

**MEETING STREET AND SUBSIDIARY**  
**YEARS ENDED AUGUST 31, 2013 AND 2012**



MEETING STREET AND SUBSIDIARY  
YEARS ENDED AUGUST 31, 2013 AND 2012

CONTENTS

	Page
Independent Auditors' Report	1-2
Consolidated financial statements:	
Statements of financial position	3
Statements of activities	4-5
Statements of cash flows	6-7
Notes to financial statements	8-20



## **Independent Auditors' Report**

Board of Trustees  
Meeting Street and Subsidiary  
Providence, Rhode Island

We have audited the accompanying consolidated financial statements of Meeting Street and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of August 31, 2013 and 2012, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

*A Limited Liability Partnership*

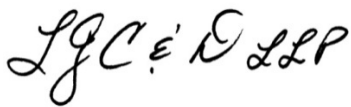
10 Weybosset Street, Suite 700, Providence, RI 02903 • (p) 401.421.4800 • 1.800.927.LGCD • (f) 401.421.0643 • www.lgcd.com

**Independent Auditors' Report (Continued)**

Board of Trustees  
Meeting Street and Subsidiary  
Providence, Rhode Island

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meeting Street and Subsidiary as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "LJC & D LLP". The letters are cursive and somewhat stylized.

Providence, Rhode Island  
December 18, 2013

MEETING STREET AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – AUGUST 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,055,214	\$ 1,196,818
Accounts receivable, less allowance for doubtful accounts (2013, \$319,716; 2012, \$1,093,738)	2,101,751	3,282,832
Promises to give, less allowance for uncollectibles (2013, \$57,346; 2012, \$333,788)	265,459	458,757
Prepaid expenses	123,272	127,072
Land, buildings and equipment, less accumulated depreciation	22,036,306	22,701,527
Deferred fees, net of accumulated amortization (2013, \$28,763; 2012, \$25,346)	109,352	112,769
Other assets	686,560	289,042
Long-term investments	<u>13,514,358</u>	<u>12,298,404</u>
Total assets	<u>\$ 39,892,272</u>	<u>\$ 40,467,221</u>

LIABILITIES AND NET ASSETS

Liabilities, all current:		
Accounts payable and accrued expenses	\$ 611,940	\$ 1,012,729
Refundable advance	255,324	562,000
Construction payable		37,066
Bonds payable	<u>9,070,000</u>	<u>9,470,000</u>
Total liabilities	<u>9,937,264</u>	<u>11,081,795</u>
Commitments (Notes 6 and 9)		
Net assets:		
Unrestricted:		
Board-designated	12,268,747	11,168,715
Other	16,411,401	16,866,770
Temporarily restricted	311,436	432,401
Permanently restricted	<u>963,424</u>	<u>917,540</u>
Total net assets	<u>29,955,008</u>	<u>29,385,426</u>
Total liabilities and net assets	<u>\$ 39,892,272</u>	<u>\$ 40,467,221</u>

See notes to consolidated financial statements.

MEETING STREET AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
Changes in unrestricted net assets:		
Operating revenue and gains:		
Program fees	\$ 12,915,432	\$ 14,759,832
Contributions and grants, including donated services (2013, \$178,324; 2012, \$205,327)	2,996,939	2,954,204
Total unrestricted operating revenue and gains	15,912,371	17,714,036
Net assets used in accordance with donor restrictions and spending policy	272,387	361,803
Total unrestricted operating revenue, gains and other support	16,184,758	18,075,839
Operating expenses:		
Program services	13,497,393	14,565,734
Supporting services:		
General and administrative	1,996,519	2,224,348
Fundraising	973,486	1,040,831
Interest	167,274	185,551
Total operating expenses	16,634,672	18,016,464
Increase (decrease) in unrestricted net assets from operations	(449,914)	59,375
Other changes in unrestricted net assets:		
Net investment income	1,085,555	819,920
Equity in income of investee entity	9,022	43,134
Gain on sale of equipment	1,600	1,600
	1,094,577	864,654
Increase in unrestricted net assets	644,663	924,029

(continued)

MEETING STREET AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Changes in temporarily restricted net assets:		
Grants and contributions	\$ 81,384	\$ 178,813
Net assets used in accordance with donor restrictions and spending policy	(272,387)	(361,803)
Net investment income	<u>70,038</u>	<u>119,405</u>
Decrease in temporarily restricted net assets	<u>(120,965)</u>	<u>(63,585)</u>
Changes in permanently restricted net assets:		
Contributions	1,576	2,021
Net investment income	<u>44,308</u>	<u>29,567</u>
Increase in permanently restricted net assets	<u>45,884</u>	<u>31,588</u>
Increase in net assets	569,582	892,032
Net assets, beginning of year	<u>29,385,426</u>	<u>28,493,394</u>
Net assets, end of year	<u><u>\$ 29,955,008</u></u>	<u><u>\$ 29,385,426</u></u>

See notes to consolidated financial statements.

MEETING STREET AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 569,582	\$ 892,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for losses on accounts receivable and promises to give	46,621	497,432
Depreciation	709,325	711,114
Amortization	3,417	3,418
Contributions received for long-term investment	(24,368)	(347,224)
Contribution restricted for permanent endowment	(1,576)	(2,021)
Net gains on investments	(800,149)	(622,309)
Undistributed equity in income from investee entity	(9,022)	(43,134)
Changes in assets and liabilities:		
Accounts receivable	1,170,401	247,122
Promises to give	157,357	(109,883)
Prepaid expenses	3,800	(26,450)
Accounts payable and accrued expenses	(437,856)	(277,286)
Refundable advance	(306,676)	562,000
	1,080,856	1,484,811
Net cash provided by operating activities		
Cash flows from investing activities:		
Increase in other asset	(388,496)	(155,957)
Purchases of:		
Long-term investments	(419,544)	(687,291)
Land, buildings and equipment	(44,104)	(148,711)
Proceeds from:		
Sale of long-term investments	3,740	19,264
Sale of equipment	1,600	1,600
	(848,404)	(971,095)
Net cash used in investing activities		

(continued)



MEETING STREET AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from financing activities:		
Payment on bonds payable	\$ (400,000)	\$ (380,000)
Contributions received for long-term investment	24,368	347,224
Contribution restricted for permanent endowment	<u>1,576</u>	<u>2,021</u>
Net cash used in financing activities	<u>(374,056)</u>	<u>(30,755)</u>
Net increase (decrease) in cash and cash equivalents	(141,604)	482,961
Cash and cash equivalents, beginning of year	<u>1,196,818</u>	<u>713,857</u>
Cash and cash equivalents, end of year	<u>\$ 1,055,214</u>	<u>\$ 1,196,818</u>
Supplemental disclosure, cash paid for interest	<u>\$ 167,698</u>	<u>\$ 185,830</u>

See notes to consolidated financial statements.

MEETING STREET AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts and transactions of Meeting Street, its wholly-owned subsidiary, MSC Realty, Inc. and MSC Realty Inc.'s wholly-owned subsidiary, 60 King Street, Inc. (together, MSC). Meeting Street and MSC are collectively referred to herein as the Organization.

All significant intercompany accounts and transactions have been eliminated.

Description of organization:

Meeting Street is a nonprofit organization dedicated to providing comprehensive educational, therapeutic and developmental services to children and young adults, including those with disabilities and special needs, and also operates an outpatient rehabilitation facility located in Rhode Island. The majority of the Organization's program tuition is paid by cities and towns, principally located in Rhode Island. The Organization's program service fees are principally derived from arrangements with third-party payors.

MSC Realty, Inc. is a nonprofit corporation organized in 2001 to hold title to certain property, collect income therefrom and turn over the entire amount thereof, less expenses, to Meeting Street. 60 King Street, Inc., which had no operations, holds land for development.

Use of estimates:

The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowances for doubtful accounts and uncollectible pledges. Actual results could differ from those estimates.

Fair value measurements:

Accounting guidance pertaining to fair value measurements provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Fair value measurements (continued):

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

Basis of financial statement presentation:

The Organization classifies its net assets and activities that increase or decrease net assets as either unrestricted, temporarily restricted or permanently restricted:

Unrestricted net assets are those without any donor-imposed restrictions as to their use and are available for the general operations of the Organization.

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

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

Revenue, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments or other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income taxes:

Meeting Street qualifies as a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

MSC qualifies as a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(2) of the Internal Revenue Code.

The Organization is no longer subject to U.S. federal and state examinations by tax authorities for years before 2010.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Cash and cash equivalents:

The Organization considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents. Meeting Street's cash equivalents at August 31, 2013 and 2012 consist of a repurchase agreement with a bank totaling \$902,643 and \$889,399, respectively. The repurchase agreement is an unsecured debt instrument, the proceeds of which are invested by the bank in U.S. Government securities. At August 31, 2013 and 2012, cash and cash equivalents also include a certificate of deposit of \$100,000 and \$150,000, respectively. Cash equivalents are stated at fair value determined using Level 1 inputs.

Cash and cash equivalents, excluding the repurchase agreements, are held by financial institutions located in Rhode Island whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC), subject to certain limits. At August 31, 2013 and 2012, all amounts are within the FDIC insurance limits.

Promises to give:

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Bequests:

Bequests are generally recorded as contributions when the related will is declared valid. If the bequest is conditioned upon future or uncertain events, contribution revenue is recognized when the conditions are substantially met.

Land, buildings and equipment:

Land, buildings and equipment are stated at cost or, if donated, at the fair value on the date contributed. The Organization capitalizes all expenditures for land, buildings and equipment in excess of \$5,000. Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Land, buildings and equipment (continued):

The Organization evaluates long-lived assets held and used by the Organization for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected undiscounted future cash flows from the use and disposition of the asset is less than its carrying amount. Generally, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the estimated fair value of the asset. The Organization did not record any impairment losses during the years ended August 31, 2013 or 2012.

Investments:

Investments are stated at fair value determined using Level 1 inputs. The cost of investments sold is identified using the specific identification method.

Investment in investee entity:

Investment in investee entity is accounted for using the equity method of accounting under which Meeting Street's investment is increased (decreased) by its share of the entity's undistributed earnings or losses and decreased by distributions received from the investee entity.

Refundable advance:

During the years ended August 31, 2013 and 2012, Meeting Street received lump-sum payments of \$350,000 and \$562,000 from two different third-party payors in satisfaction of program service fees receivable, as the payors needed additional time to process claims. During fiscal 2013, the entire lump-sum advance of \$562,000 was recouped by the third-party payor, as was \$94,676 of the \$350,000 advance. During fiscal 2014, management expects the remainder, totaling \$255,324, to be recouped.

Contributions and net assets released from restrictions:

Meeting Street records contribution revenue as received. If the contribution is made in assets other than cash, the amount of the contribution is measured at the fair value of the asset contributed at the date the contribution or unconditional promise to give is made by the donor.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Contributions and net assets released from restrictions (continued):

Contributions of cash, including collections of unconditional promises to give, and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as "net assets used in accordance with donor restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Grants received to offset future construction costs are recorded as increases in temporarily restricted net assets until those construction costs are incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Included in unrestricted contributions for the years ended August 31, 2013 and 2012 is approximately \$465,000 and \$469,000, respectively, of revenue derived from special events, which is presented net of approximately \$208,000 and \$207,000, respectively, of related expenses.

Contributed services:

Certain aspects of Meeting Street's programming are possible only through the generosity of volunteers who contribute their services by conducting workshops and trainings, as well as for fundraising efforts and special events. Such contributed volunteer hours are not reported as support and expenses in the statements of activities since such services either do not require specialized skills or would not typically be purchased if not provided by donation. Other contributed services, consisting primarily of advertising services, are recognized at fair value as revenue and expense in the consolidated financial statements as these services require specialized skills and would otherwise be purchased by Meeting Street if they were not donated. During both fiscal years 2013 and 2012, Meeting Street received \$150,000 in donated advertising from a company managed by a member of the Board of Trustees (Board).

MEETING STREET AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Program fees:

Program fee revenue is reported as services are provided, and includes school tuition and other services. Certain program service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews and investigations. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the years ended August 31, 2013 and 2012, approximately 44% and 52%, respectively, of program service fees were derived under a contract with the State of Rhode Island (the State) to provide early intervention program services. The rates charged by Meeting Street are not fully under the control of Meeting Street, but are principally set by the State. Meeting Street's Early Intervention Program certification expires on December 31, 2013, and has been extended through June 30, 2014 to allow adequate time for the State to process Meeting Street's application for renewal, which management fully expects to be approved.

Meeting Street does not obtain collateral for amounts due for tuition or other program service fees.

Grant and contract revenue:

Grant and certain contract revenue is recognized when program expenditures are incurred or services are provided within program guidelines. Grants and contracts are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds or awarding of contracts. Any liability for reimbursement which might arise as a result of these audits is not considered by Meeting Street to be material.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

1. Description of organization and summary of significant accounting policies (continued):

Change in unrestricted net assets from operations:

Meeting Street's Board designates only a portion of Meeting Street's investment income as available for support of current operations. The remaining investment income is retained by Meeting Street to support operations of future years and to offset potential future market declines. The amount computed under Meeting Street's spending policy for its investment pool, as well as all investment income earned by investing cash in excess of daily requirements in short-term investments, is available to be designated to support current operations, as discussed in Note 2. Net investment income in excess of amounts designated to support current operations, and contributions from unrestricted bequests in excess of amounts designated to be used to fund costs of the capital campaign, for which Meeting Street has a policy to deposit directly into its investment pool, are excluded from the change in unrestricted net assets from operations. For the year ended August 31, 2012, unrestricted contributions include \$78,893 of bequests.

Subsequent events:

The Organization has evaluated subsequent events through December 18, 2013, the date that the accompanying consolidated financial statements were issued.

2. Investments:

Long-term investments, held by Vanguard as agent, consist of the following:

	<u>2013</u>	<u>2012</u>
Marketable equity securities:		
Small growth equity	\$ 381,080	\$ 303,564
Mid-cap blend equity	368,448	317,791
Large blend equity	3,166,182	2,768,877
Large growth equity	854,257	740,556
Large value equity	842,719	781,886
Foreign stock fund	2,357,133	1,762,833
Bond funds:		
Short-term bond fund	879,522	1,047,583
Intermediate bond fund	3,551,746	4,587,618
World Bond fund	1,111,696	
Deposit (cash disbursement) in transit	1,575	(12,304)
	<u>\$ 13,514,358</u>	<u>\$ 12,298,404</u>



MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

2. Investments (continued):

At August 31, 2013 and 2012, \$3,000,000 of investments is pledged as collateral for a line of credit (see Note 4).

The components of unrestricted net investment income are as follows:

	<u>2013</u>	<u>2012</u>
Dividends and interest, net of expenses (2013, \$24,470; 2012, \$22,268)	\$ 331,068	\$ 288,287
Net gain on investments	<u>754,487</u>	<u>531,633</u>
	<u>\$ 1,085,555</u>	<u>\$ 819,920</u>

Meeting Street's endowment includes both donor-restricted endowment funds (see Note 8) and a fund designated by the Board to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has adopted investment objectives and spending policies to attempt to provide a predictable stream of funding to support programs and major capital expenditures, while enhancing the purchasing power of the portfolio. To satisfy its long-term rate-of-return objectives, Meeting Street targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Meeting Street has a policy of annually withdrawing, for operating purposes, no more than 5% of the average market value of the investment portfolio, calculated annually on August 31 using an average of quarterly market values for the prior three years. In establishing this policy, Meeting Street considered the long-term expected return on its investments. Accordingly, over the long term, Meeting Street expects the current spending policy to enable its investments to grow at a faster rate than the annual distributions. In response to unfavorable market conditions, Meeting Street temporarily suspended the monthly investment withdrawal in December 2008; withdrawals continued to be suspended through August 31, 2013.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or law requires Meeting Street to retain as a fund of perpetual duration. Such deficiencies, if they existed, would be reported in unrestricted net assets.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

2. Investments (continued):

Changes in the Organization's endowment net assets for the years ended August 31, 2013 and 2012 consist of the following:

	Unrestricted, Board-designated		Temporarily restricted	Permanently restricted	Total
	Other	Scholarships			
Endowment net assets, August 31, 2011	\$ 9,425,736	\$ 603,636	\$ 92,744	\$ 885,952	\$ 11,008,068
Investment return:					
Investment income, net	279,750		50,852	7,444	338,046
Net appreciation (realized and unrealized gains, net)	531,633		68,553	22,123	622,309
Total investment return	811,383		119,405	29,567	960,355
Contributions	126,094	221,130		2,021	349,245
Appropriations for expenditure	(19,264)				(19,264)
Endowment net assets, August 31, 2012	10,343,949	824,766	212,149	917,540	12,298,404
Investment return:					
Investment income, net	324,917		59,274	9,412	393,603
Net appreciation (realized and unrealized gains, net)	754,487		10,764	34,896	800,147
Total investment return	1,079,404		70,038	44,308	1,193,750
Contributions	16,444	7,924		1,576	25,944
Appropriations for expenditure	(3,740)				(3,740)
Endowment net assets, August 31, 2013	\$ 11,436,057	\$ 832,690	\$ 282,187	\$ 963,424	\$ 13,514,358

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

3. Other assets:

	<u>2013</u>	<u>2012</u>
Prepaid costs, including deposit on land		\$ 155,957
Real estate in development	\$ 544,453	
Investment in investee entity	<u>142,107</u>	<u>133,085</u>
	<u>\$ 686,560</u>	<u>\$ 289,042</u>

During the years ended August 31, 2013 and 2012, Meeting Street recognized management fee income of \$70,000 and \$25,000, respectively, related to administrative services performed for the investee entity.

4. Land, buildings and equipment:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 6,030,354	\$ 6,007,952
Buildings and building improvements	19,235,339	19,245,859
Furniture and equipment	1,742,655	1,711,434
Motor vehicles	<u>69,166</u>	<u>149,059</u>
	27,077,514	27,114,304
Less accumulated depreciation	<u>5,041,208</u>	<u>4,412,777</u>
	<u>\$ 22,036,306</u>	<u>\$ 22,701,527</u>

5. Notes payable:

Meeting Street has available advances under a line of credit facility in the maximum amount of \$1,000,000. Advances under the line of credit are unsecured and bear interest at the bank's variable base rate (London InterBank Offered Rate) plus 2%.

Meeting Street has another line of credit agreement with available advances in the maximum amount of \$2,000,000. Advances under the line of credit bear interest at the bank's prime rate, are secured by \$3,000,000 of Meeting Street's unrestricted investment portfolio and bear interest at the bank's prime rate.

Meeting Street had no amounts outstanding under the lines of credit at August 31, 2013 or 2012.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

6. Bonds payable:

To finance the construction of its new facility, during the year ended August 31, 2005, Meeting Street issued \$17,000,000 of long-term tax-exempt bonds through Rhode Island Health and Educational Building Corporation (RIHEBC), maturing in June 2035. The bonds are supported by letters of credit and collateralized through a trust agreement by a pledge of Meeting Street's gross operating receipts. Under the trust and other agreements related to the bonds, Meeting Street has agreed to make payments to a third-party trustee sufficient to pay the principal and interest on the bonds when due, and RIHEBC has assigned its rights to the trustee to both receive such payments and to make payments to the bondholders.

The bonds bear interest at a variable rate which changes daily, weekly, or monthly (.10% at August 31, 2013 and .20% at August 31, 2012) and which may be converted to a fixed rate upon satisfaction of certain conditions set forth in the agreement among Meeting Street, the trustee and RIHEBC. The bonds require monthly interest payments until the date of a fixed-rate conversion, at which time interest will be payable semiannually. The bonds are subject to early redemption upon the occurrence of certain specified events or optional early redemption at premiums up to 2%. Similarly, bondholders may tender their bonds for redemption at par at any date prior to the fixed-rate conversion date.

Agreements related to the bonds contain, among others, covenants related to maintenance of certain financial ratios, limitations on disposal of land, buildings and equipment, and maintenance of insurance.

At August 31, 2013, the bonds are due in serial maturities as follows:

<u>June 1,</u>	<u>Principal amount</u>
2014	\$ 415,000
2015	435,000
2016	455,000
2017	475,000
2018	495,000
Thereafter	6,795,000

The fair value of Meeting Street's outstanding bond obligation was estimated using bonds with similar ratings and credit profiles to arrive at an approximate fair value. The fair value of the bonds approximates the carrying value at August 31, 2013 and 2012.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

6. Bonds payable (continued):

Letters of credit:

Concurrent with the sale of the bonds, an irrevocable letter of credit in the amount of \$17,000,000 was issued by a bank to secure payment of the bonds and up to 45 days of interest accrued on the bonds. At August 31, 2013, \$9,204,186 remains available. The letter of credit agreement expires on the earliest of (i) the making of the final draw available to be made under the letter of credit, (ii) substitution of another letter of credit satisfactory to the trustee, (iii) May 25, 2015, or (iv) receipt of certification that the fixed-rate conversion date has occurred.

7. Employee benefit plan:

Meeting Street has a defined contribution plan (the Plan) covering employees meeting certain age and length of service requirements. Contributions to the Plan are determined annually at the discretion of Meeting Street's Board. For the years ended August 31, 2013 and 2012, Meeting Street matched eligible employee contributions up to the first 5% of the respective employee's salary, in addition to a Board-approved 1% discretionary contribution for all eligible participants for fiscal 2012 only. Meeting Street contributions totaled \$283,102 and \$368,777 for the years ended August 31, 2013 and 2012, respectively.

8. Restrictions on net assets:

Temporarily restricted net assets are restricted by donors to be used for specific programs and services.

Permanently restricted net assets consist of investments to be maintained in perpetuity, the dividends and interest from which are to be used for specific programs and services. At both August 31, 2013 and 2012, \$654,840 of permanently restricted net assets pertains to certain donations required to be maintained in perpetuity, the income from which is designated for scholarships.

9. Commitments:

Land lease:

In November 2011, Meeting Street entered into a 20-year land lease with an unrelated party for property adjacent to its current campus location. The lease requires an \$18,000 security deposit, and annual rental payments, payable either monthly or annually at Meeting Street's option. Rent expense was \$72,000 and \$60,000 for the years ended August 31, 2013 and 2012, respectively. Monthly rent expense is scheduled to be \$6,000 through May 2016. Beginning in June 2016, monthly rent is scheduled to increase 5.00% every five years.

MEETING STREET AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED AUGUST 31, 2013 AND 2012

9. Commitments (continued):

Land lease (continued):

The lease contains options to extend the initial lease period for two additional 20-year terms. The lease also contains a \$1,000,000 purchase option, which can be exercised for a limited time beginning August 2030.

Deferred compensation:

Meeting Street maintained a deferred compensation agreement with an employee and recognized compensation expense of \$75,000 annually during the years ended August 31, 2013 and 2012 under this agreement.

Effective December 2012, an agreement was executed which provides for an unfunded, unsecured annual deferred compensation amount, increased annually by an inflationary factor plus 7% interest, to be paid to the employee, contingent upon the completion of a 10-year employment term concluding in December 2021. In general, termination of employment by the employee, prior to the completion of the 10-year term, results in the forfeiture of any payments.