



**GT REILLY**  
**& COMPANY**  
CPAs and Advisors

Audited Financial Statements

**Newton Community Service Centers, Inc.**

June 30, 2014

# Newton Community Service Centers, Inc.

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## Audited Financial Statements

June 30, 2014

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# GT REILLY & COMPANY

CPAs and Advisors

424 Adams Street, Milton MA 02186-4358

T. 617.696.8900 / F. 617.698.1803

www.gtreilly.com

## 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, 2014 and 2013, 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.

### ***Auditors' 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.

An independent firm associated with  
Moore Stephens International Limited

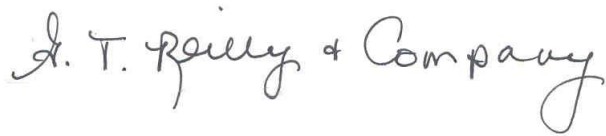
**MOORE STEPHENS**

## **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, 2014 and 2013, 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 October 23, 2014 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 dark ink and is positioned above the printed name of the firm.

G.T. Reilly & Company

Milton, Massachusetts  
October 23, 2014

# Newton Community Service Centers, Inc.

## Statements of Financial Position

June 30

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 424,441	\$ 516,211
Accounts receivable, net of allowance for doubtful accounts of \$2,000 in 2014 and 2013	48,913	36,260
Contributions receivable net of allowance for doubtful accounts of \$3,000 in 2014 and 2013 (Notes 2 & 3)	28,450	5,200
Prepaid expenses	<u>24,298</u>	<u>17,691</u>
TOTAL CURRENT ASSETS	<u>526,102</u>	<u>575,362</u>
PROPERTY AND EQUIPMENT, net (Notes 2, 4 & 6)	<u>755,390</u>	<u>575,018</u>
TOTAL ASSETS	<u>\$ 1,281,492</u>	<u>\$ 1,150,380</u>
<b><u>Liabilities and Net Assets</u></b>		
CURRENT LIABILITIES		
Bank line of credit (Notes 4, 5 & 12)	\$ 145,001	\$ 67,002
Accounts payable	136,203	182,632
Accrued expenses	205,987	158,250
Deferred revenues (Note 2)	6,725	8,021
Current portion of non-qualified retirement plan (Note 9)	38,669	38,957
Current portion of mortgage note payable (Notes 2 & 6)	2,000	-
Client deposits and other liabilities	<u>118,149</u>	<u>112,040</u>
TOTAL CURRENT LIABILITIES	<u>652,734</u>	<u>566,902</u>
LONG-TERM DEBT, due after one year		
Mortgage note payable (Notes 4, 5 & 12)	<u>93,930</u>	<u>-</u>
NON-QUALIFIED RETIREMENT PLAN, less current portion (Note 9)	<u>245,422</u>	<u>258,382</u>
NET ASSETS (Notes 2 & 6)		
Unrestricted	191,060	217,591
Temporarily restricted	<u>98,346</u>	<u>107,505</u>
TOTAL NET ASSETS	<u>289,406</u>	<u>325,096</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,281,492</u>	<u>\$ 1,150,380</u>

# Newton Community Service Centers, Inc.

## Statement of Activities and Changes in Net Assets

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Support:			
Contributions	\$ 249,369	\$ 110,428	\$ 359,797
United Way	106,504	-	106,504
Grants and donations	26,676	193,617	220,293
	<u>382,549</u>	<u>304,045</u>	<u>686,594</u>
Program Service Revenue:			
Contracts	498,643	-	498,643
Tuition and fees	2,296,570	-	2,296,570
Rental and other income	16,117	-	16,117
	<u>2,811,330</u>	<u>-</u>	<u>2,811,330</u>
Investment and interest income, net (Note 3)	1,223	-	1,223
Net assets released from restrictions (Note 7)	313,204	(313,204)	-
	<u>3,508,306</u>	<u>(9,159)</u>	<u>3,499,147</u>
<b>EXPENSES</b>			
Program services:			
Child and family services	2,693,486	-	2,693,486
Community programs	203,213	-	203,213
	<u>2,896,699</u>	<u>-</u>	<u>2,896,699</u>
General and administrative	460,161	-	460,161
Fundraising and development	237,141	-	237,141
	<u>3,594,001</u>	<u>-</u>	<u>3,594,001</u>
CHANGE IN NET ASSETS BEFORE NONRECURRING ITEM	(85,695)	(9,159)	(94,854)
<b>NONRECURRING ITEM</b>			
Gain from property insurance proceeds (Notes 4 & 12)	59,164	-	59,164
CHANGE IN NET ASSETS	(26,531)	(9,159)	(35,690)
NET ASSETS AT BEGINNING OF YEAR	217,591	107,505	325,096
NET ASSETS AT END OF YEAR	<u>\$ 191,060</u>	<u>\$ 98,346</u>	<u>\$ 289,406</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>
<b>SUPPORT AND REVENUE</b>			
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 gains and income, net (Note 4)	1,884	-	1,884
Net assets released from restrictions (Note 7)	320,061	(320,061)	-
	<u>3,100,416</u>	<u>(17,458)</u>	<u>3,082,958</u>
<b>EXPENSES</b>			
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 & 12)	(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 Functional Expenses

For the Year Ended June 30, 2014

	Program Services			Support Services		
	Child & Family Services	Community Programs	Total Program Services	General & Admin.	Fundraising & Development	Total Expenses
EXPENSES						
Salaries and wages	\$ 1,666,907	\$ 130,014	\$ 1,796,921	\$ 240,893	\$ 162,348	\$ 2,200,162
Payroll taxes	174,422	10,469	184,891	18,324	11,977	215,192
Fringe benefits	126,054	1,800	127,854	29,280	-	157,134
Staff training	13,238	1,900	15,138	765	154	16,057
Independent contractors	99,592	28,312	127,904	5,373	9,085	142,362
Professional fees and temporary help	63,730	-	63,730	7,987	-	71,717
Occupancy and facility cost	190,374	6,831	197,205	31,297	5,577	234,079
Insurance	35,863	4,162	40,025	7,405	1,038	48,468
Office supplies	8,012	4,912	12,924	13,522	3,276	29,722
Program expense	150,779	1,027	151,806	3,045	95	154,946
Telephone	14,202	2,263	16,465	1,934	1,819	20,218
Computer expense	2,153	734	2,887	3,946	4,512	11,345
Transportation	5,664	1,454	7,118	292	24	7,434
Interest expense	-	-	-	32,935	-	32,935
Bank & other fees	9,008	703	9,711	50,300	380	60,391
Recruiting	32,942	-	32,942	-	-	32,942
Fundraising	-	-	-	-	32,800	32,800
Audit and accounting	26,432	5,388	31,820	1,024	2,107	34,951
Other expenses	4,128	856	4,984	899	-	5,883
Depreciation	69,986	2,388	72,374	10,940	1,949	85,263
	<u>\$ 2,693,486</u>	<u>\$ 203,213</u>	<u>\$ 2,896,699</u>	<u>\$ 460,161</u>	<u>\$ 237,141</u>	<u>\$ 3,594,001</u>

# Newton Community Service Centers, Inc.

## Statement of Functional Expenses

For the Year Ended June 30, 2013

	Program Services			Support Services		
	Child and Family Services	Community Programs	Total Program Services	General & Admin.	Fundraising & Development	Total Expenses
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.

## Statements of Cash Flows

### Years Ended June 30

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (35,690)	\$ (357,871)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	85,263	111,890
Gain on insurance proceeds from fire damage	(59,164)	-
Loss on sale of land and building	-	94,830
Changes in operating assets and liabilities:		
Accounts receivable	(12,653)	74,198
Contributions receivable	(23,250)	34,504
Prepaid expenses	(6,607)	3,870
Accounts payable	(46,429)	(4,310)
Accrued expenses and other liabilities	40,598	(19,078)
Deferred revenue	(1,296)	(8,379)
NET CASH USED IN OPERATING ACTIVITIES	<u>(59,228)</u>	<u>(70,346)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(279,710)	(64,198)
Proceeds from insurance claim for fire damage, net of fees	73,239	-
Proceeds from sale of land and building, net of selling costs	-	964,105
NET CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES	<u>(206,471)</u>	<u>899,907</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments of) bank line of credit, net	77,999	(860,903)
Long-term bank borrowings	95,930	-
NET CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	<u>173,929</u>	<u>(860,903)</u>
RESULTING IN A NET DECREASE IN CASH	(91,770)	(31,342)
CASH AT BEGINNING OF YEAR	<u>516,211</u>	<u>547,553</u>
CASH AT END OF YEAR	<u>\$ 424,441</u>	<u>\$ 516,211</u>

# Newton Community Service Centers, Inc.

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## Notes to Financial Statements

June 30, 2014

### 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.

During fiscal 2014, the Center augmented its corporate identity by referring to the Center as Family ACCESS of Newton. The Center’s board approved the use of the Family ACCESS of Newton as a “Doing Business As” (DBA) in order to increase awareness and to further promote the Center’s mission of providing education-based resources and programs to families and children.

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 and the Massachusetts Form PC are subject to examination by the IRS and the Commonwealth, generally for three years after they were filed. Tax years 2011 and beyond remain open for examination.

### 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 and preschoolers.

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.

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. Actual results could differ from those estimates.

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.

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

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

## Note 2 - Significant Accounting Policies (Cont.)

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, 2014 up through October 23, 2014, 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>2014</u>	<u>2013</u>
Unconditional promises expected to be collected in less than one year	\$ 29,950	\$ 8,200
One year to two years	<u>1,500</u>	<u>-</u>
	<u>31,450</u>	<u>8,200</u>
Less allowance for uncollectible contributions receivable	<u>3,000</u>	<u>3,000</u>
	<u>\$ 28,450</u>	<u>\$ 5,200</u>

Approximately all of the Center's contributions receivable at June 30, 2014 represent temporarily restricted pledges that are time restricted donations for the Center's general mission.

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.

#### Note 4 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 9,409	\$ 9,409
Buildings and improvements	1,906,738	1,745,556
Playground equipment	88,952	88,952
Office and program equipment	221,215	205,564
Motor vehicles	19,049	28,949
	<u>2,245,363</u>	<u>2,078,430</u>
Less: Accumulated depreciation	1,489,973	1,503,412
	<u>\$ 755,390</u>	<u>\$ 575,018</u>

Depreciation expense was \$85,263 and \$111,890 for the years ended June 30, 2014 and 2013, 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 as reflected on the Statement of Activities and Changes in Net Assets. The Center has no plans to replace the property. The property had been used for meeting and administrative purposes until the sale.

In August of 2013, a fire occurred at the Center's principal facility at 492 Waltham Street resulting in physical damage to the gymnasium and the playground area. The Center received approximately \$73,000 in cash proceeds from their insurance carrier, net of adjuster fees. The Center recorded a gain from the insurance proceeds of approximately \$59,000 as reflected in the Statement of Activities and Changes in Net Assets. The Center has refurbished most of this damaged property as of June 30, 2014 with the remaining work to be finished in fiscal 2015. At June 30, 2014, the estimated cost to complete this refurbishment is approximately \$11,000.

In May of 2014, the Center began the installation of a new heating and air conditioning system. During fiscal 2014, the Center expended approximately \$77,000 in connection with this project, of which approximately \$5,000 was paid to the architect for a cost study and approximately \$72,000 was paid to the contractor for a down payment. As of June 30, 2014, the estimated cost to complete this project is approximately \$150,000 with an estimated completion date in September of 2014. The Center will obtain funding for this project from a mortgage note payable with The Village Bank (see Note 6).

#### 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 March 27, 2013, the line of credit was renewed and reduced from \$1,250,000 to \$500,000. The renewal terms on the reduced bank line of credit note maintains the same terms as the original line of credit. 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 a first mortgage on the Center's property at 492 Waltham Street, Newton, Massachusetts. The outstanding balances under this agreement at June 30, 2014 and 2013, respectively, were \$145,001 and \$67,002.

Interest paid on this line of credit approximated \$5,500 and \$30,200 during the years ended June 30, 2014, and 2013, respectively.

## Note 6 – Mortgage Note Payable

Effective May 8, 2014, the Center obtained a \$500,000 mortgage note payable from the Village Bank in order to provide funding for upgrades to the Center's heating, ventilation and air conditioning system, as well as other building improvements located at the Center's principal facility at 492 Waltham Street (see Note 4). The mortgage note bears interest at a fixed annual rate of 4.75% for the first five years. On the fifth anniversary date of the note, and on each fifth anniversary date thereafter, the annual interest rate will adjust to the most recent available five-year Federal Home Loan Bank of Boston Regular Classic Advance Rate plus 2.75%. Commencing on June 8, 2014, the Center began making monthly interest-only payments on the principal outstanding and will continue to make monthly interest-only payments during the one-year draw period. Commencing on May 8, 2015, the Center will be obligated to make monthly payments of principal and interest based on the then-outstanding principal balance until maturity on May 8, 2039. The note is collateralized by a second mortgage on the land and building at 492 Waltham Street and contains certain covenants and conditions.

Interest capitalized as a component of the Center's building improvements approximated \$500 during the year ended June 30, 2014.

Based on management's projected borrowings of \$450,000, the annual principal maturities on the above long-term mortgage debt are as follows:

<u>Year ending</u> <u>June 30</u>	
2015	\$ 2,000
2016	10,000
2017	10,500
2018	11,000
2019	11,500
Thereafter	405,000
	<u>\$ 450,000</u>

## Note 7 – Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Child and family services	\$ 41,000	\$ 4,370
Community and youth programs	25,896	20,000
General mission - time restricted	31,450	4,600
Capital expenditure fund	-	78,535
	<u>\$ 98,346</u>	<u>\$ 107,505</u>

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

	<u>2014</u>	<u>2013</u>
Program restrictions	\$ 308,604	\$ 320,061
Time restrictions	4,600	-
	<u>\$ 313,204</u>	<u>\$ 320,061</u>

## Note 8 – Employee Benefit Plan

The Center maintains a tax-deferred compensation plan under Section 403(b) of the Internal Revenue Code. The plan allows employees who were eighteen years of age and were expected to work 1,000 hours per year to make a deferred contribution from the date of hire. The plan 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 until economic conditions improve.

The Center made no contributions to the plan during the years ended June 30, 2014 and 2013.

## Note 9 - 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, 2014 and 2013, the outstanding obligation under the former executive director's nonqualified retirement plan agreement approximated \$284,000 and \$297,000, respectively.

The value of the retiree medical coverage was calculated using a discount rate of 3.95% and a health care cost trend rate of 4.00% at June 30, 2014 (4.37% and 4.00%, respectively, 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 for each of the years ended June 30, 2014 and 2013.

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, 2014 was 3.95% (4.37% at June 30, 2013).

During both years ended June 30, 2014 and 2013, 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 \$14,000 and \$9,000 for the years ended June 30, 2014 and 2013, 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>
2015	\$ 31,040	\$ 7,629	\$ 38,669
2016	29,319	7,492	36,811
2017	27,463	7,296	34,759
2018	25,501	7,043	32,544
2019	23,453	6,734	30,187
Future years	82,189	28,932	111,121
	<u>\$ 218,965</u>	<u>\$ 65,126</u>	<u>\$ 284,091</u>

Both plans are unfunded as of June 30, 2014 and 2013.

## Note 10 - 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, 2014, approximately \$228,000 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 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, 2014 and 2013 or on its results of operations for the years then ended.

The Center received approximately \$352,000 or 10% of its total support and revenue from the Commonwealth of Massachusetts during the year ended June 30, 2014 (\$385,000 or 12% in 2013). Approximately \$24,000 (48%) of gross accounts receivable balances at June 30, 2014 were from departments and agencies of the Commonwealth of Massachusetts, the City of Newton, and the federal government (\$24,000 or 76% at June 30, 2013).

## Note 11 - Surplus Revenue Retention Regulations (Unaudited)

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, 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
Change in Net Assets	133,697	(160,228)	(26,531)
Balance at June 30, 2014	\$ 5,314,101	\$ (5,123,041)	\$ 191,060

## **Note 12 – Operating Results and Management Plans**

The accompanying statement of activities and changes in net assets for the year ended June 30, 2014 reflects a decrease in net assets of approximately \$36,000, \$95,000 before a \$59,000 "non-recurring" gain from property insurance proceeds. The financial statement for the previous year reflects a \$358,000 decrease, \$263,000 before a \$95,000 "non-recurring" loss from the sale of real property. In recent years prior to fiscal 2013, the Center also incurred significant operating losses resulting in decreases to net assets. As a result, the Center's financial position at June 30, 2014 was illiquid, reflecting current liabilities in excess of current assets by approximately \$127,000.

In an effort to eliminate cash flow difficulties, 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, although reduced, the Center maintains a bank line of credit of \$500,000 to be used for working capital needs. As of June 30, 2014, the Center has borrowed approximately \$145,000 of the line of credit, leaving an availability of approximately \$355,000.

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. 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 has also implemented an annual plan of fee increases to offset the inflationary effects on operating costs, 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 classroom expansion. As of and for the year ended June 30, 2014, the Center fully expended the \$100,000 restricted gift, and also incurred an additional \$105,000 in costs related to the Center's facility and program expansion initiative. The balance of the funding was provided by bank financing and its own operating cash. The facility and classroom expansion will allow the Center to increase its capacity from 123 to 135 children. The Center expects the expansion to be completed during the fall of fiscal 2014.

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.



# GT REILLY & COMPANY

CPAs and Advisors

424 Adams Street, Milton MA 02186-4358

T. 617.696.8900 / F. 617.698.1803

www.gtreilly.com

## **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, 2014, 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 October 23, 2014.

### ***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.

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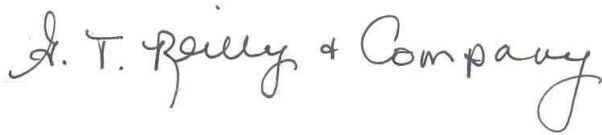
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## ***Compliance and Other Matters***

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  
October 23, 2014