



Pine Street Inn
Ending Homelessness

AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

PINE STREET INN, INC. AND AFFILIATES

CONTENTS
JUNE 30, 2020 AND 2019

	<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 - 30



50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpcpa.com

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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Boston, Massachusetts
January 14, 2021

PINE STREET INN, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents	\$ 22,109,088	\$ 12,307,223
Current portion of assets limited as to use	96,933	77,677
Accounts receivable, net of allowance for doubtful accounts of \$910,320 and \$493,461 at June 30, 2020 and 2019, respectively	9,675,968	4,706,482
Current portion of contributions receivable	8,489,080	5,191,966
Prepaid expenses and other assets	396,226	498,210
Assets held for sale	-	673,484
Total current assets	<u>40,767,295</u>	<u>23,455,042</u>
INVESTMENTS	40,079,396	37,016,414
PROPERTY, PLANT AND EQUIPMENT, net	43,086,373	44,278,661
CONTRIBUTIONS RECEIVABLE, net	8,262,643	5,823,791
ASSETS LIMITED AS TO USE, net of current portion	8,820,327	8,455,450
OTHER ASSETS	<u>303,805</u>	<u>294,773</u>
Total assets	<u>\$ 141,319,839</u>	<u>\$ 119,324,131</u>
LIABILITIES AND ENTITIES' NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable	\$ 582,410	\$ 568,225
Current portion of other debt	525,000	1,093,434
Accounts payable	2,913,211	1,546,589
Advance on conditional pledge	-	2,137,754
Accrued expenses and other liabilities	4,099,569	3,672,263
Total current liabilities	<u>8,120,190</u>	<u>9,018,265</u>
NOTES PAYABLE, net of current portion and unamortized debt issuance costs	5,770,701	6,332,306
OTHER DEBT, net of current portion	<u>19,171,451</u>	<u>19,171,451</u>
Total liabilities	<u>33,062,342</u>	<u>34,522,022</u>
COMMITMENTS AND CONTINGENCIES		
ENTITIES' NET ASSETS:		
Without donor restrictions:		
Available for operations	34,258,705	25,214,656
Board designated	10,015,000	11,566,000
Net investment in plant	16,238,298	18,262,272
Total without donor restrictions	<u>60,512,003</u>	<u>55,042,928</u>
With donor restrictions	45,713,799	27,520,582
Total entities' net assets	<u>106,225,802</u>	<u>82,563,510</u>
Non-controlling interest	2,031,695	2,238,599
Total net assets	<u>108,257,497</u>	<u>84,802,109</u>
Total liabilities and net assets	<u>\$ 141,319,839</u>	<u>\$ 119,324,131</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, 2020 AND 2019

	2020			2019		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUES:						
Contract revenue	\$ 37,448,820	\$ -	\$ 37,448,820	\$ 30,374,399	\$ -	\$ 30,374,399
Contributions and grants	11,467,031	10,530,702	21,997,733	9,439,947	5,547,083	14,987,030
Donated goods, services and facilities	4,614,607	-	4,614,607	4,098,810	-	4,098,810
Rental income and subsidies	4,240,999	-	4,240,999	4,074,341	-	4,074,341
Patient service revenue	2,822,956	-	2,822,956	2,821,198	-	2,821,198
Social enterprise revenue	2,625,735	-	2,625,735	2,706,134	-	2,706,134
Spending policy transfer	1,313,118	-	1,313,118	1,194,747	-	1,194,747
Other revenue	881,816	-	881,816	972,187	-	972,187
Net assets released from program restrictions	5,523,858	(5,523,858)	-	3,172,204	(3,172,204)	-
Total operating revenues	70,938,940	5,006,844	75,945,784	58,853,967	2,374,879	61,228,846
OPERATING EXPENSES:						
Emergency services	25,107,692	-	25,107,692	20,913,786	-	20,913,786
Permanent supportive housing	20,056,422	-	20,056,422	17,723,191	-	17,723,191
Housing placement	5,943,431	-	5,943,431	4,828,051	-	4,828,051
Workforce development	3,558,479	-	3,558,479	3,543,705	-	3,543,705
Substance abuse treatment	1,319,784	-	1,319,784	1,326,368	-	1,326,368
General and administrative	6,815,593	-	6,815,593	6,973,649	-	6,973,649
Fundraising and development	4,138,270	-	4,138,270	3,714,046	-	3,714,046
Total operating expenses	66,939,671	-	66,939,671	59,022,796	-	59,022,796
Changes in net assets from operations	3,999,269	5,006,844	9,006,113	(168,829)	2,374,879	2,206,050
NON-OPERATING ACTIVITY:						
Endowment contributions	-	9,140,736	9,140,736	-	3,031,618	3,031,618
Capital contributions and grants	-	4,473,634	4,473,634	-	2,820,418	2,820,418
Dividends and interest income	1,461,840	412,387	1,874,227	1,510,077	49,707	1,559,784
Net gain on sale or disposal of property, plant and equipment	620,220	-	620,220	1,738,138	-	1,738,138
Net realized and unrealized gains (losses) on investments	(246,525)	(99,899)	(346,424)	120,302	115,684	235,986
Spending policy transfer	(1,169,004)	(144,114)	(1,313,118)	(1,194,747)	-	(1,194,747)
Net assets released from capital restrictions	596,371	(596,371)	-	2,121,158	(2,121,158)	-
Total non-operating activity	1,262,902	13,186,373	14,449,275	4,294,928	3,896,269	8,191,197
Changes in net assets	5,262,171	18,193,217	23,455,388	4,126,099	6,271,148	10,397,247
NET ASSET TRANSFER	-	-	-	-	(681,181)	(681,181)
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	206,904	-	206,904	204,968	-	204,968
Changes in net assets attributable to Pine Street entities	\$ 5,469,075	\$ 18,193,217	\$ 23,662,292	\$ 4,331,067	\$ 5,589,967	\$ 9,921,034

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, 2020 AND 2019**

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	84,802,109
Changes in net assets	<u>23,455,388</u>
ENTITIES' NET ASSETS June 30, 2020	<u><u>\$ 108,257,497</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, 2020 AND 2019

	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	
2020										
Salaries and wages	\$ 10,348,421	\$ 7,547,194	\$ 2,542,585	\$ 1,690,394	\$ 828,315	\$ 22,956,909	\$ 3,430,598	\$ 1,903,098	\$ 5,333,696	\$ 28,290,605
Employee benefits and payroll taxes	2,385,502	1,856,403	680,141	311,739	193,693	5,427,478	810,580	511,507	1,322,087	6,749,565
Total personnel and related costs	12,733,923	9,403,597	3,222,726	2,002,133	1,022,008	28,384,387	4,241,178	2,414,605	6,655,783	35,040,170
Occupancy	5,805,093	6,696,022	44,549	1,544	2,534	12,549,742	275,253	-	275,253	12,824,995
Professional fees and contracted services	1,601,828	951,828	672,288	112,094	247,663	3,585,701	1,227,724	412,784	1,640,508	5,226,209
Food and supplies	3,048,423	631,952	59,588	1,177,211	16,883	4,934,057	95,850	47,857	143,707	5,077,764
Client support and assistance	57,201	37,235	1,377,397	3,105	-	1,474,938	25	-	25	1,474,963
Other	334,960	67,251	20,127	72,313	10,050	504,701	377,152	565,606	942,758	1,447,459
Postage, printing and telephone	87,146	244,155	25,829	10,294	4,015	371,439	121,198	547,702	668,900	1,040,339
Equipment expenses	222,916	261,670	342,420	93	3,400	830,499	22,013	6,420	28,433	858,932
Transportation	249,544	164,169	67,666	27,156	3,732	512,267	36,337	3,550	39,887	552,154
Interest	45,548	39,951	-	-	-	85,499	218,103	-	218,103	303,602
Clothing, linens and laundry	177,246	4,949	-	-	-	182,195	-	-	-	182,195
Total expenses before depreciation	24,363,828	18,502,779	5,832,590	3,405,943	1,310,285	53,415,425	6,614,833	3,998,524	10,613,357	64,028,782
Depreciation	743,864	1,553,643	110,841	152,536	9,499	2,570,383	200,760	139,746	340,506	2,910,889
Total expenses	\$ 25,107,692	\$ 20,056,422	\$ 5,943,431	\$ 3,558,479	\$ 1,319,784	\$ 55,985,808	\$ 6,815,593	\$ 4,138,270	\$ 10,953,863	\$ 66,939,671
2019										
Salaries and wages	\$ 9,828,960	\$ 6,286,724	\$ 1,972,614	\$ 1,544,684	\$ 806,267	\$ 20,439,249	\$ 3,289,631	\$ 1,657,413	\$ 4,947,044	\$ 25,386,293
Employee benefits and payroll taxes	2,413,635	1,527,374	435,495	291,166	194,978	4,862,648	838,179	437,816	1,275,995	6,138,643
Total personnel and related costs	12,242,595	7,814,098	2,408,109	1,835,850	1,001,245	25,301,897	4,127,810	2,095,229	6,223,039	31,524,936
Occupancy	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	133,979	240,129	2,776,056	1,447,389	447,260	1,894,649	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	47,115	1,110,827	-	-	1,184,870	-	-	-	1,184,870
Other	218,931	99,757	22,888	69,600	37,623	448,799	350,403	294,954	645,357	1,094,156
Postage, printing and telephone	93,718	229,865	18,506	8,886	3,493	354,468	107,404	487,830	595,234	949,702
Equipment expenses	276,021	304,408	279,705	725	3,094	863,953	28,285	121,494	149,779	1,013,732
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	20,219,567	16,016,905	4,708,377	3,396,052	1,307,935	45,648,836	6,767,711	3,564,893	10,332,604	55,981,440
Depreciation	694,219	1,706,286	119,674	147,653	18,433	2,686,265	205,938	149,153	355,091	3,041,356
Total expenses	\$ 20,913,786	\$ 17,723,191	\$ 4,828,051	\$ 3,543,705	\$ 1,326,368	\$ 48,335,101	\$ 6,973,649	\$ 3,714,046	\$ 10,687,695	\$ 59,022,796

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 23,455,388	\$ 10,397,247
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,910,889	3,041,356
Amortization of debt issuance costs	3,575	4,303
Bad debt	293,533	380,501
Net realized and unrealized gains (losses) on investments	346,424	(235,986)
Net gain on sale or disposal of property, plant and equipment, net of transfers	(620,220)	(2,014,693)
Capital contributions and grants	(4,473,634)	(2,820,418)
Endowment contributions	(9,140,736)	(3,031,618)
Changes in operating assets and liabilities:		
Accounts receivable	(5,181,152)	(1,287,369)
Contributions receivable	1,744,991	(682,043)
Advance on conditional pledge	(2,137,754)	2,137,754
Prepaid expenses and other assets	101,984	(9,941)
Accounts payable	1,233,045	498,180
Accrued expenses and other liabilities	427,306	(9,829)
Net cash provided by operating activities	<u>8,963,639</u>	<u>6,367,444</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Other assets	(9,032)	21,640
Purchase of investments	(11,806,038)	(5,754,939)
Proceeds from sale of investments	6,898,666	1,254,772
Proceeds from sale of assets held for sale	725,270	-
Purchase of property, plant and equipment	(1,585,024)	(3,083,024)
Net cash used in investing activities	<u>(5,776,158)</u>	<u>(7,561,551)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions and grants collected	2,969,968	2,941,751
Endowment contributions collected	3,081,578	535,618
Principal payments on notes payable and other debt	(570,876)	(559,893)
Proceeds from notes payable and other debt	19,881	92,240
Net cash provided by financing activities	<u>5,500,551</u>	<u>3,009,716</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	8,688,032	1,815,609
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	<u>23,198,170</u>	<u>21,382,561</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of year	<u>\$ 31,886,202</u>	<u>\$ 23,198,170</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH WITHIN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents	\$ 22,109,088	\$ 12,307,223
Assets limited as to use	8,917,260	8,533,127
Cash and cash equivalents, included in investments	859,854	2,357,820
Total cash, cash equivalents and restricted cash	<u>\$ 31,886,202</u>	<u>\$ 23,198,170</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 303,602</u>	<u>\$ 344,558</u>
Unrealized gains (losses) on investments	<u>\$ (534,377)</u>	<u>\$ 54,216</u>
Property, plant and equipment financed through accounts payable	<u>\$ 133,577</u>	<u>\$ -</u>
Assignment of debt to the purchaser of property, plant and equipment	<u>\$ 568,434</u>	<u>\$ 1,763,341</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 19).

Pine Street Inn Housing, Inc. (Housing) was 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 (Notes 6 and 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 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 and Housing II are also exempt from state income taxes. Donors may deduct contributions made to the Inn 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, 2020 and 2019. As of June 30, 2020 and 2019, the Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$4,493,720 and \$3,744,912, 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, 2020 and 2019, the Inn has state NOLs related to UBTI of \$2,987,755 and \$2,239,145, 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, Housing II, Beals Street MM LLC, and Beals LLC (collectively, the Organization). All significant intercompany accounts have been eliminated in consolidation.

Adoption of New Accounting Standards:

Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and requires the reporting entity to recognize revenues when control of promised goods or services is transferred to customers and at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: (Continued)

Revenue from Contracts with Customers (Continued)

On July 1, 2019, the Organization adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of July 1, 2019 (the practical expedient elected). Results for reporting periods beginning after July 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Organization's historic accounting under Topic 605.

There were no material changes in the timing of recognition of revenue and, therefore, there was no adjustment to the opening balance of net assets without donor restrictions. The Organization does not expect the adoption of the new revenue standard to have a significant impact on its changes in net assets on an ongoing basis.

Contributions Received and Contributions Made

On July 1, 2019, the Organization adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Organization adopted ASU 2018-08 using a modified prospective method effective July 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the fiscal year 2019 consolidated financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of July 1, 2019.

Restricted Cash

During fiscal year 2020, the Organization adopted FASB's ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted cash within the consolidated statements of cash flows. The new guidance requires that restricted cash and cash equivalents be added to cash and cash equivalents for purposes of the consolidated statements of cash flows. This ASU has been applied retrospectively to all periods presented.

The adoption of ASU 2016-18 resulted in the following changes to the Organization's cash flow classification for the year ended June 30, 2019:

<u>Consolidated Statement of Cash Flows</u>	<u>2019 As Previously Reported</u>	<u>Effect of Adoption</u>	<u>2019 As Adjusted</u>
Operating activities	\$ 6,275,737	\$ 91,707	\$ 6,367,444
Investing activities	(9,919,371)	2,357,820	(7,561,551)
Financing activities	<u>1,213,641</u>	<u>1,796,075</u>	<u>3,009,716</u>
Net change in cash, cash equivalents and restricted cash	<u>\$ (2,429,993)</u>	<u>\$ 4,245,602</u>	<u>\$ 1,815,609</u>

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020 and 2019. 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, Cash Equivalents and Restricted Cash: Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments. Money market funds included in investments are included in cash and cash equivalents. Cash and cash equivalents also include assets limited to use. 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 debt obligation (Note 9).

Revenue Recognition and Funding: The Organization generally measures revenue for qualifying exchange transactions based on the amount of consideration the Organization expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Organization satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. The Organization evaluates its revenue contracts with customers (i.e. developer fee and service fee contracts) based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

Revenue received from patient service, social enterprise and other have been recorded in accordance with Topic 606.

Patient service revenue is reported at the amount that reflects the consideration to which the Inn expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Inn bills the patients and third-party payors several days after the services are performed. Revenue is recognized in accordance with Topic 606, as the performance obligations are satisfied.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

Performance obligations are determined based on the nature of the behavioral health services provided by the Inn. Outpatient services are generally provided at a point in time (date of service) and revenue for performance obligations satisfied at a point in time is generally recognized when services are provided to patients and the Inn does not believe it is required to provide additional goods or services related to that date of service.

The Inn determines the transaction price based on standard charges for goods and services provided (fee schedule), reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Inn's sliding fee policy, or implicit price concessions provided to uninsured patients. The Inn determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Inn determines its estimate of implicit price concessions based on its historical collection experience within a given class of patients or payors. Contractual allowances were approximately \$599,000 and \$700,000 for the years ended June 30, 2020 and 2019, respectively.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with significant third-party payors is as follows:

- **Medicaid** - Reimbursements for Medicaid services are generally paid at prospectively determined rates per occasion of service, or per covered member. Medicaid accounted for approximately 92% and 94% of total net patient service revenue for the years ended June 30, 2020 and 2019, respectively.
- **Other** - Payment agreements with certain commercial insurance carriers and health maintenance organizations provide for payment using prospectively determined rates and discounts from established charges. Other payors accounted for approximately 8% and 6% of total net patient service revenue for the years ended June 30, 2020 and 2019, respectively.

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. Services are generally provided on an annual basis incident to separate agreements that renew annually at the election of the parties or under aspects of the operating agreements that govern the operations of the parties. These agreements specify the compensation for each annual period. Each service is considered a distinct performance obligation. The performance obligations under these agreements are satisfied evenly over the year as the entity receives the benefits provided by the Inn.

Contracts with the Commonwealth of Massachusetts and other governmental agencies, contributions and grants and donated goods, services and facilities have been recorded in accordance with Topic 958.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

Under Topic 958, the Organization must determine whether the contract or contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A grant or contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

For grants and contributions that have been recognized prior to adoption of Topic 958, the standard is not required to be retrospectively applied. Prior to the adoption of Topic 958, effective for fiscal year 2019, the Organization had received similar awards for real estate development projects. For those awards, the Organization had assessed the probability of non-compliance with affordability covenants related to such projects as low or remote, and accordingly, recorded such awards as unconditional contribution revenues upon receipt (Note 14).

Contributions received with donor-imposed restrictions that are met in the same fiscal year as received are reported as revenues of net assets with donor restrictions. A release to net assets without donor restrictions is made to reflect the expiration of such restrictions. Contributions received with donor-imposed restrictions for the purchase or 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.

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.

Grants and contributions of assets other than cash, including marketable securities, are recorded at their estimated fair value on the date of the gift.

Grants and 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.

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>2020</u>	<u>2019</u>
Facilities	\$ 2,717,033	\$ 1,930,607
Food	1,066,816	1,163,210
Volunteer services	332,780	496,279
Health care services	200,000	200,000
Clothing, linens and laundry	182,195	180,642
Program support	<u>115,783</u>	<u>128,072</u>
	<u>\$ 4,614,607</u>	<u>\$ 4,098,810</u>

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. Rental income is not subject to either of the newly adopted standards noted above.

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.

Subsequent Events: Subsequent events have been evaluated through January 14, 2021, which is the date the consolidated financial statements were available to be issued. Events that met the criteria for disclosure are included in Note 22.

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 statements of financial position date for general operating expenses as of June 30, 2020 and 2019, are as follows:

	2020	2019
Cash and cash equivalents	\$ 22,109,088	\$ 12,307,223
Current portion of accounts receivable, net	9,675,968	4,706,482
Current portion of contributions receivable, net	8,489,080	5,191,966
Total financial assets	40,274,136	22,205,671
Less - contractual or donor-imposed restrictions:		
Donor-imposed restrictions, net of amounts intended to be used within one year	16,570,161	9,168,609
Financial assets available to meet cash needs for general expenditures within one year	\$ 23,703,975	\$ 13,037,062

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 average approximately \$33,000,000 and \$28,000,000 for the years ended June 30, 2020 and 2019, respectively, and structures its financial assets to be available as general expenditures, liabilities and other obligations come due. To achieve this goal, as of June 30, 2020 and 2019, the Organization has \$23,703,975 and \$13,037,062, respectively, of financial assets available within one year of the consolidated statements of financial position date. None of these financial assets are subject to donor or other contractual restriction that would make them unavailable for use within the next year. In addition, for the year ended June 30, 2020, the Organization has board designated reserves of \$10,015,000 and other undesignated long-term investments totaling approximately \$22,161,000. For the year ended June 30, 2019, the Organization has board designated reserves of \$11,566,000 and other undesignated long-term investments totaling approximately \$20,801,000. These funds could be made available to fund expenditures, if necessary, although the Organization does not currently intend to spend from these funds. As part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term, interesting earning investments, including savings accounts, money markets, 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 \$2,100,000 and \$3,600,000 as of and for the years ended June 30, 2020 and 2019, respectively, are required to fund capital improvements. Restricted cash for the years ended June 30, 2020 and 2019, includes two components: \$500,000 deposited in a bank required as collateral for both years on a certain mortgage note (Note 9), and \$4,840,090 and \$2,996,922 as of June 30, 2020 and 2019, 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 other 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:

	2020	2019
Capital improvements - loan proceeds	\$ 2,100,000	\$ 3,600,000
Restricted cash	5,340,090	3,496,922
Operating reserves and escrows	751,834	756,405
Replacement reserves	639,296	617,711
Security deposits	86,040	62,089
	8,917,260	8,533,127
Less - current portion	96,933	77,677
	\$ 8,820,327	\$ 8,455,450

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	2020	2019
Land	\$ 4,939,061	\$ 4,939,061
Buildings	32,764,610	32,764,610
Building and leasehold improvements	46,491,065	45,634,421
Furniture and fixtures	1,247,152	1,226,991
Machinery and equipment	3,708,805	3,563,743
Computer equipment and software	3,096,173	3,064,617
Motor vehicles	1,193,869	1,172,603
Construction in process	762,692	118,780
	94,203,427	92,484,826
Less - accumulated depreciation	50,370,560	47,459,671
Less - eliminations	746,494	746,494
	\$ 43,086,373	\$ 44,278,661

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 \$2,910,889 and \$3,041,356 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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. At June 30, 2019, the other four properties with a cumulative net book value of \$673,484 remained as assets held for sale in the accompanying consolidated statement of financial position. On July 1, 2019, these properties were sold to the same unrelated not-for-profit organization for a net gain of \$620,220. The net gain amounts include the assignment of certain notes payable to the unrelated not-for-profit organization (Note 10). Net gains from the sales of all five properties are included in net gain on sale or disposal of property, plant and equipment in the accompanying consolidated statement of activities.

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, 2020 and 2019, all of which are valued using Level 1 inputs (Note 3):

	<u>2020</u>	<u>2019</u>
Equities:		
Multi-strategy mutual funds	\$ 35,809,065	\$ 31,311,321
Multi-national mutual funds	3,410,477	3,347,273
Money market fund	<u>859,854</u>	<u>2,357,820</u>
Total mutual funds - equity investments	<u>\$ 40,079,396</u>	<u>\$ 37,016,414</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, 2020 and 2019, 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, 2020 and 2019, the Organization appropriated for operations \$1,313,118 and \$1,194,747, respectively, which is included in the accompanying consolidated statements of activities. For the year ended June 30, 2020, \$144,114 of the total spending policy transfer was funded through accumulated appreciation on the donor restricted endowment (Note 15). For the year ended June 30, 2019, the spending policy transfer was not funded through accumulated appreciation on the donor restricted endowment.

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>2020</u>	<u>2019</u>
Dividends and interest income	\$ 1,874,227	\$ 1,559,784
Net realized gains	187,953	181,770
Net unrealized gain (loss)	<u>(534,377)</u>	<u>54,216</u>
Total investment return	1,527,803	1,795,770
Less - investment return designated for operations:		
Spending policy transfer: 4.5% formula	<u>1,313,118</u>	<u>1,194,747</u>
Investment return net of spending policy transfer	<u>\$ 214,685</u>	<u>\$ 601,023</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, 2020 and 2019, management fees totaled \$12,117 and \$9,851, 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 Inn 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 Inn has pledged a portion of its investments as collateral for the loan. The market value of pledged investments on June 30, 2020 and 2019, was \$2,211,956 and \$2,666,802, respectively.

The Agreement requires the Inn 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:

	2020	2019
\$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 \$24,775 and \$25,999 as of June 30, 2020 and 2019, respectively.	\$ 4,480,321	\$ 4,659,681
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 \$12,925 and \$15,276 as of June 30, 2020 and 2019, respectively.	1,535,443	1,853,486
Various mortgage notes payable to City of Boston agencies, due in monthly principal and interest 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.	158,111	162,992
Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$431 to \$1,275, with interest rates between 1% and 6%, maturing through February 2025. The leases are collateralized by vehicles.	139,090	179,314
Mortgage note payable to Eastern Bank, due in monthly principal and interest installments of \$481 with a fixed interest rate of 2%, maturing through October 2026. The note is collateralized by real estate.	40,146	45,058
	6,353,111	6,900,531
Less - current portion	582,410	568,225
	\$ 5,770,701	\$ 6,332,306

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

Year Ending June 30,	Amount
2021	\$ 582,410
2022	\$ 595,696
2023	\$ 614,817
2024	\$ 647,580
2025	\$ 300,471

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

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. NOTES PAYABLE (Continued)

Debt issuance costs related to the various notes payable and other debt totaling \$96,246 are shown net of accumulated amortization of \$58,546 and \$54,971 as of June 30, 2020 and 2019, 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:

	2020	2019
<p>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 July 2019, one loan of \$222,635 was assigned to an unrelated not-for-profit organization that purchased assets held for sale. In January 2019, three loans totaling \$994,056 were assigned to the same unrelated not-for-profit organization that purchased the assets held for sale (Notes 1 and 6).</p>	\$ 10,780,080	\$ 11,002,715
<p>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 totaling \$714,677 were assigned to an unrelated not-for-profit organization that purchased the assets held for sale (Notes 1 and 6).</p>	6,025,411	6,025,411
<p>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. In July 2019, two loans totaling \$345,799 were assigned to an unrelated not-for-profit organization that purchased the assets held for sale (Notes 1 and 6).</p>	2,390,960	2,736,759

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

NOTE 10. OTHER DEBT (Continued)

	2020	2019
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. Based on cash flow generated from operations, in accordance with the terms of the loan agreement, Beals Street LLC paid down \$40,252 on the note payable. The entire outstanding principal balance is due at maturity in April 2046.	255,748	296,000
Less - current portion	20,452,199	21,060,885
Less - eliminations	525,000	1,093,434
	755,748	796,000
	\$ 19,171,451	\$ 19,171,451

As of June 30, 2020, the Organization has \$525,000 of debt that is scheduled to mature during fiscal year ending June 30, 2021. There are no maturities of notes payable for the years ending June 30, 2022 through June 30, 2025.

As of June 30, 2019, the Organization had \$1,093,434 of debt that was set to mature during the fiscal year ending June 30, 2020, of which \$568,434 is associated with assets sold to an unrelated not-for-profit organization on July 1, 2019 (Note 6).

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

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and 2019, was \$2,082,433 and \$1,056,765, 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, 2020 and 2019, was \$1,812,922 and \$2,258,145, respectively, and is included in occupancy in the accompanying consolidated statements of functional expenses.

On July 1, 2020, the Inn entered into a one-year operating lease for \$1,980,000 with a third party to provide temporary shelter for its guests during the COVID-19 pandemic. The Inn has the option to extend the lease up to two years; however, has not determined yet if it will exercise the option. The accompanying table of minimum lease commitments includes the lease cost for the year ending June 30, 2021.

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>
2021	\$ 6,189,930
2022	4,417,442
2023	2,432,309
2024	2,345,872
2025	1,445,137
Thereafter	<u>20,495,000</u>
	<u>\$ 37,325,690</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 2020 and 2019, the Inn incurred annual expenses of \$500,000 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, 2020 and 2019, \$750,000 was accrued and is included in accrued expenses and other liabilities in the accompanying consolidated statements of financial position.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. RETIREMENT PLAN (Continued)

The Inn also has an unqualified plan pursuant to Section 457 of the IRC (the 457 Plan). For the years ended June 30, 2020 and 2019, the Inn did not make contributions to the 457 Plan. The assets of the 457 Plan as of June 30, 2020 and 2019, were \$56,598 and \$53,840, 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 a portion of the net assets without donor restrictions for the following specific purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Capital improvements replacement reserve	\$ 5,000,000	\$ 5,000,000
Mortgage interest reserve	2,239,000	2,153,000
Real estate fair value reserve	1,827,000	3,464,000
Tax-credit guaranty reserve	549,000	549,000
Housing operations reserve	<u>400,000</u>	<u>400,000</u>
	<u>\$ 10,015,000</u>	<u>\$ 11,566,000</u>

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.

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 reserve offsets any potential obligation that the Organization might have to pay for such deferred interest.

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.

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.

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

NOTE 14. NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Subject to expenditures for specified purposes:		
Acquisition and rehabilitation of buildings and equipment	\$ 9,767,593	\$ 5,855,899
Program operations	15,558,703	11,450,180
Time	<u>1,200,000</u>	<u>-</u>
	<u>26,526,296</u>	<u>17,306,079</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 expiring in 2021	194,008	194,008
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>2,696,985</u>
Principal corpus of endowment for which appreciation, once appropriated, is available to support:		
Housing sustainability fund	13,076,355	3,935,618
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>475,311</u>	<u>643,048</u>
	<u>16,490,518</u>	<u>7,517,518</u>
Total net assets with donor restrictions	<u>\$ 45,713,799</u>	<u>\$ 27,520,582</u>

For the facility use restrictions, which the expiration date has passed, the Organization is working with these funders to secure releases of these restrictions (Note 22). For the year ended June 30, 2020, there were no facility use restrictions transferred or assigned. For the year ended June 30, 2019, 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 upon the sale of assets held for sale (Notes 1 and 6).

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.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. ENDOWMENT (Continued)

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, 2020 and 2019. 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,

	2020	2019
Donor restricted endowment funds:		
Original donor restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ 16,015,207	\$ 6,874,470
Accumulated investment return, net	475,311	643,048
Endowment net assets	\$ 16,490,518	\$ 7,517,518

Changes in endowment net assets for the years ended June 30, 2020 and 2019, are:

	With Donor Restrictions	
	2020	2019
Endowment net assets, beginning of year	\$ 7,517,518	\$ 4,419,753
Contributions	9,140,736	3,031,618
Investment return (loss), net	(23,622)	66,147
Spending policy transfer (Note 7)	(144,114)	-
Endowment net assets, end of year	\$ 16,490,518	\$ 7,517,518

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. CONCENTRATIONS

The Organization received 32% 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, 2020 and 2019, respectively. Approximately 41% and 17% of accounts receivable was due from the Commonwealth of Massachusetts, Department of Housing and Community Development at June 30, 2020 and 2019, respectively. Approximately 11% and 12% of total unrestricted operating revenues were received from contracts through the City of Boston, Department of Neighborhood Development for the years ended June 30, 2020 and 2019, respectively. Approximately 32% and 40% of accounts receivable was due from the City of Boston, Department of Neighborhood Development at June 30, 2020 and 2019, respectively.

NOTE 17. ACCOUNTS RECEIVABLE

The Organization accounts receivable relating to the following services are due at June 30:

	2020	2019
Contract revenue	\$ 8,297,630	\$ 3,527,382
Social enterprise revenue	859,559	551,549
Rental income and subsidies	744,637	543,969
Patient service revenue	500,032	371,670
Other revenue	184,430	205,373
	10,586,288	5,199,943
Less - allowance	910,320	493,461
	\$ 9,675,968	\$ 4,706,482

NOTE 18. CONTRIBUTIONS RECEIVABLE

The Organization has contributions receivable due as follows at June 30:

	2020	2019
Due in one year	\$ 8,489,080	\$ 5,191,966
Due in two years	6,223,639	3,672,991
Due in three years	1,483,500	1,979,667
Due in four years	818,000	423,500
Due in five years	280,000	115,000
	17,294,219	11,383,124
Less - current portion	8,489,080	5,191,966
Less - discount to present value of future cash flows	350,356	237,503
Less - allowance	192,140	129,864
	\$ 8,262,643	\$ 5,823,791

A discount rate of 2.8% was used to discount multi-year contributions receivable at June 30, 2020 and 2019. As of June 30, 2020, contributions from four foundations represented approximately 57% of the total contributions receivable. As of June 30, 2019, contributions from three foundations represented approximately 52% of the total contributions receivable.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. 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.

The COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. While the Organization expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

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 20. PROPERTY LEASES

The Organization leases a portion of its facility at 363 Albany Street, Boston, Massachusetts to two tenants. These leases expire through October 2032. These leases required monthly payments totaling \$349,302 and \$354,764 for the years ended June 30, 2020 and 2019, respectively.

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, with annual options to extend for an additional year, to lease certain properties to another unrelated not-for-profit organization with monthly charges ranging between \$2,013 and \$2,875. The leases for two of these properties were extended through June 30, 2020 and 2021, respectively. These leases required monthly payments totaling \$58,482 and \$142,835 for the years ended June 30, 2020 and 2019, respectively.

Rental revenue from the above leases for the years ended June 30, 2020 and 2019, was \$407,784 and \$497,599, 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 20. PROPERTY LEASES (Continued)

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

Years Ending June 30,	Amount
2021	\$ 422,773
2022	369,071
2023	400,724
2024	319,360
2025	290,400
	\$ 1,802,328

NOTE 21. 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. As of June 30, 2019, the Inn had earned \$3,500,000 of the grant. The remaining \$500,000 was earned during fiscal year 2020. Of the grant, \$2,000,000 is included in contributions receivable in the accompanying consolidated statement of financial position as of June 30, 2020.

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 was presented as advance on conditional pledge in the accompanying consolidated statement of financial position. As of June 30, 2020, the Inn had earned \$4,491,472 of the grant and recorded a \$1,991,472 contribution receivable 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, 2020 and 2019, the Inn had earned a total of \$3,673,410 and \$2,261,000, respectively, of the grant. These amounts were included in contributions receivable in the accompanying consolidated statements of financial position as June 30, 2020 and 2019, and were subsequently collected after the June 30, 2020 year end.

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 as of June 30, 2020 and 2019 and; therefore, no grant revenue has been recorded during fiscal years 2020 and 2019.

During fiscal year 2020, the Inn was awarded a \$520,000 conditional grant payable upon the achievement of certain milestones. Those milestones have not been met as of June 30, 2020 and 2019 and; therefore, no grant revenue has been recorded during fiscal year 2020.

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

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

NOTE 21. CONDITIONAL GRANTS (Continued)

Conditional promises to give at June 30, 2020, consist of:

Subject to matching	\$ 1,835,118
Incurring qualifying expenses	<u>1,520,000</u>
Total conditional promises to give	<u>\$ 3,355,118</u>

NOTE 22. SUBSEQUENT EVENTS

On July 29, 2020, the Inn executed a \$5,000,000 line of credit agreement with Eastern Bank. The line of credit's interest rate is based on the One-Month LIBOR plus 200 basis points. Interest-only payments are due monthly. The Inn shall maintain a zero balance on the loan for thirty consecutive days during each twelve-month period. The line of credit is subject to annual review for extension by the bank. Borrowings are secured by a first lien position on all deposit accounts with Eastern Bank, all business assets purchased using proceeds from the line of credit and gross revenues of the Inn. The Inn intends to use this line of credit for working capital expenses related to COVID-19 pandemic.

On December 21, 2020, the Inn finalized an emergency contract with the Commonwealth of Massachusetts for the period March 13, 2020 to June 30, 2021. Per the terms of the contract, the Inn has recorded accounts receivable and revenue in the amount of \$1,482,075 as of and for the period ended June 30, 2020 (Note 17).

On December 31, 2020, the donor released the facility use restrictions on \$274,395 of funds used for a homeless shelter that were set to expire in 2016 (Note 14). In addition, the City of Boston amended the terms of a note related to the homeless shelter in the amount of approximately \$70,000 (Note 9). The amendment extended the maturity of the note to March 31, 2037, reduced the interest rate to 1% for the remaining term of the loan, and modified the use restriction of the property. Another note on the same facility from an agency of the Commonwealth of Massachusetts in the amount of \$200,800 (Note 10) was also amended to impose the same use restrictions and to clarify that the maturity of date of the loan is March 31, 2037.

NOTE 23. RECLASSIFICATIONS

Certain amounts in the fiscal year 2019 consolidated financial statements have been reclassified to conform with the fiscal year 2020 presentation.