 2017.

**LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017**

NOTE 4. BOND PAYABLE (CONTINUED)

At September 30, 2017, future minimum payments are expected as follows:

<u>Years ending September 30:</u>	<u>Amount</u>
2018	\$ 84,062
2019	86,390
2020	89,895
2021	92,961
2022	96,132
Thereafter	<u>1,353,842</u>
	<u>\$ 1,803,282</u>

NOTE 5. LINE OF CREDIT

The Agency has a \$250,000 line of credit agreement with a bank. The line of credit is secured by substantially all of the Agency's assets. Borrowings bear interest at the bank's prime lending rate (5.25% at September 30, 2017). The note is due and payable on demand and is subject to annual renewal. As of September 30, 2017, there was no outstanding balance on the line of credit.

NOTE 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following as of September 30, 2017:

Property restrictions	\$ 894,106
Purpose restrictions	<u>151,573</u>
	<u>\$ 1,045,679</u>

Restricted property consists of building improvements funded by the Agency's Head Start Program in prior years in accordance with 45 CFR Section 1305.2. The original amounts of these grants totaled \$1,243,595 and are being released from restriction over the useful lives of the property which range from twenty to forty years.

NOTE 7. RELATED PARTY TRANSACTIONS

A member of the Agency's board of directors rents office space from the Agency at market rate. Rental income from this lease agreement was \$22,608 for the year ended September 30, 2017.

NOTE 8. LEASE AGREEMENTS

The Agency pays rents on behalf of certain consumers under its Emergency Food and Shelter Grant. Client rent expense under this grant was \$29,874 for the year ended September 30, 2017, and is included in direct program costs in the accompanying statement of functional expenses.

The Agency owns a property and rents certain commercial space to both nonprofit organizations and for profit companies. The original terms of these leases range from one to five years with monthly rent payments ranging from \$200 to \$2,772. For the year ended September 30, 2017, rental income was \$131,103. The future minimum lease payments under these agreements are approximately \$29,000 over the next three years.

LYNN ECONOMIC OPPORTUNITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

NOTE 8. LEASE AGREEMENTS (CONTINUED)

The Agency also entered into operating leases for various office equipment. The leases in effect at September 30, 2017, require monthly payments which range from \$129 to \$274 per month and expire in October 2018. For the year ended September 30, 2017, equipment lease expense was \$15,970. The future minimum lease payments under these agreements are approximately \$16,400.

NOTE 9. RETIREMENT PLAN

The Agency maintains a 403(b) defined contribution pension plan (the "Plan") for all eligible employees of the Agency. The Plan allows employees to contribute a minimum of 1% of earned wages not to exceed the limits set by the Internal Revenue Service. The Agency matched eligible employee contribution on a 1.33:1 basis up to 6% of the employee's salary, as defined in the agreement. During the year ended September 30, 2017, the board of directors approved matching contributions of \$196,191. These amounts are included in personnel costs on the accompanying statement of functional expenses.

NOTE 10. CONCENTRATIONS

During the year ended September 30, 2017, the Agency generated approximately 40% of contract revenues from various Commonwealth of Massachusetts agencies. Approximately 37% of operating support and revenue were received from the U.S. Department of Health and Human Services (HHS) during September 30, 2017. These reimbursements are subject to audit by the 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 the Agency as of September 30, 2017, or on the changes in their net assets for the year then ended.

Approximately 47% of the Agency's grants and net contract and other receivables at September 30, 2017 are due from government agencies.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Claims and legal actions are brought against the Agency during the normal course of business. In the opinion of management, no claims or legal actions have been asserted against the Agency which, individually or in the aggregate, will have a material effect on the accompany financial statements.

LYNN ECONOMIC OPPORTUNITY, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Program:			
Head Start	93.600	N/A	\$ 4,070,290
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Housing and Community Development:			
Low-Income Home Energy Assistance Community Services Block Grant - Discretionary Awards	93.568	N/A	2,615,295
	93.569	N/A	476,413
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Elder Affairs - Greater Lynn Senior Services:			
Federal Older Americans Act Title III	93.044	N/A	5,000
CCDF Cluster:			
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Early Education and Care:			
		2017FLEXPOO 2017PRIORPOR 300010LYNNE	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3100LYNNECO 3300LYNNECO	182,155
		2017FLEXPOO 2017PRIORPOR 300010LYNNE 3100LYNNECO	
Child Care and Development Block Grant	93.575	3300LYNNECO	209,555
TANF Cluster:			
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Early Education and Care:			
		2017FLEXPOO 2017PRIORPOR 300010LYNNE 3100LYNNECO	
Temporary Assistance for Needy Families	93.558	3300LYNNECO	<u>399,780</u>
Total U.S. Department of Health and Human Services			<u>7,958,488</u>

LYNN ECONOMIC OPPORTUNITY, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Early Education and Care: Child and Adult Care Food Program	10.558	SCDOE17758	212,586
Pass-through programs from:			
Greater Boston Food Assistance Program (Food Commodities) Commodity Supplemental Food Program	10.565	N/A	<u>16,129</u>
Total U.S. Department of Agriculture			<u>228,715</u>
U.S. Department of Homeland Security:			
Direct Program:			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>29,874</u>
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Lynn Housing Authority: Continuum of Care	14.267		<u>72,987</u>
U.S. Department of Energy:			
Pass-through programs from:			
Commonwealth of Massachusetts - Department of Housing and Community Development - Action, Inc.: Board Program	81.042		<u>31,920</u>
Total Expenditures of Federal Awards			<u>\$ 8,321,984</u>

LYNN ECONOMIC OPPORTUNITY, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal grant activity of Lynn Economic Opportunity, Inc. (the "Agency") under programs of the federal government for the year ended September 30, 2017 and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The Agency did not elect to use the 10% de minimis cost rate for its Federal programs. The Agency has negotiated an indirect rate of 13.3%.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Lynn Economic Opportunity, Inc.
Lynn, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Lynn Economic Opportunity, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Lynn Economic Opportunity, Inc.'s major federal program for the year ended September 30, 2017. Lynn Economic Opportunity, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Lynn Economic Opportunity, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lynn Economic Opportunity, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lynn Economic Opportunity, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.



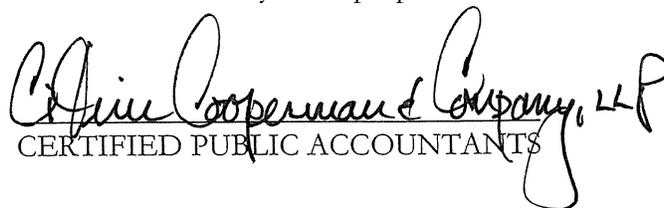
Report on Internal Control over Compliance

Management of Lynn Economic Opportunity, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lynn Economic Opportunity, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lynn Economic Opportunity, Inc.'s internal control over compliance.

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

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

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


CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 9, 2018



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

To the Board of Directors
Lynn Economic Opportunity, Inc.
Lynn, 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 Lynn Economic Opportunity, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the 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 Lynn Economic Opportunity, Inc.'s 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 Lynn Economic Opportunity, Inc.'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 Lynn Economic Opportunity, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purposes.


CERTIFIED PUBLIC ACCOUNTANTS

Braintree, Massachusetts
January 9, 2018

**LYNN ECONOMIC OPPORTUNITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 4. Internal control over major federal programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None Reported |
| 5. Type of auditor's report issued on compliance for major federal programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of Uniform Guidance? | No |

- | | |
|--|----------------------------|
| 7. Identification of major federal programs: | |
| <u>Name of Federal Program or Cluster</u> | CFDA |
| Head Start | <u>Number(s)</u>
93.600 |
| 8. Dollar threshold used to distinguish between Type A programs and Type B programs: | \$750,000 |
| 9. Auditee qualifies as a low risk auditee? | Yes |

B. FINANCIAL STATEMENT FINDINGS

None

C. MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

None

**LYNN ECONOMIC OPPORTUNITY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2017**

A. FINANCIAL STATEMENT FINDINGS

Finding 2016-001

Condition: Instances were noted where certain account balances were not properly reconciled at year end.

Criteria or Specific Requirement: Regulations in accordance with Government Auditing Standards surrounding internal control over financial reporting require disclosure of identified deficiencies in internal control surrounding the financial reporting cycle.

Cause: Turnover in the business office/finance department, as well as a deficiency in the reconciliation process of certain account balances to ensure that the accounting records were accurate and complete.

Effect: The Agency had a significant deficiency surrounding internal control over financial reporting, which resulted in adjusting journal entries. The impact of the adjustments on operating and non-operating changes in net assets totaled approximately \$141,000 and \$344,000, respectively.

Recommendation: It was recommended that all activity is recorded on a monthly basis and accounts are properly reconciled. It was also recommended that the Agency update its accounting policies and procedures manual. Management and the board were also suggested to assess the current fiscal staffing needs.

Status: The Agency updated its accounting policies and accounting procedures manual and developed and implemented a detailed closing checklist for month-end closing functions. Management also hired a highly-qualified candidate. The Agency also had a mid-year reconciliation and review of all accounts, which resulted in no findings.

B. MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

None