



**Pine Street Inn**  
Ending Homelessness

**AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**PINE STREET INN, INC. AND AFFILIATES**

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**JUNE 30, 2014 AND 2013**

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CERTIFIED PUBLIC ACCOUNTANTS  
& BUSINESS ADVISORS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Pine Street Inn, Inc. and Affiliates:

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of Pine Street Inn, Inc. (a Massachusetts corporation, not for profit) and Affiliates, which comprise the combined statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pine Street Inn, Inc. and Affiliates as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Boston, Massachusetts  
November 7, 2014

**PINE STREET INN, INC. AND AFFILIATES**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2014 AND 2013**

| <u>ASSETS</u>  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 9,609,756         | \$ 12,087,173        |
| Current portion of assets limited as to use (Note 4)   | 194,525              | 175,329              |
| Accounts receivable, net of allowance for doubtful accounts of \$135,011 and \$350,361 at June 30, 2014 and 2013, respectively (Note 15) | 4,636,272            | 2,629,065            |
| Current portion of contributions receivable, net of allowance for doubtful accounts of \$49,845 as of June 30, 2014 (Note 16)            | 2,041,206            | 1,748,984            |
| Short-term investments (Note 6)  | 1,953,779            | -                    |
| Prepaid expenses and other assets  | <u>712,803</u>       | <u>692,792</u>       |
| Total current assets   | 19,148,341           | 17,333,343           |
| <b>INVESTMENTS</b> (Note 6)  | 25,977,379           | 24,689,799           |
| <b>PROPERTY, PLANT AND EQUIPMENT</b> , net (Note 5)  | 38,217,511           | 34,314,423           |
| <b>CONTRIBUTIONS RECEIVABLE</b> , net of current portion (Note 16)   | 1,134,326            | 625,081              |
| <b>ASSETS LIMITED AS TO USE</b> , net of current portion (Note 4)  | 1,478,050            | 2,334,558            |
| <b>PRE-DEVELOPMENT AND OTHER ASSETS</b> (Note 11)  | <u>531,988</u>       | <u>483,287</u>       |
| Total assets   | <u>\$ 86,487,595</u> | <u>\$ 79,780,491</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Current portion of notes payable (Note 8)  | \$ 537,897           | \$ 1,411,666         |
| Current portion of other debt (Note 9)   | 217,002              | -                    |
| Accounts payable   | 1,657,198            | 958,211              |
| Accrued expenses and other liabilities   | <u>3,560,793</u>     | <u>3,709,778</u>     |
| Total current liabilities  | 5,972,890            | 6,079,655            |
| <b>NOTES PAYABLE</b> , net of current portion (Note 8)   | 5,273,145            | 4,419,184            |
| <b>OTHER DEBT</b> , net of current portion (Note 9)  | <u>17,382,424</u>    | <u>16,255,998</u>    |
| Total liabilities  | <u>28,628,459</u>    | <u>26,754,837</u>    |
| <b>COMMITMENTS AND CONTINGENCIES</b> (Note 17)   |                      |                      |
| <b>NET ASSETS:</b>   |                      |                      |
| Unrestricted:  |                      |                      |
| Available for operations   | 19,101,866           | 17,422,873           |
| Board designated (Note 12)   | 10,236,000           | 11,262,000           |
| Net investment in plant  | <u>12,328,929</u>    | <u>11,035,400</u>    |
| Total unrestricted   | 41,666,795           | 39,720,273           |
| Temporarily restricted (Note 13)   | 13,428,084           | 11,001,124           |
| Permanently restricted (Note 14)   | <u>2,764,257</u>     | <u>2,304,257</u>     |
| Total net assets   | <u>57,859,136</u>    | <u>53,025,654</u>    |
| Total liabilities and net assets   | <u>\$ 86,487,595</u> | <u>\$ 79,780,491</u> |

*The accompanying notes are an integral part of these combined statements.*

PINE STREET INN, INC. AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

|  | 2014          |                           |                           |               | 2013          |                           |                           |               |
|--|---------------|---------------------------|---------------------------|---------------|---------------|---------------------------|---------------------------|---------------|
|  | UNRESTRICTED  | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL         | UNRESTRICTED  | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL         |
| <b>OPERATING REVENUES:</b>                                   |               |                           |                           |               |               |                           |                           |               |
| Contract revenue (Note 15)                                   | \$ 26,793,647 | \$ -                      | \$ -                      | \$ 26,793,647 | \$ 26,157,963 | \$ -                      | \$ -                      | \$ 26,157,963 |
| Contributions and grants                                     | 8,177,151     | 3,993,271                 | -                         | 12,170,422    | 7,579,934     | 2,272,813                 | -                         | 9,852,747     |
| Donated goods and services                                   | 4,746,783     | -                         | -                         | 4,746,783     | 5,030,142     | -                         | -                         | 5,030,142     |
| Rental income and subsidies                                  | 3,389,298     | -                         | -                         | 3,389,298     | 3,286,130     | -                         | -                         | 3,286,130     |
| Spending policy transfer (Note 6)                            | 926,415       | -                         | -                         | 926,415       | 857,915       | -                         | -                         | 857,915       |
| Other revenue  | 888,648       | -                         | -                         | 888,648       | 777,205       | -                         | -                         | 777,205       |
| Net assets released from program restrictions (Note 13)      | 1,563,736     | (1,563,736)               | -                         | -             | 2,554,678     | (2,554,678)               | -                         | -             |
| Total operating revenues                                     | 46,485,678    | 2,429,535                 | -                         | 48,915,213    | 46,243,967    | (281,865)                 | -                         | 45,962,102    |
| <b>OPERATING EXPENSES:</b>                                   |               |                           |                           |               |               |                           |                           |               |
| Emergency shelter  | 19,930,427    | -                         | -                         | 19,930,427    | 19,123,289    | -                         | -                         | 19,123,289    |
| Permanent housing  | 15,642,793    | -                         | -                         | 15,642,793    | 14,097,450    | -                         | -                         | 14,097,450    |
| Transitional housing and job training programs               | 3,996,750     | -                         | -                         | 3,996,750     | 4,620,073     | -                         | -                         | 4,620,073     |
| Substance abuse treatment                                    | 1,372,249     | -                         | -                         | 1,372,249     | 1,448,113     | -                         | -                         | 1,448,113     |
| General and administrative                                   | 6,497,783     | -                         | -                         | 6,497,783     | 6,291,197     | -                         | -                         | 6,291,197     |
| Fundraising and development                                  | 2,526,866     | -                         | -                         | 2,526,866     | 2,320,311     | -                         | -                         | 2,320,311     |
| Total operating expenses                                     | 49,966,868    | -                         | -                         | 49,966,868    | 47,900,433    | -                         | -                         | 47,900,433    |
| Changes in net assets from operations                        | (3,481,190)   | 2,429,535                 | -                         | (1,051,655)   | (1,656,466)   | (281,865)                 | -                         | (1,938,331)   |
| <b>NON-OPERATING ACTIVITY:</b>                               |               |                           |                           |               |               |                           |                           |               |
| Capital contributions and grants                             | -             | 2,990,454                 | -                         | 2,990,454     | -             | 504,310                   | -                         | 504,310       |
| Net realized and unrealized gains on investments (Note 6)    | 2,525,401     | 260,467                   | -                         | 2,785,868     | 1,078,236     | 119,648                   | -                         | 1,197,884     |
| Dividends and interest income (Note 6)                       | 571,172       | 4,058                     | -                         | 575,230       | 581,667       | 4,700                     | -                         | 586,367       |
| Endowment contributions (Note 14)                            | -             | -                         | 460,000                   | 460,000       | -             | -                         | -                         | -             |
| Forgiveness of debt (Note 9)                                 | -             | -                         | -                         | -             | 102,828       | -                         | -                         | 102,828       |
| Spending policy transfer (Note 6)                            | (926,415)     | -                         | -                         | (926,415)     | (857,915)     | -                         | -                         | (857,915)     |
| Net assets released from facility use restrictions (Note 13) | -             | -                         | -                         | -             | 1,136,845     | (1,136,845)               | -                         | -             |
| Net assets released from capital restrictions (Note 13)      | 3,257,554     | (3,257,554)               | -                         | -             | 57,528        | (57,528)                  | -                         | -             |
| Total non-operating activity                                 | 5,427,712     | (2,575)                   | 460,000                   | 5,885,137     | 2,099,189     | (565,715)                 | -                         | 1,533,474     |
| Changes in net assets  | 1,946,522     | 2,426,960                 | 460,000                   | 4,833,482     | 442,723       | (847,580)                 | -                         | (404,857)     |
| <b>NET ASSETS, beginning of year</b>                         | 39,720,273    | 11,001,124                | 2,304,257                 | 53,025,654    | 39,277,550    | 11,848,704                | 2,304,257                 | 53,430,511    |
| <b>NET ASSETS, end of year</b>                               | \$ 41,666,795 | \$ 13,428,084             | \$ 2,764,257              | \$ 57,859,136 | \$ 39,720,273 | \$ 11,001,124             | \$ 2,304,257              | \$ 53,025,654 |

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

PINE STREET INN, INC. AND AFFILIATES

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

|   | PROGRAM SERVICES  |                   |  |                           |                        | SUPPORT SERVICES            |                             |                        | TOTAL         |
|---|-------------------|-------------------|--|---------------------------|------------------------|-----------------------------|-----------------------------|------------------------|---------------|
|   | EMERGENCY SHELTER | PERMANENT HOUSING | TRANSITIONAL HOUSING AND JOB TRAINING PROGRAMS | SUBSTANCE ABUSE TREATMENT | TOTAL PROGRAM SERVICES | GENERAL AND ADMINIS-TRATIVE | FUNDRAISING AND DEVELOPMENT | TOTAL SUPPORT SERVICES |               |
| <b>2014</b>   |                   |                   |  |                           |                        |                             |                             |                        |               |
| Salaries and wages                                  | \$ 9,341,319      | \$ 5,981,490      | \$ 2,397,829                                   | \$ 597,684                | \$ 18,318,322          | \$ 3,204,215                | \$ 1,257,122                | \$ 4,461,337           | \$ 22,779,659 |
| Employee benefits and payroll taxes (Note 11)       | 1,943,073         | 1,370,201         | 493,639  | 133,281                   | 3,940,194              | 750,195                     | 291,271                     | 1,041,466              | 4,981,660     |
| Total personnel and related costs                   | 11,284,392        | 7,351,691         | 2,891,468                                      | 730,965                   | 22,258,516             | 3,954,410                   | 1,548,393                   | 5,502,803              | 27,761,319    |
| Occupancy (Note 10)                                 | 3,562,694         | 4,457,726         | 312,129  | 5,307                     | 8,337,856              | 179,091                     | 11,348                      | 190,439                | 8,528,295     |
| Professional fees and contracted services           | 1,073,995         | 680,694           | 123,029  | 141,994                   | 2,019,712              | 1,310,779                   | 52,598                      | 1,363,377              | 3,383,089     |
| Food and supplies                                   | 2,354,244         | 459,100           | 289,022  | 20,356                    | 3,122,722              | 74,525                      | 138,641                     | 213,166                | 3,335,888     |
| Other   | 252,779           | 364,970           | 66,405   | 459,028                   | 1,143,182              | 214,243                     | 152,803                     | 367,046                | 1,510,228     |
| Postage, printing and telephone                     | 70,785            | 242,807           | 28,593   | 2,518                     | 344,703                | 141,598                     | 601,125                     | 742,723                | 1,087,426     |
| Transportation                                      | 170,097           | 232,970           | 83,450   | 8,474                     | 494,991                | 34,427                      | 4,655                       | 39,082                 | 534,073       |
| Equipment expenses (Note 10)                        | 138,512           | 170,530           | 24,645   | 3,607                     | 337,294                | 39,709                      | 17,303                      | 57,012                 | 394,306       |
| Clothing, linens and laundry                        | 299,893           | 6,792             | 15,931   | -                         | 322,616                | -                           | -                           | -                      | 322,616       |
| Interest  | 96,035            | 100,533           | 8,613  | -                         | 205,181                | 103,045                     | -                           | 103,045                | 308,226       |
| Total expenses before depreciation and amortization | 19,303,426        | 14,067,813        | 3,843,285                                      | 1,372,249                 | 38,586,773             | 6,051,827                   | 2,526,866                   | 8,578,693              | 47,165,466    |
| Depreciation and amortization                       | 627,001           | 1,574,980         | 153,465  | -                         | 2,355,446              | 445,956                     | -                           | 445,956                | 2,801,402     |
| Total expenses                                      | \$ 19,930,427     | \$ 15,642,793     | \$ 3,996,750                                   | \$ 1,372,249              | \$ 40,942,219          | \$ 6,497,783                | \$ 2,526,866                | \$ 9,024,649           | \$ 49,966,868 |
|   |                   |                   |  |                           |                        |                             |                             |                        |               |
| <b>2013</b>   |                   |                   |  |                           |                        |                             |                             |                        |               |
| Salaries and wages                                  | \$ 8,857,075      | \$ 5,761,669      | \$ 2,680,128                                   | \$ 651,222                | \$ 17,950,094          | \$ 2,888,224                | \$ 1,182,440                | \$ 4,070,664           | \$ 22,020,758 |
| Employee benefits and payroll taxes (Note 11)       | 1,881,554         | 1,343,882         | 579,499  | 154,505                   | 3,959,440              | 690,930                     | 276,104                     | 967,034                | 4,926,474     |
| Total personnel and related costs                   | 10,738,629        | 7,105,551         | 3,259,627                                      | 805,727                   | 21,909,534             | 3,579,154                   | 1,458,544                   | 5,037,698              | 26,947,232    |
| Occupancy (Note 10)                                 | 3,471,582         | 3,514,846         | 448,296  | 7,828                     | 7,442,552              | 219,208                     | 5,251                       | 224,459                | 7,667,011     |
| Professional fees and contracted services           | 793,922           | 496,582           | 83,163   | 217,002                   | 1,590,669              | 1,244,813                   | 122,236                     | 1,367,049              | 2,957,718     |
| Food and supplies                                   | 2,182,251         | 517,076           | 333,320  | 22,128                    | 3,054,775              | 104,182                     | 83,753                      | 187,935                | 3,242,710     |
| Other   | 586,053           | 171,171           | 149,071  | 373,672                   | 1,279,967              | 335,332                     | 148,482                     | 483,814                | 1,763,781     |
| Postage, printing and telephone                     | 79,826            | 217,737           | 40,566   | 8,047                     | 346,176                | 194,752                     | 485,036                     | 679,788                | 1,025,964     |
| Transportation                                      | 156,713           | 215,350           | 91,704   | 12,321                    | 476,088                | 31,717                      | 4,286                       | 36,003                 | 512,091       |
| Equipment expenses (Note 10)                        | 163,664           | 174,462           | 37,576   | 1,388                     | 377,090                | 35,831                      | 12,723                      | 48,554                 | 425,644       |
| Clothing, linens and laundry                        | 270,892           | 4,937             | 14,737   | -                         | 290,566                | -                           | -                           | -                      | 290,566       |
| Interest  | 90,352            | 170,912           | 12,557   | -                         | 273,821                | 110,762                     | -                           | 110,762                | 384,583       |
| Total expenses before depreciation and amortization | 18,533,884        | 12,588,624        | 4,470,617                                      | 1,448,113                 | 37,041,238             | 5,855,751                   | 2,320,311                   | 8,176,062              | 45,217,300    |
| Depreciation and amortization                       | 589,405           | 1,508,826         | 149,456  | -                         | 2,247,687              | 435,446                     | -                           | 435,446                | 2,683,133     |
| Total expenses                                      | \$ 19,123,289     | \$ 14,097,450     | \$ 4,620,073                                   | \$ 1,448,113              | \$ 39,288,925          | \$ 6,291,197                | \$ 2,320,311                | \$ 8,611,508           | \$ 47,900,433 |

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

**PINE STREET INN, INC. AND AFFILIATES**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

|  | <u>2014</u>  | <u>2013</u>   |
|--|--------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |              |               |
| Changes in net assets  | \$ 4,833,482 | \$ (404,857)  |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |              |               |
| Depreciation and amortization  | 2,803,898    | 2,692,289     |
| Bad debt   | 689,101      | 479,012       |
| Net realized and unrealized gains on investments   | (2,785,868)  | (1,197,884)   |
| Loss on disposal of property, plant and equipment  | 14,404       | 118           |
| Capital contributions and grants   | (2,990,454)  | (504,310)     |
| Endowment contributions  | (460,000)    | -             |
| Forgiveness of debt  | -            | (102,828)     |
| Changes in operating assets and liabilities:   |              |               |
| Accounts receivable  | (2,644,463)  | (492,076)     |
| Contributions receivable   | (53,312)     | 1,007,666     |
| Prepaid expenses and other assets  | (20,011)     | (99,278)      |
| Accounts payable   | 1,406,244    | (22,974)      |
| Accrued expenses and other liabilities   | (148,985)    | 148,187       |
| Net cash provided by operating activities  | 644,036      | 1,503,065     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |              |               |
| Pre-development and other assets   | (58,103)     | (69,550)      |
| Purchase of investments  | (4,117,390)  | (6,557,669)   |
| Proceeds from sale of investments  | 3,661,899    | 6,112,959     |
| Proceeds from sale of property, plant and equipment  | -            | 17,548        |
| Purchase of property, plant and equipment  | (7,419,245)  | (1,489,444)   |
| Net cash used in investing activities  | (7,932,839)  | (1,986,156)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |              |               |
| Capital contributions and grants collected   | 2,190,454    | 504,310       |
| Endowment contributions  | 460,000      | -             |
| Increase in assets limited as to use   | 837,312      | 85,113        |
| Principal payments on notes payable  | (1,429,330)  | (731,856)     |
| Proceeds from notes payable and other debt   | 2,752,950    | 330,320       |
| Net cash provided by financing activities  | 4,811,386    | 187,887       |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | (2,477,417)  | (295,204)     |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>  | 12,087,173   | 12,382,377    |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>  | \$ 9,609,756 | \$ 12,087,173 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                                     |              |               |
| Cash paid for interest   | \$ 308,226   | \$ 384,583    |
| Cost basis of property, plant and equipment disposed   | \$ 41,020    | \$ 71,390     |
| Property, plant and equipment financed through accounts payable                              | \$ 707,257   | \$ 266,222    |
| Unrealized gains on investments  | \$ 2,346,455 | \$ 779,950    |

*The accompanying notes are an integral part of these combined statements.*

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF ORGANIZATION**

Pine Street Inn, Inc. (the Inn) is a Massachusetts not-for-profit corporation established to provide shelter, food, clinical, counseling, and transitional services for homeless and disadvantaged men and women within the City of Boston and surrounding communities. The Inn also provides housing options which are accessible and affordable to homeless men and women, mentally challenged adults, and individuals living with the HIV virus.

The following two legal entities are wholly-owned by the Inn and are included in the Inn's operations in the accompanying combined financial statements:

- 18-20 Parker Hill Avenue LLC is a Massachusetts limited liability corporation, which was organized to develop nineteen affordable housing units on Parker Hill Avenue in Boston, Massachusetts. The project was completed and occupancy began in fiscal year 2008.
- 1734 Washington Street Limited Partnership is a Massachusetts limited partnership, which was originally organized to develop thirty-three affordable housing units on Washington Street in Boston, Massachusetts. Since 1988, the Inn has been the sole stockholder of a corporation, which was the General Partner in this real estate limited partnership. This General Partner investment consisted of a one percent equity interest in the limited partnership. The Inn became the sole investor of 1734 Washington Street Limited Partnership when it acquired the interests of the investor limited partners on March 31, 2006 (see Note 17).

Pine Street Inn Housing, Inc. (Housing) is a Massachusetts not-for-profit corporation, which was organized to provide elderly and disabled persons with housing facilities and services at the Inn's Richard Ring House at Woodward Park in Boston, Massachusetts. Section 811 funding was provided to Housing by the U.S. Department of Housing and Urban Development (HUD) for the development of a twelve-unit housing facility for mentally challenged individuals. The Board of Directors of Housing consists of directors and senior managers of the Inn.

Pine Street Housing II, Inc. (Housing II) is a Massachusetts not-for-profit corporation, which was organized to develop housing units on Geneva Avenue in Boston, Massachusetts. Section 202 funding was provided by HUD for the development of a ten-unit housing facility for elderly persons. The Board of Directors of Housing II consists of directors and senior managers of the Inn.

**NOTE 2. NONPROFIT STATUS**

The Inn, Housing and Housing II are 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). The Inn, Housing and Housing II are also exempt from state income taxes. Donors may deduct contributions made to the Inn, Housing and Housing II within IRC requirements.

Certain rental income and other activities of the Inn are subject to Federal and State income taxes under Unrelated Business Taxable Income (UBTI) regulations. The Inn did not incur any tax expense related to these activities for the years ended June 30, 2014 and 2013. The Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$3,887,874 and \$3,185,846 for the years ended June 30, 2014 and 2013, respectively. The Federal NOLs expire at various dates through 2034. The Inn has state NOLs related to UBTI of \$2,382,107 and \$2,109,518 for the years ended June 30, 2014 and 2013, respectively. The state NOLs expire at various dates through 2019. A deferred tax asset has not been recorded as the realization of the NOLs is uncertain.



**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES**

The Inn, Housing and Housing II's combined financial statements are prepared in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

**Basis of Combination:** The combined financial statements include the net assets of the Inn, Housing and Housing II (collectively, the Organization). All significant intercompany accounts have been eliminated in combination.

**Estimates:** The preparation of combined financial statements in accordance with U.S. GAAP 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting for Uncertainty in Income Taxes:** The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statement regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at June 30, 2014 and 2013. The Organization's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

**Classification and Reporting of Net Assets:**

**Unrestricted Net Assets** represent those net resources that bear no donor-imposed restrictions and are generally available for use by the Organization. Unrestricted net assets include the following:

**Available for Operations** represent funds available to carry on the operations of the Organization.

**Board Designated** represent funds that have been designated by the Organization's Board of Directors for future use (see Note 12).

**Net Investment in Plant** represent funds used in activities relating to the Organization's property, plant and equipment, net of related debts.

**Temporarily Restricted Net Assets** represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations (see Note 13).

Temporarily restricted net assets also include, under Massachusetts law, cumulative appreciation and reinvested gains on permanently restricted funds that are subject to prudent appropriation by the Board of Directors in accordance with provisions of Massachusetts law.

**Permanently Restricted Net Assets** represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization (see Note 14).

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Property, Plant and Equipment and Depreciation:** Purchased property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded at fair value at the time of donation.

Depreciation and amortization (including depreciation of assets recorded under capital leases) are computed using the straight-line method over the following estimated useful lives:

|                                 | <u>Years</u>                               |
|---------------------------------|--|
| Buildings                       | 40   |
| Building improvements           | 20   |
| Leasehold improvements          | Greater of 5 years<br>or life of the lease |
| Furniture and fixtures          | 3 – 7                                      |
| Machinery and equipment         | 10   |
| Computer equipment and software | 3 – 5                                      |
| Motor vehicles                  | 3 – 5                                      |

Expenditures for major renewals and improvements of property, plant and equipment are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

**Fair Value Measurement:** ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follow:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An 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.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Investments:** The Board of Directors has established policies governing long-term investments, which are held within several investment accounts, based on the purposes for those investment accounts and their earnings. Investments are recorded at fair value.

Investments are allocated among the unrestricted, temporarily and permanently restricted net asset classes in the accompanying combined financial statements according to the absence or presence of donor restrictions. Investments are classified as current and non-current based upon management's intent.

The Organization follows a "prudent person" standard in managing the relationship between risk and return in the deployment and diversification of the investment portfolio. The Organization views risk as the likelihood of permanent loss of capital as distinct from the volatility in investment value or return. Allocation decisions emphasize absolute return over the long-term, while taking prudent risks.

Investment return consists of dividends and interest income and realized and unrealized gains and losses. Dividends are recorded on the ex-dividend date and interest income is recorded as earned. Realized gains and losses on investment transactions are recorded based on the first-in, first-out (FIFO) cost method. Unrealized gains and losses are based on fair value changes.

Massachusetts state law allows the Organization to appropriate as much of the net appreciation as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

**Method of Accounting:** The Organization utilizes the accrual method of accounting, whereby revenue is recorded when earned and expenses are recorded when incurred.

**Contributions Receivable:** Contributions receivable consists of contributions committed to program operations and acquisition of capital (see Note 16).

**Revenue Recognition and Funding:** Contract revenue is recorded over the contract period as services are provided. The programs of the Organization are principally supported by contracts negotiated with agencies of the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rate formulae of the Massachusetts Executive Office for Administration and Finance. Revenue is recorded at the rates approved under the negotiated contracts as certified by the Massachusetts Operational Services Division. Excess of revenue over expenses from programs supported by the Commonwealth of Massachusetts, up to certain defined limits, can be utilized by the Organization for expenditures in accordance with its exempt purposes, provided such expenditures are reimbursable under the Operational Services Division's regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment and would be reported as liabilities.

Rental income is generated primarily from the rental of low-income housing units and is recorded when earned. The Organization also receives subsidies from certain governmental entities for providing low-income housing assistance for qualified tenants, which is recorded when earned.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Revenue Recognition and Funding:** (continued)

In fiscal year 2014, the Organization experienced a flood at one of its housing program properties which caused significant damage. The Organization filed a claim with its insurance company to help both cover renovations and loss of business costs. The total claim of \$820,057 was outstanding as of June 30, 2014, and is included in accounts receivable in the accompanying combined statements of financial position. Subsequent to year-end, the Organization received \$548,483 relating to renovations costs. The proceeds from the insurance company are netted with the expenses incurred and are included in the other expenses in the accompanying combined statement of functional expenses.

Gross patient service revenue is included in contract revenue in the accompanying combined statements of activities and changes in net assets and is recorded as earned at the full value of the services as determined by the Organization. Net patient service revenue reflects the amounts to be collected after provision for contractual allowances. Contractual allowances related to third-party pay sources are accrued on an estimated basis in the period the services are rendered. These contractual allowances are adjusted, as required, based on final settlement. The contractual allowances for the years ended June 30, 2014 and 2013, were approximately \$670,000 and \$598,000, respectively.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash, including marketable securities, are recorded at their estimated fair value on the date of the gift.

Contributions to be received after one year are discounted using a risk free discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset category. Contributions of cash or other assets to be used to acquire property, plant and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset category; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

For certain contributions of cash or other assets to be used to acquire property that bear facility use restrictions, the restrictions are considered to be released at the time the facility use restrictions of such long-lived assets are met. 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 combined statements of activities and changes in net assets as net assets released from restrictions.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Revenue Recognition and Funding:** (continued)

Donations of services are reported as revenues and expenses of unrestricted net assets at the fair value of the services received. Donations of goods and facilities to be used in program operations are reported as revenues and expenses of unrestricted net assets at the time the goods are received or facilities are used.

The value of these donated goods and services for the years ended June 30, 2014 and 2013, is:

|                              | <u>2014</u>        | <u>2013</u>        |
|------------------------------|--------------------|--------------------|
| Facilities                   | \$2,136,476        | \$2,128,689        |
| Food                         | 1,272,893          | 1,277,345          |
| Volunteer services           | 570,050            | 531,708            |
| Clothing, linens and laundry | 322,616            | 290,566            |
| Program support              | 239,677            | 568,998            |
| Health care services         | 200,000            | 200,000            |
| Professional services        | 5,071              | 7,845              |
| Miscellaneous                | <u>-</u>           | <u>24,991</u>      |
|                              | <u>\$4,746,783</u> | <u>\$5,030,142</u> |

**Allowance for Doubtful Accounts:** The Organization provides for losses using the allowance method. The allowance is based upon collection experience, contract terms and other circumstances which may affect the ability of the Organization to collect. When the Organization determines that a portion of its accounts receivable will not be collected, the receivable account is written off and a bad debt expense is recorded.

**Expense Allocation:** Expenses related directly to a program are attributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

**Subsequent Events:** Subsequent events have been evaluated through November 7, 2014, which is the date the combined financial statements were issued (see Note 19).

**NOTE 4. ASSETS LIMITED AS TO USE**

The Organization maintains escrow accounts (cash accounts and certificates of deposit) that were established to serve as replacement and operating reserves in connection with certain mortgage notes or to meet collateral requirements on certain mortgage notes (see Note 9). The Organization also maintains tenant security deposits, which are segregated from its operating accounts. Total assets limited as to use at June 30, 2014 and 2013, were \$1,672,575 and \$2,509,887, respectively.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following at June 30:

|  | <u>2014</u>                | <u>2013</u>                |
|--|----------------------------|----------------------------|
| Land   | \$ 4,124,763               | \$ 2,896,187               |
| Buildings  | 28,150,756                 | 25,073,676                 |
| Building and leasehold improvements              | 37,063,011                 | 35,695,493                 |
| Furniture and fixtures                           | 886,249                    | 782,760                    |
| Machinery and equipment                          | 4,712,794                  | 4,486,193                  |
| Motor vehicles                                   | 852,968                    | 757,348                    |
| Construction in process                          | 889,017                    | 296,933                    |
|  | <u>76,659,558</u>          | <u>69,988,590</u>          |
| Less - accumulated depreciation and amortization | <u>38,442,047</u>          | <u>35,674,167</u>          |
|  | <u><u>\$38,217,511</u></u> | <u><u>\$34,314,423</u></u> |

There are restrictions imposed by lenders and grantors on the use and sale of certain land, buildings and building and leasehold improvements (see Notes 8 and 9).

Depreciation for the years ended June 30, 2014 and 2013, was \$2,792,000 and \$2,669,874, respectively.

The Organization accounts for the carrying value of its property, plant and equipment in accordance with the requirements of *Impairment or Disposal of Long-Lived Assets*. As of June 30, 2014 and 2013, the Organization has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

In December, 2013, the Organization purchased a building located in Boston, Massachusetts, for approximately \$1,643,000. As of June 30, 2014, the building was vacant as the Organization is still planning the renovations of the property. The renovations are expected to be completed in fiscal year 2015, at which point the property will be placed into service and used for program housing. As of June 30, 2014, the property was included in property, plant and equipment in the accompanying combined statement of financial position.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 6. INVESTMENTS**

Investments are presented in the accompanying combined financial statements at fair value. The following table presents the fair value measurements of the Organization's investments within the valuation framework as of June 30:

| <u>Description</u>           | <u>Level 1</u>      |                     |
|------------------------------|---------------------|---------------------|
|                              | <u>2014</u>         | <u>2013</u>         |
| Money market mutual funds    | \$ 335,394          | \$ 317,083          |
| Equities:                    |                     |                     |
| Domestic mutual funds        | 4,308,234           | 4,164,370           |
| International mutual funds   | 2,645,608           | 2,109,198           |
| Emerging market mutual funds | 493,546             | 294,263             |
| Fixed income:                |                     |                     |
| Domestic mutual funds        | 4,545,186           | 4,276,537           |
| Emerging market mutual funds | 171,631             | 264,605             |
| Hard asset funds             | 1,081,041           | 765,484             |
| Multi-strategy mutual fund   | <u>14,350,518</u>   | <u>12,498,259</u>   |
|                              | 27,931,158          | 24,689,799          |
| Less – current portion       | <u>1,953,779</u>    | <u>-</u>            |
| Total                        | <u>\$25,977,379</u> | <u>\$24,689,799</u> |

For the years ended June 30, 2014 and 2013, the Organization's investments included shares of a multi-strategy mutual fund. The underlying investments provide the Organization with exposure to global equity and fixed income securities.

Investments are not insured and are subject to market fluctuations. All investment fair values have been provided by investment managers.

The following schedule summarizes the investment return and its classification in the accompanying combined statements of activities and changes in net assets for the years ended June 30:

|   | <u>2014</u>        | <u>2013</u>       |
|---|--------------------|-------------------|
| Dividends and interest income                             | \$ 575,230         | \$ 586,367        |
| Net realized gains  | 439,413            | 417,934           |
| Net unrealized gains                                      | <u>2,346,455</u>   | <u>779,950</u>    |
| Total investment return                                   | 3,361,098          | 1,784,251         |
| Less - investment return designated for operations:       |                    |                   |
| Investment spending policy: 4.5% formula                  | <u>926,415</u>     | <u>857,915</u>    |
| Investment return in excess of investment spending policy | <u>\$2,434,683</u> | <u>\$ 926,336</u> |

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 6. INVESTMENTS (Continued)**

Annually in advance of an operating year, the Board of Directors determines the level of total investment return that will be used to support operations, which is referred to as the Investment Spending Policy. For the years ended June 30, 2014 and 2013, the amounts used to support operations were equal to 4.5% of the average market value of the Inn's long-term investments for each of the previous twelve quarterly periods. During the years ended June 30, 2014 and 2013, the Organization appropriated for operations \$926,415 and \$857,915, respectively, of investment return. This amount is reflected as spending policy transfer in the accompanying combined statements of activities and changes in net assets for the years ended June 30, 2014 and 2013.

**NOTE 7. RELATED PARTY**

The Organization is the administrative member and managing agent of 40 Upton Street LLC (Upton LLC), a Massachusetts limited liability company, that operates nineteen single-room occupancy units with eighteen units rented to low and moderate income individuals and one resident manager's unit. Upton LLC's initial occupancy began in December, 2011. The Inn made a capital contribution of \$10 and holds a 1% interest in the capital, Federal Low Income Housing Tax Credits (LIHTC), profits, and losses of Upton LLC. As the managing agent, the Organization receives a management fee of 5% of gross collections, not including prepaid rents, as defined in the agreement. For the years ended June 30, 2014 and 2013, management fees totaled \$8,838 and \$9,283, respectively.

**NOTE 8. NOTES PAYABLE**

In August, 2004, the Organization entered into a Bond Purchase and Guarantee Agreement with Massachusetts Development Finance Agency (MDFA) and Eastern Bank to obtain funds to repair and renovate several of its facilities. On August 12, 2004, MDFA issued a \$5,000,000 Tax Exempt Revenue Bond, which was purchased by Eastern Bank.

The proceeds of the bond purchase were loaned to the Organization and the terms of the loan are included in a Loan and Trust Agreement (the Agreement) between the three parties. The loan bears interest at a fixed rate of 5.58% for the entire term and matures in August, 2024. The Organization has pledged a portion of its investments as collateral for the loan. The market value of pledged investments on June 30, 2014 and 2013, was \$4,607,909 and \$4,934,424, respectively.

The Agreement requires the Organization to maintain one or more deposit accounts with an aggregate total of at least \$500,000 with Eastern Bank. These deposit accounts are included in assets limited as to use in the accompanying combined statements of financial position (see Note 4).



**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 8. NOTES PAYABLE (Continued)**

Notes payable consists of the following at June 30:

|   | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|
| Note payable to Eastern Bank, due in monthly interest and principal installments of \$34,847, with a fixed interest rate of 5.58%, maturing in August, 2024. The note is secured through an assignment of certain investments owned by the Organization.  | \$3,225,536        | \$3,454,097        |
| Note payable to Eastern Bank, with a fixed interest rate of 2.21% and interest-only payable monthly. The principal balance of the note payable and any accrued interest will be due in full on the maturity date of November 18, 2015. The note is collateralized by real estate.   | 1,300,000          | -                  |
| Various mortgage notes payable to Eastern Bank, due in monthly interest and principal installments ranging from \$481 to \$4,008, with fixed interest rates between 2% and 5%, maturing through November, 2026. The notes are collateralized by real estate. During the fiscal year ended June 30, 2013, select mortgage notes payable interest rates were reduced to 4% by the bank. During the fiscal year ended June 30, 2013, one mortgage note payable with an outstanding balance of \$107,251 was paid in full with the proceeds of a mortgage note payable from the Commonwealth of Massachusetts (see Note 9). | 859,839            | 1,041,504          |
| Various mortgage notes payable to City of Boston agencies, due in monthly interest and principal installments ranging from \$485 to \$1,401, with interest rates between 1% and 6%, maturing through February, 2037. The notes are collateralized by real estate. During the fiscal year ended June 30, 2013, one mortgage note payable reached maturity and was paid in full.  | 228,679            | 254,934            |
| Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$529 to \$1,524, with interest rates of 3.0%, maturing through October, 2017. The leases are collateralized by vehicles.  | 196,988            | 223,568            |
| Secured term note payable to Bank of America, with a fixed interest rate of 2%, due in monthly principal installments of \$7,718, through June, 2014. A balloon payment and unpaid interest were due at maturity. The note was collateralized by a certificate of deposit held by the Organization which was included in assets limited as to use in the accompanying combined statements of financial position (see Note 4). During the fiscal year ended June 30, 2014, this note payable was paid with the proceeds of a certificate of deposit.   | -                  | 856,747            |
|   | <u>5,811,042</u>   | <u>5,830,850</u>   |
| Less - current portion  | <u>537,897</u>     | <u>1,411,666</u>   |
|   | <u>\$5,273,145</u> | <u>\$4,419,184</u> |

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 8. NOTES PAYABLE** (Continued)

Maturities of notes payable and future minimum lease payments under capital leases for the next five years are:

| <u>Year Ending<br/>June 30,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2015                            | \$ 537,897    |
| 2016                            | \$1,818,055   |
| 2017                            | \$ 385,101    |
| 2018                            | \$ 364,767    |
| 2019                            | \$ 602,128    |

There were no violations of covenants which management believes would cause a default in any loan agreement.

**NOTE 9. OTHER DEBT**

Other debt consists of contingent loans from various organizations used to develop the Organization's housing and other projects. These loans generally are not required to be repaid unless the project fails to comply with use restrictions and other conditions as defined in the various loan agreements. It is the intention of the Board of Directors and the management of the Organization to comply with use restrictions and other conditions. Therefore, no interest has been accrued on these loans.

Other debt consists of the following at June 30:

|   | <u>2014</u>  | <u>2013</u>  |
|---|--------------|--------------|
| Various mortgage notes payable to Commonwealth of Massachusetts agencies, with 0% interest rates, maturing through November, 2059. For certain mortgage notes payable, payments of principal and interest may be required in any year in which the Organization's cash receipts exceed between 105% to 115% of cash expenditures, as defined. These notes are collateralized by real estate. No principal or interest payments were required during the years ended June 30, 2014 and 2013. | \$ 8,563,285 | \$ 8,508,837 |
| Various mortgage notes payable to the Commonwealth of Massachusetts, the City of Boston and Town of Brookline for loans granted through HUD programs, with interest rates between 0% to 4%, maturing through June, 2058. These notes are collateralized by real estate and no principal and interest payments are required until maturity.  | 5,999,382    | 4,710,402    |

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 9. OTHER DEBT (Continued)**

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Various mortgage notes payable to the City of Boston and City of Boston agencies, with interest rates between 0% and 3%, maturing through September, 2105. These notes are collateralized by real estate and no principal and interest payments are required until maturity. During the fiscal year ended June 30, 2013, one mortgage note payable with a principal balance of \$102,828 reached maturity and was forgiven by the City of Boston. | 2,536,759           | 2,536,759           |
| Mortgage note payable to Trinity Church in the City of Boston, with interest of 0%, maturing in October, 2036. This note is collateralized by real estate and no principal and interest payments are required until maturity.   | 500,000             | 500,000             |
|   | 17,599,426          | 16,255,998          |
| Less - current portion  | 217,002             | -                   |
|   | <u>\$17,382,424</u> | <u>\$16,255,998</u> |

As of June 30, 2014, the Organization has \$217,002 and \$222,635 of other debt that matures in fiscal years 2015 and 2019, respectively.

There were no violations of covenants which management believes would cause a default in any loan agreement.

**NOTE 10. OPERATING LEASES**

The Organization leases apartments for its housing program, office and program space, program equipment, and office and network equipment under various operating leases expiring through June, 2024. Lease expense for the years ended June 30, 2014 and 2013, was \$2,927,244 and \$2,394,293, respectively, and is included in both occupancy and equipment expense in the accompanying combined statements of functional expenses.

The lease expense for the apartments provided in the Organization's housing program for the years ending June 30, 2014 and 2013, was \$2,309,665 and \$2,109,582, respectively.

One of these leases is a ninety-nine year ground lease with the City of Boston for the Organization's main facility that expires in May, 2100. The annual lease expense is \$1, and the entire lease expense was prepaid at the inception of the lease. This lease has not been recorded as a capital lease due to the uncertainty of the building's value at lease inception.

In May, 2014, the Organization entered into a lease agreement with a third-party to provide parking. The Organization pays a nominal lease fee and is responsible for the maintenance of the property. The lease expires in April, 2019. The Organization had leased space on a month-to-month basis from a third-party owner to provide parking. The lease terminated in July, 2013.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 10. OPERATING LEASES** (Continued)

Remaining minimum lease commitments existing under these leases are:

| <u>Years Ending<br/>June 30,</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2015                             | \$2,990,934   |
| 2016                             | \$ 674,329    |
| 2017                             | \$ 675,441    |
| 2018                             | \$ 587,432    |
| 2019 and thereafter              | \$3,120,608   |

**NOTE 11. RETIREMENT PLAN**

The Inn has a contributory retirement plan pursuant to Section 403(b) (the 403(b) Plan) of the IRC covering substantially all full-time employees with one year of employment at December 31<sup>st</sup>. The Inn's funding policy is to contribute an amount to each eligible employee's account that is based upon the ratio of the employee's compensation to the compensation of all eligible employees and on the employee's years of service; however, funding is at the discretion of the Board of Directors. During fiscal years 2014 and 2013, the Inn incurred expenses of \$400,000 each year, as contributions to the 403(b) Plan. These amounts are included in employee benefits and payroll taxes in the accompanying combined statements of functional expenses. As of June 30, 2014 and 2013, \$600,000 was accrued and has been included in accrued expenses and other liabilities in the accompanying combined statements of financial position.

The Inn had a contributory retirement plan pursuant to Section 401(k) (the 401(k) Plan) of the IRC covering eligible employees from its merger with hopeFound in fiscal year 2012. The 401(k) Plan was terminated on September 30, 2013, and account balances were distributed to participants in accordance with regulations. Active employees in the 401(k) Plan were eligible to transfer their balances in the form of tax-free rollover into the 403(b) Plan. For the year ended June 30, 2013, discretionary contributions to the 401(k) Plan for eligible participants was \$13,018 and was included in employee benefits and payroll taxes in the accompanying combined statements of functional expenses. There were no contributions to the 401(k) Plan in fiscal year 2014.

The Inn also has unqualified plans pursuant to Section 457 of the IRC. For the years ended June 30, 2014 and 2013, the Inn did not accrue for contributions to these plans. One of the plans was transferred to another organization during fiscal year 2014, as it related to an employee who left the Inn. The assets of the 457 plans for the years ended June 30, 2014 and 2013, were \$45,946 and \$183,750, respectively. These assets are included as pre-development and other assets in the accompanying combined statements of financial position.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 12. BOARD DESIGNATED NET ASSETS**

Board designations of unrestricted net assets include those anticipated for the future repair and replacement of existing plant and equipment assets, as well as the development of further permanent housing facilities, housing initiatives and program support.

The Organization has certain mortgages financed through government agencies that allow for the deferral of principal and interest until the debt matures. These mortgages also include provisions that allow the Organization to extend the debt payments for an additional term beyond maturity. The Organization is confident that, in all likelihood, the Organization will not be required to repay any interest associated with this debt; accordingly, no interest is accrued in the accompanying combined financial statements. Certain unrestricted resources have been designated to offset any potential obligation for interest.

The Board of Directors, in developing the operating budget for fiscal year 2014, voted to release \$1,000,000 of Board Designated program support funds to support operations.

The Board of Directors has designated the following unrestricted net assets for the stated purposes as of June 30:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Related to real estate                 | \$ 7,278,000        | \$ 7,388,000        |
| Related to unrecorded accrued interest | 1,958,000           | 1,874,000           |
| Related to program support             | <u>1,000,000</u>    | <u>2,000,000</u>    |
|  | <u>\$10,236,000</u> | <u>\$11,262,000</u> |

**NOTE 13. TEMPORARILY RESTRICTED NET ASSETS**

Following is a summary of temporary restrictions at June 30:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Gifts and other unexpended revenue and gains restricted to:    |                     |                     |
| Acquisition and rehabilitation of buildings and equipment      | \$ 4,141,357        | \$ 4,408,457        |
| Facility use restrictions:                                     |                     |                     |
| Homeless shelter expiring in 2016                              | 274,391             | 274,391             |
| Low income housing expiring in 2015                            | 33,212              | 33,212              |
| Low income housing expiring in 2018                            | 500,000             | 500,000             |
| Low income housing expiring in 2021                            | 371,989             | 371,989             |
| Low income housing expiring in 2037                            | 503,200             | 503,200             |
| Low income housing expiring in 2043                            | 1,228,582           | 1,228,582           |
| Program operations   | 5,659,690           | 3,199,875           |
| Accumulated appreciation on permanently restricted investments | <u>715,663</u>      | <u>481,418</u>      |
|  | <u>\$13,428,084</u> | <u>\$11,001,124</u> |

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 13. TEMPORARILY RESTRICTED NET ASSETS (Continued)**

The sources of net assets released from temporary donor restrictions by incurring expenses to satisfy the restricted purposes or by occurrence of events specified by the donors or lenders were:

|   | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|
| Acquisition and rehabilitation of buildings and equipment | \$3,257,554        | \$ 57,528          |
| Program operations  | 1,563,736          | 2,554,678          |
| Expiration of facility use restrictions                   | <u>-</u>           | <u>1,136,845</u>   |
| Total net assets released from restrictions               | <u>\$4,821,290</u> | <u>\$3,749,051</u> |

**NOTE 14. PERMANENTLY RESTRICTED NET ASSETS**

Following is a summary according to donor restrictions placed on earnings at June 30:

|   | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|
| General support                         | \$2,121,007        | \$2,121,007        |
| Martha MacDowell Carpenter fund         | 450,000            | -                  |
| Estelle's Garden maintenance            | 100,000            | 100,000            |
| Coughlin holiday fund                   | 70,000             | 70,000             |
| Richard Ring house                      | 13,250             | 13,250             |
| Sullivan holiday fund                   | <u>10,000</u>      | <u>-</u>           |
| Total permanently restricted net assets | <u>\$2,764,257</u> | <u>\$2,304,257</u> |

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 14. PERMANENTLY RESTRICTED NET ASSETS** (Continued)

Changes in endowment net assets by class for the years ended June 30, 2014 and 2013, are:

|                                     | <b>Donor Restricted</b>           |                                   | <b>Total</b>       |
|-------------------------------------|-----------------------------------|-----------------------------------|--------------------|
|                                     | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> |                    |
| Endowment net assets, June 30, 2012 | <u>\$363,770</u>                  | <u>\$2,304,257</u>                | <u>\$2,668,027</u> |
| Investment return:                  |                                   |                                   |                    |
| Investment income                   | 4,700                             | -                                 | 4,700              |
| Net unrealized gains                | 79,106                            | -                                 | 79,106             |
| Net realized gains                  | <u>40,542</u>                     | <u>-</u>                          | <u>40,542</u>      |
| Total investment return             | <u>124,348</u>                    | <u>-</u>                          | <u>124,348</u>     |
| Releases                            | <u>(6,700)</u>                    | <u>-</u>                          | <u>(6,700)</u>     |
| Endowment net assets, June 30, 2013 | <u>481,418</u>                    | <u>2,304,257</u>                  | <u>2,785,675</u>   |
| Contributions                       | <u>-</u>                          | <u>460,000</u>                    | <u>460,000</u>     |
| Investment return:                  |                                   |                                   |                    |
| Investment income                   | 4,058                             | -                                 | 4,058              |
| Net unrealized gains                | 221,672                           | -                                 | 221,672            |
| Net realized gains                  | <u>38,795</u>                     | <u>-</u>                          | <u>38,795</u>      |
| Total investment return             | <u>264,525</u>                    | <u>-</u>                          | <u>264,525</u>     |
| Releases                            | <u>(30,280)</u>                   | <u>-</u>                          | <u>(30,280)</u>    |
| Endowment net assets, June 30, 2014 | <u>\$715,663</u>                  | <u>\$2,764,257</u>                | <u>\$3,479,920</u> |

**NOTE 15. CONCENTRATIONS**

The Organization received 33% of its total unrestricted operating revenues through contracts from the Commonwealth of Massachusetts, Department of Housing and Community Development for the years ended June 30, 2014 and 2013. Approximately 21% and 30% of accounts receivable were due from the City of Boston, Department of Neighborhood Development at June 30, 2014 and 2013, respectively. Approximately 38% and 14% of accounts receivable were due from the Commonwealth of Massachusetts, Department of Housing and Community Development for the years ended June 30, 2014 and 2013, respectively.

**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 16. CONTRIBUTIONS RECEIVABLE AND CONDITIONAL GRANTS**

The Organization has contributions receivable due at June 30:

|                            | <u>2014</u>        | <u>2013</u>       |
|----------------------------|--------------------|-------------------|
| Due in one year            | \$2,091,051        | \$1,748,984       |
| Due in two years           | 668,220            | 341,102           |
| Due in three to five years | <u>466,106</u>     | <u>283,979</u>    |
|                            | 3,225,377          | 2,374,065         |
| Less - current portion     | 2,041,206          | 1,748,984         |
| Less - allowance           | <u>49,845</u>      | <u>-</u>          |
|                            | <u>\$1,134,326</u> | <u>\$ 625,081</u> |

As of June 30, 2014, contributions from two foundations represented approximately 39% of the total contributions receivable. As of June 30, 2013, contributions from a corporation and two foundations represented approximately 42% of the total contributions receivable.

**NOTE 17. CONTINGENCY**

As part of the acquisition of the 1734 Washington Street Limited Partnership in 2006, the Organization executed a residual receipt promissory note with each of the former investor limited partners. Through these notes, the Organization pledged, upon the sale of the real estate at 1734 Washington Street, to pay the previous limited partners \$216,882 and 100% of the proceeds from the sale of the real estate at 1734 Washington Street. If the sale of the real estate did not occur prior to the maturity date of the notes, the pledges were to be extinguished without subsequent payment of the pledged amounts. The notes matured on March 31, 2011, and the Organization is in the process of dissolving the 1734 Washington Street Limited Partnership.

In the ordinary course of the Organization's business, the Organization is, from time-to-time, involved in disputes concerning employment of individuals with the Organization and/or litigation with outside parties. The Organization denies any wrongdoing in these cases and takes the appropriate legal steps in defense of these disputes. It is the Organization's opinion that any potential settlement would not be material to the accompanying combined financial statements.

**NOTE 18. PROPERTY LEASES**

The Organization leases a portion of its facility at 363 Albany Street, Boston, Massachusetts to three tenants. These leases expire through July, 2024. The Organization leases its 8 Church Street property to a third-party, which expires in May, 2016.

Rental revenue from the above leases for the years ended June 30, 2014 and 2013, was \$345,691 and \$113,037, respectively, and is included in other revenue on the accompanying combined statements of activities and changes in net assets.

Under a month-to-month licensing agreement with a third-party owner, the Organization provided parking to employees who were charged a monthly fee. This parking agreement terminated in July, 2013. Parking fees for the years ended June 30, 2013, was \$48,363.



**PINE STREET INN, INC. AND AFFILIATES**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 18. PROPERTY LEASES** (Continued)

Future receipts under these leases for the next five years are:

| <u>Years Ending<br/>June 30,</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2015                             | \$370,247     |
| 2016                             | \$373,374     |
| 2017                             | \$349,451     |
| 2018                             | \$338,442     |
| 2019                             | \$367,964     |

**NOTE 19. SUBSEQUENT EVENT**

On August 8, 2014, the Organization obtained a \$5,000,000 capital improvements line of credit from Eastern Bank. The line of credit will convert to a fifteen-year term loan after twenty-four months with a fixed rate amortizing over twenty years. Interest will accrue on all amounts advanced at a rate equal to the thirty-day London Interbank Offered Rate (LIBOR), plus 140 basis points. The note is collateralized by real estate.

**NOTE 20. RECLASSIFICATIONS**

Certain amounts in the fiscal year 2013 combined financial statements have been reclassified to conform with the fiscal year 2014 presentation.