



**Pine Street Inn**  
Ending Homelessness

AND AFFILIATES

COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016

PINE STREET INN, INC. AND AFFILIATES

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JUNE 30, 2017 AND 2016

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Combined Financial Statements**

We have audited the accompanying combined financial statements of Pine Street Inn, Inc. (a Massachusetts corporation, not for profit) and its Affiliates, which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities, changes in entities' equity, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Pine Street Inn, Inc. and its Affiliates as of June 30, 2017 and 2016, 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.

***Emphasis of Matter***

Pine Street Inn, Inc. and its Affiliates retrospectively adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update 2017-02, *Not-for-Profit Entities - Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit That is a General Partner or Limited Partner Should Consolidate a For-Profit Limited Partnership of Similar Entity*, and the combined financial statements include the activities of 51-57 Beals Street LLC (see Notes 1 and 19).

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

Westborough, Massachusetts  
November 8, 2017

**PINE STREET INN, INC. AND AFFILIATES**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u> (Restated)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 14,125,586	\$ 10,604,849
Current portion of assets limited as to use (Note 4)	169,203	434,776
Accounts receivable, net of allowance for doubtful accounts of \$269,938 and \$123,991 at June 30, 2017 and 2016, respectively (Note 15)	2,811,630	4,202,820
Current portion of contributions receivable, net of allowance for doubtful accounts of \$310,630 and \$328,135 as of June 30, 2017 and 2016, respectively (Note 16)	1,412,049	919,180
Prepaid expenses and other assets	<u>417,605</u>	<u>407,486</u>
Total current assets	18,936,073	16,569,111
<b>INVESTMENTS</b> (Note 6)	27,956,469	24,942,049
<b>PROPERTY, PLANT AND EQUIPMENT</b> , net (Note 5)	46,543,010	45,489,484
<b>CONTRIBUTIONS RECEIVABLE</b> , net of current portion (Note 16)	613,000	515,886
<b>ASSETS LIMITED AS TO USE</b> , net of current portion (Note 4)	1,745,888	1,644,263
<b>OTHER ASSETS</b> (Note 11)	<u>279,660</u>	<u>327,031</u>
Total assets	<u>\$ 96,074,100</u>	<u>\$ 89,487,824</u>
<b><u>LIABILITIES AND ENTITIES' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of notes payable (Note 8)	\$ 1,487,439	\$ 1,863,736
Accounts payable	1,024,794	932,827
Accrued expenses and other liabilities (Note 11)	<u>2,919,333</u>	<u>3,429,544</u>
Total current liabilities	5,431,566	6,226,107
<b>NOTES PAYABLE</b> , net of current portion (Note 8)	2,497,240	3,978,137
<b>OTHER DEBT</b> (Note 9)	<u>22,344,445</u>	<u>21,525,762</u>
Total liabilities	<u>30,273,251</u>	<u>31,730,006</u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes 7, 10 and 17)		
<b>ENTITIES' EQUITY:</b>		
Unrestricted:		
Available for operations	20,866,184	14,876,737
Board designated (Note 12)	11,097,000	10,903,000
Net investment in plant	<u>16,025,588</u>	<u>15,729,193</u>
Total unrestricted	47,988,772	41,508,930
Temporarily restricted (Note 13)	12,554,686	13,053,499
Permanently restricted (Note 14)	<u>2,938,852</u>	<u>2,926,352</u>
Total Pine Street entities' equity	63,482,310	57,488,781
Non-controlling interest	<u>2,318,539</u>	<u>269,037</u>
Total entities' equity	<u>65,800,849</u>	<u>57,757,818</u>
Total liabilities and entities' equity	<u>\$ 96,074,100</u>	<u>\$ 89,487,824</u>

*The accompanying notes are an integral part of these combined statements.*

PINE STREET INN, INC. AND AFFILIATES  
 COMBINED STATEMENTS OF ACTIVITIES  
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016 (Restated)			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUES:</b>								
Contract revenue (Note 15)	\$ 29,603,318	\$ -	\$ -	\$ 29,603,318	\$ 29,507,226	\$ -	\$ -	\$ 29,507,226
Contributions and grants	10,024,918	2,515,443	-	12,540,361	8,343,976	2,520,157	-	10,864,133
Donated goods and services (Note 3)	4,251,424	-	-	4,251,424	4,355,813	-	-	4,355,813
Rental income and subsidies	4,108,561	-	-	4,108,561	3,636,654	-	-	3,636,654
Other revenue	1,281,099	-	-	1,281,099	3,015,401	-	-	3,015,401
Spending policy transfer (Note 6)	1,115,448	-	-	1,115,448	1,079,843	-	-	1,079,843
Net assets released from program restrictions (Note 13)	1,372,690	(1,372,690)	-	-	1,465,411	(1,465,411)	-	-
<b>Total operating revenues</b>	<b>51,757,458</b>	<b>1,142,753</b>	<b>-</b>	<b>52,900,211</b>	<b>51,404,324</b>	<b>1,054,746</b>	<b>-</b>	<b>52,459,070</b>
<b>OPERATING EXPENSES:</b>								
Emergency services and housing placement	22,035,326	-	-	22,035,326	20,069,572	-	-	20,069,572
Permanent supportive housing	18,551,089	-	-	18,551,089	19,053,568	-	-	19,053,568
Substance abuse treatment	1,227,284	-	-	1,227,284	1,227,648	-	-	1,227,648
Transitional housing and job training programs	836,208	-	-	836,208	3,986,876	-	-	3,986,876
General and administrative	6,470,436	-	-	6,470,436	6,206,185	-	-	6,206,185
Fundraising and development	2,453,242	-	-	2,453,242	2,507,851	-	-	2,507,851
<b>Total operating expenses</b>	<b>51,573,585</b>	<b>-</b>	<b>-</b>	<b>51,573,585</b>	<b>53,051,700</b>	<b>-</b>	<b>-</b>	<b>53,051,700</b>
<b>Changes in net assets from operations</b>	<b>183,873</b>	<b>1,142,753</b>	<b>-</b>	<b>1,326,626</b>	<b>(1,647,376)</b>	<b>1,054,746</b>	<b>-</b>	<b>(592,630)</b>
<b>NON-OPERATING ACTIVITY:</b>								
Net realized and unrealized gains (losses) on investments (Note 6)	1,988,192	215,428	-	2,203,620	(1,668,536)	(218,726)	-	(1,887,262)
Capital contributions and grants	-	2,037,454	-	2,037,454	-	1,122,564	-	1,122,564
Dividends and interest income (Note 6)	811,110	442	-	811,552	1,421,589	11,572	-	1,433,161
Other revenue (Note 1)	296,000	-	-	296,000	-	-	-	-
Endowment contributions (Note 14)	-	-	12,500	12,500	-	-	14,305	14,305
Donated equipment (Note 3)	-	-	-	-	84,170	-	-	84,170
Net loss on disposal of property, plant and equipment (Note 7)	-	-	-	-	(63,537)	-	-	(63,537)
Spending policy transfer (Note 6)	(1,115,448)	-	-	(1,115,448)	(1,079,843)	-	-	(1,079,843)
Net assets released from capital restrictions (Note 13)	3,894,890	(3,894,890)	-	-	1,265,804	(1,265,804)	-	-
<b>Total non-operating activity</b>	<b>5,874,744</b>	<b>(1,641,566)</b>	<b>12,500</b>	<b>4,245,678</b>	<b>(40,353)</b>	<b>(350,394)</b>	<b>14,305</b>	<b>(376,442)</b>
<b>Changes in net assets</b>	<b>6,058,617</b>	<b>(498,813)</b>	<b>12,500</b>	<b>5,572,304</b>	<b>(1,687,729)</b>	<b>704,352</b>	<b>14,305</b>	<b>(969,072)</b>
<b>CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>								
<b>Changes in net assets attributable to PSI</b>	<b>\$ 421,225</b>	<b>-</b>	<b>-</b>	<b>421,225</b>	<b>36,789</b>	<b>-</b>	<b>-</b>	<b>36,789</b>
<b>Changes in net assets attributable to PSI</b>	<b>\$ 6,479,842</b>	<b>\$ (498,813)</b>	<b>\$ 12,500</b>	<b>\$ 5,993,529</b>	<b>\$ (1,650,940)</b>	<b>\$ 704,352</b>	<b>\$ 14,305</b>	<b>\$ (932,283)</b>

*The accompanying notes are an integral part of these combined statements.*

PINE STREET INN, INC. AND AFFILIATES

COMBINED STATEMENTS OF CHANGES IN ENTITIES' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

ENTITIES' EQUITY, June 30, 2015, as previously stated	\$ 58,607,618
Prior period adjustment for adoption of accounting principle as of July 1, 2015	<u>(376,030)</u>
ENTITIES' EQUITY, June 30, 2015, as restated	58,231,588
Changes in net assets	(969,072)
Capital contributions	<u>495,302</u>
ENTITIES' EQUITY, June 30, 2016	57,757,818
Changes in net assets	5,572,304
Syndication costs	(5,918)
Capital contributions	<u>2,476,645</u>
ENTITIES' EQUITY, June 30, 2017	<u><u>\$ 65,800,849</u></u>

*The accompanying notes are an integral part of these combined statements.*

PINE STREET INN, INC. AND AFFILIATES

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	PROGRAM SERVICES					SUPPORT SERVICES			
	EMERGENCY SERVICES AND HOUSING PLACEMENT	PERMANENT SUPPORTIVE HOUSING	SUBSTANCE ABUSE TREATMENT	TRANSITIONAL HOUSING AND JOB TRAINING PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	TOTAL
<b>2017</b>									
Salaries and wages	\$ 9,901,032	\$ 6,931,522	\$ 695,825	\$ 513,726	\$ 18,042,105	\$ 3,091,571	\$ 1,175,897	\$ 4,267,468	\$ 22,309,573
Employee benefits and payroll taxes (Note 11)	2,037,482	1,567,461	161,388	110,147	3,876,478	712,111	276,077	988,188	4,864,666
Total personnel and related costs	<u>11,938,514</u>	<u>8,498,983</u>	<u>857,213</u>	<u>623,873</u>	<u>21,918,583</u>	<u>3,803,682</u>	<u>1,451,974</u>	<u>5,255,656</u>	<u>27,174,239</u>
Occupancy (Note 10)	4,089,037	6,212,383	3,769	68,479	10,373,668	208,486	3,200	211,686	10,585,354
Professional fees and contracted services	1,190,251	803,268	248,544	12,261	2,254,324	1,401,400	142,172	1,543,572	3,797,896
Food and supplies	2,564,217	402,998	11,506	44,380	3,023,101	107,974	106,152	214,126	3,237,227
Postage, printing and telephone	94,118	315,872	3,241	26,218	439,449	121,694	485,763	607,457	1,046,906
Other	434,985	68,829	46,626	(6,392)	544,048	264,395	233,156	497,551	1,041,599
Equipment expenses (Note 10)	350,027	293,676	5,197	5,846	654,746	23,789	20,750	44,539	699,285
Transportation	205,136	219,084	5,829	21,801	451,850	27,424	10,075	37,499	489,349
Interest	69,945	104,882	-	374	175,201	97,937	-	97,937	273,138
Clothing, linens and laundry	177,931	-	-	-	177,931	-	-	-	177,931
Total expenses before depreciation	<u>21,114,161</u>	<u>16,919,975</u>	<u>1,181,925</u>	<u>796,840</u>	<u>40,012,901</u>	<u>6,056,781</u>	<u>2,453,242</u>	<u>8,510,023</u>	<u>48,522,924</u>
Depreciation (Note 5)	<u>921,165</u>	<u>1,631,114</u>	<u>45,359</u>	<u>39,368</u>	<u>2,637,006</u>	<u>413,655</u>	<u>-</u>	<u>413,655</u>	<u>3,050,661</u>
Total expenses	<u>\$ 22,035,326</u>	<u>\$ 18,551,089</u>	<u>\$ 1,227,284</u>	<u>\$ 836,208</u>	<u>\$ 42,649,907</u>	<u>\$ 6,470,436</u>	<u>\$ 2,453,242</u>	<u>\$ 8,923,678</u>	<u>\$ 51,573,585</u>
	PROGRAM SERVICES					SUPPORT SERVICES			
	EMERGENCY SERVICES AND HOUSING PLACEMENT	PERMANENT SUPPORTIVE HOUSING	SUBSTANCE ABUSE TREATMENT	TRANSITIONAL HOUSING AND JOB TRAINING PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING AND DEVELOPMENT	TOTAL SUPPORT SERVICES	TOTAL
<b>2016 (Restated)</b>									
Salaries and wages	\$ 9,027,944	\$ 6,834,808	\$ 702,790	\$ 2,495,531	\$ 19,061,073	\$ 3,038,894	\$ 1,269,634	\$ 4,308,528	\$ 23,369,601
Employee benefits and payroll taxes (Note 11)	2,070,447	1,679,321	172,293	556,204	4,478,265	755,514	312,370	1,067,884	5,546,149
Total personnel and related costs	<u>11,098,391</u>	<u>8,514,129</u>	<u>875,083</u>	<u>3,051,735</u>	<u>23,539,338</u>	<u>3,794,408</u>	<u>1,582,004</u>	<u>5,376,412</u>	<u>28,915,750</u>
Occupancy (Note 10)	3,879,398	6,020,854	15,436	174,938	10,090,626	205,482	2,285	207,767	10,298,393
Professional fees and contracted services	1,003,125	887,765	195,313	254,644	2,340,847	1,202,755	101,880	1,304,635	3,645,482
Food and supplies	2,363,880	506,620	12,569	155,951	3,039,020	66,306	65,971	132,277	3,171,297
Postage, printing and telephone	77,857	329,418	2,047	47,484	456,806	97,134	471,772	568,906	1,025,712
Other	153,622	289,950	67,501	76,483	587,556	272,961	246,036	518,997	1,106,553
Equipment expenses (Note 10)	157,071	518,764	6,305	19,971	702,111	20,044	30,340	50,384	752,495
Transportation	189,285	246,425	8,035	80,144	523,889	30,114	7,563	37,677	561,566
Interest	85,264	96,499	-	5,933	187,696	105,879	-	105,879	293,575
Clothing, linens and laundry	221,218	5,266	-	1,400	227,884	-	-	-	227,884
Total expenses before depreciation	<u>19,229,111</u>	<u>17,415,690</u>	<u>1,182,289</u>	<u>3,868,683</u>	<u>41,695,773</u>	<u>5,795,083</u>	<u>2,507,851</u>	<u>8,302,934</u>	<u>49,998,707</u>
Depreciation (Note 5)	<u>840,461</u>	<u>1,637,878</u>	<u>45,359</u>	<u>118,193</u>	<u>2,641,891</u>	<u>411,102</u>	<u>-</u>	<u>411,102</u>	<u>3,052,993</u>
Total expenses	<u>\$ 20,069,572</u>	<u>\$ 19,053,568</u>	<u>\$ 1,227,648</u>	<u>\$ 3,986,876</u>	<u>\$ 44,337,664</u>	<u>\$ 6,206,185</u>	<u>\$ 2,507,851</u>	<u>\$ 8,714,036</u>	<u>\$ 53,051,700</u>

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



PINE STREET INN, INC. AND AFFILIATES  
 COMBINED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u> (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 5,572,304	\$ (969,072)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,050,661	3,053,693
Amortization of debt issuance costs	7,731	9,393
Bad debt	214,258	384,502
Net realized and unrealized (gains) losses on investments	(2,203,620)	1,887,262
Loss on disposal of property, plant and equipment	-	79,082
Capital contributions and grants	(2,037,454)	(1,122,564)
Other revenue	(296,000)	-
Endowment contributions	(12,500)	(14,305)
Changes in operating assets and liabilities:		
Accounts receivable	1,166,431	(94,801)
Contributions receivable	(579,482)	154,119
Prepaid expenses and other assets	(10,119)	328,463
Accounts payable	91,967	(602,681)
Accrued expenses and other liabilities	(510,211)	(202,518)
Net cash provided by operating activities	<u>4,453,966</u>	<u>2,890,573</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Other assets	54,875	20,984
Purchase of investments	(810,800)	(25,895,164)
Proceeds from sale of investments	-	24,481,620
Purchase of property, plant and equipment	(4,102,684)	(8,080,090)
Capital contributions	2,476,645	495,302
Other revenue	296,000	-
Syndication costs	(5,918)	-
Net cash used in investing activities	<u>(2,091,882)</u>	<u>(8,977,348)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Capital contributions and grants collected	2,037,454	1,122,564
Endowment contributions	12,500	14,305
Decrease in assets limited as to use	163,948	172,652
Financing fees	(9,007)	(6,815)
Principal payments on notes payable	(4,145,169)	(534,223)
Proceeds from notes payable and other debt	3,098,927	3,173,724
Net cash provided by financing activities	<u>1,158,653</u>	<u>3,942,207</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>3,520,737</b>	<b>(2,144,568)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>10,604,849</u></b>	<b><u>12,749,417</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 14,125,586</u></b>	<b><u>\$ 10,604,849</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 273,138</u>	<u>\$ 293,575</u>
Unrealized gains (losses) on investments	<u>\$ 2,203,620</u>	<u>\$ (2,349,851)</u>

*The accompanying notes are an integral part of these combined statements.*

## PINE STREET INN, INC. AND AFFILIATES

### NOTES TO COMBINED 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 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 combined financial statements:

- 18-20 Parker Hill Avenue LLC is a Massachusetts limited liability corporation, which was organized to develop nineteen affordable housing units on Parker Hill Avenue in Boston, Massachusetts. The project was completed and occupancy began in fiscal year 2008.
- 1734 Washington Street Limited Partnership is a Massachusetts limited partnership, which was originally organized to develop thirty-three affordable housing units on Washington Street in Boston, Massachusetts. Since 1988, the Inn has been the sole stockholder of a corporation, which was the General Partner in this real estate limited partnership. This General Partner investment consisted of a one percent equity interest in the limited partnership. The Inn became the sole investor of 1734 Washington Street Limited Partnership when it acquired the interests of the investor limited partners on March 31, 2006 (see Note 17).

Pine Street Inn Housing, Inc. (Housing) is a Massachusetts not-for-profit corporation, which was organized to provide elderly and disabled persons with housing facilities and services at the Inn's Richard Ring House at Woodward Park in Boston, Massachusetts. Section 811 funding was provided to Housing by the U.S. Department of Housing and Urban Development (HUD) for the development of a twelve-unit housing facility for mentally challenged individuals. The Board of Directors of Housing consists of directors and senior managers of the Inn.

Pine Street Housing II, Inc. (Housing II) is a Massachusetts not-for-profit corporation, which was organized to develop housing units on Geneva Avenue in Boston, Massachusetts. Section 202 funding was provided by HUD for the development of a ten-unit housing facility for elderly persons. The Board of Directors of Housing II consists of directors and senior managers of the Inn.

The Inn is the managing member of and holds a majority interest in 51-57 Beals Street Managing Member LLC (Beals MM LLC), a Massachusetts limited liability company. The purpose of Beals MM LLC is to act as the managing member of and hold limited liability interests in 51-57 Beals Street LLC (Beals Street LLC). Management, operation and establishment of the policies of Beals MM LLC are vested exclusively in the managing member. The profits and losses of Beals MM LLC are allocated to the members in accordance with each of their membership interests.

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

## PINE STREET INN, INC. AND AFFILIATES

### NOTES TO COMBINED FINANCIAL STATEMENTS

#### NOTE 1. NATURE OF ORGANIZATION (Continued)

The Inn is also the developer of the Beals Street LLC property; developer fees and overhead earned under the terms of the development agreement were \$746,494, of which \$73,044 has been deferred. During the years ended June 30, 2017 and 2016, the Inn earned developer fee income of \$11,188 and \$548,683, respectively. The Inn was also reimbursed for certain pre-development and development costs.

#### NOTE 2. NONPROFIT STATUS

The Inn, Housing and Housing II are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Inn, Housing and Housing II are also exempt from state income taxes. Donors may deduct contributions made to the Inn, Housing and Housing II within IRC requirements.

Certain activities of the Inn are subject to Federal and state income taxes under Unrelated Business Taxable Income (UBTI) regulations. The Inn did not incur any tax expense related to these activities for the years ended June 30, 2017 and 2016. The Inn has Federal net operating loss carryforwards (NOLs) related to UBTI of \$3,389,886 and \$3,275,029 for the years ended June 30, 2017 and 2016, respectively. The Federal NOLs expire at various dates through 2034. The Inn has state NOLs related to UBTI of \$1,884,119 and \$1,769,262 for the years ended June 30, 2017 and 2016, respectively. The state NOLs expire at various dates through 2034. 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 combined financial statements as the income, loss and credits of Beals Street LLC are reported by the members on their respective income tax returns. However, Beals Street LLC's income tax returns are subject to examination by the appropriate taxing jurisdictions.

#### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

**Classification and Reporting of Net Assets:**

**Unrestricted Net Assets** represent those net resources that bear no donor-imposed restrictions and are generally available for use by the Organization. Unrestricted net assets include the following:

**Available for Operations** represent funds available to carry on the operations of the Organization.

**Board Designated** represent funds that have been designated by the Organization's Board of Directors for future use (see Note 12).

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

**Temporarily Restricted Net Assets** represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations (see Note 13).

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

**Permanently Restricted Net Assets** represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization (see Note 14).

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

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, demand deposits and highly liquid investments. For the purpose of the combined statements of cash flows, money market funds included in investments are not included in cash and cash equivalents. The Organization maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

PINE STREET INN, INC. AND AFFILIATES  
 NOTES TO COMBINED 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 – 7
Machinery and equipment	10
Computer equipment and software	3 – 5
Motor vehicles	3 – 5

Expenditures for major renewals and improvements of property, plant and equipment are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

**Fair Value Measurements:** The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investments:** The Board of Directors has established policies governing long-term investments, which are held within several investment accounts, based on the purposes for those investment accounts and their earnings. Investments are recorded at fair value.

Investments are allocated among the unrestricted, temporarily restricted and permanently restricted net asset classes in the accompanying combined financial statements according to the absence or presence of donor restrictions. Investments are classified as current and non-current based upon management's intent.

The Organization follows an investment standard as defined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in managing the relationship between risk and return in the deployment and diversification of the investment portfolio. The Organization views risk as the likelihood of permanent loss of capital as distinct from the volatility in investment value or return. Allocation decisions emphasize absolute return over the long-term, while taking prudent risks.

Investment return consists of dividends and interest income and realized and unrealized gains and losses. Dividends are recorded on the ex-dividend date and interest income is recorded as earned. Realized gains and losses on investment transactions are recorded based on the first-in, first-out (FIFO) cost method. Unrealized gains and losses are based on fair value changes.

Massachusetts state law allows the Organization to appropriate as much of the net appreciation as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

**Contributions Receivable:** Contributions receivable consist of contributions committed to program operations and acquisition of capital (see Note 16).

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

**Revenue Recognition and Funding:** Contract revenue is recorded 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 rate formulae of the Massachusetts Executive Office for Administration and Finance. Revenue is recorded at the rates approved under the negotiated contracts as certified by the Massachusetts Operational Services Division.

Excess of revenue over expenses from programs supported by the Commonwealth of Massachusetts, up to certain defined limits, can be utilized by the Organization for expenditures in accordance with its exempt purposes, provided such expenditures are reimbursable under the Operational Services Division's regulations. Amounts in excess of these limits are subject to negotiated use or potential recoupment and would be reported as liabilities.

Other revenue primarily includes the Organization's social enterprise income, which is recorded as services are delivered, and developer fees related to Beals Street LLC (see Note 1), which are recorded as project milestones are achieved.

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

**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition and Funding: (Continued)**

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.

Gross patient service revenue is included in contract revenue in the accompanying combined statements of activities and is recorded as earned at the full value of the services as determined by the Organization. Net patient service revenue reflects the amounts to be collected after provision for contractual allowances. Contractual allowances related to third-party pay sources are accrued on an estimated basis in the period the services are rendered. These contractual allowances are adjusted, as required, based on final settlement. The contractual allowances for the years ended June 30, 2017 and 2016, were approximately \$881,000 and \$840,000, respectively.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash, including marketable securities, are recorded at their estimated fair value on the date of the gift.

Contributions to be received after one year are discounted using a risk-free discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of temporarily restricted net assets, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions. Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset category. Contributions of cash or other assets to be used to acquire property, plant and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset category; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

For certain contributions of cash or other assets to be used to acquire property that bear facility use restrictions, the restrictions are considered to be released at the time the facility use restrictions of such long-lived assets are met. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Donations of goods and services are reported as revenues and expenses of unrestricted net assets at the fair value of the goods and services received. Donations of goods and facilities to be used in program operations are reported as revenues and expenses of unrestricted net assets at the time the goods are received or facilities are used.

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

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition and Funding: (Continued)

The value of these donated goods and services for the years ended June 30, 2017 and 2016, is:

	<u>2017</u>	<u>2016</u>
Facilities	\$1,941,290	\$1,914,788
Food	1,291,482	1,332,471
Volunteer services	533,095	576,870
Health care services	200,000	200,000
Clothing, linens and laundry	177,931	221,219
Program support	107,626	105,618
Miscellaneous	-	4,847
	<u>\$4,251,424</u>	<u>\$4,355,813</u>

During the fiscal year ended June 30, 2017, the Organization did not receive donated equipment. During the fiscal year ended June 30, 2016, the Organization received donated equipment valued by the donor at \$84,170, which is included in property, plant and equipment and unrestricted net assets in the accompanying combined statement of financial position.

**Allowance for Doubtful Accounts:** The Organization provides for losses using the allowance method. The allowance is based upon collection experience, contract terms, and other circumstances which may affect the ability of the Organization to collect. When the Organization determines that a portion of its accounts receivable will not be collected, the receivable account is written off and a bad debt expense is recorded.

**Expense Allocation:** Expenses related directly to a program are attributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

**Combined 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 combined statements of activities. All other transactions are reported as non-operating activity.

**Accounting Principle Adoption:** During fiscal year 2017, the Organization retrospectively adopted FASB's Accounting Standards Update (ASU) 2017-02, *Not-for-Profit Entities - Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit That is a General Partner or Limited Partner Should Consolidate a For-Profit Limited Partnership of Similar Entity*, which requires the Inn's interest in Beals Street LLC be included in the combined financial statements (see Note 19).

**Subsequent Events:** Subsequent events have been evaluated through November 8, 2017, which is the date the combined financial statements were available to be issued.



PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4. ASSETS LIMITED AS TO USE

The Organization maintains escrow accounts (cash accounts) that were established to serve as replacement and operating reserves in connection with certain mortgage notes or to meet collateral requirements on certain mortgage notes (see Note 8). The Organization also maintains tenant security deposits and monies set aside for development, which are segregated from its operating accounts. Total assets limited as to use at June 30, 2017 and 2016, were \$1,915,091 and \$2,079,039, respectively.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Land	\$ 5,163,775	\$ 4,450,024
Buildings	35,904,774	30,836,490
Building and leasehold improvements	42,410,602	40,911,698
Furniture and fixtures	1,110,542	1,021,572
Machinery and equipment	3,099,091	2,945,993
Computer equipment and software	2,890,222	2,890,222
Motor vehicles	1,001,906	1,001,906
Construction in process	<u>1,970,832</u>	<u>5,379,967</u>
	93,551,744	89,437,872
Less - accumulated depreciation	46,262,240	43,213,082
Less - eliminations	<u>746,494</u>	<u>735,306</u>
	<u>\$46,543,010</u>	<u>\$45,489,484</u>

There are restrictions imposed by lenders and grantors on the use and sale of certain land, buildings and building and leasehold improvements (see Notes 8 and 9).

Depreciation was \$3,050,661 and \$3,053,693 for the years ended June 30, 2017 and 2016, 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 *Impairment or Disposal of Long-Lived Assets*. As of June 30, 2017 and 2016, 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 COMBINED FINANCIAL STATEMENTS**

**NOTE 6. INVESTMENTS**

Investments are presented in the accompanying combined financial statements at fair value. The fair value measurements of the Organization's investments within the valuation framework are multi-strategy mutual funds of \$27,956,469 and \$24,942,049 as of June 30, 2017 and 2016, respectively, and are considered Level 1 inputs. 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.

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

	<u>2017</u>	<u>2016</u>
Net unrealized gains (losses)	\$2,203,620	\$(2,349,851)
Dividends and interest income	811,552	1,433,161
Net realized gains	<u>-</u>	<u>462,589</u>
Total investment return	3,015,172	(454,101)
Less - investment return designated for operations:		
Investment spending policy: 4.5% formula	<u>1,115,448</u>	<u>1,079,843</u>
Investment return net of investment spending policy	<u>\$1,899,724</u>	<u>\$(1,533,944)</u>

Annually in advance of an operating year, the Board of Directors determines the level of total investment return that will be used to support operations, which is referred to as the Investment Spending Policy. For the years ended June 30, 2017 and 2016, the amounts used to support operations were equal to 4.5% of the average fair value of the Inn's long-term investments for each of the previous twelve quarterly periods. During the years ended June 30, 2017 and 2016, the Organization appropriated for operations \$1,115,448 and \$1,079,843, respectively, of investment return. This amount is reflected as spending policy transfer in the accompanying combined statements of activities for the years ended June 30, 2017 and 2016.

**NOTE 7. RELATED PARTY**

The Organization's combined financial statements include transactions with 40 Upton Street LLC (Upton LLC) which have not been included in the accompanying combined financial statements. 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, 2017 and 2016, management fees totaled \$13,227 and \$8,509, respectively.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 8. NOTES PAYABLE

In August 2004, the Organization entered into a Bond Purchase and Guarantee Agreement with Massachusetts Development Finance Agency (MDFA) and Eastern Bank to obtain funds to repair and renovate several of its facilities. On August 12, 2004, MDFA issued a \$5,000,000 Tax Exempt Revenue Bond, which was purchased by Eastern Bank.

The proceeds of the bond purchase were loaned to the Organization and the terms of the loan are included in a Loan and Trust Agreement (the Agreement) between the three parties. The loan bears interest at a fixed rate of 5.58% for the entire term and matures in August 2024. The Organization has pledged a portion of its investments as collateral for the loan. The market value of pledged investments on June 30, 2017 and 2016, was \$3,510,807 and \$3,897,530, respectively.

The Agreement requires the Organization to maintain one or more deposit accounts with an aggregate total of at least \$500,000 with Eastern Bank. These deposit accounts are included in assets limited as to use in the accompanying combined statements of financial position (see Note 4).

Notes payable consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
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 \$21,292 and \$24,116 as of June 30, 2017 and 2016, respectively.	\$2,436,273	\$2,704,155
Secured commercial loan from Eastern Bank, due in monthly interest and principal installments of \$4,821, with a fixed interest rate of 4.62%, maturing in January 2025. The loan is collateralized by real estate. Unamortized debt issuance costs related to the loan were \$29,793 and \$32,242 as of June 30, 2017 and 2016, respectively. This loan was paid in full on August 7, 2017, with proceeds from the \$5,000,000 revolving line of credit.	662,216	684,554
Various mortgage notes payable to Eastern Bank, due in monthly interest and principal installments ranging from \$481 to \$4,008, with fixed interest rates between 2% and 5%, maturing through November 2026. The notes are collateralized by real estate. Unamortized debt issuance costs related to the mortgage notes payable were \$1,268 and \$2,394 as of June 30, 2017 and 2016, respectively. On August 7, 2017, a note with an outstanding balance of approximately \$307,000 was paid in full with proceeds from the \$5,000,000 revolving line of credit.	499,354	569,770

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

NOTE 8. NOTES PAYABLE (Continued)

	<u>2017</u>	<u>2016</u>
Vehicle capital lease obligations, due in monthly principal and interest installments ranging from \$548 to \$1,184, with an interest rate of 3%, maturing through August 2019. The leases are collateralized by vehicles.	200,095	333,475
Various mortgage notes payable to City of Boston agencies, due in monthly interest and principal installments ranging from \$485 to \$1,401, with interest rates between 1% and 6%, maturing through February 2037. The notes are collateralized by real estate. Unamortized debt issuance costs related to the mortgage notes payable were \$15,633 and \$16,431 as of June 30, 2017 and 2016, respectively.	157,298	168,350
\$5,000,000 revolving line of credit from Eastern Bank, with a variable rate calculated monthly based on the thirty-day London Interbank Offered Rate (LIBOR), plus 140 basis points, 1.58%. The line of credit is collateralized by real estate. Interest-only payments are due monthly until the line of credit converts to a commercial fixed rate loan with principal and interest payments due monthly. On the conversion date, August 7, 2017, the line of credit was fully drawn upon and converted to a commercial fixed rate loan with a fixed interest rate of 3.84% and 144 monthly principal and interest payments of \$30,025, maturing in August 2029. The proceeds were used to fund payments of certain outstanding loans with Eastern Bank (see above) and the balance was deposited into operating cash. Unamortized debt issuance costs related to the revolving line of credit were \$7,287 and \$7,702 as of June 30, 2017 and 2016, respectively.	29,443	29,030
Beals Street LLC construction bridge loan with Eastern Bank with maximum borrowings up to \$2,500,000. Interest was calculated on the outstanding principal balance at a floating rate equal to the thirty-day LIBOR plus 200 basis points (2.46% at June 30, 2016). This note was secured by real estate and guaranteed by the Inn. The construction loan was paid in full during fiscal year 2017.	-	<u>1,352,539</u>
Less - current portion	<u>3,984,679</u> <u>1,487,439</u>	<u>5,841,873</u> <u>1,863,736</u>
	<u>\$2,497,240</u>	<u>\$3,978,137</u>

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

**NOTE 8. NOTES PAYABLE (Continued)**

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$1,487,439
2019	\$ 378,727
2020	\$ 347,371
2021	\$ 349,176
2022	\$ 369,302

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

Debt issuance costs related to the various notes payable and other debt totaling \$195,337 are shown net of accumulated amortization of \$117,062 and \$109,331 as of June 30, 2017 and 2016, respectively. Net debt issuance costs are reported in the combined statements of financial position as a direct reduction of the face amount of the related notes payable and other debt (see Note 3). Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed rate on the related loan.

**NOTE 9. OTHER DEBT**

Other debt consists of contingent loans from various organizations used to develop the Organization's housing and other projects. These loans generally are not required to be repaid unless the project fails to comply with use restrictions and other conditions as defined in the various loan agreements. It is the intention of the Board of Directors and the management of the Organization to comply with use restrictions and other conditions. Therefore, no interest has been accrued on these loans.

Other debt consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Various mortgage notes payable to Commonwealth of Massachusetts agencies, with 0% interest rates, maturing through November 2059. For certain mortgage notes payable, payments of principal and interest may be required in any year in which the Organization's cash receipts exceed between 105% to 115% of cash expenditures, as defined. These notes are collateralized by real estate. No principal or interest payments were required during the years ended June 30, 2017 and 2016.	\$11,741,365	\$11,398,285
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.	7,069,322	6,593,838

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

**NOTE 9. OTHER DEBT (Continued)**

	<u>2017</u>	<u>2016</u>
Various mortgage notes payable to City of Boston agencies, with interest rates between 0% and 3%, maturing through September 2105. These notes are collateralized by real estate. No principal and interest payments are required until maturity. Unamortized debt issuance costs related to the mortgage notes payable were \$3,001 and \$3,120 as of June 30, 2017 and 2016, respectively.	3,033,758	2,533,639
Mortgage note payable to Trinity Church in the City of Boston, with an interest rate of 0%, maturing in October 2036. This note is collateralized by real estate and no principal and interest payments are required until maturity.	500,000	500,000
Beals Street LLC mortgage note payable to the Inn in the amount of \$500,000, with an interest rate of 0%. Beals Street LLC has the option to extend the maturity date of the note for a period up to the original term (fifteen years). The note is collateralized by real estate. No principal payments are required until maturity. The entire outstanding principal balance is due at maturity, August 2031.	500,000	500,000
Beals Street LLC note payable to the Inn in the amount of \$296,000, with an interest rate of 0.01%. The note shall be repayable annually from and to the extent of available cash flow, as defined in the loan agreement and in the priority set forth in such agreement. The entire outstanding principal balance is due at maturity, April 2046.	<u>296,000</u>	<u>-</u>
Total other debt before eliminations	23,140,445	21,525,762
Less - eliminations	<u>796,000</u>	<u>-</u>
	<u>\$22,344,445</u>	<u>\$21,525,762</u>

As of June 30, 2017, the Organization has \$222,515 and \$524,880 of other debt that matures in fiscal years 2019 and 2020, respectively.

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

**NOTE 10. OPERATING LEASES**

The Organization leases apartments for its housing program, office and program space, and program, office, and network equipment under various operating leases expiring through June 2024. Lease expense for the years ended June 30, 2017 and 2016, was \$3,220,041 and \$3,252,088, respectively, and is included in both occupancy and equipment expenses in the accompanying combined statements of functional expenses.

The lease expense for the apartments provided in the Organization's housing program for the years ended June 30, 2017 and 2016, was \$2,632,960 and \$2,556,277, respectively.

PINE STREET INN, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10. OPERATING LEASES (Continued)

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>
2018	\$ 729,642
2019	\$ 628,659
2020	\$ 588,321
2021	\$ 588,321
2022	\$ 521,956
Thereafter	\$1,907,411

NOTE 11. RETIREMENT PLAN

The Inn has a contributory retirement plan pursuant to Section 403(b) (the 403(b) Plan) of the IRC covering substantially all full-time employees. Under the 403(b) Plan, the Inn may fund annual contributions at the discretion of the Board of Directors to employees who have satisfied one year of eligible service and are employed by the Inn on December 31st. Contributions to eligible employee accounts are based upon the ratio of the employee's compensation to the compensation of all eligible employees and on the employee's years of service. During fiscal years 2017 and 2016, the Inn incurred expenses of \$400,000 each year as contributions to the 403(b) Plan. These amounts are included in employee benefits and payroll taxes in the accompanying combined statements of functional expenses. As of June 30, 2017 and 2016, \$600,000 was accrued and is included in accrued expenses and other liabilities in the accompanying combined statements of financial position.

The Inn also has an unqualified plan pursuant to Section 457 of the IRC (the 457 Plan). For the years ended June 30, 2017 and 2016, the Inn did not make contributions to the 457 Plan. The assets of the 457 Plan as of June 30, 2017 and 2016, were \$49,437 and \$47,056, respectively. These assets are included as other assets in the accompanying combined statements of financial position. The related liability is included in accrued expenses and other liabilities in the accompanying combined statements of financial position.

NOTE 12. BOARD DESIGNATED NET ASSETS

Board designations of unrestricted net assets include those anticipated for the future repair and replacement of existing plant and equipment assets, as well as the development of further permanent housing facilities, housing initiatives, and program support.

The Organization has certain mortgages financed through government agencies that allow for the deferral of principal and interest until the debt matures. These mortgages also include provisions that allow the Organization to extend the debt payments for an additional term beyond maturity. The Organization is confident that, in all likelihood, the Organization will not be required to repay any interest associated with this debt; accordingly, no interest is accrued in the accompanying combined financial statements. Certain unrestricted resources have been designated to offset any potential obligation for interest.

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

**NOTE 12. BOARD DESIGNATED NET ASSETS (Continued)**

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

	<u>2017</u>	<u>2016</u>
Related to real estate	\$ 7,761,000	\$ 7,775,000
Related to unrecorded accrued interest	2,336,000	2,128,000
Related to program support	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$11,097,000</u>	<u>\$10,903,000</u>

**NOTE 13. TEMPORARILY RESTRICTED NET ASSETS**

Following is a summary of temporary restrictions at June 30:

	<u>2017</u>	<u>2016</u>
Gifts and other unexpended revenue and gains restricted to:		
Acquisition and rehabilitation of buildings and equipment	\$ 3,205,587	\$ 5,563,023
Facility use restrictions:		
Homeless shelter expiring in 2016	274,395	274,395
Low-income housing expiring in 2018	500,000	500,000
Low-income housing expiring in 2021	371,989	371,989
Low-income housing expiring in 2030	500,000	-
Low-income housing expiring in 2037	503,200	503,200
Low-income housing expiring in 2043	1,228,582	1,228,582
Program operations	5,462,575	4,319,822
Accumulated appreciation on permanently restricted investments	<u>508,358</u>	<u>292,488</u>
	<u>\$12,554,686</u>	<u>\$13,053,499</u>

**NOTE 14. PERMANENTLY RESTRICTED NET ASSETS**

Following is a summary of permanent restrictions at June 30:

	<u>2017</u>	<u>2016</u>
General support of operations	\$2,242,062	\$2,229,562
Martha MacDowell Carpenter fund	496,790	496,790
Phillip Worden housing support for elderly men	100,000	100,000
Estelle's Garden maintenance	<u>100,000</u>	<u>100,000</u>
Total permanently restricted net assets	<u>\$2,938,852</u>	<u>\$2,926,352</u>



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

**NOTE 14. PERMANENTLY RESTRICTED NET ASSETS (Continued)**

Changes in endowment net assets by class for the years ended June 30, 2017 and 2016, are:

	<u>Donor Restricted</u>		<u>Total</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, June 30, 2015	<u>\$ 505,126</u>	<u>\$2,912,047</u>	<u>\$3,417,173</u>
Contributions	<u>-</u>	<u>14,305</u>	<u>14,305</u>
Investment return:			
Investment income	11,572	-	11,572
Net realized gains	72,303	-	72,303
Net unrealized losses	<u>(291,029)</u>	<u>-</u>	<u>(291,039)</u>
Total investment return	<u>(207,154)</u>	<u>-</u>	<u>(207,154)</u>
Releases	<u>(5,484)</u>	<u>-</u>	<u>(5,484)</u>
Endowment net assets, June 30, 2016	<u>292,488</u>	<u>2,926,352</u>	<u>3,218,840</u>
Contributions	<u>-</u>	<u>12,500</u>	<u>12,500</u>
Investment return:			
Net unrealized gains	215,428	-	215,428
Investment income	<u>442</u>	<u>-</u>	<u>442</u>
Total investment return	<u>215,870</u>	<u>-</u>	<u>215,870</u>
Endowment net assets, June 30, 2017	<u>\$ 508,358</u>	<u>\$2,938,852</u>	<u>\$3,447,210</u>

**NOTE 15. 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, 2017 and 2016, respectively. Approximately 31% and 21% of accounts receivable was due from the City of Boston, Department of Neighborhood Development at June 30, 2017 and 2016, respectively. Approximately 16% of accounts receivable was due from one vendor at June 30, 2017. Approximately 31% of accounts receivable was due from the Commonwealth of Massachusetts, Department of Housing and Community Development at June 30, 2016.

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

**NOTE 16. CONTRIBUTIONS RECEIVABLE**

The Organization has contributions receivable due at June 30:

	<u>2017</u>	<u>2016</u>
Due in one year	\$1,722,679	\$1,247,315
Due in two years	606,750	505,886
Due in three to five years	<u>6,250</u>	<u>10,000</u>
	2,335,679	1,763,201
Less - current portion	1,412,049	919,180
Less - allowance	<u>310,630</u>	<u>328,135</u>
	<u>\$ 613,000</u>	<u>\$ 515,886</u>

As of June 30, 2017, contributions from three foundations represented approximately 77% of the total contributions receivable. As of June 30, 2016, contributions from two foundations represented approximately 54% of the total contributions receivable.

**NOTE 17. CONTINGENCY**

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 combined net worth which satisfies the Designated Net Worth Requirements of \$2,000,000.

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 combined financial statements.

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

**NOTE 18. PROPERTY LEASES**

The Organization leases a portion of its facility at 363 Albany Street, Boston, Massachusetts to two tenants. These leases expire through July 2024.

Rental revenue from the above leases for the years ended June 30, 2017 and 2016, was \$334,326 and \$332,224, respectively, and is included in other revenue in the accompanying combined statements of activities.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$342,764
2019	\$347,302
2020	\$377,267
2021	\$382,271
2022	\$387,524

**NOTE 19. PRIOR PERIOD ADJUSTMENT**

In fiscal year ended June 30, 2015, the Inn elected early adoption of ASU 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis* and did not consolidate the activities of Beals Street LLC into the combined financial statements. With the issuance of ASU 2017-02, *Not-for-Profit Entities - Consolidation (Subtopic 958-810); Clarifying When a Not-for-Profit That is a General Partner or Limited Partner Should Consolidate a For-Profit Limited Partnership of Similar Entity*, the Inn is now required to consolidate Beals Street LLC into the combined financial statements. The ASU requires this amendment to be applied retrospectively to all relevant prior periods beginning with the fiscal year in which ASU 2015-02 was initially applied. The effect of the adoption was to record the Inn's equity in Beals Street LLC, along with the related non-controlling interest.

Entities' Equity, June 30, 2015, as originally stated	\$58,607,618
Adoption of Accounting Principle	<u>(376,030)</u>
Entities' Equity, June 30, 2015, as restated	<u>\$58,231,588</u>

**NOTE 20. RECLASSIFICATIONS**

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