



Pine Street Inn
Ending Homelessness

AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

PINE STREET INN, INC. AND AFFILIATES

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JUNE 30, 2016 AND 2015

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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 its Affiliates, which comprise the combined statements of financial position as of June 30, 2016 and 2015, 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 its Affiliates as of June 30, 2016 and 2015, 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.

Boston, Massachusetts
November 2, 2016

PINE STREET INN, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,583,321	\$ 12,741,714
Current portion of assets limited as to use (Note 4)	46,171	43,047
Accounts receivable, net of allowance for doubtful accounts of \$123,884 and \$116,898 at June 30, 2016 and 2015, respectively (Note 15)	4,202,491	4,216,341
Current portion of contributions receivable, net of allowance for doubtful accounts of \$328,135 and \$52,775 as of June 30, 2016 and 2015, respectively (Note 16)	919,180	1,051,672
Prepaid expenses and other assets	407,486	735,949
Due from related party (Note 7)	<u>1,441,704</u>	<u>557,436</u>
Total current assets	17,600,353	19,346,159
INVESTMENTS (Note 6)	24,942,049	25,415,767
PROPERTY, PLANT AND EQUIPMENT , net (Note 5)	38,312,381	37,129,186
CONTRIBUTIONS RECEIVABLE , net of current portion and allowance for doubtful accounts of \$30,000 as of June 30, 2015 (Note 16)	515,886	812,079
ASSETS LIMITED AS TO USE , net of current portion (Note 4)	1,641,638	1,649,610
OTHER ASSETS (Note 11)	<u>320,216</u>	<u>341,200</u>
Total assets	<u>\$ 83,332,523</u>	<u>\$ 84,694,001</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of notes payable (Note 8)	\$ 511,197	\$ 517,208
Accounts payable	888,282	1,289,322
Accrued expenses and other liabilities (Note 11)	<u>3,423,560</u>	<u>3,626,703</u>
Total current liabilities	4,823,039	5,433,233
NOTES PAYABLE , net of current portion (Note 8)	3,978,137	4,345,944
OTHER DEBT (Note 9)	<u>16,307,326</u>	<u>16,307,206</u>
Total liabilities	<u>25,108,502</u>	<u>26,086,383</u>
COMMITMENTS AND CONTINGENCIES (Notes 10 and 17)		
NET ASSETS:		
Unrestricted:		
Available for operations	15,611,976	19,044,932
Board designated (Note 12)	10,903,000	10,295,000
Net investment in plant	<u>15,729,194</u>	<u>14,006,492</u>
Total unrestricted	42,244,170	43,346,424
Temporarily restricted (Note 13)	13,053,499	12,349,147
Permanently restricted (Note 14)	<u>2,926,352</u>	<u>2,912,047</u>
Total net assets	<u>58,224,021</u>	<u>58,607,618</u>
Total liabilities and net assets	<u>\$ 83,332,523</u>	<u>\$ 84,694,001</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, 2016 AND 2015

	2016				2015			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUES:								
Contract revenue (Note 15)	\$ 29,507,226	\$ -	\$ -	\$ 29,507,226	\$ 27,734,996	\$ -	\$ -	\$ 27,734,996
Contributions and grants	8,343,976	2,520,157	-	10,864,133	10,966,094	707,293	-	11,673,387
Donated goods and services (Note 3)	4,355,813	-	-	4,355,813	4,763,380	-	-	4,763,380
Rental income and subsidies	3,571,078	-	-	3,571,078	3,351,454	-	-	3,351,454
Other revenue	3,564,084	-	-	3,564,084	3,223,778	-	-	3,223,778
Spending policy transfer (Note 6)	1,079,843	-	-	1,079,843	1,003,800	-	-	1,003,800
Net assets released from program restrictions (Note 13)	1,465,411	(1,465,411)	-	-	1,203,717	(1,203,717)	-	-
Total operating revenues	51,887,431	1,054,746	-	52,942,177	52,247,219	(496,424)	-	51,750,795
OPERATING EXPENSES:								
Emergency shelter	20,058,497	-	-	20,058,497	19,617,115	-	-	19,617,115
Permanent housing	18,959,770	-	-	18,959,770	17,210,565	-	-	17,210,565
Transitional housing and job training programs	3,986,876	-	-	3,986,876	3,705,656	-	-	3,705,656
Substance abuse treatment	1,227,648	-	-	1,227,648	1,221,318	-	-	1,221,318
General and administrative	6,208,690	-	-	6,208,690	6,611,119	-	-	6,611,119
Fundraising and development	2,507,851	-	-	2,507,851	2,468,184	-	-	2,468,184
Total operating expenses	52,949,332	-	-	52,949,332	50,833,957	-	-	50,833,957
Changes in net assets from operations	(1,061,901)	1,054,746	-	(7,155)	1,413,262	(496,424)	-	916,838
NON-OPERATING ACTIVITY:								
Dividends and interest income (Note 6)	1,421,589	11,572	-	1,433,161	1,470,925	11,299	-	1,482,224
Capital contributions and grants	-	1,122,564	-	1,122,564	-	1,016,770	-	1,016,770
Donated equipment (Note 3)	84,170	-	-	84,170	226,467	-	-	226,467
Endowment contributions (Note 14)	-	-	14,305	14,305	-	-	147,790	147,790
Net loss on disposal of property (Note 7)	(63,537)	-	-	(63,537)	(88,155)	-	-	(88,155)
Spending policy transfer (Note 6)	(1,079,843)	-	-	(1,079,843)	(1,003,800)	-	-	(1,003,800)
Net realized and unrealized losses on investments (Note 6)	(1,668,536)	(218,726)	-	(1,887,262)	(1,736,006)	(213,646)	-	(1,949,652)
Net assets released from capital restrictions (Note 13)	1,265,804	(1,265,804)	-	-	1,396,936	(1,396,936)	-	-
Total non-operating activity	(40,353)	(350,394)	14,305	(376,442)	266,367	(582,513)	147,790	(168,356)
Changes in net assets	(1,102,254)	704,352	14,305	(383,597)	1,679,629	(1,078,937)	147,790	748,482
NET ASSETS, beginning of year	43,346,424	12,349,147	2,912,047	58,607,618	41,666,795	13,428,084	2,764,257	57,859,136
NET ASSETS, end of year	\$ 42,244,170	\$ 13,053,499	\$ 2,926,352	\$ 58,224,021	\$ 43,346,424	\$ 12,349,147	\$ 2,912,047	\$ 58,607,618

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, 2016 AND 2015

	PROGRAM SERVICES					SUPPORT SERVICES			TOTAL
	EMERGENCY SHELTER	PERMANENT HOUSING	TRANSITIONAL HOUSING AND JOB TRAINING PROGRAMS	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	
2016									
Salaries and wages	\$ 9,022,419	\$ 6,830,951	\$ 2,495,531	\$ 702,790	\$ 19,051,691	\$ 3,044,419	\$ 1,269,634	\$ 4,314,053	\$ 23,365,744
Employee benefits and payroll taxes (Note 11)	2,069,225	1,678,357	556,204	172,293	4,476,079	756,736	312,370	1,069,106	5,545,185
Total personnel and related costs	11,091,644	8,509,308	3,051,735	875,083	23,527,770	3,801,155	1,582,004	5,383,159	28,910,929
Occupancy (Note 10)	3,878,172	5,986,597	174,938	15,436	10,055,143	206,708	2,285	208,993	10,264,136
Professional fees and contracted services	1,002,649	887,765	254,644	195,313	2,340,371	1,194,661	101,880	1,296,541	3,636,912
Food and supplies	2,363,502	505,578	155,951	12,569	3,037,600	66,684	65,971	132,655	3,170,255
Other	153,492	288,022	76,483	67,501	585,498	273,091	242,928	516,019	1,101,517
Postage, printing and telephone	77,729	329,418	47,484	2,047	456,678	97,262	471,772	569,034	1,025,712
Equipment expenses (Note 10)	156,998	518,764	19,971	6,305	702,038	20,117	30,340	50,457	752,495
Transportation	189,124	246,556	80,144	8,035	523,859	30,275	10,671	40,946	564,805
Interest	85,140	96,499	5,933	-	187,572	106,003	-	106,003	293,575
Clothing, linens and laundry	221,218	5,266	1,400	-	227,884	-	-	-	227,884
Total expenses before depreciation	19,219,668	17,373,773	3,868,683	1,182,289	41,644,413	5,795,956	2,507,851	8,303,807	49,948,220
Depreciation	838,829	1,585,997	118,193	45,359	2,588,378	412,734	-	412,734	3,001,112
Total expenses	\$ 20,058,497	\$ 18,959,770	\$ 3,986,876	\$ 1,227,648	\$ 44,232,791	\$ 6,208,690	\$ 2,507,851	\$ 8,716,541	\$ 52,949,332
	PROGRAM SERVICES					SUPPORT SERVICES			
	EMERGENCY SHELTER	PERMANENT HOUSING	TRANSITIONAL HOUSING AND JOB TRAINING PROGRAMS	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	TOTAL
2015									
Salaries and wages	\$ 8,487,303	\$ 6,338,359	\$ 2,488,936	\$ 676,658	\$ 17,991,256	\$ 3,119,960	\$ 1,203,885	\$ 4,323,845	\$ 22,315,101
Employee benefits and payroll taxes (Note 11)	1,840,795	1,498,747	430,812	155,533	3,925,887	784,031	286,018	1,070,049	4,995,936
Total personnel and related costs	10,328,098	7,837,106	2,919,748	832,191	21,917,143	3,903,991	1,489,903	5,393,894	27,311,037
Occupancy (Note 10)	3,662,568	5,240,433	56,981	3,247	8,963,229	207,803	-	207,803	9,171,032
Professional fees and contracted services	1,242,977	781,229	147,500	235,838	2,407,544	1,436,564	81,828	1,518,392	3,925,936
Food and supplies	2,516,198	571,038	225,231	19,429	3,331,896	91,095	104,281	195,376	3,527,272
Other	292,668	290,780	29,241	94,064	706,753	241,740	231,833	473,573	1,180,326
Postage, printing and telephone	70,743	323,067	33,202	3,058	430,070	140,915	540,743	681,658	1,111,728
Equipment expenses (Note 10)	173,235	228,596	12,884	1,613	416,328	32,565	15,205	47,770	464,098
Transportation	185,083	245,752	92,164	9,198	532,197	28,973	4,391	33,364	565,561
Interest	89,484	92,231	4,328	-	186,043	107,742	-	107,742	293,785
Clothing, linens and laundry	379,119	7,892	7,421	-	394,432	-	-	-	394,432
Total expenses before depreciation	18,940,173	15,618,124	3,528,700	1,198,638	39,285,635	6,191,388	2,468,184	8,659,572	47,945,207
Depreciation	676,942	1,592,441	176,956	22,680	2,469,019	419,731	-	419,731	2,888,750
Total expenses	\$ 19,617,115	\$ 17,210,565	\$ 3,705,656	\$ 1,221,318	\$ 41,754,654	\$ 6,611,119	\$ 2,468,184	\$ 9,079,303	\$ 50,833,957

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (383,597)	\$ 748,482
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,001,812	2,890,150
Amortization of debt issuance costs	9,393	11,671
Bad debt	383,387	178,620
Net realized and unrealized losses on investments	1,887,262	1,949,652
Loss on disposal of property, plant and equipment	79,082	26,478
Capital contributions and grants	(1,122,564)	(1,016,770)
Endowment contributions	(14,305)	(147,790)
Changes in operating assets and liabilities:		
Accounts receivable	(94,971)	299,741
Contributions receivable	154,119	1,253,351
Prepaid expenses and other assets	328,463	(23,146)
Due from related party	(884,268)	(557,436)
Accounts payable	(401,040)	(508,448)
Accrued expenses and other liabilities	(203,143)	65,910
Net cash provided by operating activities	2,739,630	5,170,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets	20,984	128,739
Purchase of investments	(25,895,164)	(6,012,878)
Proceeds from sale of investments	24,481,620	6,578,617
Proceeds from sale of property, plant and equipment	-	1,411,700
Purchase of property, plant and equipment	(4,264,089)	(4,388,411)
Net cash used in investing activities	(5,656,649)	(2,282,233)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions and grants collected	1,122,564	1,016,770
Endowment contributions	14,305	147,790
Increase (decrease) in assets limited as to use	4,848	(20,082)
Financing fees	-	(45,020)
Principal payments on notes payable	(534,223)	(1,871,818)
Proceeds from notes payable and other debt	151,132	1,016,086
Net cash provided by financing activities	758,626	243,726
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,158,393)	3,131,958
CASH AND CASH EQUIVALENTS, beginning of year	12,741,714	9,609,756
CASH AND CASH EQUIVALENTS, end of year	\$ 10,583,321	\$ 12,741,714
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 293,575	\$ 293,785
Noncash investing and financing activities:		
Long-term debt transferred	\$ -	\$ 1,288,980
Property, plant and equipment financed through accounts payable	\$ -	\$ 140,572
Unrealized losses on investments	\$ (2,349,851)	\$ (2,328,116)

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 dedicated to ending homelessness. The Inn partners with homeless individuals to help them move from street and shelters to a home and assists formerly homeless individuals in retaining housing. The Inn provides street outreach, emergency services, supportive housing, job training, and connections to employment. The Inn tirelessly advocates for collaborative solutions to end homelessness.

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, 2016 and 2015. The Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$3,275,029 and \$3,452,586 for the years ended June 30, 2016 and 2015, respectively. The Federal NOLs expire at various dates through 2034. The Inn has state NOLs related to UBTI of \$1,769,262 and \$1,946,819 for the years ended June 30, 2016 and 2015, respectively. The state NOLs expire at various dates through 2034. 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 statements 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, 2016 and 2015. The Organization's tax and information returns are subject to examination by the Federal and state jurisdictions.

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 debt.

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. For the purpose of the combined statements of cash flows, money market funds included in investments are not included in cash and cash equivalents. 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 (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 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 Measurements: The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements: (Continued)

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices 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.

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.

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.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

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.

Other revenue primarily includes the Organization's social enterprise income, which is recorded as services are delivered, and developer fees related to Beals Street (see Note 7), which are recorded as project milestones are achieved.

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.

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, 2016 and 2015, were approximately \$840,000 and \$689,000, 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 goods and services are reported as revenues and expenses of unrestricted net assets at the fair value of the goods and 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. During the fiscal years ended June 30, 2016 and 2015, the Organization received donated equipment valued by the donor at \$84,170 and \$226,467, respectively, which is included in property, plant and equipment and unrestricted net assets in the accompanying combined statements of financial position.

The value of these donated goods and services for the years ended June 30, 2016 and 2015, is:

	<u>2016</u>	<u>2015</u>
Facilities	\$1,914,788	\$2,031,266
Food	1,332,471	1,228,269
Volunteer services	576,870	632,288
Clothing, linens and laundry	221,219	394,432
Health care services	200,000	200,000
Program support	105,618	239,677
Equipment	84,170	226,467
Miscellaneous	<u>4,847</u>	<u>37,448</u>
	<u>\$4,439,983</u>	<u>\$4,989,847</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.

Combined Statements of Activities and Changes in Net Assets: Transactions deemed by management to be ongoing, major, or central to the provision of the Organization's services are reported as operating revenue and operating expenses in the accompanying combined statements of activities and changes in net assets. All other transactions are reported as non-operating activity.

Accounting Principle Adoption: In fiscal year 2016, the Organization adopted FASB Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*: Simplifying the Presentation of Debt Issuance Costs, allowing the Organization to reduce cost and complexity while maintaining or improving the usefulness of the information disclosed in the combined financial statements by recognizing debt issuance costs as a direct deduction from the carrying amount of the related debt liability in the accompanying combined statements of financial position. As early application is allowed, the Organization has used the retrospective approach for all periods presented.

Subsequent Events: Subsequent events have been evaluated through November 2, 2016, which is the date the combined financial statements were available to be issued.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4. ASSETS LIMITED AS TO USE

The Organization maintains escrow accounts (cash accounts) 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 8). The Organization also maintains tenant security deposits, which are segregated from its operating accounts. Total assets limited as to use at June 30, 2016 and 2015, were \$1,687,809 and \$1,692,657, respectively.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 3,477,283	\$ 3,477,283
Buildings	26,193,755	26,193,755
Building and leasehold improvements	40,911,698	39,171,877
Furniture and fixtures	946,141	864,183
Machinery and equipment	5,836,215	5,266,015
Motor vehicles	1,001,906	857,999
Construction in process	<u>3,081,482</u>	<u>1,505,855</u>
	81,448,480	77,336,967
Less - accumulated depreciation	<u>43,136,099</u>	<u>40,207,781</u>
	<u>\$38,312,381</u>	<u>\$37,129,186</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, 2016 and 2015, was \$3,001,112 and \$2,888,750, respectively. Construction in process, which consists of renovations and building improvements, is not depreciated until the assets are placed in service.

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, 2016 and 2015, 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, which is included in property, plant and equipment in the accompanying combined statements of financial position. As of June 30, 2016 and 2015, building renovations of \$1,411,704 and \$444,806, respectively, have been completed and are included in construction in process. The renovations are expected to be completed in fiscal year 2017, at which point the property will be placed into service for program housing and depreciated.

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>2016</u>	<u>2015</u>
Money market mutual funds	\$ -	\$ 295,680
Equities:		
International mutual funds	-	3,536,519
Domestic mutual funds	-	3,091,591
Emerging market mutual funds	-	511,402
Fixed income:		
Domestic mutual funds	-	3,358,533
Hard asset funds	-	660,418
Multi-strategy mutual funds	<u>24,942,049</u>	<u>13,961,624</u>
Total	<u>\$24,942,049</u>	<u>\$25,415,767</u>

For the years ended June 30, 2016 and 2015, the Organization's investments included shares of a multi-strategy mutual funds. 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>2016</u>	<u>2015</u>
Dividends and interest income	\$ 1,433,161	\$ 1,482,224
Net realized gains	462,589	378,464
Net unrealized losses	<u>(2,349,851)</u>	<u>(2,328,116)</u>
Total investment return	(454,101)	(467,428)
Less - investment return designated for operations:		
Investment spending policy: 4.5% formula	<u>1,079,843</u>	<u>1,003,800</u>
Investment return net of investment spending policy	<u>\$(1,533,944)</u>	<u>\$(1,471,228)</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, 2016 and 2015, the amounts used to support operations were equal to 4.5% of the average fair value of the Inn's long-term investments for each of the previous twelve quarterly periods. During the years ended June 30, 2016 and 2015, the Organization appropriated for operations \$1,079,843 and \$1,003,800, 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, 2016 and 2015.

NOTE 7. RELATED PARTIES

The Organization's combined financial statements include transactions with the following related parties which have not been included in the accompanying combined financial statements.

The Inn 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 Inn receives a management fee of 5% of gross collections, not including prepaid rents, as defined in the agreement. For the years ended June 30, 2016 and 2015, management fees totaled \$8,509 and \$8,781, respectively.

The Inn is the managing member of 51-57 Beals Street Managing Member LLC (Beals MM LLC), a Massachusetts limited liability company, the purpose of which is to act as the managing member of and hold limited liability interests in 51-57 Beals Street LLC (Beals Street LLC). Management, operation and establishment of the policies of Beals MM LLC are vested exclusively in the managing member. The profits and losses of Beals MM LLC shall be allocated to the members in accordance with each of their membership interests.

The Massachusetts low-income housing tax credits (State LIHTC), of up to \$80,000 annually, were allotted to Beals MM LLC by Beals Street LLC and were 100% allocated to the Inn. The Inn entered into an agreement with unrelated third-parties to sell the State LIHTC for \$296,000, subject to the terms and conditions of a State Tax Credit Purchase and Transfer Agreement, dated August 17, 2015. The Inn expects to complete the sale of the State LIHTC during fiscal year 2017 and will use the sale proceeds of \$296,000 to make a sponsor loan to Beals Street LLC.

During the fiscal year ended June 30, 2015, Beals MM LLC made a capital contribution of \$100 and holds a .0009% ownership in Beals Street LLC, a Massachusetts limited liability company, the purpose of which is to acquire and develop property located in Brookline, Massachusetts into thirty-one housing units for low-income individuals (the "Apartment Complex"). The property was purchased from the Inn in April 2015 for a gain of \$46,398, which is included in net loss on disposal of property in the accompanying combined statement of activities and changes in net assets. The Inn is the guarantor of Beals Street LLC for certain financial obligations of operations of the Apartment Complex up to \$800,000 that expire in 2031. Per the Beals Street LLC operating agreement, Beals MM LLC and the Inn shall at all times maintain a combined net worth which satisfies the Designated Net Worth Requirements of \$2,000,000. In addition, subject to the provisions of the Operating Agreement, Beals MM LLC shall be allocated 1% of all operating profits, losses and tax credits.

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

NOTE 7. RELATED PARTIES (Continued)

The Inn is the developer of the Apartment Complex. Under the terms of the development agreement, the Inn is entitled to a maximum developer fee and overhead reimbursement of \$746,494. During the years ended June 30, 2016 and 2015, the Inn earned developer fee income of \$548,683 and \$186,623, respectively, which is included in due from related party and other revenue in the accompanying combined financial statements.

In addition, in the year ended June 30, 2015, certain previously expensed carrying costs of the Inn in the amount of \$146,780 were determined to be reimbursable by Beals Street LLC. These costs have been reflected as due from related party and other revenue in the accompanying combined financial statements. At June 30, 2015, predevelopment and certain operating costs funded by the Inn, in the amount of \$218,542, were included in due from related party and other revenue in the accompanying combined financial statements. During the year ended June 30, 2016, the Inn continued to fund certain operating costs, as well as certain development costs which are included in due from related party in the accompanying combined statement of financial position.

Due from related party consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Developer fee	\$ 735,306	\$186,623
Development cost	311,296	-
Pre-development costs	218,541	218,541
Carrying costs	146,780	146,780
Operating costs	<u>29,781</u>	<u>5,492</u>
	<u>\$1,441,704</u>	<u>\$557,436</u>

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, 2016 and 2015, was \$3,897,530 and \$4,262,433, 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>2016</u>	<u>2015</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. Unamortized debt issuance costs related to the note payable were \$24,116 and \$27,246 as of June 30, 2016 and 2015, respectively.	\$2,704,155	\$2,956,457
Secured commercial loan from Eastern Bank, due in monthly interest and principal installments of \$4,821, with a fixed interest rate of 4.62%, maturing in January 2025. The loan is collateralized by real estate. Unamortized debt issuance costs related to the loan were \$32,242 and \$34,283 as of June 30, 2016 and 2015, respectively.	684,554	706,077
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. Unamortized debt issuance costs related to the mortgage notes payable were \$2,394 and \$4,737 as of June 30, 2016 and 2015, respectively.	569,770	678,175
Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$548 to \$1,275, with an interest rate of 3%, maturing through November 2020. The leases are collateralized by vehicles.	333,475	310,148
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. Unamortized debt issuance costs related to the mortgage notes payable were \$16,431 and \$17,369 as of June 30, 2015 and 2016, respectively.	168,350	184,087
\$5,000,000 revolving line of credit from Eastern Bank, with a variable rate calculated monthly based on the thirty-day London Interbank Offered Rate (LIBOR), plus 140 basis points, 1.58%. Interest-only payments are due monthly until the line of credit converts to a commercial fixed rate loan with principal and interest payments due monthly. On August 12, 2016, the conversion date was extended from August 7, 2016 to August 7, 2017. The line of credit is collateralized by real estate. Unamortized debt issuance costs related to the revolving line of credit were \$7,702 and \$8,524 as of June 30, 2016 and 2015, respectively.	29,030	28,208
	4,489,334	4,863,152
Less - current portion	511,197	517,208
	<u>\$3,978,137</u>	<u>\$4,345,944</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 June 30,</u>	<u>Amount</u>
2017	\$511,197
2018	\$508,541
2019	\$695,924
2020	\$396,449
2021	\$397,991

There were no violations of covenants that 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>2016</u>	<u>2015</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, 2016 and 2015.	\$ 8,563,285	\$ 8,563,285
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. During fiscal year 2015, a note payable in the amount of \$1,288,980, secured by property in Brookline, was transferred to Beal Street LLC (see Note 7).	4,710,402	4,710,402

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

NOTE 9. OTHER DEBT (Continued)

	<u>2016</u>	<u>2015</u>
Various mortgage notes payable to 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. Unamortized debt issuance costs related to the mortgage notes payable were \$3,120 and \$3,240 as of June 30, 2015 and 2016, respectively.	2,533,639	2,533,519
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.	<u>500,000</u>	<u>500,000</u>
	<u>\$16,307,326</u>	<u>\$16,307,206</u>

As of June 30, 2016, the Organization has \$222,635 and \$525,000 of other debt that matures in fiscal years 2019 and 2020, 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, and program, office, and network equipment under various operating leases expiring through June 2024. Lease expense for the years ended June 30, 2016 and 2015, was \$3,252,088 and \$3,183,456, respectively, and is included in both occupancy and equipment expenses in the accompanying combined statements of functional expenses.

The lease expense for the apartments provided in the Organization's housing program for the years ended June 30, 2016 and 2015, was \$2,556,277 and \$2,442,749, 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.

Remaining minimum lease commitments existing under these leases are:

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 804,906
2018	\$ 672,658
2019	\$ 567,075
2020	\$ 524,437
2021	\$ 515,572
Thereafter	\$1,907,411

PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

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. Under the 403(b) Plan, the Inn may fund annual contributions at the discretion of the Board of Directors to employees who have satisfied one year of eligible service and are employed by the Inn on December 31st. Contributions to eligible employee accounts are based upon the ratio of the employee's compensation to the compensation of all eligible employees and on the employee's years of service. During fiscal years 2016 and 2015, 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, 2016 and 2015, \$600,000 was accrued and has been included in the accrued expenses and other liabilities in the accompanying combined statements of financial position.

The Inn also has an unqualified plan pursuant to Section 457 of the IRC (the 457 Plan). For the years ended June 30, 2016 and 2015, the Inn did not make contributions to the plan. The assets of the 457 Plan as of June 30, 2016 and 2015, were \$47,056 and \$46,978, respectively. These assets are included as other assets in the accompanying combined statements of financial position. The related liability is included in the accrued expenses and other liabilities in the accompanying combined statements of financial position.

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.

NOTE 12. BOARD DESIGNATED NET ASSETS (Continued)

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

	<u>2016</u>	<u>2015</u>
Related to real estate	\$ 7,775,000	\$ 7,240,000
Related to unrecorded accrued interest	2,128,000	2,055,000
Related to program support	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$10,903,000</u>	<u>\$10,295,000</u>

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

NOTE 13. TEMPORARILY RESTRICTED NET ASSETS

Following is a summary of temporary restrictions at June 30:

	<u>2016</u>	<u>2015</u>
Gifts and other unexpended revenue and gains restricted to:		
Acquisition and rehabilitation of buildings and equipment	\$ 5,563,023	\$ 5,673,049
Facility use restrictions:		
Homeless shelter expiring in 2016	274,395	274,395
Low income housing expired in 2016	-	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	4,319,822	3,259,594
Accumulated appreciation on permanently restricted investments	<u>292,488</u>	<u>505,126</u>
	<u>\$13,053,499</u>	<u>\$12,349,147</u>

NOTE 14. PERMANENTLY RESTRICTED NET ASSETS

Following is a summary of permanent restrictions at June 30:

	<u>2016</u>	<u>2015</u>
General support of operations	\$2,229,562	\$2,215,257
Martha MacDowell Carpenter fund	496,790	496,790
Phillip Worden housing support for elderly men	100,000	100,000
Estelle's Garden maintenance	<u>100,000</u>	<u>100,000</u>
Total permanently restricted net assets	<u>\$2,926,352</u>	<u>\$2,912,047</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, 2016 and 2015, are:

	Donor Restricted		Total
	Temporarily Restricted	Permanently Restricted	
Endowment net assets, June 30, 2014	\$ 715,663	\$2,764,257	\$3,479,920
Contributions	-	147,790	147,790
Investment return:			
Investment income	11,299	-	11,299
Net realized gains	38,212	-	38,212
Net unrealized losses	(251,858)	-	(251,858)
Total investment return	(202,347)	-	(202,347)
Releases	(8,190)	-	(8,190)
Endowment net assets, June 30, 2015	505,126	2,912,047	3,417,173
Contributions	-	14,305	14,305
Investment return:			
Investment income	11,572	-	11,572
Net realized gains	72,303	-	72,303
Net unrealized losses	(291,029)	-	(291,029)
Total investment return	(207,154)	-	(207,154)
Releases	(5,484)	-	(5,484)
Endowment net assets, June 30, 2016	<u>\$ 292,488</u>	<u>\$2,926,352</u>	<u>\$3,218,840</u>

NOTE 15. CONCENTRATIONS

The Organization received 31% 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, 2016 and 2015, respectively. Approximately 21% of accounts receivable was due from the City of Boston, Department of Neighborhood Development at June 30, 2016 and 2015. Approximately 31% and 38% of accounts receivable was due from the Commonwealth of Massachusetts, Department of Housing and Community Development for the years ended June 30, 2016 and 2015, respectively.

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

NOTE 16. CONTRIBUTIONS RECEIVABLE

The Organization has contributions receivable due at June 30:

	<u>2016</u>	<u>2015</u>
Due in one year	\$1,247,315	\$1,104,447
Due in two years	505,886	742,379
Due in three to five years	10,000	99,700
	<u>1,763,201</u>	<u>1,946,526</u>
Less - current portion	919,180	1,051,672
Less - allowance	<u>328,135</u>	<u>82,775</u>
	<u>\$ 515,886</u>	<u>\$ 812,079</u>

As of June 30, 2016 and 2015, contributions from two foundations represented approximately 54% and 36%, respectively, 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 waiting for the release of the notes to dissolve 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 two tenants. These leases expire through July 2024.

The Organization leased its 8 Church Street property to a third-party, who sub-let apartments in the property to individual tenants. The lease expired in May 2016 and, as a result, the Organization and the third party are coordinating the relocation of the tenants. As of June 30, 2016, the third party is a tenant-at-will.

Rental revenue from the above leases for the years ended June 30, 2016 and 2015, was \$332,224 and \$349,072, respectively, and is included in other revenue in the accompanying combined statements of activities and changes in net assets.

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 June 30,</u>	<u>Amount</u>
2017	\$334,325
2018	\$338,442
2019	\$342,764
2020	\$372,502
2021	\$377,267

NOTE 19. RECLASSIFICATIONS

Certain amounts in the fiscal year 2015 combined financial statements have been reclassified to conform with the fiscal year 2016 presentation.