

**Audited
Financial Statements**

**Newton Community Service
Centers, Inc.**

June 30, 2013

Newton Community Service Centers, Inc.

Single Audit Reporting Package

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Newton Community Service Centers, Inc.

We have audited the accompanying statements of financial position of Newton Community Service Centers, Inc. as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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.

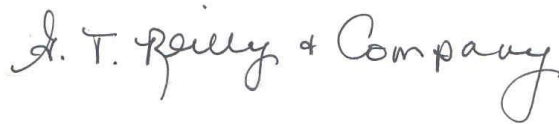
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newton Community Service Centers, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity 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 5, 2013 on our consideration of Newton Community Service Centers, Inc.'s internal control over financial reporting and our tests of its 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 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 Newton Community Service Centers, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in black ink and is positioned above the printed name of the firm.

G.T. Reilly & Company

Milton, Massachusetts
November 5, 2013

Newton Community Service Centers, Inc.

Statements of Financial Position

June 30

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 516,211	\$ 547,553
Accounts receivable, net of allowance for doubtful accounts of \$2,000 in 2013 and 2012	36,260	110,458
Contributions receivable net of allowance for doubtful accounts of \$3,000 in 2013 and 2012 (Notes 2 & 3)	5,200	39,704
Prepaid expenses	17,691	21,561
	<u>575,362</u>	<u>719,276</u>
TOTAL CURRENT ASSETS	<u>575,362</u>	<u>719,276</u>
PROPERTY AND EQUIPMENT, net (Notes 2, 5, 6 & 14)	<u>575,018</u>	<u>1,681,645</u>
	<u>\$ 1,150,380</u>	<u>\$ 2,400,921</u>
TOTAL ASSETS	<u>\$ 1,150,380</u>	<u>\$ 2,400,921</u>
 <u>Liabilities and Net Assets</u>		
CURRENT LIABILITIES		
Bank line of credit (Notes 5, 6 & 13)	\$ 67,002	\$ 927,905
Accounts payable	182,632	186,942
Accrued expenses	158,250	161,913
Deferred revenues (Note 2)	8,021	16,400
Current portion of non-qualified retirement plan (Note 8)	38,957	39,700
Client deposits and other liabilities	112,040	94,794
	<u>566,902</u>	<u>1,427,654</u>
TOTAL CURRENT LIABILITIES	<u>566,902</u>	<u>1,427,654</u>
NON-QUALIFIED RETIREMENT PLAN, less current portion (Note 8)	<u>258,382</u>	<u>290,300</u>
	<u>825,284</u>	<u>1,717,954</u>
NET ASSETS (Notes 2 & 6)		
Unrestricted	217,591	558,004
Temporarily restricted	107,505	124,963
	<u>325,096</u>	<u>682,967</u>
TOTAL NET ASSETS	<u>325,096</u>	<u>682,967</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,150,380</u>	<u>\$ 2,400,921</u>

Newton Community Service Centers, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 103,682	\$ 153,609	\$ 257,291
United Way	106,674	-	106,674
Grants and donations	66,225	148,994	215,219
	<u>276,581</u>	<u>302,603</u>	<u>579,184</u>
Program Service Revenue:			
Contracts	537,191	-	537,191
Tuition and fees	1,947,871	-	1,947,871
Rental and other income	16,828	-	16,828
	<u>2,501,890</u>	<u>-</u>	<u>2,501,890</u>
Investment and interest income, net (Note 3)	1,884	-	1,884
Net assets released from restrictions (Note 6)	320,061	(320,061)	-
	<u>3,100,416</u>	<u>(17,458)</u>	<u>3,082,958</u>
EXPENSES			
Program services:			
Child and family services	2,382,991	-	2,382,991
Community programs	217,273	-	217,273
	<u>2,600,264</u>	<u>-</u>	<u>2,600,264</u>
General and administrative	531,673	-	531,673
Fundraising and development	214,062	-	214,062
	<u>3,345,999</u>	<u>-</u>	<u>3,345,999</u>
CHANGE IN NET ASSETS BEFORE NONRECURRING ITEM	(245,583)	(17,458)	(263,041)
NONRECURRING ITEM			
Loss on sale of land and building (Notes 4 & 13)	(94,830)	-	(94,830)
CHANGE IN NET ASSETS	(340,413)	(17,458)	(357,871)
NET ASSETS AT BEGINNING OF YEAR	558,004	124,963	682,967
NET ASSETS AT END OF YEAR	<u>\$ 217,591</u>	<u>\$ 107,505</u>	<u>\$ 325,096</u>

Newton Community Service Centers, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 199,939	\$ 61,150	\$ 261,089
United Way	109,646	-	109,646
Grants and donations	26,908	162,952	189,860
	<u>336,493</u>	<u>224,102</u>	<u>560,595</u>
Program Service Revenue:			
Contracts	1,030,959	-	1,030,959
Tuition and fees	2,132,780	-	2,132,780
Rental and other income	33,158	-	33,158
	<u>3,196,897</u>	<u>-</u>	<u>3,196,897</u>
Investment gains and income, net (Note 4)	3,710	-	3,710
Net assets released from restrictions (Note 7)	184,929	(184,929)	-
	<u>3,722,029</u>	<u>39,173</u>	<u>3,761,202</u>
EXPENSES			
Program services:			
Child and family services	2,582,559	-	2,582,559
Youth programs	252,110	-	252,110
Community programs	203,663	-	203,663
	<u>3,038,332</u>	<u>-</u>	<u>3,038,332</u>
General and administrative	901,393	-	901,393
Fundraising and development	177,864	-	177,864
	<u>4,117,589</u>	<u>-</u>	<u>4,117,589</u>
CHANGE IN NET ASSETS	(395,560)	39,173	(356,387)
NET ASSETS AT BEGINNING OF YEAR	953,564	85,790	1,039,354
NET ASSETS AT END OF YEAR	<u>\$ 558,004</u>	<u>\$ 124,963</u>	<u>\$ 682,967</u>

Newton Community Service Centers, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2013

	Program Services			Support Services		Total Expenses
	Child & Family Services	Community Programs	Total Program Services	General & Admin.	Fundraising & Development	
EXPENSES						
Salaries and wages	\$ 1,547,525	\$ 133,027	\$ 1,680,552	\$ 232,176	\$ 152,978	\$ 2,065,706
Payroll taxes	156,367	10,977	167,344	18,667	12,269	198,280
Fringe benefits	104,550	1,827	106,377	25,571	-	131,948
Staff training	10,729	-	10,729	700	355	11,784
Independent contractors	122,499	40,057	162,556	25,673	5,619	193,848
Professional fees and temporary help	12,114	200	12,314	6,963	275	19,552
Occupancy and facility cost	153,893	9,655	163,548	41,174	7,283	212,005
Insurance	27,175	4,292	31,467	12,727	1,323	45,517
Office supplies	6,606	1,222	7,828	15,201	2,572	25,601
Program expense	131,754	3,947	135,701	2,192	492	138,385
Telephone	15,148	936	16,084	2,261	1,634	19,979
Computer expense	-	-	-	5,028	4,212	9,240
Transportation	3,828	184	4,012	1,373	-	5,385
Interest expense	-	-	-	42,989	-	42,989
Bank & other fees	7,939	486	8,425	47,807	304	56,536
Recruiting	3,511	-	3,511	-	25	3,536
Fundraising	-	-	-	-	21,087	21,087
Audit and accounting	18,027	6,730	24,757	234	1,009	26,000
Other expenses	2,867	394	3,261	3,420	50	6,731
Depreciation	58,459	3,339	61,798	47,517	2,575	111,890
	<u>\$ 2,382,991</u>	<u>\$ 217,273</u>	<u>\$ 2,600,264</u>	<u>\$ 531,673</u>	<u>\$ 214,062</u>	<u>\$ 3,345,999</u>

Newton Community Service Centers, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2012

	Program Services				Support Services		
	Child and Family Services	Youth Programs	Community Programs	Total Program Services	General & Admin.	Fundraising & Development	Total Expenses
EXPENSES							
Salaries and wages	\$ 1,646,134	\$ 101,596	\$ 110,255	\$ 1,857,985	\$ 432,796	\$ 116,684	\$ 2,407,465
Payroll taxes	119,264	9,853	14,027	143,144	75,231	9,510	227,885
Fringe benefits	113,008	4,077	2,834	119,919	47,592	623	168,134
Staff training	4,025	-	40	4,065	1,129	958	6,152
Independent contractors	112,683	3,312	45,700	161,695	93,753	-	255,448
Professional fees and temporary help	9,626	1,048	-	10,674	4,136	-	14,810
Occupancy and facility cost	125,546	29,852	11,062	166,460	28,983	4,009	199,452
Rent	34,438	29,069	-	63,507	-	-	63,507
Insurance	27,449	8,240	3,628	39,317	7,535	600	47,452
Office supplies	7,651	814	3,053	11,518	15,960	2,428	29,906
Program expense	187,021	8,616	3,097	198,734	4,408	1,285	204,427
Telephone	13,942	1,485	1,835	17,262	3,289	1,282	21,833
Computer expense	67	-	700	767	3,181	3,782	7,730
Transportation	124,341	1,062	333	125,736	220	89	126,045
Interest expense	-	-	-	-	77,866	-	77,866
Bank & other fees	163	25	-	188	59,559	90	59,837
Recruiting	751	-	-	751	-	-	751
Fundraising	-	-	-	-	-	35,668	35,668
Audit and accounting	-	2,228	5,386	7,614	26,636	-	34,250
Other expenses	5,260	68	91	5,419	2,580	-	7,999
Depreciation	51,190	50,765	1,622	103,577	16,539	856	120,972
	<u>\$ 2,582,559</u>	<u>\$ 252,110</u>	<u>\$ 203,663</u>	<u>\$ 3,038,332</u>	<u>\$ 901,393</u>	<u>\$ 177,864</u>	<u>\$ 4,117,589</u>

Newton Community Service Centers, Inc.

Statements of Cash Flows

Years Ended June 30

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (357,871)	\$ (356,387)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	111,890	120,972
Loss on disposal of leasehold improvements	-	2,692
Loss on sale of land and building	94,830	-
Changes in operating assets and liabilities:		
Accounts receivable	74,198	756
Contributions receivable	34,504	33,556
Prepaid expenses	3,870	47,195
Accounts payable	(4,310)	(13,752)
Accrued expenses and other liabilities	(19,078)	(73,392)
Deferred revenue	(8,379)	(126,903)
NET CASH USED IN OPERATING ACTIVITIES	<u>(70,346)</u>	<u>(365,263)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(64,198)	-
Proceeds from sale of land and building, net of selling costs	964,105	-
NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>899,907</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments of) proceeds from bank line of credit, net	(860,903)	204,173
RESULTING IN A NET DECREASE IN CASH	(31,342)	(161,090)
CASH AT BEGINNING OF YEAR	<u>547,553</u>	<u>708,643</u>
CASH AT END OF YEAR	<u>\$ 516,211</u>	<u>\$ 547,553</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid for interest	<u>\$ 42,989</u>	<u>\$ 77,866</u>

Newton Community Service Centers, Inc.

Notes to Financial Statements

June 30, 2013

Note 1 – Nature of Activities

Newton Community Service Centers, Inc. (the “Center”) is a private, nonprofit, multi-service Center that strengthens individual, family, and community life through a network of support services and educational programs. The Center promotes social, emotional, and physical wellness and continuity of care for all ages. Newton Community Service Centers, Inc. serves a racially, ethnically, and culturally diverse population regardless of economic circumstances from Newton, Waltham, and surrounding communities.

Tax-Exempt Status – The Center is exempt from federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Donors may deduct contributions made to the Center within the regulations of the Internal Revenue Code.

The Center’s Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three years after they were filed.

Note 2 - Significant Accounting Policies

Basis of Accounting and Reporting - The financial statements of the Center have been prepared on the accrual basis of accounting.

The support, revenues and expenses of the Center are reported in three program groups, a general and administrative group and a fundraising and development group. A description of the three program groups are as follows:

Child and Family Services

Early Education and Care - Center-based education and care for infants, toddlers, preschoolers and school-age children. The Center’s children’s programs also included after-school programs that provided activities for children in kindergarten through sixth grade. Effective July, 2012, the Center no longer provides the after-school programs.

Family Child Care - Home-based child care system, which had been enriched by the Center’s oversight, support and guidance to preschoolers. During February 2012, the Center administratively transferred the children served by this program directly to the Family Child Care (FCC) providers and will no longer provide support to the FCC program.

The Parents Program - Comprehensive support services for teens and young adults during pregnancy and the early years of child rearing including: counseling, parenting education, support groups, parent/child connections, and a transitional living program.

Parent Child Home Program - Home-visiting early literacy program that teaches parents methods to stimulate and enhance verbal and cognitive skills of their children.

Child Assault Prevention (CAP) Program - A professionally supervised, volunteer-driven program offering a workshop curriculum in all Newton elementary schools that teaches children simple strategies to reduce their vulnerability to sexual assault and violence.

United Way/Emergency Assistance Fund – The United Way Emergency Assistance Fund has been established to assist primarily low-income individuals and families with their emergency basic needs including but not limited to food, heat, utilities, clothing and shelter.

Note 2 - Significant Accounting Policies (Cont.)

Community Programs

Service Opportunities After 55 (SOAR) - A program that matches adults (55 years of age and up) with volunteer opportunities within nonprofit and civic organizations.

Youth Programs

Student Central (formerly Teen REACH) - Adolescent services that include a drop-in Youth Center, mentoring program, individual and group counseling, court-restitution program, classes in cooking, computers, yoga and music, basketball, outdoor experiential program in Vermont, school vacation week camps and programs that train teens in good citizenship, leadership development and community service. During fiscal 2012, the Student Central program was moved to the Center's principal facility located at 492 Waltham Street. The program had been housed at the Center's second facility at 429 Cherry Street. The fiscal 2012 physical program move was necessitated by the Center's plan to make the Cherry Street location available for sale (see Notes 4 & 5). During the start of fiscal 2013, the Center terminated its teen related programs.

Safe Schools/Healthy Students (SS/HS) Program – The initiative aimed to foster safe, respectful, and drug-free school environments and to promote pro-social skills and healthy childhood development for all Newton children. The program helped reduce the risk factors that come between children of all ages and their ability to learn and to stay safe and healthy. Effective January 31, 2012, the program's operating responsibility was assumed by the West Suburban YMCA.

Accounting Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Financial Statement Presentation – Under generally accepted accounting principles, the Center reports information regarding its financial position and activities according to three classes of net assets determined by donor-imposed restrictions as follows: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Note 6 regarding restrictions on net assets).

Contributions and Donor Restrictions – Under generally accepted accounting principles, contributions receivable that are, in effect, "unconditional promises to give" are recorded in the period in which the pledge is made at the present value of future cash flows. In addition, contributions of cash or other assets are reported as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 6). Contributions received for the purpose of, or in connection with a campaign to raise funds for acquiring property or equipment, or renovating a facility, are reported as support, increasing temporarily restricted net assets. When the expenditures for the acquisition or renovations are incurred, the financial statements report a reduction in temporarily restricted net assets and an increase in unrestricted net assets.

Statements of Cash Flows - For the purpose of the statements of cash flows, cash consists of amounts on hand, operating bank accounts, and money market accounts with no restrictions on withdrawals, and certificates of deposit with maturities of three months or less.

Note 2 - Significant Accounting Policies (Cont.)

Accounts and Contributions Receivable – Accounts and Contributions receivable are stated net of allowances for doubtful accounts, which are reported on the face of the Center’s statement of financial position. The allowances are established via provisions for bad debts charged to operations. On a periodic basis, management evaluates its accounts and contributions receivable and establishes or adjusts its allowances to amounts that it believes will be adequate to absorb possible losses on amounts that may become uncollectible, based on evaluations of the collectibility of individual accounts, the Center’s history of prior loss experience and on current economic conditions. Amounts are written off and charged against the allowances when management believes that the collectibility of the specific account is unlikely.

Property and Equipment – Property and equipment purchased by the Center are recorded at cost. Donated property and equipment are recorded at the fair market value at the date of donation. Routine repairs and maintenance are charged to operations while those which materially improve or extend the lives of existing assets are capitalized (see Note 4).

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 – 35 years
Playground equipment	7 years
Office and program equipment	3 – 7 years
Motor vehicles	7 years

Investments – The Center reports its investments on the statement of financial position at fair value, with the corresponding realized and unrealized gains and losses reflected in the statement of activities (see Note 3).

Deferred Revenues – The Center’s deferred revenues represent tuition and fee deposits for the forthcoming fiscal year.

At June 30, 2012, the Center’s deferred revenues also included “good faith” deposits received by the Center to be applied against the eventual sale of the Cherry Street building (see Note 4).

Revenue Recognition – Government contracts and grants are recorded when services are provided and costs are incurred. Unrestricted grants and contributions are recorded as revenue and support when received or unconditionally committed.

Contributed Services – The Center is the beneficiary of donated services in several of its programs. Many individuals volunteer their time to perform a variety of tasks that assist the Center in programs and committees. No amounts have been reflected in the financial statements for services donated by volunteers inasmuch as the services received do not create or enhance non-financial assets or require specialized skills which would need to be purchased from outside vendors; however, a substantial number of volunteers have donated significant amounts of their time to the activities of the Center.

Support and Revenue - The Center contracts for services with the Commonwealth of Massachusetts' Department of Early Education and Care, Department of Social Services, Department of Education, with the Cities of Newton and Waltham, the U.S. Corporation for National and Community Services and Department of Education, and with other public agencies and private companies. The Center also receives support from various private foundations, including the United Way, The Perpetual Benevolent Fund, Rebecca Pomroy Foundation, Tufts Health Plan Foundation, local businesses, and the general public.

Functional Expenses - Expenses are charged to each program based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to a program based on established formulas for the entire organization.

Evaluation of Subsequent Events – In accordance with generally accepted accounting principles, management has evaluated subsequent events involving the Center for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2013 up through November 5, 2013, the date the accompanying financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	<u>2013</u>	<u>2012</u>
Unconditional promises expected to be collected in less than one year	\$ 8,200	\$ 42,704
Less allowance for uncollectible contributions receivable	<u>3,000</u>	<u>3,000</u>
	<u>\$ 5,200</u>	<u>\$ 39,704</u>

Contributions receivable of approximately \$1,000 and \$4,600 at June 30, 2013 represent temporarily restricted pledges designated for the Center's programs and time restricted donations for the Center's general mission, respectively (\$9,000 and \$29,000, respectively, for the same purposes at June 30, 2012).

Note 4 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 9,409	\$ 9,409
Buildings and improvements	1,745,556	1,695,966
Playground equipment	88,952	88,952
Office and program equipment	205,564	190,956
Motor vehicles	<u>28,949</u>	<u>28,949</u>
	<u>2,078,430</u>	<u>2,014,232</u>
Less: Accumulated depreciation	<u>1,503,412</u>	<u>1,421,342</u>
	<u>\$ 575,018</u>	<u>592,890</u>
Land and building held for sale, Cherry Street (see below)		1,391,773
Less accumulated depreciation		<u>303,018</u>
		<u>1,088,755</u>
		<u>\$ 1,681,645</u>

Depreciation expense was \$111,890 and \$120,972 for the years ended June 30, 2013 and 2012, respectively.

In March of 2013, the Center closed on the sale of real estate located at 429 Cherry Street, Newton, Massachusetts for \$1,020,000. The Center realized approximately \$970,000 of cash on the sale, after selling costs, \$865,000 of which was used to pay in full its then-outstanding line of credit (see Notes 5 & 13). The Center recorded a loss on the sale of approximately \$95,000. The Center has no plans to replace the property. The property had been used for meeting and administrative purposes until the sale.

Note 5 – Bank Line of Credit

In connection with the Center's sale of the 429 Cherry Street property on March 27, 2013 (see Note 4), the then-outstanding balance of its \$1.25 million line of credit was repaid, approximately \$865,000. Effective immediately, the line of credit was reduced from \$1,250,000 to \$500,000. Outstanding borrowings are payable on demand and interest is payable monthly at the Wall Street Journal's prime rate, floating daily with a floor of 4.25%. This note is collateralized by property at 492 Waltham Street, Newton, Massachusetts.

The outstanding balances under the current and previous agreements at June 30, 2013 and 2012, respectively, were \$67,002 and \$927,905.

Note 6 – Temporarily Restricted Net Assets

The Center's temporarily restricted net assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Child and family services	\$ 4,370	\$ 64,308
Community and youth programs	20,000	22,000
General mission - time restricted	4,600	29,139
Capital expenditure fund	78,535	9,516
	<u>\$ 107,505</u>	<u>\$ 124,963</u>

Temporarily restricted net assets were transferred or released for the following purposes for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Program restrictions	<u>\$ 320,061</u>	<u>\$ 184,929</u>

Note 7 - Employee Benefit Plan

The Center maintains a tax-deferred compensation plan under Section 403(b) of the Internal Revenue Code. Effective January 1, 2009, the Board of Directors voted to curtail an annual 2% contribution by the Center until economic conditions improve. The plan had also included a Center discretionary matching contribution of 25% of employees' voluntary salary reductions up to a maximum of 6% of each eligible employee's compensation. Beginning with the Center's January 14, 2012 pay date, the plan's discretionary matching contribution was discontinued.

Effective October 1, 2011, the Center amended the plan's eligibility requirements. Prior to discontinuance, the amended agreement allowed employees who were eighteen years of age and were expected to work one thousand hours per year to make deferred contributions from the date of hire. Prior to the plan curtailment, such employees were also eligible to receive Center matching contribution upon the completion of one year of service from date of hire.

For the year ended June 30, 2012, the Centers' contributions to the plan amounted to \$6,555. The Center made no contributions to the plan during the year ended June 30, 2013.

Note 8 - Retirement Agreement

During the fiscal year ended June 30, 2005, the Center entered into a non-qualified retirement plan agreement with its former executive director. Effective on his retirement date of June 30, 2005, the non-qualified retirement plan agreement consisted of multiple components including a cash payment, payment of accrued vacation pay, retiree medical coverage for life, and an annual benefit payment for life that commenced on January 1, 2006. The present value of all the components of the non-qualified retirement plan agreement was estimated at \$421,000 and was accrued and charged to operations for the year ended June 30, 2005. As of June 30, 2013 and 2012, the outstanding obligation under the former executive director's nonqualified retirement plan agreement approximated \$297,000 and \$330,000, respectively.

The value of the retiree medical coverage was calculated using a discount rate of 4.37% and a health care cost trend rate of 4% at June 30, 2013, and is included as a component of the non-qualified retirement plan liability in the statement of financial position. Medical insurance premiums paid by the Center on behalf of the former executive director were approximately \$7,800 and \$7,900, respectively, for the years ended June 30, 2013 and 2012.

Note 8 - Retirement Agreement (Cont.)

The defined benefit component of the agreement calls for payments to the former executive director approximating \$31,800 annually for life. The obligation is payable in monthly installments of \$2,650. The total projected benefit obligation is also included as part of the non-qualified retirement plan liability in the statement of financial position, and was actuarially determined based on the former director's life expectancy. The discount rate used to determine the present value of future benefit obligations at June 30, 2013 was 4.37%.

During both years ended June 30, 2013 and 2012, the Center disbursed approximately \$39,600 to the former executive director in accrued non-qualified retirement benefits. Changes in actuarially determined assumptions resulted in a charge to operations of approximately \$9,000 and \$50,000 for the years ended June 30, 2013 and 2012, respectively.

The expected future estimated benefit payments are summarized by years as follows:

<u>Fiscal Year Ending June 30</u>	<u>Defined Benefit</u>	<u>Medical Coverage</u>	<u>Total</u>
2014	\$ 31,123	\$ 7,834	\$ 38,957
2015	29,592	7,769	37,361
2016	27,935	7,654	35,589
2017	26,152	7,482	33,634
2018	24,269	7,248	31,517
Future years	91,118	29,163	120,281
	<u>\$ 230,189</u>	<u>\$ 67,150</u>	<u>\$ 297,339</u>

Both plans are unfunded as of June 30, 2013 and 2012.

Note 9 - Lease Commitments

Agreement as Lessor of Facilities - On September 1, 2010, the Center began renting five parking spaces to a local restaurant for use during non-operating hours. Each space is rented at the rate of \$100 per month through July 31, 2015 with the option to extend the term of the lease for up to five years at \$125 per space per month.

Rental income was \$6,000 for both the years ended June 30, 2013 and 2012.

The future minimum lease receipts are as follows:

<u>Year Ending June 30</u>	
2014	\$ 6,000
2015	6,000
2016	500
	<u>\$ 12,500</u>

Note 9 - Lease Commitments (Cont.)

Agreement as Lessee of Facility – During fiscal 2010, the Center entered into a five-year agreement to lease program space at 1254 Chestnut Street, Newton Upper Falls, Massachusetts. The program facility, referred to as the “Southside Teen Center”, provided space for the Center’s former Safe School/Healthy Student program. The lease agreement required a fixed monthly payment of \$4,125 and the Center had the option to terminate the agreement if funding for Safe Schools/Healthy Students program was insufficient to meet the lease obligation. During January 2012, the Safe School/Healthy Student program location and operating responsibility was transferred to the West Suburban YMCA. In conjunction with the program transfer, the Center exercised its option to terminate the lease agreement at Chestnut Street effective January 31, 2012.

Rent expense for the Chestnut Street facility was \$28,875 for the year ended June 30, 2012. There was no rent expense incurred for this facility for the year ended June 30, 2013.

Note 10 - Other Commitments and Contingencies

Unemployment Compensation Insurance – Effective January 1, 2012, the Center elected to pay the contributory payroll tax to the Commonwealth of Massachusetts Department of Workforce Development (the “Commonwealth”). Prior to January 1, 2012, the Center had elected to finance the benefit cost of unemployment compensation insurance by reimbursing the Commonwealth for unemployment compensation paid.

The amount due the Commonwealth under the prior arrangement approximated \$30,000 at June 30, 2013. There were no payments made to the Commonwealth during fiscal 2013, nor were there any additional charges for benefits occurring prior to January 1, 2012.

During the year ended June 30, 2012, approximately \$15,500 was paid to the Commonwealth for benefits incurred.

Government Contracts - The Center receives a portion of its funding from various agencies of the Commonwealth of Massachusetts and from the Federal government. These contracts are subject to audit by the appropriate governmental agencies and could result in the recapture by the agencies of revenue previously reported by the Center. In the opinion of management, the results of such audits, if any, would not have a material effect on the financial position of the Center as of June 30, 2013 or on its results of operations for the years ended June 30, 2013 and 2012.

Note 11 - Financial Instruments and Concentrations of Credit Risk

The Center maintains a significant portion of its cash and short-term investment balances in various local financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 each. At times during the year, cash balances may exceed the insured amounts. At June 30, 2013, approximately \$294,000 was on deposit in excess of the FDIC insurance limit based on bank balances. The Share Insurance Fund (SIF), a private fund owned by member banks, fully insures all deposits above the federal insurance limits. The Center performs periodic evaluations of the relative credit standings of the banks to limit the amount of credit exposure with these financial institutions.

The Center received approximately \$385,000 or 12% of its total support and revenue from the Commonwealth of Massachusetts during the year ended June 30, 2013 (\$687,000 or 19% in 2012). Approximately \$24,000 (76%) of accounts receivable balances at June 30, 2013 were from departments and agencies of the Commonwealth of Massachusetts, the City of Newton, and the federal government (\$44,000 or 39% at June 30, 2012).

Note 12 - Surplus Revenue Retention Regulations

The Commonwealth of Massachusetts, Division of Purchased Services regulations concerning "Not-for-Profit Surplus Revenue Retention" permit not-for-profit providers, such as the Center, to retain a "surplus" of up to 5% of revenues attributable to agreements with the Commonwealth of Massachusetts for the provision of social services, and to utilize such surplus for its established charitable purposes. The regulations also limit the cumulative amount of such retained surplus to an amount equal to 20% of the prior year's related gross revenues.

Excess surplus revenues may be recouped by the Commonwealth via price reductions in future agreements, by the return of such funds to the Commonwealth, or by the Commonwealth stipulating the use of such funds.

According to the Division's policy, surplus revenue retention within the allowable limits is to be reported or disclosed as a component of unrestricted fund balance. Any surplus revenue retained in excess of the aforementioned limits is to be reported as an unrestricted liability. The Center has no surplus revenue.

The following represents the components of unrestricted net assets:

	Unrestricted Net Assets	Comm. of Massachusetts Cumulative Surplus Revenue (Deficits)	Total
Balance at June 30, 2011	\$ 5,478,228	\$ (4,524,664)	\$ 953,564
Change in Net Assets	(171,112)	(224,448)	(395,560)
Balance at June 30, 2012	5,307,116	(4,749,112)	558,004
Change in Net Assets	(126,712)	(213,701)	(340,413)
Balance at June 30, 2013	\$ 5,180,404	\$ (4,962,813)	\$ 217,591

Note 13 – Operating Results and Management Plans

The accompanying statement of activities and changes in net assets for the year ended June 30, 2013 reflects a decrease in net assets of approximately \$358,000, \$263,000 before a \$95,000 "non-recurring" loss from the sale of property. The financial statement for the previous year reflects a \$356,000 decrease, and in recent years prior to 2012 the Center incurred significant decreases in net assets as well. As a result, the Center's financial position was significantly illiquid in the past, reflecting current liabilities that were approximately double current assets at its previous year-end of June 30, 2012.

In view of this situation, on March 27, 2013 the Center sold its Cherry Street building (Note 4), resulting in a \$95,000 loss on the sale but realizing net proceeds of approximately \$970,000, which was more than sufficient to pay-off the then-existing balance on its bank line of credit of approximately \$865,000, and reducing its interest costs. As discussed in Note 5, the Center currently has a bank line of credit of \$500,000. As a result of the sale, the amount of the Center's current liabilities has been reduced to where they approximate the amount of its current assets at June 30, 2013.

During 2012, in an effort to concentrate on its core services of educational child care and eliminate financially non-performing programs, management terminated the Center's teen and youth programs by transferring operating and service delivery responsibility to two other local non-profit organizations located in the City of Newton. And, effective July 1, 2012, the Center also terminated its summer camp program held at the Hale Reservation. Management continues to closely monitor and curtail costs where feasible, and expand its marketing and outreach efforts to increase enrollment in its child care programs. Management is also looking to develop additional fee generating programs, increase fundraising efforts and to strategically solicit major donors and event sponsors.

In 2013, the Center was the recipient of a \$100,000 gift earmarked for facility improvements and expansion. The facility expansion will allow the Center to increase its capacity from 123 to 135 children.

It is management's opinion that its efforts will eventually improve the Center's operations and generate sufficient revenues and support to cover its expenses.

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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

Board of Directors
Newton Community Service Centers, Inc.

We have audited, 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, the financial statements of Newton Community Service Centers, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Newton Community Service Centers, 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 Newton Community Service Centers, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Organization'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.

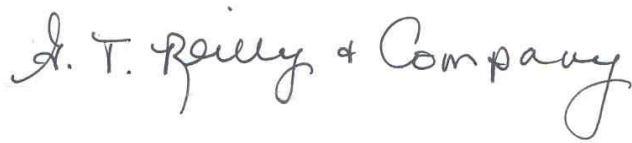
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Newton Community Service Centers, 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Newton Community Service Centers, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

G.T. Reilly & Company

Milton, Massachusetts
November 5, 2013