POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Polus Center for Social and Economic Development, Inc.

Report on the Financial Statements

We have audited the accompanying statements of financial position of Polus Center for Social and Economic Development, Inc. as of June 30, 2014 and 2013, and the related statements of activities, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Polus Center for Social and Economic Development, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

In addition, the supplementary information on pages 20 and 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 28, 2014 on our consideration of Polus Center for Social and Economic Development, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Robert C. Alario, Certified Public Accountants, PC

October 28, 2014
Leominster, Massachusetts

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash	$ 20,160	$ 13,697
Accounts Receivable	126,905	188,771
Inventory	5,049	5,386
Prepaid Expenses	16,873	20,927
Total Current Assets	168,987	228,781
INVESTMENTS	53,412	53,452
PROPERTY AND EQUIPMENT		
Land	60,000	116,000
Land Improvements	106,654	106,654
Buildings and Building Improvements	298,666	638,290
Leasehold Improvements	140,528	140,528
Equipment and Furniture	200,296	300,895
Vehicles	3,159	22,551
	809,303	1,324,918
Accumulated Depreciation	378,153	533,764
Total Property and Equipment	431,150	791,154
OTHER ASSETS		
Deposits	16,344	14,294
Total Other Assets	16,344	14,294
TOTAL ASSETS	$ 669,893	$1,087,681

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Note Payable - Bank	**$ 306,989**	$ 327,950
Current Maturities of Long-Term Liabilities	**4,440**	9,742
Accounts Payable	**39,898**	183,295
Deferred Revenue	**102,915**	90,751
Accrued Expenses:and Other Current Liabilities	**33,602**	37,600
Total Current Liabilities	**487,844**	649,338
LONG TERM LIABILITIES		
Mortgages Payable	**187,920**	453,003
Total Long-Term Liabilities	**187,920**	453,003
TOTAL LIABILITIES	**675,764**	1,102,341
NET ASSETS (DEFICIT)		
Unrestricted Net Assets	**(27,649)**	(14,660)
Temporarily Restricted Net Assets	**21,778**	-
Total Net Assets (Deficit)	**(5,871)**	(14,660)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	**$ 669,893**	$1,087,681

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Unrestricted	2014 Temporarily Restricted	Total	2013 Unrestricted and Total
Revenue and Other Support:				
Residential Support and Services	$ 2,303,420	$ -	$2,303,420	$2,374,367
Federal Grants	601,221		601,221	1,283,317
Contract Revenue - Public	134,452		134,452	82,987
Private Grants	110,339	21,778	132,117	148,222
Contributions	11,328		11,328	22,077
In-Kind Contributions	6,900		6,900	15,000
Investment Returns	740		740	179
Rental Loss - Net	(84,595)		(84,595)	(25,236)
Special Events	11,560		11,560	-
Café and Other Revenue	81,622		81,622	84,771
Total Unrestricted Revenue and Other Support	3,176,987	21,778	3,198,765	3,985,684
Expenses:				
Program Services	2,780,240		2,780,240	3,894,501
Support Services	403,547		403,547	446,853
Loss on Disposal of Assets	6,189		6,189	-
Total Expenses	3,189,976	-	3,189,976	4,341,354
CHANGE IN NET ASSETS	(12,989)	21,778	8,789	(355,670)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(14,660)	-	(14,660)	341,010
NET ASSETS (DEFICIT), END OF YEAR	$ (27,649)	$ 21,778	$ (5,871)	$ (14,660)

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Support Services	Total Program and Support Services
Payroll Related Expenses:			
Salaries and Wages	$ 456,452	$ 205,123	$ 661,575
Payroll Taxes	49,559	18,273	67,832
Fringe Benefits	99,494	15,223	114,717
Total Payroll and Related Expenses	605,505	238,619	844,124
Advertising	1,355	879	2,234
Audit Fees	-	18,300	18,300
Auto Expense	973	3,308	4,281
Bad Debts	90	122	212
Client Transportation	60,451	-	60,451
Conferences	-	1,155	1,155
Consultants - Other	172,841	27,119	199,960
Cost of Café Sales	33,331	-	33,331
Direct Care Consultants	223,651	-	223,651
Fundraising Expense	24	6,345	6,369
Insurance - Directors /Officers	-	1,600	1,600
Insurance - General	10,316	7,401	17,717
Insurance - Vehicle	7,984	3,538	11,522
Interest	-	19,093	19,093
Leased Office Equipment	-	4,313	4,313
Leased Vehicles	22,358	9,668	32,026
Legal Fees	-	5,000	5,000
Office Expense	6,637	9,620	16,257
Postage and Printing	668	2,870	3,538
Program Supplies	162,291	1,713	164,004
Program Support	72,630	29	72,659
Provider Stipends	1,214,058	-	1,214,058
Rent	43,400	15,000	58,400
Repairs and Maintenance	3,156	2,111	5,267
Respite	5,394	-	5,394
Service Charges	1,383	3,528	4,911
Social Events	268	2,201	2,469
Staff Training	2,636	1,295	3,931
Staff Travel	78,430	4,766	83,196
Utilities	19,385	11,199	30,584
Total Expenses Before Depreciation	2,749,215	400,792	3,150,007
Depreciation	31,025	2,755	33,780
Total Expenses	$2,780,240	$ 403,547	$ 3,183,787

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Support Services	Total Program and Support
Payroll Related Expenses:			
Salaries and Wages	$ 587,825	$ 155,039	$ 742,864
Payroll Taxes	66,958	11,724	78,682
Fringe Benefits	103,235	7,794	111,029
Total Payroll and Related Expenses	758,018	174,557	932,575
Advertising	4,181	3,155	7,336
Audit Fees	10,000	24,000	34,000
Auto Expense	556	7,571	8,127
Bad Debts	33,607	5,634	39,241
Client Transportation	27,570	50	27,620
Consultants - Other	238,868	44,027	282,895
Cost of Café Sales	48,084	-	48,084
Direct Care Consultants	187,255	-	187,255
Fundraising Expense	-	7,095	7,095
Insurance - Directors /Officers	-	1,254	1,254
Insurance - General	7,728	10,113	17,841
Insurance - Vehicle	12,821	4,736	17,557
Interest	-	28,468	28,468
International Sub-Contractors	742,277	-	742,277
Leased Office Equipment	3,093	4,677	7,770
Leased Vehicles	50,610	13,108	63,718
Legal Fees	268	12,500	12,768
Office Expense	867	16,619	17,486
Postage	274	2,912	3,186
Printing	810	101	911
Program Supplies	26,634	5,673	32,307
Program Support	232,067	14,521	246,588
Provider Stipends	1,171,253	-	1,171,253
Real Estate/Property Taxes	718	4,456	5,174
Rent	131,778	20,464	152,242
Repairs and Maintenance	-	1,432	1,432
Respite	48,700	-	48,700
Service Charges	7,806	3,945	11,751
Social Events	3,203	-	3,203
Staff Training	10,471	4,262	14,733
Staff Travel	81,252	1,745	82,997
Utilities and Maintenance	18,207	10,197	28,404
Total Expenses Before Depreciation	3,858,976	427,272	4,286,248
Depreciation	35,525	19,581	55,106
Total Expenses	$ 3,894,501	$ 446,853	$ 4,341,354

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013
Change in Unrestricted Net Assets	$ 8,789	$ (355,670)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	55,348	76,237
Unrealized Gain on Investments	40	(114)
Loss on Disposal of Assets	6,189	-
Bad Debt Expense	27,559	46,241
Changes in Operating Assets and Liabilities:		
Accounts Receivable	34,307	151,345
Prepaid Expenses	4,054	(7,459)
Inventory	337	3,462
Deposits	(2,050)	5,373
Accounts Payable	(143,397)	19,750
Accrued Expenses and Other Current Liabilities	(3,998)	5,196
Deferred Revenue	12,164	73,956
Total Adjustments	(9,447)	373,987
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(658)	18,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Property and Equipment	298,467	-
Purchase of Property and Equipment	-	(44,155)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	298,467	(44,155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds (Payments) on Note Payable - Bank	(20,961)	(906)
Principal Payments on Mortgages Payable	(270,385)	(9,148)
CASH USED IN FINANCING ACTIVITIES	(291,346)	(10,054)
NET INCREASE (DECREASE) IN CASH	6,463	(35,892)
CASH - BEGINNING OF YEAR	13,697	49,589
CASH - END OF YEAR	$ 20,160	$ 13,697
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	$ 41,105	$ 43,450

See independent auditors' report and accompanying notes to financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 1 - Summary of Significant Accounting Policies:

Nature of Activities

The Polus Center for Social and Economic Development, Inc. (the Polus Center or Organization) is a non-profit organization that designs and implements community-based human service programs, both in the United States and throughout the developing world. Since 1979 the Polus Center has been dedicated to creating social and economic opportunities for persons with disabilities and other vulnerable groups to become valued citizens within their communities.

Services include Shared Living, an innovative residential service model where people with and without disabilities live together in private homes in Massachusetts and New Hampshire; economic projects which assist people with disabilities to participate in meaningful work and community activities; training and consulting services; and international development.

In 1997, the Polus Center began working internationally to address the devastating impact of landmines and other explosive remnants of war (ERW's) on communities and the challenges that people with disabilities confront on a daily basis, beginning with addressing the needs of landmine victims and people with disabilities in Nicaragua. Funded primarily through the U.S. Department of State Office of Weapons Removal and Abatement (WRA) and private grants, this "victim assistance" work has continued throughout Central and South America, as well as various development projects for vulnerable people in Africa and the Middle East. In 2005 the Polus Center founded the Coffeelands Trust, which collaborates with the coffee industry to assist people living in coffee regions around the world who have been victims of conflict and war.

Using a locally-based, holistic approach to project development insures that people with disabilities are included in all aspects of program design and implementation. Projects have included prosthetic clinics in Central and South America, a wheelchair manufacturing facility in Nicaragua, and outreach to indigenous people living in rural areas such as the Amazons and Central Highland regions of Peru. Recently the Polus Center has been actively working with refugees and children who are victims of the conflict in Syria through a prosthetic training program in Jordan, the development of children's prosthetic services in Iraq, and continued support of coffee farmers who have been displaced and injured by conflict in Colombia. Future plans include outreach to victims of landmines and unexploded ordnances (UXO's) in Southeast Asia.

The primary goal throughout the world and in the U.S. is to identify and implement individualized solutions for survivors of conflict and other vulnerable people and their families, such as rehabilitation, small business mini-grants, vocational training and employment, as well as fostering systemic change through awareness building, capacity building, training, and development of sustainable programs and systems.

Note 1 - Summary of Significant Accounting Policies (Continued):

Nature of Activities (Continued):
The Organization also operates the Coffeelands World Gifts Espresso Café, a social enterprise that employs people with disabilities, raises awareness, and supports landmine victims and vulnerable people from coffee regions and throughout the U.S. and developing countries through the sale of fair trade items. Other economic development activities include individualized employment supports for people with disabilities and internship programs in collaboration with local Workforce Investment Boards and community colleges.

Basis of Accounting:
Polus Center for Social and Economic Development, Inc. prepares its financial statements using the accrual method of accounting; consequently revenues and support are recognized when earned, and expenses and losses are recognized when incurred.

Program Service Revenues are recognized as costs are incurred, or services provided, which are eligible for reimbursement according to the contract. To the extent allowable costs, or billing for services, have not been reimbursed, an account receivable from the funding source is recognized. If a contract is terminated any unexpended funds may have to be returned to the funding source. Funds received under a contract are limited to usage as determined by the contract. Other revenue is recognized when earned under the accrual basis of accounting.

Functional Expenses
The cost of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In some cases, common expenses are incurred which support the works performed under more than one program and/or the contract. Such expenses are allocated based upon promulgated methods and standards of the AICPA and Division of Purchased Services.

Basis of Presentation
The Organization follows the prescribed standards for general purpose financial statements of all not-for-profit organizations. These standards require reporting amounts for the Organization's total assets, liabilities and net assets in a statement of financial position, reporting the change in an organization's net assets in a statement of activities and reporting the change in its cash in a statement of cash flows. The standards require the classification of an organization's net assets based on the existence or absence of donor imposed restrictions.

Note 1 - Summary of Significant Accounting Policies (Continued):

Basis of Presentation (Continued):
The net assets of the Organization are reported as follows:

Unrestricted net assets represent amounts not restricted for identification purposes by donor or grantors. These amounts are available to be used by the Board of Directors for the general purpose of the Organization.

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

The Organization reports donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Promise to Give
Contributions, including, unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

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

Cash Equivalents
For purposes of the statements of cash flows, the Organization considers all highly liquid instruments with initial maturities of three months or less to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued):

Accounts Receivable
Accounts receivable are stated at net realizable value. No allowance for doubtful accounts is provided for at June 30, 2014 and 2013 as the Organization expects all amounts to be collected.

Inventory
Inventory is stated at the lower of cost or market value determined by the first-in, first-out method and consists primarily of coffee, food, gift items and café supplies.

Compensated Absences
The Organization accrues for vacation pay. The Organization has a formal vacation policy allowing for paid time off based on years of service. Employees are allowed to accumulate and carry forward a maximum of two weeks unused vacation.

Advertising Costs
The Organization expenses advertising costs as they are incurred. For the years ended June 30, 2014 and 2013, advertising expense was $2,234 and $7,336, respectively.

Property and Equipment and Depreciation
Property and equipment are recorded at cost. The cost of maintenance and repairs is charged to income as incurred. Major additions and betterments are capitalized as additions to their respective asset accounts.

Depreciation is computed over the estimated useful lives of the related assets using the straight-line method.

The estimated useful lives of depreciable assets are:

Land Improvements	15 Years
Buildings	39 Years
Building Improvements	20 Years
Leasehold Improvements	5 Years
Equipment	3-10 Years

Polus Center for Social and Economic Development, Inc. follows the practice of capitalizing all expenditures for fixed assets in excess of $1,000.

Donated Services and Materials
A number of volunteers have donated significant amounts of their time in the Organization's program services. These services are not recorded because the services provided did not require specialized skills. Donated rent and professional services are recorded as received.

Note 1 - Summary of Significant Accounting Policies (Continued):

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under section 501 (c)(3) of the Internal Revenue Code. The Organization believes that it has done nothing during the past year that would jeopardize its tax-exempt status at either the state or Federal level. The Organization reports its activities to the IRS in an annual information return. These filings are subject to review by the taxing authorities, and the Federal information returns for 2013, 2012 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Note 2 - Investments:

Investments at June 30, consist of the following:

	2014	2013
Common Stock and Mutual Fund	$ 2,489	$ 2,669
Certificate of Deposit due October 2014	50,923	50,783
	$ 53,412	$ 53,452

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30:

	2014	2013
Realized and Unrealized Gains	$ 320	$ -
Interest and Dividend Income	280	65
Certificate of Deposit	140	114
Total Investment Returns	$ 740	$ 179

Note 3 - Fair Value Measurements:

The fair value of financial assets and liabilities are classified in one of the following categories:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Note 3 - Fair Value Measurements (Con't):

The following tables summarize the fair value measurements as of June 30, 2014 and 2013 for financial assets by hierarchy level.

Investments at Fair Value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Available for Sale:				
Certificates of Deposit	$ -	$ 50,923	$ -	$ 50,923
Corporate Common Stock	2,489	-	-	2,489
Total Available for Sale Investments	$2,489	$ 50,923	$ -	$ 53,412

Investments at Fair Value as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Available for Sale:				
Certificates of Deposit	$ -	$ 50,783	$ -	$ 50,783
Mutual Fund	491			491
Corporate Common Stock	2,178	-	-	2,178
Total Available for Sale Investments	$2,669	$ 50,783	$ -	$ 53,452

All assets have been valued using a market approach. Fair value for investments in Level 2 are calculated using quoted market prices for similar assets in markets that are not active.

Note 4 - Note Payable - Bank:

The Organization has a demand line of credit with a bank which provides borrowings up to a maximum of $500,000. At June 30, 2014, the Organization had an outstanding balance of $306,989. The interest rate is 1.50% over the Wall Street Journal rate with a floor of 4.75% (4.75% at June 30, 2014). The line is secured by all assets of the Organization.

Note 5 - Long-Term Liabilities:

At June 30, long-term liabilities consist of:

	2014	2013
Mortgage Payable - Bank. Mortgage secured by real estate, payable in monthly installments of $1,412 including interest at 6.5%. This note is dated May 3, 2010 and matures June 3, 2020.	$192,360	$231,846
Mortgage Payable - Bank. Mortgage secured by real estate, payable in monthly installments of $1,662 including interest at 6.5%. This note is dated May 3, 2010 and was paid off in full upon sale of real estate in December 2013.	-	230,899
	192,360	462,745
Less: Amount Due Within One Year	4,440	9,742
Long-Term Liabilities	$187,920	$453,003

Long-Term Liabilities mature as follows:

Year ended June 30,	Amount
2015	$ 4,440
2016	4,878
2017	5,204
2018	5,553
2019	5,946
Thereafter	166,339
Total	$192,360

Note 6 - Rental Loss - Net:

Rental Loss - Net consists of the following:

	2014	2013
Revenue:		
Gross Rent	$ 19,575	$ 34,925
Insurance Proceeds	-	16,608
Total Revenue	19,575	51,533
Expenses:		
Depreciation	21,568	21,130
Interest	22,012	15,383
Repairs and Maintenance	11,028	16,494
Utilities	11,840	4,697
Real Estate Taxes	5,910	4,325
Insurance	2,340	3,700
Office Expense	298	50
Consultant	260	1,500
Professional Fees	117	2,490
Licenses and Permits	1,450	-
Bad Debts	27,347	7,000
Total Expenses	104,170	76,769
Rental Loss - Net	$(84,595)	$ (25,236)

Net book value of property and equipment held for lease was $286,400 and $659,243 at June 30, 2014 and 2013, respectively.

Note 7 - Leases:

The Organization leased residential and office space in several locations for program and administrative sites. Total rent expense, which includes tenant-at-will locations, for the years ended June 30, 2014 and 2013, was $58,400 and $152,242, respectively.

The Organization also leases vehicles on behalf of certain constituents. Total lease expense for these vehicles for years ended June 30, 2014 and 2013, was $32,026 and $63,718, respectively. Future minimum payments due on all leases at June 30, 2014 are as follows:

Year ended June 30,	Amount
2015	$ 62,700
2016	42,400
2017	29,000
2018	19,200
2019	7,100
Total	$160,400

Note 8 - Concentration of Credit Risk:

The Organization is funded primarily by the Massachusetts Department of Developmental Services, which for the years ended June 30, 2014 and 2013, provided $1,909,399 and $2,022,645, respectively, of the Organization's revenues, and $601,221 and $1,283,317 came from direct Federal grants for the years ended June 30, 2014 and 2013, respectively. The remaining revenue came from other state contracts (Adult Foster Care, Monadnock Developmental Services and Massachusetts Rehabilitation Commission) private grants, commercial activities and other revenue sources.

At June 30, 2014, accounts receivable from two Massachusetts agencies represented approximately 60% of total accounts receivable and 22% from a New Hampshire agency. At June 30, 2013, accounts receivable from a Massachusetts agency and a private grantor represented 29% and 33%, respectively, of total accounts receivable.

Note 9- Contingencies:

Polus Center for Social and Economic Development, Inc. contracts with the Massachusetts Department of Developmental Services to provide services to individuals with disabilities and the United States Department of State to provide services for landmine victims. The Departments require expenditures of funds to be in compliance with terms and conditions specified in the related grants and contracts. These expenditures are subject to audit by the grantor agencies. Any disallowed expenditure would become a liability of the Organization, requiring repayment to the funding source.

Note 10 - Commonwealth Designated Funds:

The Commonwealth of Massachusetts has promulgated regulations requiring that all not-for-profit entities engaged in the provision of human service and social service programs by contract with state agencies are subject to a "surplus revenue retention policy". Under this policy, any surpluses generated from Commonwealth contracts which exceed five percent (5%) in any year or twenty percent (20%) of prior year revenues on a cumulative basis are subject to negotiated reuse or recoupment. The Commonwealth may stipulate the use of such excess by the Organization, request the return of the surplus to the state or reduce state funding in future years. Amounts within the 5% and 20% rules are included in net assets and any amounts in excess of these rules is a liability to the Commonwealth.

As of June 30, 2014 and 2013 the Organization has no surpluses in excess of the 5% or 20% rules.

Note 11 - Pension Plan:

The Organization provides a pension plan in which employees may participate. The Organization does not contribute to this plan.

Note 12 - Restriction of Net Assets:

As of June 30, 2013, there were no temporary or permanent restrictions on net assets. At June 30, 2014, temporarily restricted net assets consisted of the following:

International Foundation - rehabilitation for children who are victims of war	$ 15,000
El Porvinier - donations designated to this school	4,865
Schiffman - international travel costs	1,913
	$ 21,778

Note 13 - Subsequent Events:

Management has evaluated subsequent events through October 28, 2014, which is the date the financial statements were available to be issued.

Note 14 - Reclassifications:

Certain accounts in the prior year have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.

SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2014

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
SCHEDULE OF PROGRAM SERVICES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services						
	Boston Residential & Community Supports	Worcester Residential & Community Supports	Northshore Residential & Community Supports	New Hampshire Residential & Community	International Programs	Economic Development	Total Program Services 2014
Salaries and Wages	$ 81,400	$ 122,087	$ 67,609	$ 44,560	$ 114,332	$ 26,464	$ 456,452
Payroll Taxes	8,180	13,285	6,924	5,641	11,884	3,645	49,559
Fringe Benefits	19,483	34,419	18,750	555	23,646	2,641	99,494
Total Payroll and Related Expenses	109,063	169,791	93,283	50,756	149,862	32,750	605,505
Advertising	-	-	-	-	430	925	1,355
Auto Expense	-	84	889	-	-	-	973
Bad Debts	-	-	90	-	-	-	90
Client Transportation	10,466	15,448	30,211	4,326	-	-	60,451
Consultants - Other	68	115	-	-	171,114	1,544	172,841
Cost of Café Sales	-	-	-	-		33,331	33,331
Direct Care Consultants	24,384	77,012	69,022	53,233	-	-	223,651
Fundraising	-	-	-	-	24	-	24
Insurance - General	1,566	3,182	1,770	1,068	-	2,730	10,316
Insurance - Vehicle	2,059	2,671	2,079	1,175	-	-	7,984
Leased Vehicles	5,979	7,296	5,985	2,990	-	108	22,358
Office Expense	237	2,021	665	1,369	355	1,990	6,637
Postage	43	36	85	47	363	94	668
Program Supplies	5,329	7,084	18,444	1,481	125,913	4,040	162,291
Program Support	-	-	93	3,198	69,339	-	72,630
Provider Stipends	357,703	507,982	181,462	166,911	-	-	1,214,058
Rent	3,200	19,800	8,400	-	-	12,000	43,400
Repairs and Maintenance	573	475	360	-	-	1,748	3,156
Respite	-	2,743	1,226	1,425	-	-	5,394
Service Charges	-	-	-	-	976	407	1,383
Social Events	-	268	-	-	-	-	268
Staff Training	485	1,276	830	-	-	45	2,636
Staff Travel	1,095	1,417	2,554	2,313	70,950	101	78,430
Utilities	2,039	3,923	3,994	1,895	-	7,534	19,385
Total Expenses Before Depreciation	524,289	822,624	421,442	292,187	589,326	99,347	2,749,215
Depreciation	555	-	340	-	292	29,838	31,025
Total Program Services Expenses	$ 524,844	$ 822,624	$ 421,782	$ 292,187	$ 589,618	$ 129,185	$ 2,780,240

See independent auditors' report.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
SCHEDULE OF SUPPORT SERVICES
FOR THE YEAR ENDED JUNE 30, 2014

	Management and General	Fundraising	Total Support Services
Salaries and Wages	$ 205,123	$ -	$ 205,123
Payroll Taxes	18,273	-	18,273
Fringe Benefits	15,223	-	15,223
Total Payroll and Related Expenses	238,619	-	238,619
Advertising	879	-	879
Audit Fees	18,300	-	18,300
Auto Expense	3,308	-	3,308
Bad Debts	122	-	122
Conferences	1,155		1,155
Consultants - Other	27,119	-	27,119
Fundraising Expense	-	6,345	6,345
Insurance - Directors/Officers	1,600	-	1,600
Insurance - General	7,401	-	7,401
Insurance - Vehicle	3,538	-	3,538
Interest	19,093	-	19,093
Leased Office Equipment	4,313	-	4,313
Leased Vehicles	9,668	-	9,668
Legal Fees	5,000	-	5,000
Office Expense	9,620	-	9,620
Postage and Printing	2,870	-	2,870
Program Supplies	1,713	-	1,713
Program Support	29	-	29
Rent	15,000	-	15,000
Repairs and Maintenance	2,111	-	2,111
Service Charges	3,528	-	3,528
Social events	2,201	-	2,201
Staff Training	1,295	-	1,295
Staff Travel	4,766	-	4,766
Utilities	11,199	-	11,199
Total Expenses Before Depreciation	394,447	6,345	400,792
Depreciation	2,755	-	2,755
Total Support Services Expenses	$ 397,202	$ 6,345	$ 403,547

See independent auditors' report.

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Polus Center for Social and Economic Development, Inc.

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the basic financial statements of Polus Center for Social and Economic Development, Inc., which comprise the financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements we considered Polus Center for Social and Economic Development, Inc.'s internal control over financial reporting 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 Polus Center for Social and Economic Development, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting 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 Polus Center for Social and Economic Development, Inc.'s financial statements are free of 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 over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert C. Alario, Certified Public Accountants, P.C.

October 28, 2014
Leominster, MA

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditors' Report

To the Board of Directors
Polus Center for Social and Economic Development, Inc.

Compliance

We have audited Polus Center for Social and Economic Development, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Polus Center for Social and Economic Development, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Polus Center for Social and Economic Development, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Polus Center for Social and Economic Development, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major program. However, our audit does not provide a legal determination on Polus Center for Social and Economic Development, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Polus Center for Social and Economic Development, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Internal Control over Compliance

The management of Polus Center for Social and Economic Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Polus Center for Social and Economic Development, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Polus Center for Social and Economic Development, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-1, that we consider to be significant deficiencies.

Polus Center for Social and Economic Development, Inc.'s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Polus Center for Social and Economic Development, Inc.'s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Restricted Use

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose..

Robert C. Alario, Certified Public Accountants, PC

October 28, 2014
Leominster, Massachusetts

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Agency	Pass-Through Agency Identifying Number	Federal Expenditures
U.S. Department of State:				
Political Military Affairs/Weapons Removal and Abatement (PM/WRA)				
Weapons Removal and Abatement -Peru	19.800		SPMWRA11GR005	$ 41,685
Weapons Removal and Abatement -Columbia	19.800		SPMWRA12GR1032	100,000
Weapons Removal and Abatement -Jordan	19.800		SPMWRA13GR1052	459,536
Total Direct Department of State/Total Expenditures of Federal Awards				601,221
Weapons Removal and Abatement -Iraq	19.800	Marshall Legacy Institute	SPMWRA12GR1114	19,275
Total Department of State/Total Expenditures of Federal Awards				$ 620,496

See independent auditors' report and accompanying notes to schedule.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - MAJOR PROGRAMS

Major programs are identified in the summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:	
Are any material weaknesses identified?	____ Yes _X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	____ Yes _X_ None Reported
Is any noncompliance material to financial statements noted?	____ Yes _X__ No

Federal Awards

Type of auditors' report issued on compliance for major programs: Unqualified

Internal control over major program compliance:

Are any material weaknesses identified?	____ Yes _X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	__X_ Yes ___ None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations,* Section .510(a)?	__X_ Yes ____ No

Identification of major programs:

CFDA Number(s) and Name of Federal Program or Cluster

CFDA 19.800 U.S. Department of State:
Political Military Affairs/Weapons Removal and Abatement (PM/WRA)

Enter the dollar threshold used to distinguish between Type A and Type B programs: $300,000

Is the auditee qualified as a low risk auditee? Yes

Section II: Financial Statement Findings

None reported

Section III: Federal Awards Findings

Finding 2014-1:

Federal Program: CFDA 19.800— Political Military Affairs/Weapons Removal and Abatement (PM/WRA)

Pass-Through Entity: .U.S. Department of State

Award Number: SPMWRA11GR005, SPMWRA12GR1032, SPMWRA12GR1018

Compliance Requirements: Allowable Costs.

Type of Finding: Internal Control Over Compliance.

Criteria: Costs charged to grants should be supported by actual time records.

Condition: Timesheets do not show actual hours spent on each grant rather time is allocated to grants based on budget.

Cause: Timesheets do not require detail of time rather just show total hours worked per week.

Effect or Potential Effect: As a result, time charged to grants may be inaccurate.

Recommendation: Timesheets should be revised to allow for capturing detail of time spent on specific grants.

Corrective Action Plan:

We have re-designed our timecards for direct and sub-contract staff with grant funded responsibilities to reflect specific hours spent on each project. While FTEs were clearly and accurately allocated across programs and signed timecards were in place, these new timecards will provide further documentation of time charged to specific grants.

POLUS CENTER FOR SOCIAL AND ECONOMIC DEVELOPMENT, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Section I - Summary of Auditors' Results

No prior findings reported

Section II - Financial Statement Findings

There were no financial statement auditee findings

Section III - Findings and Questions Costs - Major Federal Award Program Audit

2013-1	Time on grants is charged based on budget rather than actual time spent
Update	No change
2013-2	Organization does not have written procurement policy
Update	Corrected
2013-3	Certain financial reports were not filed timely based on statutory requirements
Update	Corrected
2013-4	Subrecipient audit reports not obtained and monitored
Update	No subrecipients in the current year.