

**COMMUNITY
SERVINGS**



**DELIVERING MEALS
DELIVERING HOPE**

**COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

COMMUNITY SERVINGS, INC. AND AFFILIATE

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JUNE 30, 2009 AND 2008**

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CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

Alexander, Aronson, Finning & Co., P.C.

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Community Servings, Inc. and Affiliate:

We have audited the accompanying combining statements of financial position of Community Servings, Inc. and Affiliate (Massachusetts corporations, not for profit) as of June 30, 2009 and 2008, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These combining financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combining financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combining financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the combining financial position of Community Servings, Inc. and Affiliate as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
October 26, 2009

COMMUNITY SERVINGS, INC. AND AFFILIATE
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
(With Summarized Comparative Totals as of June 30, 2008)

ASSETS	2009					2008
	COMMUNITY SERVINGS, INC.			MARBURY TERRACE, INC.		TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	INC.	TOTAL	
CURRENT ASSETS:						
Cash and cash equivalents	\$ 479,973	\$ 505,663	\$ 985,636	\$ 16,066	\$ 1,001,702	\$ 657,516
Accounts receivable	169,537	-	169,537	-	169,537	298,712
Due (to) from related party	2,500	-	2,500	(2,500)	-	-
Current portion of grants and pledges receivable	344,956	42,500	387,456	-	387,456	384,173
Investments	2,498	-	2,498	40,511	43,009	43,055
Food supplies	82,137	-	82,137	-	82,137	69,815
Prepaid expenses	23,616	-	23,616	4,627	28,243	61,671
Total current assets	1,105,217	548,163	1,653,380	58,704	1,712,084	1,514,942
GRANTS AND PLEDGES RECEIVABLE , net of current portion, allowance for doubtful accounts of approximately \$57,000 and discount of approximately \$36,000	303,936	-	303,936	-	303,936	548,570
NOTES RECEIVABLE - MHIC	3,624,355	-	3,624,355	-	3,624,355	3,225,355
PROPERTY AND EQUIPMENT , net	473,813	-	473,813	6,124,861	6,598,674	6,774,724
FINANCING COSTS , net	-	-	-	106,790	106,790	128,148
Total assets	\$ 5,507,321	\$ 548,163	\$ 6,055,484	\$ 6,290,355	\$ 12,345,839	\$ 12,191,739
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES:						
Accounts payable	\$ 108,175	\$ -	\$ 108,175	\$ 719	\$ 108,894	\$ 72,814
Accrued expenses	142,314	-	142,314	-	142,314	130,623
Accrued interest	-	-	-	55,427	55,427	33,118
Total current liabilities	250,489	-	250,489	56,146	306,635	236,555
LONG-TERM DEBT:						
Notes payable - MHIC	-	-	-	3,624,355	3,624,355	3,225,355
Notes payable - other	34,973	-	34,973	1,185,610	1,220,583	1,701,051
Total long-term debt	34,973	-	34,973	4,809,965	4,844,938	4,926,406
Total liabilities	285,462	-	285,462	4,866,111	5,151,573	5,162,961
NET ASSETS:						
Unrestricted -						
Operating	544,367	-	544,367	-	544,367	542,086
Board designated	4,203,679	-	4,203,679	(3,624,355)	579,324	770,487
Property and equipment	473,813	-	473,813	5,048,599	5,522,412	5,323,504
Total unrestricted	5,221,859	-	5,221,859	1,424,244	6,646,103	6,636,077
Temporarily restricted	-	548,163	548,163	-	548,163	392,701
Total net assets	5,221,859	548,163	5,770,022	1,424,244	7,194,266	7,028,778
Total liabilities and net assets	\$ 5,507,321	\$ 548,163	\$ 6,055,484	\$ 6,290,355	\$ 12,345,839	\$ 12,191,739

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

COMMUNITY SERVINGS, INC. AND AFFILIATE
 COMBINING STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2008

<u>ASSETS</u>	COMMUNITY SERVINGS, INC.			MARBURY	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TERRACE, INC.	TOTAL
CURRENT ASSETS:					
Cash and cash equivalents	\$ 273,176	\$ 380,201	\$ 653,377	\$ 4,139	\$ 657,516
Accounts receivable	298,712	-	298,712	-	298,712
Due (to) from related party	5,000	-	5,000	(5,000)	-
Current portion of grants and pledges receivable	371,673	12,500	384,173	-	384,173
Investments	3,289	-	3,289	39,766	43,055
Food supplies	69,815	-	69,815	-	69,815
Prepaid expenses	61,671	-	61,671	-	61,671
Total current assets	1,083,336	392,701	1,476,037	38,905	1,514,942
GRANTS AND PLEDGES RECEIVABLE , net of current portion, allowance for doubtful accounts of approximately \$59,000 and discount of approximately \$69,000	548,570	-	548,570	-	548,570
NOTES RECEIVABLE - MHIC	3,225,355	-	3,225,355	-	3,225,355
PROPERTY AND EQUIPMENT , net	488,951	-	488,951	6,285,773	6,774,724
FINANCING COSTS , net	-	-	-	128,148	128,148
Total assets	\$ 5,346,212	\$ 392,701	\$ 5,738,913	\$ 6,452,826	\$ 12,191,739
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ 72,269	\$ -	\$ 72,269	\$ 545	\$ 72,814
Accrued expenses	130,623	-	130,623	-	130,623
Accrued interest	-	-	-	33,118	33,118
Total current liabilities	202,892	-	202,892	33,663	236,555
LONG-TERM DEBT:					
Notes payable - MHIC	-	-	-	3,225,355	3,225,355
Notes payable - other	116,441	-	116,441	1,584,610	1,701,051
Total long-term debt	116,441	-	116,441	4,809,965	4,926,406
Total liabilities	319,333	-	319,333	4,843,628	5,162,961
NET ASSETS:					
Unrestricted -					
Operating	542,086	-	542,086	-	542,086
Board designated	3,995,842	-	3,995,842	(3,225,355)	770,487
Property and equipment	488,951	-	488,951	4,834,553	5,323,504
Total unrestricted	5,026,879	-	5,026,879	1,609,198	6,636,077
Temporarily restricted	-	392,701	392,701	-	392,701
Total net assets	5,026,879	392,701	5,419,580	1,609,198	7,028,778
Total liabilities and net assets	\$ 5,346,212	\$ 392,701	\$ 5,738,913	\$ 6,452,826	\$ 12,191,739

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

COMMUNITY SERVINGS, INC. AND AFFILIATE

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

(With Summarized Comparative Totals for the Year Ended June 30, 2008)

	2009					2008	
	COMMUNITY SERVINGS, INC.			MARBURY	ELIMI-	TOTAL	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TERRACE, INC.	NATIONS	TOTAL	TOTAL
REVENUE AND SUPPORT:							
Grants and contributions	\$ 1,037,195	\$ 548,163	\$ 1,585,358	\$ -	\$ -	\$ 1,585,358	\$ 909,241
Contracts	1,077,124	-	1,077,124	-	-	1,077,124	1,228,380
Events, net of direct expenses of \$102,296	865,487	-	865,487	-	-	865,487	865,341
Donated goods and services	166,324	-	166,324	-	-	166,324	121,173
Program income	112,514	-	112,514	-	-	112,514	41,263
Interest income	101,304	-	101,304	745	-	102,049	64,252
Other revenue	3,755	-	3,755	152,610	(152,610)	3,755	156,031
Net assets released from restrictions -							
Satisfaction of time restriction	136,667	(136,667)	-	-	-	-	-
Satisfaction of purpose restriction	256,034	(256,034)	-	-	-	-	-
Total revenue and support	<u>3,756,404</u>	<u>155,462</u>	<u>3,911,866</u>	<u>153,355</u>	<u>(152,610)</u>	<u>3,912,611</u>	<u>3,385,681</u>
OPERATING EXPENSES:							
Program services-							
Nutrition	2,687,956	-	2,687,956	-	(121,448)	2,566,508	2,568,652
Training	93,328	-	93,328	-	(6,850)	86,478	-
Social enterprise	145,542	-	145,542	-	(9,098)	136,444	-
Total program services	<u>2,926,826</u>	<u>-</u>	<u>2,926,826</u>	<u>-</u>	<u>(137,396)</u>	<u>2,789,430</u>	<u>2,568,652</u>
Supporting services-							
General and administrative	353,090	-	353,090	-	(6,469)	346,621	331,709
Fundraising	469,181	-	469,181	-	(8,745)	460,436	420,343
Total supporting services	<u>822,271</u>	<u>-</u>	<u>822,271</u>	<u>-</u>	<u>(15,214)</u>	<u>807,057</u>	<u>752,052</u>
Marbury Terrace, Inc.	-	-	-	338,309	-	338,309	330,762
Total operating expenses	<u>3,749,097</u>	<u>-</u>	<u>3,749,097</u>	<u>338,309</u>	<u>(152,610)</u>	<u>3,934,796</u>	<u>3,651,466</u>
Changes in net assets from operations	<u>7,307</u>	<u>155,462</u>	<u>162,769</u>	<u>(184,954)</u>	<u>-</u>	<u>(22,185)</u>	<u>(265,785)</u>
NON-OPERATING REVENUE (EXPENSES):							
Capital grants and contributions	106,359	-	106,359	-	-	106,359	1,227,144
Loan forgiveness	85,219	-	85,219	-	-	85,219	34,976
Interest income on capital funds, net	101	-	101	-	-	101	2,660
Capital planning and relocation expenses	(4,006)	-	(4,006)	-	-	(4,006)	(308,674)
Gain on sale of equipment	-	-	-	-	-	-	3,420
Total non-operating revenue (expenses)	<u>187,673</u>	<u>-</u>	<u>187,673</u>	<u>-</u>	<u>-</u>	<u>187,673</u>	<u>959,526</u>
Changes in net assets	<u>194,980</u>	<u>155,462</u>	<u>350,442</u>	<u>(184,954)</u>	<u>-</u>	<u>165,488</u>	<u>693,741</u>
NET ASSETS, beginning of year	<u>5,026,879</u>	<u>392,701</u>	<u>5,419,580</u>	<u>1,609,198</u>	<u>-</u>	<u>7,028,778</u>	<u>6,335,037</u>
NET ASSETS, end of year	<u>\$ 5,221,859</u>	<u>\$ 548,163</u>	<u>\$ 5,770,022</u>	<u>\$ 1,424,244</u>	<u>\$ -</u>	<u>\$ 7,194,266</u>	<u>\$ 7,028,778</u>

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

COMMUNITY SERVINGS, INC. AND AFFILIATE

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	COMMUNITY SERVINGS, INC.			MARBURY TERRACE, INC.	ELIMI- NATIONS	TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL			
REVENUE AND SUPPORT:						
Grants and contributions	\$ 658,207	\$ 251,034	\$ 909,241	\$ -	\$ -	\$ 909,241
Contracts	1,228,380	-	1,228,380	-	-	1,228,380
Events, net of direct expenses of \$143,883	865,341	-	865,341	-	-	865,341
Donated goods and services	121,173	-	121,173	-	-	121,173
Program income	41,263	-	41,263	-	-	41,263
Interest income	63,068	-	63,068	1,184	-	64,252
Other revenue	156,031	-	156,031	148,165	(148,165)	156,031
Net assets released from restrictions -						
Satisfaction of time restriction	178,500	(178,500)	-	-	-	-
Satisfaction of purpose restriction	165,571	(165,571)	-	-	-	-
Total revenue and support	<u>3,477,534</u>	<u>(93,037)</u>	<u>3,384,497</u>	<u>149,349</u>	<u>(148,165)</u>	<u>3,385,681</u>
OPERATING EXPENSES:						
Nutrition	2,699,792	-	2,699,792	-	(131,140)	2,568,652
General and administrative	340,140	-	340,140	-	(8,431)	331,709
Fundraising	428,937	-	428,937	-	(8,594)	420,343
Marbury Terrace, Inc.	-	-	-	330,762	-	330,762
Total operating expenses	<u>3,468,869</u>	<u>-</u>	<u>3,468,869</u>	<u>330,762</u>	<u>(148,165)</u>	<u>3,651,466</u>
Changes in net assets from operations	<u>8,665</u>	<u>(93,037)</u>	<u>(84,372)</u>	<u>(181,413)</u>	<u>-</u>	<u>(265,785)</u>
NON-OPERATING REVENUE (EXPENSES):						
Capital grants and contributions	1,227,144	-	1,227,144	-	-	1,227,144
Loan forgiveness	34,976	-	34,976	-	-	34,976
Interest income on capital funds, net	2,660	-	2,660	-	-	2,660
Capital planning and relocation expenses	(308,674)	-	(308,674)	-	-	(308,674)
Gain on sale of equipment	3,420	-	3,420	-	-	3,420
Total non-operating revenue (expenses)	<u>959,526</u>	<u>-</u>	<u>959,526</u>	<u>-</u>	<u>-</u>	<u>959,526</u>
Changes in net assets	968,191	(93,037)	875,154	(181,413)	-	693,741
NET ASSETS, beginning of year	4,065,998	485,738	4,551,736	1,783,301	-	6,335,037
Transfer of net assets	(7,310)	-	(7,310)	7,310	-	-
NET ASSETS, end of year	<u>\$ 5,026,879</u>	<u>\$ 392,701</u>	<u>\$ 5,419,580</u>	<u>\$ 1,609,198</u>	<u>\$ -</u>	<u>\$ 7,028,778</u>

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

COMMUNITY SERVINGS, INC. AND AFFILIATE

COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	\$ (22,185)	\$ (265,785)
Adjustments to reconcile changes in net assets from operations to net cash provided by operating activities:		
Depreciation and amortization	254,789	251,797
Interest expense forgiven	3,751	1,417
Net realized and unrealized (gains) losses on investments	1,355	(3,732)
Bad debt and allowance on doubtful pledges	-	88,800
Changes in operating assets and liabilities -		
Accounts receivable	129,175	28,109
Grants and pledges receivable	(6,280)	298,302
Food supplies	(12,322)	(18,443)
Prepaid expenses	33,428	(34,694)
Accounts payable	36,080	(212,107)
Accrued expenses	11,691	4,280
Accrued interest	22,309	33,118
Net cash provided by operating activities	<u>451,791</u>	<u>171,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in notes receivable - MHIC	(399,000)	(1,025,000)
Acquisition of property and equipment	(57,381)	(391,773)
Reinvested dividends	(1,309)	-
Purchase of investments	-	(39,766)
Proceeds from sale of investments	-	4,194
Proceeds from sale of property and equipment	-	5,850
Net cash used in investing activities	<u>(457,690)</u>	<u>(1,446,495)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital grants and contributions received	353,990	1,436,346
Interest income on capital funds, net	101	2,660
Proceeds from long-term debt	-	2,048,446
Principal payments on long-term debt	-	(2,078,189)
Capital planning and relocation expenses, net of expensed construction in process expenses	(4,006)	(135,372)
Net cash provided by financing activities	<u>350,085</u>	<u>1,273,891</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	344,186	(1,542)
CASH AND CASH EQUIVALENTS, beginning of year	<u>657,516</u>	<u>659,058</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,001,702</u>	<u>\$ 657,516</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of capitalized interest	<u>\$ 119,486</u>	<u>\$ 100,955</u>
Cost of equipment disposed	<u>\$ 29,972</u>	<u>\$ 3,369</u>
Construction in process transferred to property and equipment	<u>\$ -</u>	<u>\$ 6,350,323</u>
Construction in process expensed as relocation expense	<u>\$ -</u>	<u>\$ 173,302</u>
Construction in process transferred to financing costs	<u>\$ -</u>	<u>\$ 149,506</u>

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

COMMUNITY SERVINGS, INC. AND AFFILIATE
 COMBINING STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2009

COMMUNITY SERVINGS, INC.											
PROGRAM SERVICES				SUPPORTING SERVICES							
			TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUND- RAISING	TOTAL SUPPORT SERVICES	TOTAL COMMUNITY SERVINGS, INC.	MARBURY TERRACE, INC.	ELIMI- NATIONS	TOTAL EXPENSES	
	NUTRITION	TRAINING	SOCIAL ENTERPRISE								
COMMUNITY SERVINGS, INC.:											
Salaries and related expenses	\$ 1,216,249	\$ 8,748	\$ 63,912	\$ 1,288,909	\$ 296,802	\$ 333,450	\$ 630,252	\$ 1,919,161	\$ -	\$ -	\$ 1,919,161
Food and kitchen supplies	791,730	6,051	46,548	844,329	-	-	-	844,329	-	-	844,329
Occupancy	333,606	15,238	20,020	368,864	14,168	19,154	33,322	402,186	-	(152,610)	249,576
Contracted services	58,358	60,919	1,579	120,856	32,883	83,251	116,134	236,990	-	-	236,990
In-kind goods and services	147,284	-	-	147,284	-	19,040	19,040	166,324	-	-	166,324
Delivery	62,910	-	5,962	68,872	-	-	-	68,872	-	-	68,872
Equipment	38,310	1,726	4,386	44,422	1,626	3,151	4,777	49,199	-	-	49,199
Office expenses	26,059	546	636	27,241	5,083	8,420	13,503	40,744	-	-	40,744
Other expenses	13,450	100	2,499	16,049	2,528	2,715	5,243	21,292	-	-	21,292
Subtotal	<u>2,687,956</u>	<u>93,328</u>	<u>145,542</u>	<u>2,926,826</u>	<u>353,090</u>	<u>469,181</u>	<u>822,271</u>	<u>3,749,097</u>	<u>-</u>	<u>(152,610)</u>	<u>3,596,487</u>
MARBURY TERRACE, INC.:											
Depreciation and amortization	-	-	-	-	-	-	-	-	182,269	-	182,269
Interest on mortgage notes	-	-	-	-	-	-	-	-	141,795	-	141,795
Rental operating expenses	-	-	-	-	-	-	-	-	14,245	-	14,245
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,309</u>	<u>-</u>	<u>338,309</u>
Total operating expenses	<u>\$ 2,687,956</u>	<u>\$ 93,328</u>	<u>\$ 145,542</u>	<u>\$ 2,926,826</u>	<u>\$ 353,090</u>	<u>\$ 469,181</u>	<u>\$ 822,271</u>	<u>\$ 3,749,097</u>	<u>\$ 338,309</u>	<u>\$ (152,610)</u>	<u>\$ 3,934,796</u>

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

COMMUNITY SERVINGS, INC. AND AFFILIATE
COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	COMMUNITY SERVINGS, INC.						
	GENERAL			TOTAL	MARBURY		
	AND			COMMUNITY	TERRACE,	ELIMI-	TOTAL
COMMUNITY SERVINGS, INC.:	ADMINIS-	FUND-		SERVINGS, INC.	INC.	NATIONS	EXPENSES
	<u>NUTRITION</u>	<u>TRATIVE</u>	<u>RAISING</u>				
Salaries and related expenses	\$ 1,295,907	\$ 174,173	\$ 324,386	\$ 1,794,466	\$ -	\$ -	\$ 1,794,466
Food and kitchen supplies	746,910	-	-	746,910	-	-	746,910
Occupancy	347,063	17,876	18,316	383,255	-	(148,165)	235,090
Contracted services	24,054	134,051	71,452	229,557	-	-	229,557
In-kind goods and services	118,173	3,000	-	121,173	-	-	121,173
Delivery	73,966	-	-	73,966	-	-	73,966
Equipment	30,158	2,664	1,716	34,538	-	-	34,538
Office expenses	27,613	6,210	9,937	43,760	-	-	43,760
Other expenses	35,948	2,166	3,130	41,244	-	-	41,244
Subtotal	<u>2,699,792</u>	<u>340,140</u>	<u>428,937</u>	<u>3,468,869</u>	<u>-</u>	<u>(148,165)</u>	<u>3,320,704</u>
MARBURY TERRACE, INC. -							
Depreciation and amortization	-	-	-	-	182,269	-	182,269
Interest on mortgage notes	-	-	-	-	126,472	-	126,472
Rental operating expenses	-	-	-	-	22,021	-	22,021
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>330,762</u>	<u>-</u>	<u>330,762</u>
Total operating expenses	<u><u>\$ 2,699,792</u></u>	<u><u>\$ 340,140</u></u>	<u><u>\$ 428,937</u></u>	<u><u>\$ 3,468,869</u></u>	<u><u>\$ 330,762</u></u>	<u><u>\$ (148,165)</u></u>	<u><u>\$ 3,651,466</u></u>

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

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Community Servings, Inc. (a Massachusetts corporation, not-for-profit) (CS) is a community-based nonprofit organization whose purpose is to provide home-delivered, culturally appropriate meals to meet the dietary needs of critically ill clients and their dependents living in eastern Massachusetts. Towards the fulfillment of its mission, CS also offers nutrition education and counseling to its clients, and operates both a food service job training program for those with barriers to employment and a social enterprise venture selling meals to schools, senior programs and other nonprofit agencies serving disadvantaged populations. CS's operations are funded primarily from government contracts and contributions from the general public.

Marbury Terrace, Inc. (the Affiliate) was incorporated as a Massachusetts nonprofit organization in fiscal 2007 to hold certain real estate and related debt. CS has a 79% economic interest and 100% voting rights in the Affiliate. CS and the non-voting member have entered into a "put and call" agreement whereby CS may purchase the remaining interest for appraised value after September 1, 2014, and the non-voting member may sell its interest to CS between September 1, 2014 and November 1, 2014, for \$1,000. The Affiliate is related through common Board of Directors membership.

CS is exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). CS is also exempt from state income taxes. Donors may deduct contributions made to CS and the Affiliate within IRC requirements. The Affiliate's tax exempt status under the IRC was approved in 2009.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Combining and Financial Statement Presentation

The combining financial statements include the activities and net assets of CS and the Affiliate (collectively, the Agency). All significant balances between classes of net assets and inter-company balances and transactions have been eliminated in the accompanying combining financial statements.

Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets.

Contract revenue is recorded as the related services are rendered and costs are incurred. All other revenue is recorded when earned.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

Organizations and other volunteers contribute goods and services to the Agency in support of various aspects of its programs. These goods and services are reflected in the accompanying combining financial statements based upon the estimated value assigned to them by the donating volunteers, agencies or by management.

The Agency receives services of volunteers to fulfill other aspects of its programs. These individuals contributed over 51,800 and 39,000 hours of service for the years ended June 30, 2009 and 2008, respectively. The values of these services, which are determined by management at \$8 per hour at June 30, 2009 and 2008, are not reflected in the accompanying combining financial statements, since these services do not meet the recognition criteria of Statement of Financial Accounting Standards No. 116.

The value of donated goods and services for the years ended June 30, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Recorded in the combining financial statements -		
Food and kitchen supplies	\$139,255	\$118,173
Services, including \$24,649 in event related services in 2008	<u>27,069</u>	<u>27,649</u>
Subtotal	166,324	145,822
Not recorded in the combining financial statements -		
Volunteers	<u>418,402</u>	<u>288,505</u>
	<u>\$584,726</u>	<u>\$434,327</u>

The recorded amounts are classified as donated goods and services and event revenue and as operating expenses and event direct expenses in the accompanying combining financial statements.

Allocation of Expenses

Expenses related directly to a program are distributed to that program while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

COMMUNITY SERVINGS, INC. AND AFFILIATE
 NOTES TO COMBINING FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008
 (Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

Operating net assets represent funds available to carry on the operations of the Agency.

Board designated net assets include those pledges and notes receivable designated to capital improvement and reserves for the Agency's operating and administrative facility.

Property and equipment net assets reflect and account for the activities relating to the Agency's property and equipment, net of related debt.

Temporarily restricted net assets represent contributions and grants which are designated by donors for specific purposes. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes.

Temporarily restricted net assets consist of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Time restrictions	\$375,413	\$136,667
Purpose restrictions	<u>172,750</u>	<u>256,034</u>
Total temporarily restricted net assets	<u>\$548,163</u>	<u>\$392,701</u>

Cash and Cash Equivalents

For the purpose of the combining statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Pledges Receivable

Pledges are recorded at their net present value when unconditionally committed.

Reserves for Uncollectible Accounts, Grants and Pledges Receivable

Reserves for uncollectible accounts, grants and pledges receivable are recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible, if any.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value

During 2009, the Agency adopted the criteria of Financial Accounting Standards Board Statement No. 157, “*Fair Value Measurements*” (Statement of Financial Accounting Standards 157 (SFAS 157)). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework under SFAS 157 are as follows:

Level I: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level III: Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Agency's management values all qualifying assets and liabilities using Level I inputs.

Investments

The Agency records its investments at fair market value. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period (see Note 2).

Adopting SFAS 157 did not result in any change in the measurement of the carrying value of the Agency's qualifying assets and liabilities, as they have historically been recorded at market value using Level I inputs.

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair market value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are charged to expense as they are incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Building	40 years
Vehicles	7 years
Office and kitchen equipment	3 - 10 years

Depreciation expense for the years ended June 30, 2009 and 2008, was \$233,431 and \$230,439, respectively.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financing Fees and Amortization

Financing fees consist of closing costs and other fees related to the financing of various mortgages. These costs are being amortized over the duration of the mortgages (seven years). Amortization expense was \$21,358 for the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Financing fees	\$149,506	\$149,506
Less - accumulated amortization	<u>42,716</u>	<u>21,358</u>
Financing fees, net	<u>\$106,790</u>	<u>\$128,148</u>

Estimates

The preparation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Subsequent Events

The preparation of combining financial statements in accordance with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying combining financial statements. Subsequent events are transactions or events that occur after the combined statement of financial position date, but before the combining financial statements are issued or available to be issued. The accompanying combining financial statements include the evaluation of subsequent events that have occurred through October 26, 2009, which is the date the combining financial statements were available to be issued.

(2) **INVESTMENTS**

Investments at June 30, 2009, consist of a bank certificate of deposit, common stock and a money market fund with an aggregate market value of \$43,009. At June 30, 2008, investments consisted of a bank certificate of deposit, common stock and a money market fund with a market value of \$43,055. Cost approximates market value at June 30, 2009 and 2008.

(3) **GRANTS AND PLEDGES RECEIVABLE**

As of June 30, 2009 and 2008, the Agency has recognized cumulative multi-year grants and pledges receivable of \$783,690 and \$1,060,952, respectively. The pledges outstanding have been discounted to a present value using a 4% discount rate at June 30, 2009.

As of June 30, 2009 and 2008, approximately 26% and 28%, respectively, of the balance of pledges receivable is due from one donor.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(3) GRANTS AND PLEDGES RECEIVABLE (Continued)

As of June 30, 2009, the Agency had unconditional grants and pledges receivable due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
2010	\$344,956	\$42,500	\$387,456
2011	274,871	-	274,871
2012	83,403	-	83,403
2013	<u>37,960</u>	<u>-</u>	<u>37,960</u>
	741,190	42,500	783,690
Less - current portion	(344,956)	(42,500)	(387,456)
Less - allowance	(56,792)	-	(56,792)
Less - discount	<u>(35,506)</u>	<u>-</u>	<u>(35,506)</u>
Non-current portion of grants and pledges receivable	<u>\$303,936</u>	<u>\$ -</u>	<u>\$303,936</u>

(4) NOTES RECEIVABLE - MHIC

In conjunction with the Massachusetts Housing Investment Corporation (MHIC) New Markets Fund Tax Credit (NMTC) financing (see Note 7), CS initially transferred \$2,200,355 to MHIC to leverage additional capital into the MHIC funding structure. These funds were then lent by MHIC to the Affiliate and are shown as notes receivable - MHIC in the accompanying combining statements of financial position. During the years ended June 30, 2009 and 2008, CS transferred an additional \$399,000 and \$1,025,000, respectively, to MHIC.

CS has three notes receivable from MHIC. The first has a principal balance of \$1,278,750 and accrues interest at 1% per year. All interest and principal are due in full on August 30, 2036. The second note has a principal balance of \$921,605 and accrues interest at 7.44% per year until May 31, 2007, and 1% per year thereafter. Interest is due monthly and principal is due August 30, 2036. The third note has a principal balance of \$1,424,000 and accrues interest at 7.44% per year until August 30, 2014 (maturity date). Those notes are secured by a junior assignment of MHIC's interest in the MHIC New Markets CDE II, LLC (see Note 7).

(5) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Land	\$ 172,900	\$ 172,900
Building	6,219,561	6,219,561
Vehicles	219,445	162,064
Office equipment	110,825	136,694
Kitchen equipment	<u>535,649</u>	<u>539,752</u>
	7,258,380	7,230,971
Less – accumulated depreciation	<u>659,706</u>	<u>456,247</u>
Net property and equipment	<u>\$6,598,674</u>	<u>\$6,774,724</u>

The land and building are pledged as collateral for the Affiliate's notes payable (see Note 7).

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(6) LINE OF CREDIT

The Agency has available up to \$750,000 under a line of credit agreement with a bank. Interest only is payable monthly at the *Wall Street Journal's* prime rate (3.25% and 5% at June 30, 2009 and 2008, respectively), less .5%. The line of credit is secured by all personal property of the Agency. The Agency is required to meet certain covenants under this agreement. All covenants have been met or waived by the bank at June 30, 2009. There was no outstanding balance as of June 30, 2009 and 2008.

(7) LONG-TERM DEBT

During fiscal year 2007, the Agency obtained Massachusetts Housing Investment Corporation (MHIC) New Markets Fund Tax Credit (NMTC) financing commitment aggregating \$4,809,965, including an investment of \$3,624,355 and \$3,225,355 by CS as of June 30, 2009 and 2008, respectively (see Note 4). The terms of the agreements are as follows as of June 30:

Notes Payable - MHIC

Marbury Terrace, Inc.:	<u>2009</u>	<u>2008</u>
<p>\$1,424,000 promissory note payable through MHIC New Markets CDE II, LLC (the CDE) on August 30, 2014. Interest only is payable monthly at 7.44% per year until date of maturity. Accrued interest on this note was \$8,828 as of June 30, 2009 and 2008. The note is secured by a first mortgage on 18 Marbury Terrace (the Property), a conditional assignment of all leases and is guaranteed by CS.</p>	\$1,424,000	\$1,025,000
<p>\$1,278,750 promissory note payable through the CDE on August 30, 2036. Interest accrues at 1% per year and is payable monthly if cash flow (as defined) from the Project is available. Accrued interest on this note was \$27,031 and \$14,066 as of June 30, 2009 and 2008, respectively. The note is secured by a junior mortgage on the Property and a conditional assignment of all leases and profits derived from the Property.</p>	1,278,750	1,278,750
<p>\$921,605 promissory note payable through the CDE on August 30, 2036. Interest accrues at 1% per year and is payable monthly if cash flow (as defined) from the Project is available. Accrued interest on this note was \$18,579 and \$9,235 as of June 30, 2009 and 2008, respectively. The note is secured by a junior mortgage on the Property and a conditional assignment of all leases and profits derived from the Property.</p>	<u>921,605</u>	<u>921,605</u>
<p>Total Notes Payable - MHIC</p>	<u>\$3,624,355</u>	<u>\$3,225,355</u>

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(7) **LONG-TERM DEBT** (Continued)

Notes Payable - Other

Marbury Terrace, Inc.: (Continued)

	<u>2009</u>	<u>2008</u>
\$1,185,610 note payable to the CDE on August 30, 2036. Interest only is payable monthly at 1% per year until date of maturity. Accrued interest on this note was \$989 as of June 30, 2009 and 2008. The note is secured by a second mortgage on the Property and a conditional assignment of all leases.	\$1,185,610	\$1,185,610
\$1,424,000 promissory note payable to a bank through the CDE on August 30, 2014. This note was paid in full during 2009 by CS and the balance became part of the first note described on page 15.	-	<u>399,000</u>
Sub-total Marbury Terrace, Inc.	1,185,610	1,584,610

Community Servings, Inc.:

\$150,000 unsecured note payable to the Boston Department of Neighborhood Development (DND), through December 31, 2013. Interest will accrue at 2% per year. The principal and interest are forgivable annually based on the number of meals delivered to Boston residents. As of June 30, 2009 and 2008, \$81,468 and \$33,559, respectively, of principal and \$3,751 and \$1,417, respectively, in accrued interest had been forgiven. No monthly payments are required.	<u>34,973</u>	<u>116,441</u>
Total notes payable - other	<u>\$1,220,583</u>	<u>\$1,701,051</u>

The Agency must comply with various covenants under these loan agreements. The covenants have been either met or waived by the lenders as of June 30, 2009.

(8) **LEASE AGREEMENTS**

The Agency leases office equipment under a non-cancelable operating lease that expires in fiscal year 2010. The monthly payment under this agreement is \$260. Expenses under this lease were \$3,774 and \$3,685 for the years ended June 30, 2009 and 2008, respectively, and are included in equipment expense in the accompanying combining statements of functional expenses. Future minimum lease payments under this agreement total \$1,300 in fiscal year 2010.

(9) **LABOR AGREEMENT**

The Agency has a signed labor agreement with Service Employees International Union Local 509 which expires on September 30, 2010. Approximately 50% of the Agency's labor force is covered under this agreement as of June 30, 2009.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(10) CONCENTRATIONS

Funding

The Agency receives a significant portion of its total revenue and support (approximately 28% and 36% in fiscal years 2009 and 2008, respectively) from government agencies under cost reimbursable contracts. 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 June 30, 2009 and 2008, or on the changes in its net assets for the years then ended.

Approximately 92% and 99% of the Agency's accounts receivable at June 30, 2009 and 2008, respectively, is due from government agencies.

Credit Risk

The Agency maintains its operating cash balances in Massachusetts banks. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances exceed the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on its operating cash balance.

(11) RETIREMENT PLAN

The Agency has a defined contribution pension plan covering all eligible employees. Employees become eligible to participate after completing one-year of service. After two years of employment, the Agency contributes 1% of the employee's annual salary to the plan. After five years of employment, the Agency matches up to 3% of the employee's annual salary. For the years ended June 30, 2009 and 2008, pension cost was \$25,217 and \$23,892, respectively, and is included in salaries and related expenses in the accompanying combining statements of functional expenses.

(12) RELATED PARTY TRANSACTIONS

A member of the Board of Directors is also the president of an organization from which the Agency purchases supplies. There have been three competitive bids prior to the purchases. The Agency made \$410,340 and \$372,661 of purchases from the organization for the years ended June 30, 2009 and 2008, respectively. The Agency owed this organization \$32,274 and \$18,577 at June 30, 2009 and 2008, respectively.

(13) CONDITIONAL GRANTS

The Agency received a conditional grant from a foundation whereby the foundation will donate up to \$1,000,000 over five years ending 2011 for organizational capacity building purposes. The Agency also received a conditional grant from another foundation whereby the foundation will donate up to \$550,000 over three years ending 2011 for nutrition education services and for social enterprise program purposes. The Agency has met certain conditions and had recorded and received \$600,000 and \$200,000, respectively, from the foundations as of June 30, 2009.

COMMUNITY SERVINGS, INC. AND AFFILIATE
NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(13) CONDITIONAL GRANTS (Continued)

The Agency received a conditional grant from a foundation whereby the foundation would donate \$400,000 to the capital campaign if the Agency raised \$3,600,000 by October 31, 2007. This requirement was met in 2008 and the grant was recorded as a contribution in fiscal year 2008.

(14) RECLASSIFICATION

Certain amounts in the 2008 combining financial statements have been reclassified to conform to the 2009 presentation.