



Pine Street Inn
Ending Homelessness

AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

PINE STREET INN, INC. AND AFFILIATES

CONTENTS
JUNE 30, 2018 AND 2017

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Changes in Entities' Net Assets	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 25



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pine Street Inn, Inc. (a Massachusetts corporation, not for profit) and its Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, changes in entities' net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

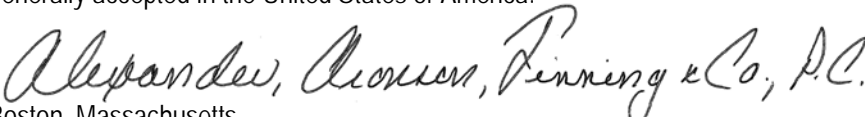
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pine Street Inn, Inc. and its Affiliates as of June 30, 2018 and 2017, 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 7, 2018

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,737,216	\$ 14,125,586
Current portion of assets limited as to use (Note 4)	90,241	169,203
Accounts receivable, net of allowance for doubtful accounts of \$562,931 and \$269,938 at June 30, 2018 and 2017, respectively (Note 15)	3,596,220	2,811,630
Current portion of contributions receivable (Notes 16 and 19)	3,355,250	1,412,049
Prepaid expenses and other assets	488,269	417,605
Assets held for sale (Note 5)	986,403	-
	<hr/>	<hr/>
Total current assets	23,253,599	18,936,073
INVESTMENTS (Note 6)	29,922,441	27,956,469
PROPERTY, PLANT AND EQUIPMENT, net (Note 5)	44,525,069	46,543,010
CONTRIBUTIONS RECEIVABLE, net (Notes 16 and 19)	4,634,572	613,000
ASSETS LIMITED AS TO USE, net of current portion (Note 4)	6,555,104	1,745,888
OTHER ASSETS (Note 11)	316,413	279,660
	<hr/>	<hr/>
Total assets	<u>\$ 109,207,198</u>	<u>\$ 96,074,100</u>
<u>LIABILITIES AND ENTITIES' EQUITY</u>		
CURRENT LIABILITIES:		
Current portion of notes payable (Note 8)	\$ 689,518	\$ 1,487,439
Current portion of other debt (Note 9)	2,026,631	-
Accounts payable	1,048,409	1,024,794
Accrued expenses and other liabilities (Note 11)	3,680,639	2,919,333
	<hr/>	<hr/>
Total current liabilities	7,445,197	5,431,566
NOTES PAYABLE, net of current portion (Note 8)	6,728,971	2,497,240
OTHER DEBT, net of current portion (Note 9)	19,946,987	22,344,445
	<hr/>	<hr/>
Total liabilities	<u>34,121,155</u>	<u>30,273,251</u>
COMMITMENTS AND CONTINGENCIES (Notes 7, 10, 17 and 19)		
ENTITIES' NET ASSETS:		
Unrestricted:		
Available for operations	21,776,494	20,866,184
Board designated (Note 12)	12,766,000	11,097,000
Net investment in plant	16,169,367	16,025,588
	<hr/>	<hr/>
Total unrestricted	50,711,861	47,988,772
Temporarily restricted (Note 13)	18,087,763	12,554,686
Permanently restricted (Note 14)	3,842,852	2,938,852
	<hr/>	<hr/>
Total entities' net assets	72,642,476	63,482,310
Non-controlling interest	2,443,567	2,318,539
	<hr/>	<hr/>
Total net assets	<u>75,086,043</u>	<u>65,800,849</u>
Total liabilities and net assets	<u>\$ 109,207,198</u>	<u>\$ 96,074,100</u>

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

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUES:								
Contract revenue (Note 15)	\$ 32,506,091	\$ -	\$ -	\$ 32,506,091	\$ 29,603,318	\$ -	\$ -	\$ 29,603,318
Contributions and grants	9,790,907	6,232,904	-	16,023,811	10,024,918	2,515,443	-	12,540,361
Donated goods and services (Note 3)	4,604,242	-	-	4,604,242	4,251,424	-	-	4,251,424
Rental income and subsidies	4,394,513	-	-	4,394,513	4,108,561	-	-	4,108,561
Social enterprise revenue	2,230,514	-	-	2,230,514	2,191,104	-	-	2,191,104
Spending policy transfer (Note 6)	1,141,134	-	-	1,141,134	1,115,448	-	-	1,115,448
Other revenue	670,674	-	-	670,674	606,621	-	-	606,621
Net assets released from program restrictions (Note 13)	2,699,875	(2,699,875)	-	-	1,372,690	(1,372,690)	-	-
Total operating revenues	<u>58,037,950</u>	<u>3,533,029</u>	<u>-</u>	<u>61,570,979</u>	<u>53,274,084</u>	<u>1,142,753</u>	<u>-</u>	<u>54,416,837</u>
OPERATING EXPENSES:								
Emergency services	19,913,289	-	-	19,913,289	19,790,460	-	-	19,790,460
Permanent supportive housing	19,552,563	-	-	19,552,563	18,961,601	-	-	18,961,601
Workforce development	2,795,430	-	-	2,795,430	2,260,753	-	-	2,260,753
Housing placement	4,084,347	-	-	4,084,347	1,924,369	-	-	1,924,369
Substance abuse treatment	1,400,952	-	-	1,400,952	1,229,350	-	-	1,229,350
General and administrative	7,132,549	-	-	7,132,549	6,470,436	-	-	6,470,436
Fundraising and development	2,850,192	-	-	2,850,192	2,453,242	-	-	2,453,242
Total operating expenses	<u>57,729,322</u>	<u>-</u>	<u>-</u>	<u>57,729,322</u>	<u>53,090,211</u>	<u>-</u>	<u>-</u>	<u>53,090,211</u>
Changes in net assets from operations	<u>308,628</u>	<u>3,533,029</u>	<u>-</u>	<u>3,841,657</u>	<u>183,873</u>	<u>1,142,753</u>	<u>-</u>	<u>1,326,626</u>
NON-OPERATING ACTIVITY:								
Capital contributions and grants	-	3,838,470	-	3,838,470	-	2,037,454	-	2,037,454
Dividends and interest income (Note 6)	1,033,334	527	-	1,033,861	811,110	442	-	811,552
Endowment contributions (Note 14)	-	-	904,000	904,000	-	-	12,500	12,500
Net realized and unrealized gains on investments (Note 6)	676,655	68,016	-	744,671	1,988,192	215,428	-	2,203,620
Other revenue (Note 1)	-	-	-	-	296,000	-	-	296,000
Net loss on disposal of property, plant and equipment	(182,465)	-	-	(182,465)	-	-	-	-
Spending policy transfer (Note 6)	(1,141,134)	-	-	(1,141,134)	(1,115,448)	-	-	(1,115,448)
Net assets released from capital restrictions (Note 13)	1,906,965	(1,906,965)	-	-	3,894,890	(3,894,890)	-	-
Total non-operating activity	<u>2,293,355</u>	<u>2,000,048</u>	<u>904,000</u>	<u>5,197,403</u>	<u>5,874,744</u>	<u>(1,641,566)</u>	<u>12,500</u>	<u>4,245,678</u>
Changes in net assets	<u>2,601,983</u>	<u>5,533,077</u>	<u>904,000</u>	<u>9,039,060</u>	<u>6,058,617</u>	<u>(498,813)</u>	<u>12,500</u>	<u>5,572,304</u>
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	<u>121,106</u>	<u>-</u>	<u>-</u>	<u>121,106</u>	<u>421,225</u>	<u>-</u>	<u>-</u>	<u>421,225</u>
Changes in net assets attributable to Pine Street entities'	<u>\$ 2,723,089</u>	<u>\$ 5,533,077</u>	<u>\$ 904,000</u>	<u>\$ 9,160,166</u>	<u>\$ 6,479,842</u>	<u>\$ (498,813)</u>	<u>\$ 12,500</u>	<u>\$ 5,993,529</u>

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

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN ENTITIES' NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

ENTITIES' NET ASSETS , June 30, 2016	\$ 57,757,818
Changes in net assets	5,572,304
Syndication costs	(5,918)
Capital contributions	<u>2,476,645</u>
ENTITIES' NET ASSETS , June 30, 2017	65,800,849
Changes in net assets	9,039,060
Capital contributions	<u>246,134</u>
ENTITIES' NET ASSETS June 30, 2018	<u><u>\$ 75,086,043</u></u>

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

PINE STREET INN, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	PROGRAM SERVICES						SUPPORT SERVICES			TOTAL
	EMERGENCY SERVICES	PERMANENT SUPPORTIVE HOUSING	WORKFORCE DEVELOPMENT	HOUSING PLACEMENT	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	
2018										
Salaries and wages	\$ 9,248,525	\$ 7,912,593	\$ 1,235,163	\$ 1,739,618	\$ 801,638	\$ 20,937,537	\$ 3,238,533	\$ 1,212,415	\$ 4,450,948	\$ 25,388,485
Employee benefits and payroll taxes (Note 11)	1,997,380	1,779,885	201,984	403,527	188,879	4,571,655	752,835	281,278	1,034,113	5,605,768
Total personnel and related costs	<u>11,245,905</u>	<u>9,692,478</u>	<u>1,437,147</u>	<u>2,143,145</u>	<u>990,517</u>	<u>25,509,192</u>	<u>3,991,368</u>	<u>1,493,693</u>	<u>5,485,061</u>	<u>30,994,253</u>
Occupancy (Note 10)	3,834,930	5,953,448	1,177	211	2,670	9,792,436	217,942	-	217,942	10,010,378
Professional fees and contracted services	717,285	852,560	135,778	590,565	190,391	2,486,579	1,872,924	389,942	2,262,866	4,749,445
Food and supplies	2,574,519	465,117	1,019,866	33,515	46,825	4,139,842	77,313	133,168	210,481	4,350,323
Postage, printing and telephone	85,682	284,833	11,417	10,465	3,382	395,779	130,732	469,212	599,944	995,723
Client support and assistance	-	-	-	915,401	-	915,401	-	-	-	915,401
Other	149,760	9,044	27,372	5,978	125,283	317,437	319,417	216,644	536,061	853,498
Equipment expenses (Note 10)	154,915	291,780	28	267,537	2,887	717,147	31,594	19,160	50,754	767,901
Transportation	192,631	240,048	20,206	77,964	7,248	538,097	27,017	3,640	30,657	568,754
Interest	78,165	86,886	-	-	-	165,051	207,738	-	207,738	372,789
Clothing, linens and laundry	165,529	4,198	-	-	-	169,727	-	-	-	169,727
Total expenses before depreciation	<u>19,199,321</u>	<u>17,880,392</u>	<u>2,652,991</u>	<u>4,044,781</u>	<u>1,369,203</u>	<u>45,146,688</u>	<u>6,876,045</u>	<u>2,725,459</u>	<u>9,601,504</u>	<u>54,748,192</u>
Depreciation (Note 5)	<u>713,968</u>	<u>1,672,171</u>	<u>142,439</u>	<u>39,566</u>	<u>31,749</u>	<u>2,599,893</u>	<u>256,504</u>	<u>124,733</u>	<u>381,237</u>	<u>2,981,130</u>
Total expenses	<u>\$ 19,913,289</u>	<u>\$ 19,552,563</u>	<u>\$ 2,795,430</u>	<u>\$ 4,084,347</u>	<u>\$ 1,400,952</u>	<u>\$ 47,746,581</u>	<u>\$ 7,132,549</u>	<u>\$ 2,850,192</u>	<u>\$ 9,982,741</u>	<u>\$ 57,729,322</u>
	PROGRAM SERVICES						SUPPORT SERVICES			
	EMERGENCY SERVICES	PERMANENT SUPPORTIVE HOUSING	WORKFORCE DEVELOPMENT	HOUSING PLACEMENT	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	TOTAL
2017										
Salaries and wages	\$ 8,516,305	\$ 7,115,616	\$ 979,740	\$ 1,088,401	\$ 697,837	\$ 18,397,899	\$ 3,091,571	\$ 1,175,897	\$ 4,267,468	\$ 22,665,367
Employee benefits and payroll taxes (Note 11)	1,772,798	1,567,367	203,273	245,188	161,388	3,950,014	712,111	276,077	988,188	4,938,202
Total personnel and related costs	<u>10,289,103</u>	<u>8,682,983</u>	<u>1,183,013</u>	<u>1,333,589</u>	<u>859,225</u>	<u>22,347,913</u>	<u>3,803,682</u>	<u>1,451,974</u>	<u>5,255,656</u>	<u>27,603,569</u>
Occupancy (Note 10)	4,103,144	5,984,209	2,862	2,405	3,769	10,096,389	208,486	3,200	211,686	10,308,075
Professional fees and contracted services	1,003,465	812,807	83,023	187,742	248,544	2,335,581	1,401,400	142,172	1,543,572	3,879,153
Food and supplies	2,538,314	444,546	898,674	27,307	11,560	3,920,401	107,974	106,152	214,126	4,134,527
Postage, printing and telephone	97,038	343,809	19,347	3,069	3,241	466,504	121,694	485,763	607,457	1,073,961
Client support and assistance	-	-	-	251,734	-	251,734	-	-	-	251,734
Other	144,289	378,102	33,676	3,181	46,626	605,874	264,395	233,156	497,551	1,103,425
Equipment expenses (Note 10)	272,397	307,986	356	78,822	5,197	664,758	23,789	20,750	44,539	709,297
Transportation	173,629	231,268	39,802	36,520	5,829	487,048	27,424	10,075	37,499	524,547
Interest	69,985	105,409	-	-	-	175,394	97,937	-	97,937	273,331
Clothing, linens and laundry	177,931	-	-	-	-	177,931	-	-	-	177,931
Total expenses before depreciation	<u>18,869,295</u>	<u>17,291,119</u>	<u>2,260,753</u>	<u>1,924,369</u>	<u>1,183,991</u>	<u>41,529,527</u>	<u>6,056,781</u>	<u>2,453,242</u>	<u>8,510,023</u>	<u>50,039,550</u>
Depreciation (Note 5)	<u>749,519</u>	<u>1,660,511</u>	<u>142,439</u>	<u>39,178</u>	<u>45,359</u>	<u>2,637,006</u>	<u>294,734</u>	<u>118,921</u>	<u>413,655</u>	<u>3,050,661</u>
Total expenses	<u>\$ 19,618,814</u>	<u>\$ 18,951,630</u>	<u>\$ 2,403,192</u>	<u>\$ 1,963,547</u>	<u>\$ 1,229,350</u>	<u>\$ 44,166,533</u>	<u>\$ 6,351,515</u>	<u>\$ 2,572,163</u>	<u>\$ 8,923,678</u>	<u>\$ 53,090,211</u>

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

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 9,039,060	\$ 5,572,304
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,981,130	3,050,661
Amortization of debt issuance costs	14,933	7,731
Bad debt	360,606	214,258
Net realized and unrealized gains on investments	(744,671)	(2,203,620)
Net loss on disposal of property, plant and equipment	182,465	-
Capital contributions and grants	(3,838,470)	(2,037,454)
Endowment contributions	(904,000)	(12,500)
Other revenue	-	(296,000)
Changes in operating assets and liabilities:		
Accounts receivable	(1,116,794)	1,166,431
Contributions receivable	(3,543,175)	(579,482)
Prepaid expenses and other assets	(70,664)	(10,119)
Accounts payable	23,615	91,967
Accrued expenses and other liabilities	761,306	(510,211)
Net cash provided by operating activities	<u>3,145,341</u>	<u>4,453,966</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets	(37,814)	54,875
Purchase of investments	(3,221,843)	(810,800)
Proceeds from sale of investments	2,000,542	-
Purchase of property, plant and equipment	(2,570,597)	(4,102,684)
Capital contributions	246,134	2,476,645
Other revenue	-	296,000
Syndication costs	-	(5,918)
Net cash used in investing activities	<u>(3,583,578)</u>	<u>(2,091,882)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions and grants collected	1,788,470	2,037,454
Endowment contributions collected	504,000	12,500
Change in assets limited as to use	(4,730,254)	163,948
Financing fees	-	(9,007)
Principal payments on notes payable and other debt	(1,581,168)	(4,145,169)
Proceeds from notes payable and other debt	5,068,819	3,098,927
Net cash provided by financing activities	<u>1,049,867</u>	<u>1,158,653</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	611,630	3,520,737
CASH AND CASH EQUIVALENTS, beginning of year	<u>14,125,586</u>	<u>10,604,849</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 14,737,216</u>	<u>\$ 14,125,586</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 372,789</u>	<u>\$ 273,331</u>
Transfer of property, plant and equipment to assets held for sale	<u>\$ 986,403</u>	<u>\$ -</u>
Unrealized gains on investments	<u>\$ 505,306</u>	<u>\$ 2,203,620</u>
Assignment of debt to purchaser of plant, property and equipment	<u>\$ 439,601</u>	<u>\$ -</u>

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

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED 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 the street and shelters to a home and assists formerly homeless individuals in retaining housing. The Inn provides street outreach, emergency services, supportive housing, substance abuse treatments, 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 consolidated 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. The Inn is currently in negotiations to transfer this corporation and its related assets and liabilities with a third party subject to HUD's approval.

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.

The Inn is the managing member of and holds a majority interest in 51-57 Beals Street Managing Member LLC (Beals MM LLC), a Massachusetts limited liability company. The purpose of Beals MM LLC 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 are allocated to the members in accordance with each of their membership interests.

Beals Street LLC is a Massachusetts limited liability company formed on February 3, 2015, for the purpose of acquiring, developing and operating property consisting of two buildings located in Brookline, Massachusetts. Beals Street LLC purchased the property from the Inn in April 2015; rehabilitation of the property began upon purchase and was completed in August 2016. The LLC was awarded 2016 low-income housing tax credits (LIHTC) under Internal Revenue Code Section 42 (the Code) and 2015 Massachusetts low-income housing tax credits (State LIHTC). Beals Street LLC allocated 100% of the State LIHTC to Beals MM LLC. Beals MM LLC entered into an agreement to allocate 100% of the State LIHTC to the Inn. During the year ended June 30, 2017, the Inn sold the State LIHTC to an unrelated third-party for \$296,000, the proceeds of which are included in non-operating other income. In turn, the Inn loaned \$296,000 to Beals Street LLC (see Note 9).

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION (Continued)

The Inn is also the developer of the Beals Street LLC property; developer fees and overhead under the terms of the development agreement were \$746,494, of which \$73,044 had been deferred. During the year ended June 30, 2017, the Inn earned the remaining balance of the developer fee income of \$11,188. During the fiscal year ended June 30, 2018, \$38,836 of the outstanding deferred developer fee was collected by the Inn from Beals Street LLC's surplus cash flow.

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 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, 2018 and 2017. As of June 30, 2018 and 2017, the Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$3,489,404 and \$3,389,886, respectively. The Federal NOLs incurred through June 30, 2018, expire at various dates through 2034 and are not subject to limitations. Under the newly enacted tax law, starting in tax year 2018, losses from one unrelated business activity may not be used to offset profits from a separate unrelated trade or business activity. Organizations will now be required to "silo" each unrelated trade or business from the others. NOLs arising for taxable years beginning after June 30, 2018, may be carried forward indefinitely and are subject to limitations of the deduction to 80% of current year taxable income. As of June 30, 2018 and 2017, the Inn has state NOLs related to UBTI of \$1,983,637 and \$1,884,119, respectively. The treatment of the state NOLs conforms to the Federal treatment. A deferred tax asset has not been recorded as the realization of the NOLs is uncertain.

Beals Street LLC has elected to be treated as a partnership for income tax purposes. No income tax provision has been included in the accompanying consolidated financial statements as the income, loss and credits of Beals Street LLC are reported by the members on their respective income tax returns. However, Beals Street LLC's income tax returns are subject to examination by the appropriate taxing jurisdictions.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The Inn, Housing, Housing II, Beals MM LLC and Beals Street LLC's consolidated 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 Consolidation: The consolidated financial statements include the net assets of the Inn, Housing, Housing II, Beals Street LLC, and Beals MM LLC (collectively, the Organization). All significant intercompany accounts have been eliminated in consolidation.

Estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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 consolidated financial statements at June 30, 2018 and 2017. 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).

Non-Controlling Interest represents the non-controlling interests in Beals Street LLC and Beals MM LLC, which are owned by unrelated investors.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments. For the purpose of the consolidated 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.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) is 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
Machinery and equipment	10
Computer equipment and software	3 - 5
Motor vehicles	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.

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.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED 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 restricted and permanently restricted net asset classes in the accompanying consolidated 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 an investment standard as defined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 consist of contributions committed to program operations, acquisition of capital or endowment (see Note 16).

Debt Issuance Costs: Debt issuance costs are amortized over the period the related obligation is outstanding and amortization is computed using an imputed interest rate on the related loan. Unamortized debt issuance costs are reported as a reduction of the corresponding obligation (see Note 8).

Revenue Recognition and Funding: Contract revenue is recorded as services are provided. The programs of the Organization are principally funded 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.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

Gross patient service revenue is included in contract revenue in the accompanying consolidated statements of activities 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, 2018 and 2017, were approximately \$829,000 and \$881,000, 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 consolidated statements of activities as net assets released from restrictions.

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 are recorded when earned.

Social enterprise revenue consists of income generated from the sale and distribution of meals and catering services, which are recorded as delivered and earned.

Other revenue primarily includes the Organization's income earned on property management fees and property leases, which are recorded as earned.

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.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

The value of these donated goods and services for the years ended June 30, 2018 and 2017, is:

	<u>2018</u>	<u>2017</u>
Facilities	\$1,971,368	\$1,941,290
Food	1,182,793	1,291,482
Volunteer services	538,790	533,095
Medical Supplies	232,000	-
Health care services	200,000	200,000
Professional services	200,000	-
Clothing, linens and laundry	165,529	177,931
Program support	<u>113,762</u>	<u>107,626</u>
	<u>\$4,604,242</u>	<u>\$4,251,424</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.

Consolidated Statements of Activities: 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 consolidated statements of activities. All other transactions are reported as non-operating activity.

Accounting Principle Adoption: During fiscal year 2018, the Organization adopted the FASB's Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall (Topic 825): Recognition and Measurements of Financial Assets and Financial Liabilities*, removing the requirement to disclose the fair value of the Organization's consolidated financial assets and liabilities. The Organization has used the retrospective approach for all periods presented.

Subsequent Events: Subsequent events have been evaluated through November 7, 2018, which is the date the consolidated financial statements were available to be issued. Events that met the criteria for disclosure are included in Note 20.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. ASSETS LIMITED AS TO USE

Proceeds of \$4,000,000 drawn from a loan in fiscal year 2018 with Eastern Bank (see Note 8) are required to fund capital improvements. Restricted cash at June 30, 2018, includes two components: \$500,000 deposited in a bank account required as collateral on a certain mortgage note (see Note 8), and \$647,023 related to a fund created by a local government agency with the purpose to develop 200 units of affordable housing for which the Inn became fiscal sponsor during fiscal year 2018. In addition to the \$500,000, the Organization had \$94,261 in funds set aside for development at June 30, 2017. The Organization maintains cash accounts that were established to serve as operating and replacement reserves in connection with certain mortgage notes (see Note 8). The Organization also maintains tenant security deposits and escrows.

Assets limited to use consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Capital improvements - loan proceeds	\$4,000,000	\$ -
Restricted cash	1,147,023	594,261
Operating reserves and escrows	745,730	643,804
Replacement reserves	677,925	617,652
Security deposits	<u>74,667</u>	<u>59,374</u>
	<u>\$6,645,345</u>	<u>\$1,915,091</u>

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Land	\$ 4,949,061	\$ 5,163,775
Buildings	33,652,551	35,904,774
Building and leasehold improvements	42,807,045	42,410,602
Furniture and fixtures	1,127,009	1,110,542
Machinery and equipment	3,305,853	3,099,091
Computer equipment and software	2,954,110	2,890,222
Motor vehicles	1,049,282	1,001,906
Construction in process	<u>539,338</u>	<u>1,970,832</u>
	90,384,249	93,551,744
Less - accumulated depreciation	45,112,686	46,262,240
Less - eliminations	<u>746,494</u>	<u>746,494</u>
	<u>\$44,525,069</u>	<u>\$46,543,010</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 was \$2,980,068 and \$3,050,661 for the years ended June 30, 2018 and 2017, respectively. Construction in process, which consists of renovations and building improvements, is not depreciated until the assets are placed in service.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Organization accounts for the carrying value of its property, plant and equipment in accordance with the requirements of ASC Topic, *Property, Plant and Equipment*. As of June 30, 2018 and 2017, the Organization has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

Assets Held for Sale

During fiscal year 2018, the Organization was notified that the funding for its Community Based Flexible Support (CBFS) would be discontinued effective July 1, 2018. As such, the Organization has determined that five of the properties used in this program should be held for sale. The net book value of these properties is \$986,403 and is classified as assets held for sale in the accompanying consolidated statement of financial position as of June 30, 2018 (see Note 20).

NOTE 6. INVESTMENTS

Investments are presented in the accompanying consolidated financial statements at fair value. The following table presents the fair value of the Organization's investments as of June 30, 2018 and 2017, all of which are valued using Level 1 inputs (see Note 3):

	<u>2018</u>	<u>2017</u>
Equities:		
Multi-strategy mutual funds	\$27,733,289	\$27,956,469
Multi-national mutual funds	1,974,585	-
Common stock	<u>214,567</u>	<u>-</u>
Total mutual funds - equity investments	<u>\$29,922,441</u>	<u>\$27,956,469</u>

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.

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, 2018 and 2017, 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, 2018 and 2017, the Organization appropriated for operations, from its unrestricted investment return, \$1,141,134 and \$1,115,448, respectively, which is included in the accompanying consolidated statements of activities for the years then ended.

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

NOTE 6. INVESTMENTS (Continued)

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

	<u>2018</u>	<u>2017</u>
Dividends and interest income	\$1,033,861	\$ 811,552
Net unrealized gains	505,306	2,203,620
Net realized gains	<u>239,365</u>	<u>-</u>
Total investment return	1,778,532	3,015,172
Less - investment return designated for operations:		
Investment spending policy: 4.5% formula	<u>1,141,134</u>	<u>1,115,448</u>
Investment return net of investment spending policy	<u>\$ 637,398</u>	<u>\$1,899,724</u>

NOTE 7. RELATED PARTY

The Inn is the administrative member and managing agent of 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, 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, 2018 and 2017, management fees totaled \$9,672 and \$9,005, respectively.

NOTE 8. NOTES PAYABLE

In August 2004, the Inn 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, 2018 and 2017, was \$3,100,191 and \$3,510,807, 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 consolidated statements of financial position (see Note 4).

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

NOTE 8. NOTES PAYABLE (Continued)

Notes payable consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
\$5,000,000 commercial fixed rate loan with an interest rate of 3.84%, and 144 monthly principal and interest payments of \$30,025, maturing in August 2029. The proceeds were used to fund repayment of certain outstanding loans with Eastern Bank (see below) and the balance is included in assets limited to use (see Note 4). The loan is collateralized by real estate. Prior to August 7, 2017, this loan was a \$5,000,000 revolving line of credit with a variable rate calculated monthly based on the thirty-day London Interbank Offered Rate (LIBOR), plus 140 basis points with interest-only payments due. Unamortized debt issuance costs related to the loan and its conversion were \$27,223 and \$29,793 as of June 30, 2018 and 2017, respectively.	\$4,818,155	\$ 6,937
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 \$18,355 and \$21,292 as of June 30, 2018 and 2017, respectively.	2,151,779	2,436,273
Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$555 to \$1,275, with an interest rate of 3%, maturing through December 2021. The leases are collateralized by vehicles.	175,891	200,095
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 \$15,633 as of June 30, 2017, and were fully written off during fiscal year 2018.	168,200	157,298
Various mortgage notes payable to Eastern Bank, due in monthly interest and principal installments ranging from \$482 to \$4,008, with fixed interest rates of 2% and 4% as of June 30, 2018, maturing through November 2026. The notes are collateralized by real estate. Unamortized debt issuance costs related to the mortgage notes payable were \$1,268 as of June 30, 2017. In August 2017, one of the notes with an outstanding balance of approximately \$307,000 and an interest rate of 5% was paid in full with proceeds from the \$5,000,000 commercial fixed rate loan (see above).	104,464	499,354

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

NOTE 8. NOTES PAYABLE (Continued)

	<u>2018</u>	<u>2017</u>
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 was collateralized by real estate. Unamortized debt issuance costs related to the loan were \$7,287 as of June 30, 2017. In August 2017, this loan was paid in full with proceeds from the \$5,000,000 commercial fixed rate loan (see page 17).	-	<u>684,722</u>
	<u>7,418,489</u>	<u>3,984,679</u>
Less - current portion	<u>689,518</u>	<u>1,487,439</u>
	<u>\$6,728,971</u>	<u>\$2,497,240</u>

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>
2019	\$689,518
2020	\$547,391
2021	\$564,335
2022	\$571,092
2023	\$369,182

Included in the fiscal year 2019 maturities listed above is a \$54,608 note payable balance associated with a property that is actively being marketed for sale (see Note 20).

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

Debt issuance costs related to the various notes payable and other debt totaling \$96,245 and \$195,337, respectively, are shown net of accumulated amortization of \$50,667 and \$117,062 as of June 30, 2018 and 2017, respectively. Net debt issuance costs are reported in the consolidated statements of financial position as a direct reduction of the face amount of the related notes payable and other debt (see Note 3). Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed rate on the related loan.

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.

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

NOTE 9. OTHER DEBT (Continued)

Other debt consists of the following at June 30:

	<u>2018</u>	<u>2017</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, 2018 and 2017.	\$11,996,771	\$12,070,599
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. No principal and interest payments are required until maturity.	6,740,088	6,740,088
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. No principal and interest payments are required until maturity. Unamortized debt issuance costs related to the mortgage notes payable were \$3,001 as of June 30, 2017, and were fully written off during fiscal year 2018.	2,736,759	3,033,758
Mortgage note payable to Trinity Church in the City of Boston, with an interest rate 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
Beals Street LLC mortgage note payable to the Inn in the amount of \$500,000, with an interest rate of 0%. Beals Street LLC has the option to extend the maturity date of the note for a period up to the original term (fifteen years). The note is collateralized by real estate. No principal payments are required until maturity. The entire outstanding principal balance is due at maturity, August 2031.	500,000	500,000

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

NOTE 9. OTHER DEBT (Continued)

	<u>2018</u>	<u>2017</u>
Beals Street LLC note payable to the Inn in the amount of \$296,000, with an interest rate of 0.01%. The note shall be repayable annually from and to the extent of available cash flow, as defined in the loan agreement and in the priority set forth in such agreement. The entire outstanding principal balance is due at maturity, April 2046.	<u>296,000</u>	<u>296,000</u>
Total other debt before eliminations	22,769,618	23,140,445
Less - current portion (see Note 20)	2,026,631	-
Less - eliminations	<u>796,000</u>	<u>796,000</u>
	<u>\$19,946,987</u>	<u>\$22,344,445</u>

As of June 30, 2018, the Organization has \$2,026,631 and \$222,515 of other debt that matures in fiscal years 2019 and 2021, respectively. All of the fiscal year 2019 maturities are associated with properties that are actively being marketed for sale (see Note 20).

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

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, 2018 and 2017, was \$3,196,844 and \$3,220,041, respectively, and is included in both occupancy and equipment expenses in the accompanying consolidated statements of functional expenses.

The lease expense for the apartments provided in the Organization's housing program for the years ended June 30, 2018 and 2017, was \$2,440,499 and \$2,632,960, 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>
2019	\$1,348,273
2020	\$1,660,764
2021	\$1,566,235
2022	\$1,467,534
2023	\$1,452,655
Thereafter	\$ 689,527

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED 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 2018 and 2017, 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 consolidated statements of functional expenses. As of June 30, 2018 and 2017, \$600,000 was accrued and is included in accrued expenses and other liabilities in the accompanying consolidated 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, 2018 and 2017, the Inn did not make contributions to the 457 Plan. The assets of the 457 Plan as of June 30, 2018 and 2017, were \$51,834 and \$49,437, respectively. These assets are included as other assets in the accompanying consolidated statements of financial position. The related liability is included in accrued expenses and other liabilities in the accompanying consolidated 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 consolidated financial statements. Certain unrestricted resources have been designated to offset any potential obligation for interest.

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

	<u>2018</u>	<u>2017</u>
Related to real estate	\$ 9,569,000	\$ 7,761,000
Related to unrecorded accrued interest	2,197,000	2,336,000
Related to program support	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$12,766,000</u>	<u>\$11,097,000</u>

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

NOTE 13. TEMPORARILY RESTRICTED NET ASSETS

Following is a summary of temporary restrictions at June 30:

	<u>2018</u>	<u>2017</u>
Gifts and other unexpended revenue and gains restricted to:		
Acquisition and rehabilitation of buildings and equipment	\$ 5,137,091	\$ 3,205,587
Facility use restrictions:		
Homeless shelter expired in 2016	274,395	274,395
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 2030	500,000	500,000
Low-income housing expiring in 2037	503,200	503,200
Low-income housing expiring in 2043	1,228,582	1,228,582
Program operations	8,995,605	5,462,575
Accumulated appreciation on permanently restricted investments	<u>576,901</u>	<u>508,358</u>
	<u>\$18,087,763</u>	<u>\$12,554,686</u>

For the facility use restrictions which the expiration date has past, the Inn is currently working with these funders to secure releases of these restrictions.

NOTE 14. PERMANENTLY RESTRICTED NET ASSETS

Following is a summary of permanent restrictions at June 30:

	<u>2018</u>	<u>2017</u>
General support of operations	\$2,242,062	\$2,242,062
Housing sustainability fund	904,000	-
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>\$3,842,852</u>	<u>\$2,938,852</u>

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

NOTE 14. PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in endowment net assets by class for the years ended June 30, 2018 and 2017, are:

	<u>Donor Restricted</u>		<u>Total</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, June 30, 2016	<u>\$292,488</u>	<u>\$2,926,352</u>	<u>\$3,218,840</u>
Contributions	<u>-</u>	<u>12,500</u>	<u>12,500</u>
Investment return:			
Net unrealized gains	215,428	-	215,428
Investment income	<u>442</u>	<u>-</u>	<u>442</u>
Total investment return	<u>215,870</u>	<u>-</u>	<u>215,870</u>
Endowment net assets, June 30, 2017	<u>508,358</u>	<u>2,938,852</u>	<u>3,447,210</u>
Contributions	<u>-</u>	<u>904,000</u>	<u>904,000</u>
Investment return:			
Net unrealized gains	46,153	-	46,153
Net realized gains	21,863	-	21,863
Investment income	<u>527</u>	<u>-</u>	<u>527</u>
Total investment return	<u>68,543</u>	<u>-</u>	<u>68,542</u>
Endowment net assets, June 30, 2018	<u>\$576,901</u>	<u>\$3,842,852</u>	<u>\$4,419,753</u>

NOTE 15. CONCENTRATIONS

The Organization received 29% and 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, 2018 and 2017, respectively. Approximately 37% and 31% of accounts receivable was due from the City of Boston, Department of Neighborhood Development at June 30, 2018 and 2017, respectively. Approximately 14% of accounts receivable was due from the Commonwealth of Massachusetts, Department of Housing and Community Development at June 30, 2018. Approximately 16% of accounts receivable was due from one vendor at June 30, 2017.

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

NOTE 16. CONTRIBUTIONS RECEIVABLE

The Organization has contributions receivable due at June 30:

	<u>2018</u>	<u>2017</u>
Due in one year	\$3,355,250	\$1,722,679
Due in two years	2,656,250	606,750
Due in three years	1,170,000	6,250
Due in four years	920,000	-
Due in five years	170,000	-
Thereafter	<u>50,000</u>	<u>-</u>
	8,321,500	2,335,679
Less - current portion	3,355,250	1,412,049
Less - discount to present value of future cash flows	232,589	-
Less - allowance	<u>99,089</u>	<u>310,630</u>
	<u>\$4,634,572</u>	<u>\$ 613,000</u>

A discount rate of 2.8% was used to discount multi-year contributions receivable at June 30, 2018.

As of June 30, 2018, contributions from three foundations represented approximately 52% of the total contributions receivable. As of June 30, 2017, contributions from two foundations represented approximately 77% of the total contributions receivable.

NOTE 17. CONTINGENCIES

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.

The Inn is the guarantor of Beals Street LLC for certain financial obligations of operations of the property 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 consolidated net worth which satisfies the Designated Net Worth Requirements of \$2,000,000.

The Inn has right of first refusal to purchase the property in the event that Beals Street LLC proposes to sell, transfer, assign, or lease all or substantially all of the its interest in the property after the expiration of the LIHTC Compliance Period. The Inn would be required to continue to maintain the property as low-income housing (see Note 1). The purchase price under this agreement is the lesser of the sum of all outstanding debts secured by the property and related accrued interest and all taxes attributable to the sale or the fair market value of the property.

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 consolidated financial statements.

PINE STREET INN, INC. AND AFFILIATES
NOTES TO CONSOLIDATED 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.

On July 1, 2018, the Organization entered into certain transactions related to the discontinuation of its CBFS program. Effective July 1, 2018, the Organization entered into one-year leases for two of its properties with another not-for-profit. In addition, the Organization entered into short-term leases for four of its properties with the same not-for-profit that it expects to convert into purchase and sales agreements (see Note 20).

Rental revenue from the above leases for the years ended June 30, 2018 and 2017, was \$317,442 and \$334,326, respectively, and is included in other revenue in the accompanying consolidated statements of activities.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$439,797
2020	\$355,706
2021	\$358,458
2022	\$361,291
2023	\$390,610

NOTE 19. CONDITIONAL GRANT

During fiscal year 2018, the Inn was awarded a \$4,000,000 conditional grant, payable in equal installments over a four-year period. The first and second installments of the grant were earned during fiscal year 2018 and are included in temporarily restricted contributions and grants in the accompanying consolidated statement of activities. The future installments are conditional upon certain outcomes as defined in the grant agreement and have not been recorded in the accompanying consolidated financial statements.

NOTE 20. SUBSEQUENT EVENTS

The Organization is in negotiations to sell four of its former CBFS program properties with another not-for-profit agency (see Note 18). The Organization is also in negotiations to sell a fifth former CBFS program property to a third party. Although management remains confident the properties will be sold in fiscal year 2019, as of the audit report date, the sale price for each property has not been finalized (see Notes 8 and 9).

NOTE 21. RECLASSIFICATIONS

Certain amounts in the fiscal year 2017 consolidated financial statements have been reclassified to conform with the fiscal year 2018 presentation.