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2016 Audit

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

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MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Saint Francis House, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Saint Francis House, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, cash flows and functional expenses 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion.

MARCUMGROUP
MEMBER

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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 Saint Francis House, Inc. and Subsidiary as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Boston, MA
October 27, 2016

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 1,622,038	$ 2,271,958
Investments	8,321,431	7,901,716
Permanently restricted investments	144,083	119,083
Accounts receivable, less allowance for doubtful accounts of $54,983 in 2016 and $37,298 in 2015	402,867	276,825
Loan receivable, related party	477,840	302,382
Contributions and grants receivable	301,500	483,000
Unconditional promises to give	41,740	107,180
Other receivables	2,570	5,025
Property and equipment, net	6,480,354	6,541,166
Other assets	35,642	26,515
Total Assets	$ 17,830,065	$ 18,034,850
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 472,351	$ 671,639
Deferred revenue	540	858
Notes payable	1,136,152	1,136,152
Contingent notes payable	617,253	650,914
Total Liabilities	2,226,296	2,459,563
Net Assets		
Unrestricted:		
Undesignated	11,793,964	10,730,841
Board designated	119,055	180,800
Total unrestricted	11,913,019	10,911,641
Restricted:		
Temporarily	3,546,667	4,544,563
Permanently	144,083	119,083
Total Net Assets	15,603,769	15,575,287
Total Liabilities and Net Assets	$ 17,830,065	$ 18,034,850

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

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees:				
Department of Housing and Community Development	$ 1,425,307	$ --	$ --	$ 1,425,307
Department of Mental Health	216,202	--	--	216,202
Department of Housing and Urban Development	362,154	--	--	362,154
Executive Office of Labor and Workforce Development	158,333	--	--	158,333
Executive Office of Health and Human Services	2,481	--	--	2,481
Economic Development and Industrial Corporation	40,000	--	--	40,000
Advocates for Human Potential	194,819	--	--	194,819
Permanent housing income	514,555	--	--	514,555
Other program service revenue	82,727	--	--	82,727
Donations	3,248,806	132,289	25,000	3,406,095
Donations, in-kind	735,006	--	--	735,006
Grants	669,581	222,752	--	892,333
Special events and activities	858,035	--	--	858,035
Investment income, net	256,685	2,634	--	259,319
Next Step	33,661	--	--	33,661
Net assets released from restrictions through satisfaction of restrictions	1,355,571	(1,355,571)	--	--
Total Revenue	10,153,923	(997,896)	25,000	9,181,027
Expenses				
Program services	6,706,266	--	--	6,706,266
Supporting services:				
Management and general	963,593	--	--	963,593
Fundraising	1,482,686	--	--	1,482,686
Total supporting services	2,446,279	--	--	2,446,279
Total Expenses	9,152,545	--	--	9,152,545
Change in Net Assets	1,001,378	(997,896)	25,000	28,482
Net Assets, Beginning of Year	10,911,641	4,544,563	119,083	15,575,287
Net Assets, End of Year	$ 11,913,019	$ 3,546,667	$ 144,083	$ 15,603,769

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

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Program service fees:				
Department of Housing and Community Development	$ 1,383,793	$ --	$ --	$ 1,383,793
Department of Mental Health	132,295	--	--	132,295
Department of Housing and Urban Development	394,063	--	--	394,063
Executive Office of Labor and Workforce Development	166,667	--	--	166,667
Advocates for Human Potential	8,727	--	--	8,727
Permanent housing income	519,035	--	--	519,035
Other program service revenue	84,068	--	--	84,068
Donations	3,761,099	468,768	--	4,229,867
Donations, in-kind	671,741	--	--	671,741
Grants	724,906	574,500	--	1,299,406
Special events and activities	726,514	--	--	726,514
Investment income, net	98,219	2,640	--	100,859
Next Step	33,661	--	--	33,661
Net assets released from restrictions through satisfaction of restrictions	1,409,670	(1,409,670)	--	--
Total Revenue	10,114,458	(363,762)	--	9,750,696
Expenses				
Program services	6,415,442	--	--	6,415,442
Supporting services:				
Management and general	893,205	--	--	893,205
Fundraising	1,317,304	--	--	1,317,304
Total supporting services	2,210,509	--	--	2,210,509
Total Expenses	8,625,951	--	--	8,625,951
Change in Net Assets	1,488,507	(363,762)	--	1,124,745
Net Assets, Beginning of Year	9,423,134	4,908,325	119,083	14,450,542
Net Assets, End of Year	$ 10,911,641	$ 4,544,563	$ 119,083	$ 15,575,287

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

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	$ 28,482	$ 1,124,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	649,657	604,947
Donations of investments	(32,604)	(419,160)
Unrealized (gain) loss on investments, net	(119,159)	2,382
Amortization of contingent notes payable	(33,661)	(33,661)
(Increase) decrease in assets:		
Accounts receivable, net	(126,042)	70,119
Contributions and grants receivable	181,500	(274,374)
Unconditional promises to give	65,440	207,020
Other receivables	2,455	(1,225)
Other assets	(9,127)	21,570
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(199,288)	(89,429)
Deferred revenue	(318)	573
Total adjustments	378,853	88,762
Net Cash Provided by Operating Activities	407,335	1,213,507
Cash Flows from Investing Activities		
Purchases of investments	(1,650,556)	(2,749,932)
Purchases of permanently restricted investments	(25,000)	--
Proceeds from sales of investments	1,382,604	1,749,160
Advances on loans receivable, related party	(175,458)	(145,671)
Contributions restricted for purchasing equipment	(20,000)	(106,500)
Purchase of assets restricted to investment in property and equipment	(174,952)	(135,000)
Purchases of property and equipment	(413,893)	(155,148)
Net Cash Used in Investing Activities	(1,077,255)	(1,543,091)
Cash Flows from Financing Activities		
Contributions restricted for purchasing equipment	20,000	106,500
Net Cash Provided by Financing Activities	20,000	106,500
Net Decrease in Cash and Cash Equivalents	(649,920)	(223,084)
Cash and Cash Equivalents, Beginning of Year	2,271,958	2,495,042
Cash and Cash Equivalents, End of Year	$ 1,622,038	$ 2,271,958
Supplemental Disclosures		
Donations of investments	$ 32,604	$ 419,160
Purchases of property and equipment included in accounts payable	$ --	$ 82,950

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

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total Expenses
Salaries and related expenses:					
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
	3,739,661	527,163	732,916	1,260,079	4,999,740
Contract housing and direct care	225,894	--	--	--	225,894
Donated services, food and clothing	735,006	--	--	--	735,006
Food	174,318	--	--	--	174,318
Supplies	217,934	7,359	2,712	10,071	228,005
Provider stipend and temporary help	113,479	--	--	--	113,479
Other	65,530	56,293	121,499	177,792	243,322
Occupancy	646,453	15,127	12,418	27,545	673,998
Administrative	170,817	341,409	596,900	938,309	1,109,126
Total expenses before depreciation and amortization	6,089,092	947,351	1,466,445	2,413,796	8,502,888
Depreciation and amortization of buildings and equipment	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 consolidated financial statements.

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

		Supporting Services			
	Program Services	Management and General	Fundraising	Total	Total Expenses
Salaries and related expenses:					
Salaries	$ 2,877,942	$ 409,956	$ 462,988	$ 872,944	$ 3,750,886
Fringe benefits and payroll taxes	743,808	109,039	123,800	232,839	976,647
	3,621,750	518,995	586,788	1,105,783	4,727,533
Contract housing and direct care	277,092	--	--	--	277,092
Donated services, food and clothing	671,741	--	--	--	671,741
Food	156,343	--	--	--	156,343
Supplies	226,002	7,942	1,750	9,692	235,694
Provider stipend and temporary help	81,705	--	--	--	81,705
Other	77,360	55,353	99,330	154,683	232,043
Occupancy	602,522	12,206	12,119	24,325	626,847
Administrative	126,228	283,585	602,193	885,778	1,012,006
Total expenses before depreciation and amortization	5,840,743	878,081	1,302,180	2,180,261	8,021,004
Depreciation and amortization of buildings and equipment	574,699	15,124	15,124	30,248	604,947
Total Expenses	$ 6,415,442	$ 893,205	$ 1,317,304	$ 2,210,509	$ 8,625,951

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

NOTE 1 – NATURE OF THE ORGANIZATION

The consolidated financial statements include the accounts of Saint Francis House, Inc. and its subsidiary CarryON, LLC (collectively, the "Organization"). Significant intercompany accounts and transactions are eliminated in consolidation.

Saint Francis House, Inc. is a Massachusetts not-for-profit corporation incorporated in 1983 and located in Boston, Massachusetts. The Organization provides permanent housing and operates a day shelter for homeless men and women.

CarryON, LLC is a Massachusetts limited liability corporation incorporated in 2012 and located in Boston, Massachusetts. CarryON, LLC provides lasting employment opportunities for the guests of St. Francis House, Inc., utilizing a social enterprise approach in an effort to end the cycle of homelessness with the power of green entrepreneurship. Effective September 30, 2014, Saint Francis House, Inc. executed a certificate of cancellation with the Commonwealth of Massachusetts to cease the operations of CarryON, LLC.

Effective June 30, 2014, the Organization entered into an operating agreement (the "Agreement") with another non-profit organization through a $10 capital contribution to become a class A Member of SFH 48 Boylston Street LLC ("48 Boylston") formerly known as the POUA 48 Boylston Street LLC ("POUA"). The Organization holds a 50% interest in 48 Boylston as a non-controlling Class A Member. 48 Boylston was formed to acquire, hold, invest in, redevelop, construct, improve, maintain, operate, lease and otherwise deal with the property at 48 Boylston Street, Boston, Massachusetts. The Organization is not liable for any debts, liabilities, contracts or obligations of 48 Boylston except to pay required capital contributions as and when they are due under the Agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

BASIS OF PRESENTATION

The Organization has presented its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

UNRESTRICTED NET ASSETS

Unrestricted net assets represent those assets that are not subject to donor-imposed stipulations. The Organization further subdivides this classification into a) Board-designated net assets, which have been designated by Board action for specific purposes; and b) other undesignated net assets.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those assets subject to donor-imposed stipulations that may or will be met whether by actions of the Organization and/or the passage of time. When the restriction expires, the net assets are reclassified to unrestricted net assets.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are those assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. The Organization maintains cash deposits in interest bearing accounts in excess of $250,000 which exceed Federal Deposit Insurance Corporation ("FDIC") limits. Management believes that credit risk related to those deposits is minimal.

INVESTMENT VALUATION AND INCOME RECOGNITION

The Organization's investments in marketable securities (mutual funds) with readily determinable fair values and all investments in debt securities are reported at fair value in the consolidated statements of financial position, with all gains and losses included in the consolidated statements of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT VALUATION AND INCOME RECOGNITION (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for a discussion of fair value measurement.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Organization's policy is to liquidate all gifts of investments as soon as possible after the gift.

Investments are made according to the investment policies adopted by the Organization's Board of Directors. These guidelines provide for a balanced diversified portfolio with investments in mutual funds, certificates of deposit and debt securities with performance measured against appropriate indices. Outside parties are contracted by the Organization for the purpose of providing investment management.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of investments are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair value of the individual investments for the year, or since the acquisition date, if acquired during the year.

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

EQUITY METHOD INVESTMENT AND INCOME RECOGNITION

The Organization accounts for its investment in 48 Boylston in accordance with the equity method of accounting, taking into revenue its respective ownership percentage (50% at June 30, 2016) of 48 Boylston's net income during the reporting period. 48 Boylston had no activity during either of the years ended June 30, 2016 and 2015.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and historical collection experience, and other circumstances that may affect the ability of others to meet their obligations. Accounts that are unpaid after management has made reasonable collection efforts are written off by a charge to the valuation allowance and a credit to accounts receivable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

UNCONDITIONAL PROMISES TO GIVE AND GRANTS RECEIVABLE

Unconditional promises to give and grants receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give and grants receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in contribution revenue in the consolidated statements of activities. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.25%.

Unconditional promises to give and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises to give or grants receivable.

PROPERTY AND EQUIPMENT, NET

Land is carried at cost. Buildings, improvements, equipment and furniture and fixtures are stated at cost if purchased or at fair value, if donated, less accumulated depreciation and amortization. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the respective assets as follows:

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

Purchases are determined to be capital expenditures based on the Organization's policy of capitalizing assets acquired at a cost (or, if donated, at fair value) exceeding $2,000. Those items that are not capital expenditures are immediately expensed.

Maintenance and repairs are expensed as incurred. Expenditures that significantly increase asset values or extend useful lives are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation and amortization are eliminated from the accounts, and gains or losses are included on the consolidated statements of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets to be held and used by the Organization are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The fair value of the asset is measured using either available market prices or estimated discounted cash flows. There were no impairment charges taken during the years ended June 30, 2016 and 2015.

REVENUE RECOGNITION

The majority of the Organization's clients are supported by agencies of the Commonwealth of Massachusetts. Therefore, the Organization is subject to the regulations and rate formulas of the Massachusetts Operational Services Division ("OSD"). Revenue is recorded at the Organization's rates of reimbursement or accommodation as certified by OSD and is recorded as services are rendered.

CONTRIBUTIONS

The Organization reports unrestricted grants and contributions as unrestricted revenue and net assets when received or unconditionally promised. Grants and contributions are reported as temporarily restricted support if they are received or unconditionally promised with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted and unrestricted.

DONATED INVESTMENTS, EQUIPMENT AND SERVICES

Volunteers and other organizations contribute goods and services to the Organization on a continual basis to support its operations. Donated investments and equipment are reflected as contributions at their fair values at the date of receipt. Donated services and goods are reflected at fair value as contributions when and if they meet the criteria for recognition under FASB ASC 958-605.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DONATED INVESTMENTS, EQUIPMENT AND SERVICES (CONTINUED)

During the years ended June 30, 2016 and 2015, the Organization received donated services related to various aspects of its operations that are not reflected in the accompanying consolidated financial statements, since the value assigned to these services is not ascertainable or does not meet the criteria for recognition under FASB ASC 958-605.

INCOME TAX STATUS

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is, however, subject to the tax on unrelated business income, if any such income exists. The Organization had no unrelated business income during the years ended June 30, 2016 and 2015. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

The Organization recognizes and measures its unrecognized tax positions and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period.

The measurement of unrecognized tax positions is adjusted when new information is available, or when an event occurs that requires a change. Interest and penalties associated with unrecognized tax positions, if any, would be classified as interest expense and additional income taxes, respectively, in the consolidated statements of activities. The Organization did not identify any uncertain tax positions at June 30, 2016 and 2015. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods in progress.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses were $6,639 and $3,182 for the years ended June 30, 2016 and 2015, respectively.

RECLASSIFICATIONS

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

SUBSEQUENT EVENTS

The Organization has evaluated the accompany consolidated financial statements for subsequent events and transactions through October 27, 2016, the date these consolidated financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 3 - INVESTMENTS

The Organization's unrestricted investments are stated at fair value and consist of the following at June 30:

	2016	2015
Debt securities:		
U.S. government and federal agency obligations	$ 3,598,422	$ 3,359,071
Certificates of deposit	4,718,726	4,539,377
Equity security mutual funds	4,283	3,268
	$ 8,321,431	$ 7,901,716

NOTE 3 – INVESTMENTS (CONTINUED)

The Organization's permanently restricted investments are stated at fair value and consist of the following at June 30:

	2016	2015
Debt security mutual funds	$ 44,293	$ 35,493
Equity security mutual funds	99,790	83,590
	$ 144,083	$ 119,083

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

The following schedule summarizes net investment income included in the consolidated statements of activities for the years ended June 30:

	2016	2015
Interest and dividend income	$ 140,160	$ 103,241
Change in unrealized appreciation (depreciation) on investments, net	119,159	(2,382)
Net investment income	$ 259,319	$ 100,859

FAIR VALUE MEASUREMENTS

The Organization uses a fair value hierarchy established by accounting principles generally accepted in the United States of America that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs are based on unadjusted quoted market prices in active markets for identical assets that the Organization has the ability to access at the measurement date.

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 – INVESTMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 Inputs are based on significant observable inputs, including unadjusted quoted market prices for similar assets in active markets, unadjusted quoted prices for identical or similar assets in markets that are not active or inputs other than quoted prices that are observable for the asset.

Level 3 Inputs are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Debt Securities: The fair value of debt securities is based on quoted market prices. These securities include U.S. government and federal agency issued obligations.

Certificates of Deposit: The fair value of certificates of deposit is based on the closing price reported from an actively traded market.

Mutual Funds: The fair value of mutual fund securities is based on quoted market prices.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. government and federal agency obligations	$ 3,598,422	$ --	$ --	$ 3,598,422
Certificates of deposit	4,718,726	--	--	4,718,726
Equity security mutual funds	4,283	--	--	4,283
	$ 8,321,431	$ --	$ --	$ 8,321,431

	2015			
	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. government and federal agency obligations	$ 3,359,071	$ --	$ --	$ 3,359,071
Certificates of deposit	4,539,377	--	--	4,539,377
Equity security mutual funds	3,268	--	--	3,268
	$ 7,901,716	$ --	$ --	$ 7,901,716

SAINT FRANCIS HOUSE, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 – INVESTMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth by level, within the fair value hierarchy, the Organization's permanently restricted net assets measured at fair value on a recurring basis as of June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Permanently Restricted Investments:				
Debt security mutual funds	$ 44,293	$ --	$ --	$ 44,293
Equity security mutual funds	99,790	--	--	99,790
	$ 144,083	$ --	$ --	$ 144,083

	2015			
	Level 1	Level 2	Level 3	Total
Permanently Restricted Investments:				
Debt security mutual funds	$ 35,493	$ --	$ --	$ 35,493
Equity security mutual funds	83,590	--	--	83,590
	$ 119,083	$ --	$ --	$ 119,083

NOTE 4 – EQUITY METHOD INVESTMENT

The Organization holds a 50% interest in 48 Boylston which is accounted for under the equity method of accounting. The Organization does not control 48 Boylston; however it has the ability to exercise significant influence over the operating and financial policies of 48 Boylston. The investment in 48 Boylston is carried at the amount of underlying equity in the net assets of 48 Boylston. The balance as of June 30, 2016 and 2015 was $10.

NOTE 5 – LOAN RECEIVABLE, RELATED PARTY

On June 30, 2014, the Organization entered into an operating agreement (the "Agreement") with another non-profit organization to become a Class A Member of 48 Boylston. The terms of the agreement call for each member to provide funding to 48 Boylston in the form of loans up to a maximum combined loan amount of $250,000. The loans bear interest at 10% up to $125,000 for each member and any excess loan over $125,000 bears interest at 15%. The loans are expected to be repaid by 48 Boylston through future operations. At June 30, 2016 and 2015, the balance of outstanding loans receivable from 48 Boylston was $477,840 and $302,382, respectively.

NOTE 6 - UNCONDITIONAL PROMISES TO GIVE

At June 30, 2016 and 2015, all unconditional promises to give were due within one year.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net is as follows at June 30:

	2016	2015
Land	$ 137,234	$ 137,234
Building and building improvements	15,114,201	14,878,862
Improvements - Next Step	1,682,720	1,533,975
Equipment	3,447,857	3,416,738
Furniture and fixtures	212,606	133,614
Construction in progress	--	15,113
	20,594,618	20,115,536
Less accumulated depreciation and amortization	(14,114,264)	(13,574,370)
	$ 6,480,354	$ 6,541,166

NOTE 8 - RESERVE FOR REPLACEMENT OF PROPERTY AND EQUIPMENT

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 that program. The reserve is funded by approximately $1,458 monthly or $17,500 annually and the amount reserved totaled $119,055 and $180,800 as of June 30, 2016 and 2015, respectively. The Organization released $79,245 and $57,200 of the reserve during the years ended June 30, 2016 and 2015, respectively, for replacement of property and equipment (Reference is made to Note 9).

NOTE 9 – RESTRICTIONS ON NET ASSETS

UNRESTRICTED NET ASSETS

Board designated net assets consist of funds designated for plant repairs and other special purposes by the Board of Directors. During the years ended June 30, 2016 and 2015, the Board voted to designate $17,500 of operating cash toward a reserve for replacement of property and equipment (Reference is made to Note 8).

TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2016	2015
Gifts and grants for programs	$ 3,536,165	$ 4,438,063
Equipment	10,502	106,500
	$ 3,546,667	$ 4,544,563

PERMANENTLY RESTRICTED ASSETS

Permanently restricted net assets consisted of the following at June 30:

	2016	2015
Remondi Family Endowment	$ 125,000	$ 100,000
Rocco and Louise Cammarata Endowment Fund	19,083	19,083
	$ 144,083	$ 119,083

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes during the years ended June 30:

	2016	2015
Program expenses and capital improvements	$ 1,355,571	$ 1,409,670

NOTE 11 - NOTES PAYABLE

Notes payable consists of two loans received from the Community Economic Development Assistance Corporation ("CEDAC"). The purpose of these loans was to underwrite the cost of capital improvements to establish facilities for a supportive housing program.

The first loan, in the amount of $377,900, accrues simple interest at a rate of 0% per year, provided that the Organization is not in default on the loan. The note matures on October 11, 2026, at which time the entire principal balance and other payments are due.

The second loan, in the amount of $758,252, accrues simple interest at a rate of 0%, provided that the Organization is not in default on the loan. The note matures on June 29, 2038, at which time the entire principal balance and other payments are due.

If all amounts due for each loan have not been paid in full at their respective maturity dates, CEDAC may extend the maturity for one or more additional periods of up to 10 periods for each loan, respectively. The Organization is not required to make periodic repayments under either loan provided it continues the operation of a supportive housing program over the terms of the loans and gross cash receipts for the Next Step program do not exceed 105% of cash expenditures over the fiscal year. If cash receipts exceed 105% of expenditures, an annual payment determined by CEDAC will be due 45 days after the Organization's fiscal year-end. The Organization does not anticipate the discontinuance of the supportive housing plan. Gross receipts were less than 105% of gross expenditures for the Next Step program for the years ended June 30, 2016 and 2015. Repayments under both loans are secured by an interest in the property and equipment.

NOTE 12 - CONTINGENT NOTES PAYABLE

Contingent notes payable is primarily comprised of grants and loans received from four funding sources in various amounts, which were made to underwrite the cost of capital improvements to establish the facilities for a supportive housing program.

The Organization is not required to make repayments provided it continues the operation of a supportive housing program over the terms of the respective grants and loans, the terms of which vary from 15 years to 40 years, and mature at various dates through October, 2026.

Amortization of contingent notes payable which are forgiven ratably over the term on the note, amounted to $33,661 for each of the years ended June 30, 2016 and 2015. The amortization of these notes was recorded as Next Step revenue in the consolidated statements of activities.

NOTE 12 - CONTINGENT NOTES PAYABLE (CONTINUED)

If the Organization were to discontinue the supportive housing program, which is not anticipated, there would be requirements for repayment that are provided for in the respective agreements. The total amount of these grants and loans originally received was $1,378,856, of which $617,253 and $650,914 remain outstanding at June 30, 2016 and 2015, respectively. Repayments are secured by an interest in the property and equipment.

NOTE 13 - CONTINGENCIES

The Organization derives substantially all of its revenue from state and municipal governments or government agencies and from contributions from the general public. If significant reductions in the level of this support were to occur, the Organization's programs and activities would be affected proportionately.

NOTE 14 - FUNDRAISING

During the years ended June 30, 2016 and 2015, support received from fundraising efforts amounted to $5,891,469 and $6,927,528, respectively; for the same periods, the total cost of all fundraising activities amounted to $1,482,686 and $1,317,304, respectively. For the years ended June 30, 2016 and 2015 this support included $461,871 and $460,929 of donated services and $273,135 and $210,812 of donated food, respectively. This support does not include $325,743 and $274,564 of donated services not requiring specialized skills received during the years ended June 30, 2016 and 2015, respectively.

NOTE 15 - LINE OF CREDIT

The Organization has a $500,000 demand working capital line of credit with a variable interest rate equal to the 30 day LIBOR Advantage Rate plus 2.5% (2.95% and 2.69% at June 30, 2016 and 2015, respectively). The line is secured by all business assets of the Organization. As of June 30, 2016 and 2015, the Organization had not borrowed against the line of credit.

NOTE 16 - EMPLOYEE BENEFIT PLAN

During the year ended June 30, 2001, the Organization entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full time employees of the Organization. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish.

The Organization may contribute a discretionary matching contribution equal to a percentage of the employees' elective deferrals. Employee benefit plan expense for the years ended June 30, 2016 and 2015 was $57,128 and $23,681, respectively.

NOTE 17 - RELATED PARTY TRANSACTIONS

Under the terms of a signed purchase and sale agreement dated October 9, 2012, 48 Boylston has purchased the property at 48 Boylston Street, Boston, Massachusetts. The mortgage on the property at 48 Boylston Street, Boston, Massachusetts was released and conveyed to 48 Boylston under a promissory note on April 7, 2016 for $8,536,161. Reference is made to Note 1 regarding the Organization's equity interest in 48 Boylston.

Various members of the Board of Directors made contributions to the Organization totaling approximately $358,000 and $386,000, during the years ended June 30, 2016 and 2015, respectively.

NOTE 18 - ENDOWMENT

The Organization's endowment consists of funds established to support the food program and general operations at the Organization. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The Board of Directors has interpreted the Massachusetts version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and Massachusetts General Law Chapter 180A as 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.

NOTE 18 – ENDOWMENT (CONTINUED)

INTERPRETATION OF RELEVANT LAW (CONTINUED)

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

In accordance with UPMIFA and Massachusetts Law Chapter 180A, the Organization considers the following facts in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted endowment fund
(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 investment policies of the Organization

RETURN OBJECTIVES AND RISK PARAMETERS

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds, if any. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in a manner that assumes a minimum level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately .75% percent annually. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

The organization holds its permanently restricted endowment assets in mutual funds as a conservative measure in order to protect the principle of the endowment funds.

NOTE 18 – ENDOWMENT (CONTINUED)

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Organization has been accumulating the additions to the permanently restricted endowment funds, in order to grow the fund over time and only spending the current income each year.

Endowment net assets composition by type of fund as of June 30 is as follows:

	2016	2015
Donor restricted endowment funds:		
Permanently restricted	$ 144,083	$ 119,083

Changes in permanently restricted endowment net assets for the years ended June 30:

	2016	2015
Endowment net assets, beginning of year	$ 119,083	$ 119,083
Contributions	25,000	--
Interest	2,634	2,640
Appropriation of endowment assets for expenditure	(2,634)	(2,640)
Endowment net assets, end of year	$ 144,083	$ 119,083