



St.
Francis
House
Rebuilding Lives.

FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

SAINT FRANCIS HOUSE, INC.

Contents
June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Saint Francis House, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Saint Francis House, Inc. (a Massachusetts corporation, not-for-profit), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Saint Francis House, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Saint Francis House, Inc. as of June 30, 2016, were audited by other auditors whose report dated October 27, 2016, expressed an unmodified opinion on those statements.

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

Boston, Massachusetts
October 17, 2017

SAINT FRANCIS HOUSE, INC.Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 1,179,208	\$ 1,622,038
Accounts receivable, net of allowance for doubtful accounts of \$38,841 and \$54,983 as of June 30, 2017 and 2016, respectively	177,659	402,867
Current portion of grants and pledges receivable	125,740	272,500
Current portion of related party receivable	564,390	-
Other current assets	43,389	38,212
Total current assets	2,090,386	2,335,617
Other Assets:		
Investments	9,034,344	8,465,514
Grants and pledges receivable, net of current portion	70,000	70,740
Related party receivable, net of current portion	-	477,840
Property and equipment, net	6,176,411	6,480,354
Total assets	<u>\$ 17,371,141</u>	<u>\$ 17,830,065</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 583,878	\$ 472,891
Contingent Debt	1,753,405	1,753,405
Total liabilities	<u>2,337,283</u>	<u>2,226,296</u>
Net Assets:		
Unrestricted:		
Operating	882,270	1,002,569
Board designated:		
Replacement reserve	136,555	119,055
Capital and special projects	6,265,006	6,064,446
Property and equipment	4,423,006	4,726,949
Total unrestricted	11,706,837	11,913,019
Temporarily restricted	3,157,938	3,546,667
Permanently restricted	169,083	144,083
Total net assets	<u>15,033,858</u>	<u>15,603,769</u>
Total liabilities and net assets	<u>\$ 17,371,141</u>	<u>\$ 17,830,065</u>

SAINT FRANCIS HOUSE, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:								
Donations	\$ 2,919,727	\$ 155,658	\$ -	\$ 3,075,385	\$ 2,620,707	\$ 132,289	\$ -	\$ 2,752,996
Program service fees	2,773,503	-	-	2,773,503	2,996,578	-	-	2,996,578
Special event revenue	881,296	-	-	881,296	858,035	-	-	858,035
Grants	539,035	255,500	-	794,535	669,581	192,250	-	861,831
Donated goods and services	742,397	-	-	742,397	735,006	-	-	735,006
Investment return designated for operations	4,322	-	-	4,322	3,649	-	-	3,649
Other income	-	-	-	-	33,661	-	-	33,661
Net assets released from time restrictions	203,160	(203,160)	-	-	246,270	(246,270)	-	-
Net assets released from purpose restrictions	831,639	(831,639)	-	-	845,858	(845,858)	-	-
Total operating revenues	8,895,079	(623,641)	-	8,271,438	9,009,345	(767,589)	-	8,241,756
Operating Expenses:								
Program services	6,800,310	-	-	6,800,310	6,706,266	-	-	6,706,266
General and administrative	1,157,731	-	-	1,157,731	963,593	-	-	963,593
Fundraising	1,644,410	-	-	1,644,410	1,482,686	-	-	1,482,686
Total operating expenses	9,602,451	-	-	9,602,451	9,152,545	-	-	9,152,545
Changes in net assets from operations	(707,372)	(623,641)	-	(1,331,013)	(143,200)	(767,589)	-	(910,789)
Other Revenues (Expenses):								
Bequests	464,208	-	-	464,208	628,099	-	-	628,099
Capital donations	-	205,000	-	205,000	-	-	-	-
Capital grants	-	71,330	-	71,330	-	30,502	-	30,502
Donations for endowment	-	-	25,000	25,000	-	-	25,000	25,000
Investment return, net	(19,850)	19,736	-	(114)	255,670	3,649	-	259,319
Investment return designated for operations	-	(4,322)	-	(4,322)	-	(3,649)	-	(3,649)
Net assets released from capital restrictions	56,832	(56,832)	-	-	260,809	(260,809)	-	-
Total other revenues (expenses)	501,190	234,912	25,000	761,102	1,144,578	(230,307)	25,000	939,271
Changes in net assets	(206,182)	(388,729)	25,000	(569,911)	1,001,378	(997,896)	25,000	28,482
Net Assets:								
Beginning of year	11,913,019	3,546,667	144,083	15,603,769	10,911,641	4,544,563	119,083	15,575,287
End of year	<u>\$ 11,706,837</u>	<u>\$ 3,157,938</u>	<u>\$ 169,083</u>	<u>\$ 15,033,858</u>	<u>\$ 11,913,019</u>	<u>\$ 3,546,667</u>	<u>\$ 144,083</u>	<u>\$ 15,603,769</u>

SAINT FRANCIS HOUSE, INC.Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (569,911)	\$ 28,482
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	624,422	649,657
Increase (decrease) in allowance for doubtful accounts	(16,142)	17,685
Bequests	(464,208)	(628,099)
Donation of investments	(130,130)	(32,604)
Donations for endowment	(25,000)	(25,000)
Capital donations	(205,000)	-
Capital grants	(71,330)	(30,502)
Unrealized (gain) loss on investments	153,546	(119,159)
Other income	-	(33,661)
Changes in operating assets and liabilities:		
Accounts receivable	241,350	(143,727)
Grants and pledges receivable	147,500	246,940
Other current assets	(5,177)	(6,672)
Accounts payable, accrued expenses and other current liabilities	110,987	(199,606)
Net cash used in operating activities	<u>(209,093)</u>	<u>(276,266)</u>
Cash Flows from Investing Activities:		
Purchases of investments	(1,633,471)	(1,675,556)
Proceeds from sale of investments	1,041,225	1,382,604
Advances on related party receivable	(86,550)	(175,458)
Purchase of property and equipment	(320,479)	(588,845)
Net cash used in investing activities	<u>(999,275)</u>	<u>(1,057,255)</u>
Cash Flows from Financing Activities:		
Proceeds from bequests	464,208	628,099
Proceeds from endowment contributions	25,000	25,000
Proceeds from capital donations	205,000	-
Proceeds from capital grants	71,330	30,502
Net cash provided by financing activities	<u>765,538</u>	<u>683,601</u>
Net Change in Cash and Cash Equivalents	(442,830)	(649,920)
Cash and Cash Equivalents:		
Beginning of year	<u>1,622,038</u>	<u>2,271,958</u>
End of year	<u>\$ 1,179,208</u>	<u>\$ 1,622,038</u>

SAINT FRANCIS HOUSE, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2017

(With Summarized Comparative Totals for the Year Ended June 30, 2016)

	2017			2016	
	Program Services	Supporting Services		Total Expenses	Total Expenses
General and Administrative		Fundraising	Total Supporting Services		
Personnel and Related:					
Salaries	\$ 3,123,670	\$ 522,604	\$ 699,004	\$ 1,221,608	\$ 4,345,278
Fringe benefits and payroll taxes	828,182	144,651	193,180	337,831	1,166,013
Total personnel and related	3,951,852	667,255	892,184	1,559,439	5,511,291
Other:					
Donated services and food	742,397	-	-	-	742,397
Occupancy	680,768	22,319	17,560	39,879	720,647
Professional fees	102,260	311,390	35,153	346,543	448,803
Printing and postage	9,150	5,876	428,862	434,738	443,888
Office and other	68,237	125,248	103,700	228,948	297,185
Supplies	252,217	6,910	3,564	10,474	262,691
Food	179,434	-	-	-	179,434
Event expenses	-	-	144,654	144,654	144,654
Contract housing and direct care	123,960	-	-	-	123,960
Stipends, guest expenses and temporary help	103,079	-	-	-	103,079
Total other	2,261,502	471,743	733,493	1,205,236	3,466,738
Total expenses before depreciation	6,213,354	1,138,998	1,625,677	2,764,675	8,978,029
Depreciation	586,956	18,733	18,733	37,466	624,422
Total expenses	\$ 6,800,310	\$ 1,157,731	\$ 1,644,410	\$ 2,802,141	\$ 9,602,451

The accompanying notes are an integral part of these statements.

SAINT FRANCIS HOUSE, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2016

	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	General and Adminis- trative	Fundraising		
Personnel and Related:					
Salaries	\$ 2,950,864	\$ 412,989	\$ 573,852	\$ 986,841	\$ 3,937,705
Fringe benefits and payroll taxes	788,797	114,174	159,064	273,238	1,062,035
Total personnel and related	3,739,661	527,163	732,916	1,260,079	4,999,740
Other:					
Donated services and food	735,006	-	-	-	735,006
Occupancy	696,994	20,902	16,869	37,771	734,765
Professional fees	66,533	259,434	24,077	283,511	350,044
Printing and postage	9,265	3,317	465,118	468,435	477,700
Office and other	57,977	129,176	90,697	219,873	277,850
Supplies	217,934	7,359	2,712	10,071	228,005
Food	174,318	-	-	-	174,318
Event expenses	-	-	134,056	134,056	134,056
Contract housing and direct care	225,894	-	-	-	225,894
Stipends, guest expenses and temporary help	165,510	-	-	-	165,510
Total other	2,349,431	420,188	733,529	1,153,717	3,503,148
Total expenses before depreciation	6,089,092	947,351	1,466,445	2,413,796	8,502,888
Depreciation	617,174	16,242	16,241	32,483	649,657
Total expenses	\$ 6,706,266	\$ 963,593	\$ 1,482,686	\$ 2,446,279	\$ 9,152,545

The accompanying notes are an integral part of these statements.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Saint Francis House, Inc. (the Organization) is a Massachusetts not-for-profit corporation founded in 1983 and is located in Boston, Massachusetts. The Organization pursues the goal of providing continuous and comprehensive care to homeless men and women by offering services through the following programs:

- **Day Shelter** – our guests are provided a safe, caring, respectful, and dignified refuge which offers the basic services of food, shelter, clothing, and access to medical care. All guests have access to mental health counseling, substance abuse support, art therapy, case management, and housing.
- **Moving Ahead Program (MAP)** – a unique, holistic, vocational rehabilitation program that assists poor and homeless men and women in finding and maintaining employment. MAP supports students to identify and address personal and professional barriers to self-sufficiency and provides the necessary tools and opportunities to secure meaningful, lasting employment.
- **Permanent Housing (Next Step)** – supportive leased-housing community providing fifty-six permanent housing units for adults with a history of homelessness. Professional case managers provide individual support, foster sobriety, and aid the development of life skills required for community reintegration and independence.

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within the requirements of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. generally accepted accounting principles (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in conformity 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the financial statements, cash and cash equivalents consist of checking and money market accounts, including those funds held as part of the investment portfolio.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, do not bear interest, and are due on demand. An allowance for doubtful accounts receivables is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. Amounts are written off against the allowance when they are determined to be uncollectible.

Grants and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at fair value at the date the promise is received and included in grants and pledges receivable. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows net of an allowance for doubtful accounts.

Investments

The Organization records its investments at fair value using Level 1 inputs (see page 10). Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period (see Note 4).

Investment Return Allocations

Massachusetts state law allows the Organization to appropriate as much of the appreciation of permanently restricted net assets 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.

The Board of Directors has voted to allow 3% of the rolling three year average investment balance of the total return on the Organization's endowment portfolio (see Note 5) for operations each year. The Organization will annually distribute the calculated amount from its endowment, as approved by the Board of Directors, during the fiscal year. In no event shall such distribution reduce the value of the restricted endowment portfolio below the historical dollar value. Transfers to the operating net assets in accordance with this policy are reflected in the statements of activities and changes in net assets as investment return designated for operations.

Property and Equipment and Depreciation

Property and equipment are recorded at cost (see Note 3). Renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation is computed using the straight-line method based on the following estimated useful lives of the assets:

Building and building improvements	10 – 40 years
Furniture and fixtures	5 – 10 years
Equipment	3 years

The Organization accounts for the carrying value of its long-lived assets in accordance with the requirements of ASC Topic, *Property, Plant and Equipment*. The carrying value is evaluated annually for impairment and no impairment loss was recognized in fiscal years 2017 and 2016.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted Net Assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

- *Operating* - represent funds available to carry on the operations of the Organization.
- *Board designated* - represent funds set aside by the Board of Directors to be used as a replacement reserve for the Next Step Program (see Note 9) or for capital expenditures and special projects. The use of these funds requires the approval of the Board of Directors.
- *Property and equipment* - represent resources designated for and expended on property and equipment, net of related debt.

Temporarily Restricted Net Assets consist of donations and grants that are designated by donors for specific purposes or for a specified time. These donations are recorded as temporarily restricted net assets until they are expended for their designated purposes or the time restrictions have lapsed. As of June 30, 2017 and 2016, temporarily restricted net assets are restricted as follows:

	<u>2017</u>	<u>2016</u>
Purpose	\$ 2,686,746	\$ 3,299,005
Capital improvements	230,000	10,502
Time	225,778	237,160
Accumulated unspent earnings on endowment	<u>15,414</u>	<u>-</u>
Total	<u>\$ 3,157,938</u>	<u>\$ 3,546,667</u>

Permanently Restricted Net Assets represent amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent (see Note 5).

Investment in Related Party

SFH 48 Boylston Street, LLC (48 Boylston) was formed to acquire, hold, rehabilitate, and operate real property located at 48 Boylston Street, Boston, Massachusetts. The Organization maintains an equity investment in 48 Boylston where the Organization does not exercise significant influence over 48 Boylston's operations. The Organization accounts for this investment using the equity method. Whether or not the Organization exercises significant influence with respect to 48 Boylston depends on an evaluation of several factors including, among others, significance of ownership in the voting securities of 48 Boylston and control over management activities. Under the equity method, the investment is initially recorded at cost and then increased or decreased by the share of income or loss of 48 Boylston (50% at June 30, 2017 and 2016). 48 Boylston had no surplus or deficit from operations during fiscal years 2017 and 2016.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic 820, *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. All qualifying assets and liabilities are valued using Level 1 inputs.

Revenue Recognition

Program service fees are recorded over the contract period as services are provided. The programs of the Organization are principally supported by contracts negotiated with agencies of the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rates 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.

Special event revenue is recognized in the period in which the event takes place. Special event revenue received in advance is recorded as temporarily restricted revenue until the event takes place. Unrestricted grants, donations, bequests, and donated goods and services are recognized as revenue when unconditionally committed or received. Restricted donations, grants, and bequests are recorded as permanently restricted or temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. All other revenues are recorded when earned.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying statements of activities and changes in net assets. All other transactions are presented as other revenues (expenses).

Donated Goods and Services

Various individuals and organizations contribute food and specialized services to the Organization in support of various aspects of its programs. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating individuals, organizations or by management, and totaled \$742,397 and \$735,006 for the years ended June 30, 2017 and 2016, respectively.

The Organization receives services of volunteers in various aspects of its programs. The value of these services totaling \$393,018 and \$325,743 for the years ended June 30, 2017 and 2016, respectively, are not reflected in the accompanying financial statements as these donated services do not require specialized skills, and therefore do not meet the criteria for recognition under *Accounting for Contributions Received and Contributions Made* standards.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to that function.

Advertising Costs

The Organization expenses advertising costs as they are incurred. During fiscal years 2017 and 2016, the Organization incurred \$11,017 and \$6,639, respectively, of advertising costs. These costs are included in office and other in the accompanying statements of functional expenses.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic 740, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the 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 financial statements at June 30, 2017 or 2016. The Organization's information returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through October 17, 2017, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

SAINT FRANCIS HOUSE, INC.Notes to Financial Statements
June 30, 2017 and 2016

3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 137,234	\$ 137,234
Building and building improvements	16,910,839	16,796,921
Equipment	3,599,217	3,447,857
Furniture and fixtures	<u>267,807</u>	<u>212,606</u>
	20,915,097	20,594,618
Less - accumulated depreciation	<u>14,738,686</u>	<u>14,114,264</u>
	<u>\$ 6,176,411</u>	<u>\$ 6,480,354</u>

Depreciation expense was \$624,422 and \$649,657 for the years ended June 30, 2017 and 2016, respectively.

4. INVESTMENTS

Investments are presented in the accompanying financial statements at fair value using Level 1 inputs (see Note 2). The Organization's investments consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Fixed income:		
Certificates of deposit	\$ 4,780,481	\$ 4,718,726
U.S. government obligations	4,021,856	3,598,422
Debt security mutual funds	<u>83,644</u>	<u>44,293</u>
Total fixed income	8,885,981	8,361,441
Equities:		
Equity mutual funds	<u>148,363</u>	<u>104,073</u>
	<u>\$ 9,034,344</u>	<u>\$ 8,465,514</u>

The Organization's investment return for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 153,432	\$ 140,160
Unrealized gain (loss) on investments	<u>(153,546)</u>	<u>119,159</u>
Investment return, net	<u>\$ (114)</u>	<u>\$ 259,319</u>

Investment return pertaining to permanently restricted net assets was \$19,736 and \$3,649 for the years ended June 30, 2017 and 2016, respectively. The Organization appropriated \$4,322 and \$3,649 to operations during the years ended June 30, 2017 and 2016, respectively (see Note 5).

Investments include donor endowment and funds intended to be utilized for long-term purposes and are generally not used for operations except for specially approved withdrawals. Accordingly, the Organization's investments have been classified as non-current assets regardless of maturity or liquidity.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
June 30, 2017 and 2016

4. INVESTMENTS (Continued)

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

5. ENDOWMENT FUND

The Organization follows the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and, when applicable, accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Generally, the donors of these funds permit the Organization to use all of the income earned on related investments for general or specific purposes.

Based on this interpretation, the Organization has adopted an investment strategy which, combined with the spending amount, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted fund that the Organization must hold in perpetuity or for donor-specified periods. Under the Organization's investment strategy and spending amount, both of which are approved by the Board of Directors, the endowment assets are invested in a conservative manner that is intended to protect the principle of the endowment fund. Actual returns in any given year may vary.

The Organization makes distributions from the endowment fund to operations using the total-return method. Under the total-return method, endowment fund distributions consist of net investment income, including unrealized and realized gains.

To satisfy its investment strategy objectives, the Organization relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified conservative asset allocation to achieve its investment objectives within prudent risk constraints.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
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5. ENDOWMENT FUND (Continued)

The following summarizes the changes in the Organization's donor-restricted endowment:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2015	\$ -	\$ 119,083	\$ 119,083
Investment returns:			
Net unrealized gains	1,015	-	1,015
Investment income, net	<u>2,634</u>	<u>-</u>	<u>2,634</u>
Total investment returns	<u>3,649</u>	<u>-</u>	<u>3,649</u>
Donations for endowment	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Investment return designated for operations	<u>(3,649)</u>	<u>-</u>	<u>(3,649)</u>
Endowment net assets, June 30, 2016	<u>-</u>	<u>144,083</u>	<u>144,083</u>
Investment returns:			
Net unrealized gains	16,893	-	16,893
Investment income, net	<u>2,843</u>	<u>-</u>	<u>2,843</u>
Total investment returns	<u>19,736</u>	<u>-</u>	<u>19,736</u>
Donations for endowment	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Investment return designated for operations	<u>(4,322)</u>	<u>-</u>	<u>(4,322)</u>
Endowment net assets, June 30, 2017	<u>\$ 15,414</u>	<u>\$ 169,083</u>	<u>\$ 184,497</u>

6. CONTINGENT DEBT

Contingent debt consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Non-interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC) under the Housing Innovations Fund (HIF). Payments of principal are due in August of each year to the extent that prior year's gross cash receipts exceed 105% of gross cash expenditures for the Next Step Program (see Note 1), as defined in the agreement. There are no principal payments due in fiscal year 2018 based on fiscal year 2017 cash flow. Outstanding principal is due on June 29, 2038, with an option to extend for one or more additional periods of up to ten years. This note is secured by a shared first mortgage on the property located at 39 Boylston Street, Boston, Massachusetts (the Property).	\$ 758,252	\$ 758,252

SAINT FRANCIS HOUSE, INC.Notes to Financial Statements
June 30, 2017 and 2016**6. CONTINGENT DEBT (Continued)**

	<u>2017</u>	<u>2016</u>
Non-interest bearing note payable to the City of Boston, Department of Neighborhood Development (DND). Outstanding principal is due on June 29, 2037. This note is secured by a shared first mortgage on the Property.	617,253	617,253
Non-interest bearing note payable to CEDAC under HIF. Payments of principal are due in August of each year to the extent that prior year's gross cash receipts exceed 105% of gross cash expenditures for the Next Step Program (see Note 1), as defined in the agreement. There are no principal payments due in fiscal year 2018 based on fiscal year 2017 cash flow. Outstanding principal is due on October 11, 2026, with an option to extend for one or more additional periods of up to ten years. This note is secured by a shared first mortgage on the Property.	<u>377,900</u>	<u>377,900</u>
	<u>\$ 1,753,405</u>	<u>\$ 1,753,405</u>

The above notes have certain non-financial covenants with which the Organization must comply. The Organization was in compliance with these covenants as of June 30, 2017 and 2016.

7. LINE OF CREDIT

The Organization has a line of credit agreement with a bank that provides for borrowings up to \$500,000. Borrowings under the agreement are due on demand, and interest is payable monthly at the thirty-day London Interbank Offered Rate (LIBOR) plus 2.5% (3.72% and 2.95% at June 30, 2017 and 2016, respectively). The line of credit is secured by all assets of the Organization and a shared first mortgage on the Property (see Note 6). There was no outstanding balance as of June 30, 2017 and 2016. The Organization was in compliance with all covenants as of June 30, 2017.

8. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges are recorded at their net present value when unconditionally committed. Grants and pledges receivable consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Within one year	\$ 125,740	\$ 272,500
One to four years	<u>70,000</u>	<u>70,740</u>
	195,740	343,240
Less - current portion	<u>125,740</u>	<u>272,500</u>
	<u>\$ 70,000</u>	<u>\$ 70,740</u>

SAINT FRANCIS HOUSE, INC.

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8. GRANTS AND PLEDGES RECEIVABLE (Continued)

The grants and pledges receivable have not been discounted as the discount would be immaterial to the accompanying financial statements. Three donors represented approximately 79% and 63% of the total outstanding grants and pledges receivable balance as of June 30, 2017 and 2016, respectively.

9. REPLACEMENT RESERVE

During the construction of the Next Step Program, the Organization set up a cash reserve for the replacement of property and equipment related to the area designated for housing as part of the Next Step Program. The reserve is funded by annual contributions of \$17,500. The balance of the reserve totaled \$136,555 and \$119,055 as of June 30, 2017 and 2016, respectively, and is included in cash and cash equivalents in the accompanying statements of financial position. During fiscal year 2016, the Board of Directors approved the release of \$79,245 for the replacement of property and equipment used for the Next Step Program.

10. CONCENTRATIONS

Cash

The Organization maintains its cash balances in various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain limits. At certain times during the year, cash balances exceeded the insured amount. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts Receivable and Revenue

Approximately 98% and 99% of the Organization's accounts receivable is due from Federal, state and local governments at June 30, 2017 and 2016, respectively. The Organization received approximately 30% and 32% of its total operating revenues directly from contracts held with Federal, state and local governments for the years ended June 30, 2017 and 2016, respectively. These contracts are subject to audits by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Organization as of June 30, 2017 and 2016, or on its changes in net assets for the years then ended.

11. PENSION PLAN

The Organization has a tax-qualified Section 403(b) defined contribution retirement and savings plan (the Plan) for all full-time employees. The Organization has the option to make a discretionary matching contribution to qualified employees who make salary deferrals based on a percentage of salary deferrals made during the Plan year. For the years ended June 30, 2017 and 2016, the Organization contributed \$71,491 and \$57,128, respectively, which is included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

SAINT FRANCIS HOUSE, INC.

Notes to Financial Statements
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12. RELATED PARTY RECEIVABLE

The Organization advanced 48 Boylston (see page 9) funds to cover pre-development costs pertaining to the rehabilitation project at 48 Boylston Street, Boston, Massachusetts (the Project) that is expected to begin in November 2017. Total funds advanced as of June 30, 2017 and 2016, were \$564,390 and \$477,840, respectively, and are reflected as related party receivable in the accompanying statements of financial position. The entire balance of this advance is to be repaid with proceeds from a construction loan that is expected to close during fiscal year 2018.

13. RECLASSIFICATIONS

Certain amounts in the fiscal year 2016 financial statements have been reclassified to conform with the fiscal year 2017 presentation.