



Pine Street Inn
Ending Homelessness

AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

PINE STREET INN, INC. AND AFFILIATES

CONTENTS
JUNE 30, 2019 AND 2018

	<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 - 26



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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 Affiliates, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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 Affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
November 6, 2019

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,307,223	\$ 14,737,216
Current portion of assets limited as to use (Note 5)	77,677	90,241
Accounts receivable, net of allowance for doubtful accounts of \$493,461 and \$562,931 at June 30, 2019 and 2018, respectively (Note 16)	4,706,482	3,596,220
Current portion of contributions receivable (Notes 17 and 20)	5,191,966	3,355,250
Prepaid expenses and other assets	498,210	488,269
Assets held for sale (Note 6)	<u>673,484</u>	<u>986,403</u>
Total current assets	23,455,042	23,253,599
INVESTMENTS (Note 7)	37,016,414	29,922,441
PROPERTY, PLANT AND EQUIPMENT, net (Note 6)	44,278,661	44,525,069
CONTRIBUTIONS RECEIVABLE, net (Notes 17 and 20)	5,823,791	4,634,572
ASSETS LIMITED AS TO USE, net of current portion (Note 5)	8,455,450	6,555,104
OTHER ASSETS (Note 12)	<u>294,773</u>	<u>316,413</u>
Total assets	<u>\$ 119,324,131</u>	<u>\$ 109,207,198</u>
<u>LIABILITIES AND ENTITIES' NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of notes payable (Note 9)	\$ 568,225	\$ 689,518
Current portion of other debt (Note 10)	1,093,434	2,026,631
Accounts payable	1,546,589	1,048,409
Advance on conditional pledge (Note 20)	2,137,754	-
Accrued expenses and other liabilities (Note 12)	<u>3,672,263</u>	<u>3,680,639</u>
Total current liabilities	9,018,265	7,445,197
NOTES PAYABLE, net of current portion and unamortized debt issuance costs (Note 9)	6,332,306	6,728,971
OTHER DEBT, net of current portion (Note 10)	<u>19,171,451</u>	<u>19,946,987</u>
Total liabilities	<u>34,522,022</u>	<u>34,121,155</u>
COMMITMENTS AND CONTINGENCIES (Notes 8, 11, 18 and 20)		
ENTITIES' NET ASSETS:		
Without donor restrictions:		
Available for operations	25,214,656	21,776,494
Board designated (Note 13)	11,566,000	12,766,000
Net investment in plant	<u>18,262,272</u>	<u>16,169,367</u>
Total without donor restrictions	55,042,928	50,711,861
With donor restrictions (Notes 14 and 15)	27,520,582	21,930,615
Total entities' net assets	82,563,510	72,642,476
Non-controlling interest	<u>2,238,599</u>	<u>2,443,567</u>
Total net assets	<u>84,802,109</u>	<u>75,086,043</u>
Total liabilities and net assets	<u>\$ 119,324,131</u>	<u>\$ 109,207,198</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, 2019 AND 2018

	2019			2018		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUES:						
Contract revenue (Note 16)	\$ 33,195,597	\$ -	\$ 33,195,597	\$ 32,506,091	\$ -	\$ 32,506,091
Contributions and grants	9,439,947	5,547,083	14,987,030	9,790,907	6,232,904	16,023,811
Donated goods, services and facilities (Note 3)	4,098,810	-	4,098,810	4,604,242	-	4,604,242
Rental income and subsidies	4,074,341	-	4,074,341	4,394,513	-	4,394,513
Social enterprise revenue	2,706,134	-	2,706,134	2,230,514	-	2,230,514
Spending policy transfer (Note 7)	1,194,747	-	1,194,747	1,141,134	-	1,141,134
Other revenue	972,187	-	972,187	670,674	-	670,674
Net assets released from program restrictions (Note 14)	3,172,204	(3,172,204)	-	2,699,875	(2,699,875)	-
Total operating revenues	<u>58,853,967</u>	<u>2,374,879</u>	<u>61,228,846</u>	<u>58,037,950</u>	<u>3,533,029</u>	<u>61,570,979</u>
OPERATING EXPENSES:						
Emergency services	20,815,401	-	20,815,401	19,845,223	-	19,845,223
Permanent supportive housing	17,648,137	-	17,648,137	19,710,601	-	19,710,601
Housing placement	5,014,993	-	5,014,993	3,971,271	-	3,971,271
Workforce development	3,585,337	-	3,585,337	2,818,951	-	2,818,951
Substance abuse treatment	1,319,422	-	1,319,422	1,400,535	-	1,400,535
General and administrative	6,973,649	-	6,973,649	7,132,549	-	7,132,549
Fundraising and development	3,665,857	-	3,665,857	2,850,192	-	2,850,192
Total operating expenses	<u>59,022,796</u>	<u>-</u>	<u>59,022,796</u>	<u>57,729,322</u>	<u>-</u>	<u>57,729,322</u>
Changes in net assets from operations	<u>(168,829)</u>	<u>2,374,879</u>	<u>2,206,050</u>	<u>308,628</u>	<u>3,533,029</u>	<u>3,841,657</u>
NON-OPERATING ACTIVITY:						
Endowment contributions (Note 15)	-	3,031,618	3,031,618	-	904,000	904,000
Capital contributions and grants	-	2,820,418	2,820,418	-	3,838,470	3,838,470
Net gain (loss) on sale or disposal of property, plant and equipment	1,738,138	-	1,738,138	(182,465)	-	(182,465)
Dividends and interest income (Note 7)	1,510,077	49,707	1,559,784	1,033,334	527	1,033,861
Net realized and unrealized gains on investments (Note 7)	120,302	115,684	235,986	676,655	68,016	744,671
Spending policy transfer (Note 7)	(1,194,747)	-	(1,194,747)	(1,141,134)	-	(1,141,134)
Net assets released from capital restrictions (Note 14)	2,121,158	(2,121,158)	-	1,906,965	(1,906,965)	-
Total non-operating activity	<u>4,294,928</u>	<u>3,896,269</u>	<u>8,191,197</u>	<u>2,293,355</u>	<u>2,904,048</u>	<u>5,197,403</u>
Changes in net assets	4,126,099	6,271,148	10,397,247	2,601,983	6,437,077	9,039,060
NET ASSET TRANSFER (Note 14)	-	(681,181)	(681,181)	-	-	-
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	<u>204,968</u>	<u>-</u>	<u>204,968</u>	<u>121,106</u>	<u>-</u>	<u>121,106</u>
Changes in net assets attributable to Pine Street entities	<u>\$ 4,331,067</u>	<u>\$ 5,589,967</u>	<u>\$ 9,921,034</u>	<u>\$ 2,723,089</u>	<u>\$ 6,437,077</u>	<u>\$ 9,160,166</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, 2019 AND 2018

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	75,086,043
Changes in net assets	10,397,247
Net asset transfers	<u>(681,181)</u>
ENTITIES' NET ASSETS June 30, 2019	<u><u>\$ 84,802,109</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, 2019 AND 2018

	PROGRAM SERVICES						SUPPORT SERVICES			TOTAL
	EMERGENCY SERVICES	PERMANENT SUPPORTIVE HOUSING	HOUSING PLACEMENT	WORKFORCE DEVELOPMENT	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	
2019										
Salaries and wages	\$ 9,845,544	\$ 6,219,503	\$ 2,037,231	\$ 1,537,650	\$ 799,321	\$ 20,439,249	\$ 3,289,631	\$ 1,657,413	\$ 4,947,044	\$ 25,386,293
Employee benefits and payroll taxes (Note 12)	2,299,407	1,527,374	549,723	291,166	194,978	4,862,648	838,179	437,816	1,275,995	6,138,643
Total personnel and related costs	<u>12,144,951</u>	<u>7,746,877</u>	<u>2,586,954</u>	<u>1,828,816</u>	<u>994,299</u>	<u>25,301,897</u>	<u>4,127,810</u>	<u>2,095,229</u>	<u>6,223,039</u>	<u>31,524,936</u>
Occupancy (Note 11)	3,866,834	5,921,923	2,159	137,205	2,979	9,931,100	269,668	-	269,668	10,200,768
Professional fees and contracted services	662,764	993,743	745,441	182,645	240,129	2,824,722	1,447,389	398,594	1,845,983	4,670,705
Food and supplies	2,383,820	375,523	41,849	1,173,117	12,418	3,986,727	66,522	112,731	179,253	4,165,980
Client support and assistance	26,928	39,282	1,118,660	-	-	1,184,870	-	-	-	1,184,870
Other	218,931	99,757	22,411	69,600	37,623	448,322	350,403	295,431	645,834	1,094,156
Equipment expenses (Note 10)	276,021	304,408	279,705	725	3,094	863,953	28,285	121,494	149,779	1,013,732
Postage, printing and telephone	92,977	229,865	19,247	8,886	3,493	354,468	107,404	487,830	595,234	949,702
Transportation	225,823	201,386	78,870	36,690	6,954	549,723	96,273	5,395	101,668	651,391
Interest	46,286	24,292	23	-	-	70,601	273,957	-	273,957	344,558
Clothing, linens and laundry	175,847	4,795	-	-	-	180,642	-	-	-	180,642
Total expenses before depreciation	<u>20,121,182</u>	<u>15,941,851</u>	<u>4,895,319</u>	<u>3,437,684</u>	<u>1,300,989</u>	<u>45,697,025</u>	<u>6,767,711</u>	<u>3,516,704</u>	<u>10,284,415</u>	<u>55,981,440</u>
Depreciation (Note 6)	<u>694,219</u>	<u>1,706,286</u>	<u>119,674</u>	<u>147,653</u>	<u>18,433</u>	<u>2,686,265</u>	<u>205,938</u>	<u>149,153</u>	<u>355,091</u>	<u>3,041,356</u>
Total expenses	<u>\$ 20,815,401</u>	<u>\$ 17,648,137</u>	<u>\$ 5,014,993</u>	<u>\$ 3,585,337</u>	<u>\$ 1,319,422</u>	<u>\$ 48,383,290</u>	<u>\$ 6,973,649</u>	<u>\$ 3,665,857</u>	<u>\$ 10,639,506</u>	<u>\$ 59,022,796</u>

	PROGRAM SERVICES						SUPPORT SERVICES			TOTAL
	EMERGENCY SERVICES	PERMANENT SUPPORTIVE HOUSING	HOUSING PLACEMENT	WORKFORCE DEVELOPMENT	SUBSTANCE ABUSE TREATMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	
2018										
Salaries and wages	\$ 9,220,052	\$ 7,898,994	\$ 1,738,766	\$ 1,258,684	\$ 801,221	\$ 20,917,717	\$ 3,238,533	\$ 1,212,415	\$ 4,450,948	\$ 25,368,665
Employee benefits and payroll taxes (Note 12)	2,002,748	1,779,885	404,379	201,984	188,879	4,577,875	752,835	281,278	1,034,113	5,611,988
Total personnel and related costs	<u>11,222,800</u>	<u>9,678,879</u>	<u>2,143,145</u>	<u>1,460,668</u>	<u>990,100</u>	<u>25,495,592</u>	<u>3,991,368</u>	<u>1,493,693</u>	<u>5,485,061</u>	<u>30,980,653</u>
Occupancy (Note 11)	3,834,930	5,953,448	211	1,177	2,670	9,792,436	217,942	-	217,942	10,010,378
Professional fees and contracted services	712,485	852,560	590,565	135,778	190,391	2,481,779	1,872,924	389,942	2,262,866	4,744,645
Food and supplies	2,519,931	542,303	33,515	1,019,866	46,825	4,162,440	77,313	133,168	210,481	4,372,921
Client support and assistance	18,625	39,467	857,309	-	-	915,401	-	-	-	915,401
Other	149,760	64,028	(49,006)	27,372	125,283	317,437	319,417	216,644	536,061	853,498
Equipment expenses (Note 10)	154,915	291,780	267,537	28	2,887	717,147	31,594	19,160	50,754	767,901
Postage, printing and telephone	85,682	284,833	10,465	11,417	3,382	395,779	130,732	469,212	599,944	995,723
Transportation	192,631	240,048	77,964	20,206	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	161,331	4,198	-	-	-	165,529	-	-	-	165,529
Total expenses before depreciation	<u>19,131,255</u>	<u>18,038,430</u>	<u>3,931,705</u>	<u>2,676,512</u>	<u>1,368,786</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 6)	<u>713,968</u>	<u>1,672,171</u>	<u>39,566</u>	<u>142,439</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>\$ 19,845,223</u>	<u>\$ 19,710,601</u>	<u>\$ 3,971,271</u>	<u>\$ 2,818,951</u>	<u>\$ 1,400,535</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>

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 10,397,247	\$ 9,039,060
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,041,356	2,981,130
Amortization of debt issuance costs	4,303	14,933
Bad debt	380,501	360,606
Net realized and unrealized gains on investments	(235,986)	(744,671)
Net (gain) loss on sale or disposal of property, plant and equipment, net of transfers	(2,106,400)	182,465
Capital contributions and grants	(2,820,418)	(3,838,470)
Endowment contributions	(3,031,618)	(904,000)
Changes in operating assets and liabilities:		
Accounts receivable	(1,287,369)	(1,116,794)
Contributions receivable	(682,043)	(3,543,175)
Advance on conditional pledge	2,137,754	-
Prepaid expenses and other assets	(9,941)	(70,664)
Accounts payable	498,180	23,615
Accrued expenses and other liabilities	(9,829)	761,306
Net cash provided by operating activities	<u>6,275,737</u>	<u>3,145,341</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets	21,640	(37,814)
Purchase of investments	(11,367,572)	(3,221,843)
Proceeds from sale of investments	4,509,585	2,000,542
Purchase of property, plant and equipment	(3,083,024)	(2,570,597)
Capital contributions	-	246,134
Net cash used in investing activities	<u>(9,919,371)</u>	<u>(3,583,578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions and grants collected	2,941,751	1,788,470
Endowment contributions collected	535,618	504,000
Increases in assets limited as to use	(2,360,574)	(4,730,254)
Decreases in assets limited as to use	564,499	-
Principal payments on notes payable and other debt	(559,893)	(1,581,168)
Proceeds from notes payable and other debt	92,240	5,068,819
Net cash provided by financing activities	<u>1,213,641</u>	<u>1,049,867</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,429,993)	611,630
CASH AND CASH EQUIVALENTS, beginning of year	<u>14,737,216</u>	<u>14,125,586</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 12,307,223</u>	<u>\$ 14,737,216</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 344,558</u>	<u>\$ 372,789</u>
Transfer of property, plant and equipment to assets held for sale	<u>\$ -</u>	<u>\$ 986,403</u>
Unrealized gains on investments	<u>\$ 54,216</u>	<u>\$ 505,306</u>
Assignment of debt to purchaser of plant, property and equipment	<u>\$ 1,763,341</u>	<u>\$ 439,601</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 (Note 18).

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 consisted of directors and senior managers of the Inn. On January 1, 2019, Housing's Articles of Organization were amended and HUD approved the transfer of control of its assets and related liabilities to an unrelated not-for-profit corporation. This not-for-profit corporation assumed the assets and liabilities of Housing, including the net assets with donor restrictions of \$503,200 (Note 14).

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. Beals Street 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.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2019 and 2018. As of June 30, 2019 and 2018, the Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$3,744,912 and \$3,489,404, respectively. The Federal NOLs incurred through June 30, 2019, expire at various dates through 2034 and are not subject to limitations. Under the tax law enacted during 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 are required to "silo" each unrelated trade or business from the others. NOLs arising for taxable years beginning after June 30, 2018, have been carried forward indefinitely and are subject to limitations of the deduction to 80% of current year taxable income. As of June 30, 2019 and 2018, the Inn has state NOLs related to UBTI of \$2,239,145 and \$1,983,637, 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.

For Federal and State income tax purposes 18-20 Parker Hill Avenue LLC and 1734 Washington Street Limited Partnership are treated as disregarded entities.

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 (as of June 30, 2018), 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, 2019 and 2018. The Organization's tax and information returns are subject to examination by the Federal and state jurisdictions.

Classification and Reporting of Net Assets:

Net Assets Without Donor Restrictions represent those net resources that bear no donor-imposed restrictions and are generally available for use by the Organization. Net assets without donor restrictions 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 (Note 13).

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

Net Assets With Donor Restrictions represent contributions and inflows of assets whose use by the Organization is limited by donor-imposed stipulations. These include both temporary stipulations that expire by the passage of time or fulfillment of donor requirement by actions of the Organization (Note 14), and permanent restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization (Note 15).

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

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.

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.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: (Continued)

Investments are allocated among the net assets with and without donor restrictions classes in the accompanying consolidated financial statements according to the absence or presence of donor restrictions. Investments are classified as non-current assets based on management's intent to hold these assets for long-term purposes.

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.

Net investment return consists of dividends and interest income and realized and unrealized gains and losses less investment expenses, if any. 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 (Note 17).

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 loans. Unamortized debt issuance costs are reported as a reduction of the corresponding obligation (Note 9).

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.

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, 2019 and 2018, were approximately \$700,000 and \$829,000, respectively.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

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 beyond 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 net assets with donor restrictions, and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions. Contributions received with donor-imposed restrictions to the purchase of improvement of property, plant and equipment are released into net assets without donor restrictions when the property, plant or equipment is placed into service. Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property, plant and equipment with donor stipulations are reported as revenues of net assets with donor restrictions; 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from capital 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 and laundering services, which are recorded as services are delivered and the revenue is 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, services and facilities are reported as revenues and expenses of net assets without donor restrictions at their fair value when received and used in program operations.

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, services and facilities is as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Facilities	\$1,930,607	\$1,971,368
Food	1,163,210	1,182,793
Volunteer services	496,279	538,790
Health care services	200,000	200,000
Clothing, linens and laundry	180,642	165,529
Program support	128,072	113,762
Medical supplies	-	232,000
Professional services	-	200,000
	<u>\$4,098,810</u>	<u>\$4,604,242</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. The allowance to account for such estimated uncollectable amounts is calculated and charged to bad debt expense. As specific balances are identified as uncollectible, they are written off and charged to the allowance.

Expense Allocation: Expenses related directly to a program are attributed to that program. In certain cases, expenses are allocable to more than one program or supporting function. These expenses are allocated based upon a reasonable basis that is consistently applied. Expenses allocated include certain salaries and wages, occupancy, equipment, transportation and interest costs, which are allocated based upon the number of housing or shelter beds, or number of clients, supported by the program. Certain food and supplies are also allocated based upon the number of meals served by the 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 2019, the Organization adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Organization's net asset classes, results of operations, or cash flows for the year ended June 30, 2019. This ASU has been applied retrospectively to all periods presented. This ASU provides an option to omit the disclosures about liquidity and availability of resources for the fiscal year 2018 consolidated financial statements (Note 4).

Subsequent Events: Subsequent events have been evaluated through November 6, 2019, which is the date the consolidated financial statements were available to be issued. Events that met the criteria for disclosure are included in Note 21.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's financial assets available within one year from the consolidated statement of financial position date for general operating expenses as of June 30, 2019, are as follows:

Cash and cash equivalents	\$12,307,223
Current portion of accounts receivable, net	4,706,482
Current portion of contributions receivable, net	<u>5,191,966</u>
Total financial assets	22,205,671
Less - contractual or donor-imposed restrictions:	
Donor-imposed restrictions, net of amounts intended to be used within one year	<u>9,168,609</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$13,037,062</u>

The Organization has \$13,037,062 of financial assets available within one year of the consolidated statement of financial position date to meet cash needs for its general expenditures. None of these financial assets is subject to donor or other contractual restriction that would make them unavailable for use within the next year. The Organization has a goal to maintain financial assets consisting primarily of cash and liquid investments on hand to meet at least 180 days of normal operating expenses, which are on average approximately \$28,000,000, and structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

The Organization has board designated reserves of \$11,566,000 included in its long-term investments as well as other undesignated long-term investments totaling approximately \$20,801,000. Although the Organization does not intend to spend from these funds, amounts from these funds could be made available, if necessary. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term interest earning investments, including savings accounts, money market accounts, certificates of deposit, and United States Treasury bills.

NOTE 5. ASSETS LIMITED AS TO USE

Proceeds from a loan drawn in fiscal year 2018 with Eastern Bank (Note 9) of \$3,600,000 and \$4,000,000 as of and for the years ended June 30, 2019 and 2018, respectively, are required to fund capital improvements. Restricted cash for the years ended June 30, 2019 and 2018, includes two components: \$500,000 deposited in a bank required as collateral for both years on a certain mortgage note (Note 9), and \$2,996,922 and \$647,023, as of June 30, 2019 and 2018, respectively, 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. The Organization maintains cash accounts that were established to serve as operating and replacement reserves in connection with certain mortgage notes (Note 9). The Organization also maintains tenant security deposits and escrows.

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

NOTE 5. ASSETS LIMITED AS TO USE (Continued)

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

	<u>2019</u>	<u>2018</u>
Capital improvements - loan proceeds	\$3,600,000	\$4,000,000
Restricted cash	3,496,922	1,147,023
Operating reserves and escrows	756,405	745,730
Replacement reserves	617,711	677,925
Security deposits	<u>62,089</u>	<u>74,667</u>
	8,533,127	6,645,345
Less - current portion	<u>77,677</u>	<u>90,241</u>
	<u>\$8,455,450</u>	<u>\$6,555,104</u>

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Land	\$ 4,939,061	\$ 4,949,061
Buildings	32,764,610	33,652,551
Building and leasehold improvements	45,634,421	42,807,045
Furniture and fixtures	1,226,991	1,127,009
Machinery and equipment	3,563,743	3,305,853
Computer equipment and software	3,064,617	2,954,110
Motor vehicles	1,172,603	1,049,282
Construction in process	<u>118,780</u>	<u>539,338</u>
	92,484,826	90,384,249
Less - accumulated depreciation	47,459,671	45,112,686
Less - eliminations	<u>746,494</u>	<u>746,494</u>
	<u>\$44,278,661</u>	<u>\$44,525,069</u>

There are restrictions imposed by lenders and grantors on the use and sale of certain land, buildings and building and leasehold improvements (Notes 9 and 10).

Depreciation was \$3,041,356 and \$2,981,130 for the years ended June 30, 2019 and 2018, 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 ASC Topic, *Property, Plant and Equipment*. As of June 30, 2019 and 2018, the Organization has not recognized any reduction in the carrying value of its property, plant and equipment in consideration of the requirement.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 determined that five of the properties used in this program should be held for sale. During fiscal year 2019, one of the five properties was sold to an unrelated not-for-profit organization at a net gain of \$1,384,944, which is included in net gain (loss) on sale or disposal of property, plant and equipment in the accompanying consolidated statement of activities. At June 30, 2019, four properties at a net book value of \$673,484 remained as assets held for sale in the accompanying consolidated statement of financial position. On July 1, 2019, the four properties were sold to the same unrelated not-for-profit organization at a net gain of \$620,218 (Note 21).

NOTE 7. 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, 2019 and 2018, all of which are valued using Level 1 inputs (Note 3):

	<u>2019</u>	<u>2018</u>
Equities:		
Multi-strategy mutual funds	\$31,311,321	\$27,733,289
Multi-national mutual funds	3,347,273	1,974,585
Money market fund	2,357,820	-
Common stock	<u>-</u>	<u>214,567</u>
Total mutual funds - equity investments	<u>\$37,016,414</u>	<u>\$29,922,441</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. The Investment Spending Policy uses the Organization's total long-term investments, which include donor restricted endowment funds (Note 15), board designated funds (Note 13), and unrestricted funds reserved to meet current liquidity needs (Note 4). For the years ended June 30, 2019 and 2018, the amounts used to support operations were equal to a spending rate of 4.5% of the average fair value of the Organization's long-term investments for each of the previous twelve quarterly periods. During the years ended June 30, 2019 and 2018, the Organization appropriated for operations, from its unrestricted investment return, \$1,194,747 and \$1,141,134, respectively, which is included in the accompanying consolidated statements of activities.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. 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>2019</u>	<u>2018</u>
Dividends and interest income	\$1,559,784	\$1,033,861
Net realized gains	181,770	239,365
Net unrealized gains	<u>54,216</u>	<u>505,306</u>
Total investment return	1,795,770	1,778,532
Less - investment return designated for operations:		
Spending policy transfer: 4.5% formula	<u>1,194,747</u>	<u>1,141,134</u>
Investment return net of spending policy transfer	<u>\$ 601,023</u>	<u>\$ 637,398</u>

NOTE 8. 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, 2019 and 2018, management fees totaled \$9,851 and \$9,672, respectively.

NOTE 9. 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, 2019 and 2018, was \$2,666,802 and \$3,100,191, 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 (Note 5).

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

NOTE 9. NOTES PAYABLE (Continued)

Notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</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 loan is collateralized by real estate. Unamortized debt issuance costs related to the loan were \$25,999 and \$27,223 as of June 30, 2019 and 2018, respectively.	\$4,659,681	\$4,818,155
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 \$15,276 and \$18,355 as of June 30, 2019 and 2018, respectively.	1,853,486	2,151,779
Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$555 to \$1,184, with interest rates between 1% and 6%, maturing through December 2024. The leases are collateralized by vehicles.	179,314	175,891
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 fully amortized during fiscal year 2018.	162,992	168,200
Various mortgage notes payable to Eastern Bank, due in monthly interest and principal installments ranging from \$482 to \$4,008, with a fixed interest rate of 2%, maturing through November 2026. The notes are collateralized by real estate. In January 2019, one of the loans for \$51,802 was assigned to the third party that purchased assets held for sale (Note 6).	45,058	104,464
	<u>6,900,531</u>	<u>7,418,489</u>
Less - current portion	<u>568,225</u>	<u>689,518</u>
	<u>\$6,332,306</u>	<u>\$6,728,971</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>
2020	\$568,225
2021	\$578,133
2022	\$591,276
2023	\$610,742
2024	\$643,036

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. NOTES PAYABLE (Continued)

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 are shown net of accumulated amortization of \$54,970 and \$50,667 as of June 30, 2019 and 2018, 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 (Note 3). Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loans.

NOTE 10. 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>2019</u>	<u>2018</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 and interest payments are required until maturity. In January 2019, three loans for \$994,056 were assigned to an unrelated not-for-profit organization that purchased assets held for sale (Notes 1 and 6).	\$11,002,715	\$11,996,771
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. In January 2019, two loans for \$714,677 were assigned to an unrelated not-for-profit organization that purchased assets held for sale (Notes 1 and 6).	6,025,411	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 fully amortized during fiscal year 2018.	2,736,759	2,736,759

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

NOTE 10. OTHER DEBT (Continued)

	<u>2019</u>	<u>2018</u>
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 in August 2031.	500,000	500,000
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 in April 2046.	<u>296,000</u>	<u>296,000</u>
	21,060,885	22,769,618
Less - current portion	1,093,434	2,026,631
Less - eliminations	<u>796,000</u>	<u>796,000</u>
	<u>\$19,171,451</u>	<u>\$19,946,987</u>

As of June 30, 2019, the Organization has \$1,093,434 of debt that matures in the fiscal year ending June 30, 2020. Of these maturities, \$568,434 is associated with assets held for sale and, subsequent to year end, sold to an unrelated not-for-profit organization on July 1, 2019 (Note 21). There are no maturities of notes payable for the years ending June 30, 2021 through June 30, 2024.

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

NOTE 11. OPERATING LEASES

The Organization leases office and program space, and program, office, and network equipment under various operating leases expiring through June 2027. Lease expense for the years ended June 30, 2019 and 2018, was \$1,056,765 and \$756,345, respectively, and is included in both occupancy and equipment expenses in the accompanying consolidated statements of functional expenses.

The Organization leases apartments for its housing program under various operating leases expiring through June 2039. Lease expense for the apartments for the years ended June 30, 2019 and 2018, was \$2,258,145 and \$2,440,499, respectively, and is included in occupancy in the accompanying consolidated statements of functional expenses.

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.

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

NOTE 11. OPERATING LEASES (Continued)

Remaining minimum lease commitments existing under these leases are:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 4,176,182
2021	1,834,099
2022	1,743,556
2023	1,716,413
2024	1,648,886
Thereafter	<u>14,544,462</u>
	<u>\$25,663,598</u>

NOTE 12. 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 2019 and 2018, the Inn incurred expenses of \$500,000 and \$400,000, respectively, 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, 2019 and 2018, \$750,000 and \$600,000, respectively, were accrued and are 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, 2019 and 2018, the Inn did not make contributions to the 457 Plan. The assets of the 457 Plan as of June 30, 2019 and 2018, were \$53,840 and \$51,834, 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 13. BOARD DESIGNATED NET ASSETS

The Organization's Board of Directors has designated net assets without donor restrictions for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Capital improvements replacement reserve	\$ 5,000,000	\$ 5,000,000
Real estate fair value reserve	3,464,000	4,020,000
Tax-credit guaranty reserve	549,000	549,000
Mortgage interest reserve	2,153,000	2,197,000
Housing operations reserve	<u>400,000</u>	<u>1,000,000</u>
	<u>\$11,566,000</u>	<u>\$12,766,000</u>

The Board has designated certain net assets without donor restrictions for specific purposes for the years ended June 30, 2019 and 2018. A capital improvements replacement reserve anticipates the future repair and replacement of existing plant and equipment assets and the development of additional permanent housing units.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. BOARD DESIGNATED NET ASSETS (Continued)

A real estate fair value reserve reflects the financial impact that some of the Organization's property assets have mortgage and debt obligations that exceeds their fair market value. A tax-credit guaranty reserve supports a guaranty agreement that the Organization has with the investment member of Beals Street LLC. Though the Organization is confident that, in all likelihood, it will not be required to repay any interest allowed to be deferred until maturity on government financed debt and, accordingly, has not accrued such interest in the accompanying consolidated financial statements; a mortgage interest reserves offsets any potential obligation that the Organization might have to pay for such deferred interest. A housing operations reserve supports the Organization's commitment from a prior capital campaign to fund a ten-year reserve for its permanent housing operations that will be fulfilled during the fiscal year ending June 30, 2021. The Board has delegated to management the maintenance of these reserves.

NOTE 14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditures for specified purposes:		
Acquisition and rehabilitation of buildings and equipment	\$ 5,855,899	\$ 5,137,091
Program operations	<u>11,450,180</u>	<u>8,995,605</u>
	<u>17,306,079</u>	<u>14,132,696</u>
Not subject to appropriation or expenditure:		
Facility use restrictions:		
Homeless shelter expired in 2016	274,395	274,395
Low-income housing expired in 2018	500,000	500,000
Low-income housing assigned in 2019	-	503,200
Low-income housing expiring in 2021	194,008	371,989
Low-income housing expiring in 2030	500,000	500,000
Low-income housing expiring in 2043	<u>1,228,582</u>	<u>1,228,582</u>
	<u>2,696,985</u>	<u>3,378,166</u>
Principal corpus of endowment for which appreciation, once appropriated, is available to support:		
Housing sustainability fund	3,935,618	904,000
General support of operations	2,242,062	2,242,062
Martha MacDowell Carpenter fund	496,790	496,790
Phillip Worden housing support for elderly men	100,000	100,000
Estelle's Garden maintenance	100,000	100,000
Accumulated appreciation on donor restricted endowment investments	<u>643,048</u>	<u>576,901</u>
	<u>7,517,518</u>	<u>4,419,753</u>
Total net assets with donor restrictions	<u>\$27,520,582</u>	<u>\$21,930,615</u>

For the facility use restrictions, which the expiration date has past, the Organization is currently working with these funders to secure releases of these restrictions. Two facility use restrictions expiring in fiscal years 2019 and 2021, respectively, totaling \$681,181 were transferred and assigned to an unrelated not-for-profit organization that also purchased the assets held for sale during the year ended June 30, 2019 (Notes 1 and 6).

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. ENDOWMENT

As required by GAAP, the Organization's net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has adopted an Investment Spending Policy (Note 7) for endowment assets that attempts to provide a predictable stream of funding to programs and general operations supported by its endowment while seeking to maintain the inflation-adjusted purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is to attain or exceed an average annual total return equal to a spending rate of 4.5% plus inflation as measured by annualized percentage change in the Consumer Price Index – Urban over a rolling five-year period. Actual returns in any given year may vary from this amount.

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor restricted endowment funds as net assets with donor restrictions because those net assets are perpetual in nature or time restricted until the Board of Directors appropriates such amounts for expenditures. Most of these assets are also subject to purpose restrictions that must be met before reclassifying those net assets with donor restrictions.

From time-to-time, the fair value of assets associated with donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as funds of perpetual duration and create an underwater endowment. No deficiencies of such nature existed for the fiscal years ended June 30, 2019 and 2018. If a deficiency were to exist, the Board of Directors has interpreted UPMIFA to permit spending from underwater endowments in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate appreciation on donor restricted endowment investments:

- (1) The duration and preservation of the funds
- (2) The purposes of the Organization and the donor restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The Organization's investment policy.

Following is a summary of the Organization's endowment as of June 30,

	<u>2019</u>	<u>2018</u>
Donor restricted endowment funds:		
Original donor restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$6,874,470	\$3,842,852
Accumulated investment return, net	<u>643,048</u>	<u>576,901</u>
Endowment net assets	<u>\$7,517,518</u>	<u>\$4,419,753</u>

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

NOTE 15. ENDOWMENT (Continued)

Changes in endowment net assets by class for the years ended June 30, 2019 and 2018, are:

	<u>With Donor Restrictions</u>
Endowment net assets, June 30, 2017	\$3,447,210
Contributions	904,000
Investment return, net	<u>68,543</u>
Endowment net assets, June 30, 2018	4,419,753
Contributions	3,031,618
Investment return, net	<u>66,147</u>
Endowment net assets, June 30, 2019	<u>\$7,517,518</u>

NOTE 16. CONCENTRATIONS

The Organization received 31% and 29% 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, 2019 and 2018, respectively. Approximately 17% and 14% of accounts receivable was due from the Commonwealth of Massachusetts, Department of Housing and Community Development at June 30, 2019 and 2018, respectively. Approximately 12% of total unrestricted operating revenues were received from contracts through the City of Boston, Department of Neighborhood Development. Approximately 40% and 37% of accounts receivable was due from the City of Boston, Department of Neighborhood Development at June 30, 2019 and 2018, respectively.

NOTE 17. CONTRIBUTIONS RECEIVABLE

The Organization has contributions receivable due at June 30:

	<u>2019</u>	<u>2018</u>
Due in one year	\$ 5,191,966	\$3,355,250
Due in two years	3,672,991	2,656,250
Due in three years	1,979,667	1,170,000
Due in four years	423,500	920,000
Due in five years	115,000	170,000
Thereafter	-	<u>50,000</u>
	<u>11,383,124</u>	<u>8,321,500</u>
Less - current portion	5,191,966	3,355,250
Less - discount to present value of future cash flows	237,503	232,589
Less - allowance	<u>129,864</u>	<u>99,089</u>
	<u>\$ 5,823,791</u>	<u>\$4,634,572</u>

A discount rate of 2.8% was used to discount multi-year contributions receivable at June 30, 2019 and 2018. As of June 30, 2019 and 2018, contributions from three foundations represented approximately 52% of the total contributions receivable.

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

NOTE 18. 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 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 (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.

NOTE 19. 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 unrelated not-for-profit organization with monthly charges ranging between \$1,978 and \$2,824. The leases for these two properties were extended through June 30, 2020.

Rental revenue from the above leases for the years ended June 30, 2019 and 2018, was \$497,599 and \$317,442, respectively, and is included in other revenue in the accompanying consolidated statements of activities.

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

NOTE 19. PROPERTY LEASES (Continued)

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 417,784
2021	364,067
2022	369,071
2023	400,724
2024	<u>319,360</u>
	<u>\$1,871,006</u>

NOTE 20. CONDITIONAL GRANTS

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, totaling \$2,000,000, were earned during fiscal year 2018, and the third installment and \$500,000 of the fourth installment, totaling \$1,500,000, were earned during fiscal year 2019.

During fiscal year 2019, the Inn was awarded a \$5,000,000 conditional grant, payable in two equal installments over a two-year period, of which the first payment of \$2,500,000 was made during fiscal year 2019. As of June 30, 2019, the Inn had earned \$362,246 of the grant and recorded an unearned liability for the difference of \$2,137,754, which is presented as advance on conditional pledge in the accompanying consolidated statement of financial position.

During fiscal year 2019, the Inn was awarded a \$5,000,000 conditional grant, payable over three years. As of June 30, 2019, the Inn had earned \$2,261,000 of the grant. This amount is included in contributions receivable in the accompanying consolidated statement of financial position as no payments have been made on the grant as of June 30, 2019.

During fiscal year 2019, the Inn was awarded a \$1,000,000 conditional grant payable upon the achievement of certain milestones. Those milestones have not been met to date and; therefore, no grant revenue has been recorded as earned during fiscal year 2019.

Conditional grant revenue that is earned has been recorded as contributions and grants and is reflected in net assets with donor restrictions.

NOTE 21. SUBSEQUENT EVENTS

The Organization sold four of its former CBFS program properties shown as assets held for sale in the consolidated statement of financial position to an unrelated not-for-profit organization on July 1, 2019. A \$620,218 gain was recognized on the sale of the properties. The properties had a net book value of \$673,484 (Note 6) and the sales included the assignment of \$568,434 of other debt (Note 10) and cash from the sales of \$725,268.

NOTE 22. RECLASSIFICATIONS

Certain amounts in the fiscal year 2018 consolidated financial statements have been reclassified to conform with the fiscal year 2019 presentation.