

PREBLE STREET

Financial Statements

June 30, 2011 and 2010

Independent Auditor's Report

To the Board of Directors of
Preble Street

We have audited the accompanying statements of financial position of Preble Street (the Organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Preble Street's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Preble Street as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011, on our consideration of Preble Street's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Runyon Kersteen Ouellette

November 29, 2011
South Portland, Maine

PREBLE STREET
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash	\$ 927,506	625,800
Investments	1,527,118	1,159,171
Accounts receivable	15,403	23,335
Pledges receivable, current portion	202,500	247,500
Grants receivable	614,933	1,381,501
Prepaid expenses	107,910	64,476
Inventory	29,322	35,800
Total current assets	3,424,692	3,537,583
Property and equipment:		
Land	274,380	274,380
Buildings and improvements	5,022,013	4,944,857
Equipment	732,255	710,286
Vehicles	25,500	25,500
	6,054,148	5,955,023
Less accumulated depreciation	(1,847,801)	(1,654,742)
Net property and equipment	4,206,347	4,300,281
Other assets:		
Pledges receivable, noncurrent, net	93,548	271,766
Beneficial interest in perpetual trust	137,987	114,657
Total other assets	231,535	386,423
Total assets	\$ 7,862,574	8,224,287
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	77,790	130,551
Accrued expenses	148,825	115,833
Funds held for others	-	1,250
Deferred revenue	-	15,047
Total current liabilities	226,615	262,681
Total liabilities	226,615	262,681
Net assets:		
Unrestricted:		
Undesignated	1,114,505	1,580,411
Board-designated investments	1,497,120	1,136,180
Investment in property and equipment	4,206,347	4,300,281
Total unrestricted net assets	6,817,972	7,016,872
Temporarily restricted	680,000	830,077
Permanently restricted	137,987	114,657
Total net assets	7,635,959	7,961,606
Total liabilities and net assets	\$ 7,862,574	8,224,287

See accompanying notes to financial statements.

PREBLE STREET
Statements of Activities
Years Ended June 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Unrestricted support:		
Government grant income	\$ 2,770,326	2,524,317
Fee for service income	1,334,924	263,002
Contributions from individuals, churches and corporations	489,965	946,284
Foundation income	1,304,366	894,414
Donated services	109,824	79,698
Donated goods	914,129	770,809
United Way	435,869	400,299
Net realized/unrealized gains on investments	226,716	105,947
Interest and dividend income	51,258	42,861
Other income	51,015	62,530
Total unrestricted support	7,688,392	6,090,161
Net assets released from restrictions	800,077	913,490
Total unrestricted support and reclassifications	8,488,469	7,003,651
Expenses:		
Program services:		
Food Programs	1,732,777	1,011,957
Resource Center	1,461,104	1,367,452
Food for Maine Families	1,389,850	-
Community Advocacy	397,230	247,440
Teen Center	749,846	879,623
Lighthouse Shelter	424,138	390,202
Logan Place	546,185	536,438
Florence House Development	-	178,884
Florence House	1,148,391	904,752
Total program services	7,849,521	5,516,748
Supporting services:		
Administrative	609,140	491,163
Development	228,708	226,669
Total supporting services	837,848	717,832
Total expenses	8,687,369	6,234,580
Change in unrestricted net assets	(198,900)	769,071
Temporarily restricted net assets:		
Contributions	650,000	160,000
Net assets released from restrictions	(800,077)	(913,490)
Change in temporarily restricted net assets	(150,077)	(753,490)
Permanently restricted net assets:		
Net investment gains	23,330	8,524
Change in permanently restricted nets assets	23,330	8,524
Change in net assets	(325,647)	24,105
Net assets, beginning of year	7,961,606	7,937,501
Net assets, end of year	\$ 7,635,959	7,961,606

See accompanying notes to financial statements.

PREBLE STREET
Statement of Functional Expenses
Year Ended June 30, 2011

	Program services									Supporting services			
	Food Programs	Resource Center	Food for Families	Community Advocacy	Teen Center	Lighthouse Shelter	Logan Place	Florence House	Total	Administrative	Development	Total	Total expenses
Salaries	\$ 397,391	819,692	-	210,514	399,744	271,472	397,098	740,172	3,236,083	395,747	145,378	541,125	3,777,208
Payroll taxes and employee benefits	112,712	236,890	-	68,118	122,836	80,597	115,849	202,806	939,808	126,432	47,017	173,449	1,113,257
Outside services	2,612	16,743	-	7,555	46,663	1,445	612	27,218	102,848	610	224	834	103,682
Donated services	70,224	39,600	-	-	-	-	-	-	109,824	-	-	-	109,824
Food and program expenses	232,428	15,248	1,389,850	63,638	13,659	2,968	4,033	30,763	1,752,587	629	5,613	6,242	1,758,829
Donated goods	718,424	167,530	-	-	7,659	-	4,518	15,119	913,250	879	-	879	914,129
Occupancy	87,254	73,190	-	11,832	63,442	45,876	368	67,534	349,496	16,207	6,591	22,798	372,294
Telephone	2,416	5,036	-	1,741	4,234	1,478	2,817	4,789	22,511	2,652	301	2,953	25,464
Office supplies	2,972	5,412	-	1,104	3,285	1,645	2,560	5,690	22,668	1,593	617	2,210	24,878
Technology	1,596	2,907	-	633	1,764	1,086	1,375	3,056	12,417	1,158	3,495	4,653	17,070
Printing	354	628	-	128	381	191	297	660	2,639	192	6,039	6,231	8,870
Insurance	3,669	6,682	-	1,363	4,055	2,031	3,160	7,025	27,985	1,966	762	2,728	30,713
Professional fees	3,628	6,607	-	1,348	4,010	2,008	3,124	6,946	27,671	1,944	753	2,697	30,368
Postage	1,049	1,909	-	390	1,159	580	903	2,008	7,998	561	218	779	8,777
Staff development	4,367	8,762	-	2,252	5,583	4,336	4,604	9,665	39,569	5,221	1,677	6,898	46,467
Travel	3,383	2,461	-	8,356	864	60	433	560	16,117	379	284	663	16,780
Jesuit and VISTA volunteers	28,103	2,450	-	-	-	-	-	-	30,553	-	2,450	2,450	33,003
Volunteer support	654	759	-	152	452	226	366	797	3,406	219	322	541	3,947
Training/advocacy stipend	-	-	-	10,820	9,755	-	-	-	20,575	-	-	-	20,575
Research and evaluation	-	3,000	-	2,313	4,377	-	-	2,500	12,190	5,535	308	5,843	18,033
Bad debts	-	-	-	-	-	-	-	-	-	9,774	-	9,774	9,774
Other	3,393	5,572	-	1,137	3,396	1,693	2,641	6,195	24,027	3,677	1,270	4,947	28,974
Depreciation expense	1,676,629	1,421,078	1,389,850	393,394	697,318	417,692	544,758	1,133,503	7,674,222	575,375	223,319	798,694	8,472,916
	56,148	40,026	-	3,836	52,528	6,446	1,427	14,888	175,299	33,765	5,389	39,154	214,453
Total expenses	\$ 1,732,777	1,461,104	1,389,850	397,230	749,846	424,138	546,185	1,148,391	7,849,521	609,140	228,708	837,848	8,687,369

See accompanying notes to financial statements.

PREBLE STREET
Statement of Functional Expenses
Year Ended June 30, 2010

	Program services										Supporting services		
	Food Programs	Resource Center	Community Advocacy	Teen Center	Lighthouse Shelter	Logan Place	Florence		House	Total	Administrative	Development	Total
							Florence	House					
Salaries	\$ 203,611	741,011	148,986	471,193	249,395	388,301	69,933	509,171	2,781,601	350,199	120,594	470,793	3,252,394
Payroll taxes and employee benefits	52,896	200,396	40,675	139,611	63,708	100,604	21,980	164,344	784,214	92,651	31,886	124,537	908,751
Outside services	1,235	19,862	841	36,722	1,893	3,286	389	26,599	90,827	1,673	600	2,273	93,100
Donated services	13,985	40,541	-	13,985	-	-	-	-	68,511	-	11,188	11,188	79,699
Food and program expenses	113,263	15,130	5,775	19,320	5,110	11,567	54,712	57,489	282,366	-	20,176	20,176	302,542
Donated goods	496,693	184,012	-	22,386	-	2,645	28,173	19,953	753,862	-	-	-	753,862
Food commodities	16,946	-	-	-	-	-	-	-	16,946	-	-	-	16,946
Occupancy	59,856	58,501	12,099	48,082	46,410	-	-	55,783	280,731	11,572	4,842	16,414	297,145
Telephone	812	5,625	781	4,573	1,749	2,958	205	2,759	19,462	2,190	305	2,495	21,957
Office supplies	1,406	6,843	939	4,109	2,273	2,943	432	6,210	25,155	1,768	643	2,411	27,566
Technology	557	2,710	372	1,627	900	1,166	171	1,764	9,267	700	3,033	3,733	13,000
Printing	408	1,985	388	1,192	659	854	125	7,963	13,574	513	10,267	10,780	24,354
Insurance	1,679	8,168	1,121	4,905	2,713	3,514	516	5,316	27,932	2,111	768	2,879	30,811
Professional fees	996	4,847	665	2,910	1,610	2,085	306	3,155	16,574	1,253	455	1,708	18,282
Postage	442	2,150	295	1,291	714	925	136	3,787	9,740	556	4,563	5,119	14,859
Staff development	2,162	10,093	2,082	11,805	4,709	4,768	471	6,452	42,542	3,442	1,182	4,624	47,166
Travel	3,450	1,969	7,052	1,620	131	733	12	197	15,164	119	289	408	15,572
Jesuit and VISTA volunteers	8,093	9,711	-	8,093	-	-	-	-	25,897	-	6,474	6,474	32,371
Volunteer support	540	1,512	205	969	496	661	94	990	5,467	386	140	526	5,993
Training/advocacy stipend	-	-	12,200	9,895	-	-	-	-	22,095	-	-	-	22,095
Research and evaluation	-	-	5,325	3,000	-	-	-	3,000	11,325	4,970	-	4,970	16,295
Other	1,898	8,783	1,207	6,076	2,917	3,233	375	7,730	32,219	2,225	1,987	4,212	36,431
Depreciation expense	980,928	1,323,849	241,008	813,364	385,387	530,243	178,030	882,662	5,335,471	476,328	219,392	695,720	6,031,191
	31,029	43,603	6,432	66,259	4,815	6,195	854	22,090	181,277	14,835	7,277	22,112	203,389
Total expenses	\$ 1,011,957	1,367,452	247,440	879,623	390,202	536,438	178,894	904,752	5,516,748	491,163	226,669	717,832	6,234,580

See accompanying notes to financial statements.

PREBLE STREET
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (325,647)	24,105
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	214,453	203,389
Change in unamortized discount	(24,282)	(23,693)
Realized and unrealized gains on investments	(226,716)	(105,947)
(Increase) decrease in assets:		
Accounts receivable	7,932	(12,051)
Pledges receivable	223,218	1,173,558
Grants receivable	766,568	(859,005)
Prepaid expenses	(43,434)	(19,623)
Inventory	6,478	(12,206)
Increase (decrease) in liabilities:		
Accounts payable	(52,761)	89,558
Accrued expenses	32,992	27,888
Deferred revenue	(15,047)	2,347
Net cash provided by operating activities	563,754	488,320
Cash flows from investing activities:		
Gains in beneficial interest in perpetual trust	(23,330)	(8,524)
Reinvestment of dividends	-	(629)
Proceeds from sale of investments	1,110,762	647,548
Purchases of investments	(1,228,645)	(807,504)
Purchase of property and equipment	(120,835)	(268,396)
Net cash used in investing activities	(262,048)	(437,505)
Net change in cash	301,706	50,815
Cash, beginning of year	625,800	574,985
Cash, end of year	\$ 927,506	625,800

See accompanying notes to financial statements.

PREBLE STREET
Notes to Financial Statements

DESCRIPTION OF PURPOSE

Preble Street is a nonprofit corporation whose mission is to provide accessible, barrier free services to empower people experiencing problems with homelessness, housing, hunger, and poverty, and to advocate for solutions to these problems.

Resource Center

Provides a drop-in center for adults and families, offering essential services, such as phone, mail, and showers to approximately 400 adults a day; as well as casework support, referrals, and advocacy to empower people to move beyond homelessness, such as housing, healthcare, employment, mental health and substance abuse services, and legal assistance.

Teen Services

Teen Center provides drop-in services 365 days per year to meet basic needs, such as meals, clothing, and showers of homeless youth, ages 12-20. Caseworkers and on-site collaborative partners also provide and/or connect youth to housing, healthcare, mental health, substance abuse, educational/vocational, and legal resources.

Lighthouse Shelter provides 16 overnight emergency beds 365 days per year for homeless youth, ages 12-20.

Food Programs

Soup Kitchens operate at the Resource Center, Teen Center, and Florence House, to serve nutritious meals 3 times a day, 365 days per year (approximately 1,000 meals a day) to children and elders, individuals and families living in poverty.

Food Pantry distributes emergency grocery meals to 390 low-income individuals every week.

Florence House

Provides comprehensive housing and services for 65 chronically homeless women, including efficiency apartments and semi-private units with support to assist tenants to maintain permanent housing; and temporary emergency shelter, basic needs, support, referrals, and advocacy for women experiencing episodic homelessness.

Logan Place

Provides 24-hour support services at a 30-unit efficiency apartment building to assist tenants in developing skills to transition from chronic homelessness and maintain permanent housing.

Community Casework

Supports residential stability for formerly homeless tenants of local mixed-income housing developments, works with the Homeless Mobile Emergency Response team, and provides homelessness prevention and rapid re-housing services throughout Greater Portland.

Advocacy

Homeless Voices for Justice advocates on an individual and systems basis with and for people who struggle with homelessness, poverty, and oppression statewide.

Maine Hunger Initiative works to strengthen Maine's emergency food system, help community emergency food providers introduce best practices for effectiveness and viability, and provide input into state and national policy to end hunger.

PREBLE STREET
Notes to Financial Statements, Continued

DESCRIPTION OF PURPOSE, CONTINUED

Food for Maine Families

Preble Street was the lead agency in this one-time public-private partnership with DHHS/OIAS and Hannaford Supermarkets. With Temporary Assistance for Needy Families (TANF) funding and a grant from Hannaford, the project purchased \$100 food cards from Hannaford for redemption at affiliated grocers throughout Maine, providing a food supplement to 13,500 eligible Maine families with dependent children.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statement presentation follows the provisions of the *Not-for-Profit Entities: Revenue Recognition* topic and the *Presentation of Financial Statements* topic of the FASB Accounting Standards Codification. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Preble Street, and changes therein, are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Preble Street and/or the passage of time. Preble Street has elected to report all temporarily restricted assets with restrictions which are met within the same fiscal period, as unrestricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the principal be maintained permanently by Preble Street. Generally, the donors of the assets permit Preble Street to use all or part of the income earned on related investments for general or specific purposes.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Revenue Recognition - All public support and revenue is considered to be available for unrestricted use unless specifically restricted by the donor. At its discretion, the Board of Directors may designate funds for specific purposes. Such board-designated funds are shown as a segregated portion of unrestricted net assets on the statements of financial position.

Cash - For the purposes of the statements of cash flows, Preble Street considers all checking and savings accounts to be cash.

Accounts and Grants Receivable - Preble Street primarily operates in the Portland, Maine area and receives various governmental grants and contracts to provide services in this area. All amounts receivable are considered fully collectible, therefore an allowance for doubtful accounts is not considered necessary.

Inventory - Inventory consists of donated and purchased food, beverages, and supplies and is stated at fair value as of the date of donation, using the first-in-first-out method. For purchased goods, inventory is stated at the lower of cost or market.

PREBLE STREET
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment - Property and equipment with a value of \$500 or more is capitalized at cost if purchased, or fair value at the date of the gift if donated, and is recorded as an addition to unrestricted net assets. Expenditures for minor additions are charged to expense when incurred. Depreciation is being provided using the straight-line method over the estimated useful lives of the related assets (buildings: 35 to 40 years; major improvements: 20 to 35 years; vehicles: 5 years; computers: 3 to 5 years; and other equipment: 5 to 10 years).

Indirect Costs - Preble Street allocates indirect costs to programs in accordance with a cost allocation plan, which is based on several methods that determine each program's use of indirect costs.

Grants and Contributions - Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Income Taxes - Preble Street is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Preble Street's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, Preble Street 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)(2) of the Code.

Preble Street follows the provisions of *Accounting for Uncertainty in Income Taxes* as provided for in the *Income Taxes* topic of the FASB Accounting Standards Codification. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in an entity's financial statements. It also prescribes a recognition threshold of more likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. There was no cumulative effect on Preble Street's financial statements related to these provisions, and no interest or penalties related to uncertain tax positions were accrued. Preble Street is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended June 30, 2008 through 2011.

Reclassifications - Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. Such reclassifications had no effect on the results of operations as previously reported.

Use of Estimates - The preparation of 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Cash balances were held in accounts at various financial institutions during the years ended June 30, 2011 and 2010. As of June 30, 2011 and 2010, Preble Street's accounts at each such institution were insured by the Federal Deposit Insurance Corporation at levels set by applicable statute and regulation. At June 30, 2011 and 2010, Preble Street had uninsured cash balances of \$53,749 and \$0, respectively.

PREBLE STREET
Notes to Financial Statements, Continued

GRANTS TO OTHERS

During the year ended June 30, 2009, Preble Street initiated a campaign to raise funds for the food pantries across the State of Maine. A portion of the funds raised for this purpose were then remitted to the United Way of Greater Portland in a grant with the restriction that the funds were to be distributed to food pantries across the State. Additional funds were then remitted by Preble Street as grants to food pantries within Cumberland County. Total funds raised related to this campaign amounted to \$120,000, all of which has been granted to others. The remaining portion of the unspent funds, which amounted to \$0 and \$7,688 at June 30, 2011 and 2010, respectively, is included in temporarily restricted net assets.

GRANTS RECEIVABLE

Following is a summary of grants receivable at June 30:

	<u>2011</u>	<u>2010</u>
Ingraham - Mainstay	\$ 15,093	15,093
Maine Department of Health and Human Services	4,960	-
Maine Department of Health and Human Services - Shelter	-	30,879
Maine Department of Health and Human Services - Teen Center	3,894	4,988
Maine Department of Health and Human Services - Florence House	-	556,376
City of Portland - HPRP	16,888	-
City of Portland Community Development Program - Day Shelter	19,000	23,976
City of Portland Community Development Program - Lighthouse Shelter	7,500	19,659
City of Portland Community Development Program - Florence House	7,500	19,828
City of Portland Community Development Program - Meals	12,500	19,473
Economic Development Initiative - Special Project	196,000	196,000
City of Portland - General assistance	9,892	34,432
City of Portland - Logan Place	18,250	36,500
City of Portland - Shelter	29,000	120,831
HUD Supportive Housing Grant	76,935	74,954
HUD Logan Place	77,794	93,440
Maine Care - Targeted Case Management	15,860	4,462
Maine State Housing Authority	38,897	103,510
Milestone Foundation	5,672	-
PROP	3,892	-
SARSSM	1,875	-
Cumberland County	6,541	2,016
Cultivating Community	5,250	-
Southern Maine Area Agency on Aging	7,351	4,627
U.S. Department of Health and Human Services	21,673	20,457
United Way	12,716	-
Total grants receivable	\$ 614,933	1,381,501

PREBLE STREET
Notes to Financial Statements, Continued

PLEDGES RECEIVABLE

In fiscal 2007, Preble Street launched its Home for Good campaign, aimed at raising funds to finance the Florence House for women and capacity building initiatives for the Organization as a whole. Contributions to this campaign came from foundations and long time supporters of the Organization and are considered fully collectible. As a result, no allowance for uncollectible pledges is considered necessary. Total pledges receivable for all campaigns, net of unamortized discount, are summarized as follows at June 30:

	<u>2011</u>	<u>2010</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 202,500	247,500
One year to five years	96,441	298,941
Over five years	-	-
Less unamortized discount at 3%	(2,893)	(27,175)
Totals	\$ 296,048	519,266

CONDITIONAL PROMISES TO GIVE RECEIVABLE

In June, 2011 the United Way of Greater Portland committed to provide funding to Preble Street for the fiscal year ending June 30, 2012. As this commitment carries certain conditions, the likelihood of non-fulfillment of which has been estimated by Preble Street to be more than remote, the value of this commitment has not been recorded as a receivable nor as support as of June 30, 2011, in accordance with the *Not-for-Profit Entities: Revenue Recognition* topic of the FASB Accounting Standards Codification. The amount of this conditional promise to give is \$371,483. Should the corresponding conditions be fulfilled, this amount is due to be paid to Preble Street in full during the fiscal year ending June 30, 2012.

In December, 2007 the Kresge Foundation approved a special conditional grant to Preble Street in the amount of \$1,000,000 to be paid out in equal installments over the next five years, and to be used to further the capacity building initiatives of the Organization. The grant carries certain conditions that must be met each year to receive the funding. The private foundation reserves the right to discontinue, modify, or withhold any payments that might otherwise be due under the grant, if in their judgment certain conditions are not met. Preble Street has assessed the likelihood of non-fulfillment associated with the grant conditions as more than remote, and therefore records the funding as support as it is received. Through June 30, 2011 a cumulative total of \$800,000 had been received against this conditional grant. The remaining \$200,000 is expected to be received during the year ending June 30, 2012.

PREBLE STREET
Notes to Financial Statements, Continued

INVESTMENTS

Investments are carried at fair value and consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 1,028,090	1,150,091
Exchange-traded funds	368,306	-
Money market funds and cash equivalents	100,724	-
<u>Equities</u>	<u>29,998</u>	<u>9,080</u>
 <u>Totals</u>	 <u>\$ 1,527,118</u>	 <u>1,159,171</u>

BENEFICIAL INTEREST IN PERPETUAL TRUST

Preble Street received a donation in 1997 from a donor who wished to establish an endowment fund for Preble Street to assist low income individuals achieve employment and self sufficiency. This fund was established through an agreement with the United Way of Greater Portland Foundation. It is known as the Preble Street Resource Center Self Sufficiency Endowment Fund.

The United Way of Greater Portland Foundation manages and oversees the investment of the assets of the fund. The Preble Street Board of Directors has sole discretion as to the use of the distributable income each year. Each year, the distributable income is equal to 4.5% of the average portfolio value of the Fund over the prior three years. If the fund's value exceeds \$100,000, the Preble Street Board of Directors may elect to expend more than the income generated in a specific year, provided the balance of the fund does not fall below the \$100,000 level as a result of the withdrawals. As of June 30, 2011 and 2010, the balances in this account were \$137,987 and \$114,657, respectively.

ENDOWMENT

As noted earlier, at June 30, 2011 and 2010, Preble Street was the sole beneficiary of a perpetual trust held and administered by a not-for-profit organization. Though Preble Street does not have access to the underlying assets held in this trust, nor control over the management thereof, provisions of the trust instrument do provide Preble Street with the ability to exercise discretion as to the amounts to be drawn from this trust each year. Accordingly, Preble Street's interest in this trust is deemed to meet the definition of a donor-restricted endowment, the purpose of which is to provide investment income and gains to further various activities of Preble Street, per donor intent. Additionally, Preble Street held \$1,497,120 and \$1,136,180 in its board-designated endowment at June 30, 2011 and 2010, respectively. As noted earlier, this fund was established by the Board through unexpended capital campaign proceeds, and is held by the Board to provide for additional financial stability for the Organization as a whole. At its discretion, the Board may elect to change its policy with regard to these funds if it deems future circumstances warrant such a change.

Preble Street has adopted the provisions of the *Not-for-Profit Entities: Reporting Endowment Funds* topic of the FASB Accounting Standards Codification. Under these provisions, Preble Street is required to provide the following disclosures relating to its endowment activities.

PREBLE STREET
Notes to Financial Statements, Continued

ENDOWMENT

Relevant Law - Preble Street conducts its activities primarily in Portland, Maine, and accordingly, considers itself bound by the version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of Maine's legislature. In accordance with that statute, Preble Street has interpreted State law to require all realized and unrealized gains and losses on permanently restricted investments to be temporarily restricted net assets until appropriated by the Board of Directors. Accordingly, except for explicit donor stipulations specifying reinvestment of some or all of net appreciation (depreciation), net appreciation (depreciation) on permanent endowment investments is reported as increases (decreases) in temporarily restricted endowment investments until appropriated by the Board, in accordance with the donor's stipulations, if any, concerning the purposes for which ordinary income may be used.

Endowment Spending Policy - The responsibility of setting the spending policy for the endowment shall rest with the Executive Committee of the Board of Directors, subject to the approval of the entire Board of Directors. The amount available to help meet the annual operating needs of Preble Street shall be based upon the following principles:

- No portion of the endowment fund will be spent until the value of the pool equals or exceeds \$1,000,000 at the end of the fiscal year.
- Thereafter, the endowment funds can be spent up to an annual cap calculated at five percent of the average total fund value, as of the end of each of the immediately preceding four fiscal years, net of fees and all other expenses. For purposes of calculating this four-year average, fiscal years before which the net value of the funds was not at \$1,000,000 as of the end of the fiscal year, shall be ignored.
- This is a maximum amount and Preble Street can elect to spend less should it choose to do so.

Endowment Investment Policy - The primary objective of Preble Street's endowment fund is to provide, over time, an increasing flow of real income (as defined by the spending policy) to help support the annual operating budget of Preble Street. The investment policy is directed toward maximizing such a flow of income, measured in terms of total return balanced against prudent risks, over the long term.

The overall investment philosophy will be moderately conservative, allowing for equity investments but with a relatively low level of risk tolerance. Both equity and fixed income investments will be prudently diversified with a blend of equities, bonds, and cash being recommended by the investment committee. All long range investments of the endowment fund will consist of either cash or publicly traded securities.

Preble Street's endowment balances were comprised of the following as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Board-designated endowment	\$ 1,497,120	-	-	1,497,120
Donor-restricted endowment	-	-	137,987	137,987
Totals	\$ 1,497,120	-	137,987	1,635,107

PREBLE STREET
Notes to Financial Statements, Continued

ENDOWMENT, CONTINUED

The changes in Preble Street's endowment balances for the year ending June 30, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 1,136,180	-	114,657	1,250,837
Contributions	100,000	-	-	100,000
Investment return:				
Investment income, net of fees	34,900	-	1,572	36,472
Net appreciation	226,040	-	21,758	247,798
Total investment return	260,940	-	23,330	284,270
Endowment net assets, end of year	\$ 1,497,120	-	137,987	1,635,107

Preble Street's endowment balances were comprised of the following as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Board-designated endowment	\$ 1,136,180	-	-	1,136,180
Donor-restricted endowment	-	-	114,657	114,657
Totals	\$ 1,136,180	-	114,657	1,250,837

The changes in Preble Street's endowment balances for the year ending June 30, 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 893,555	-	106,133	999,688
Contributions	103,559	-	-	103,559
Investment return:				
Investment income, net of fees	33,119	-	1,272	34,391
Net appreciation	105,947	-	7,252	113,199
Total investment return	139,066	-	8,524	147,590
Endowment net assets, end of year	\$ 1,136,180	-	114,657	1,250,837

PREBLE STREET
Notes to Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

In accordance with the *Fair Value Measurement and Disclosure* topic of the FASB Accounting Standards Codification, Preble Street is required to disclose, for its assets and liabilities measured at fair value on a recurring basis, the sources and types of information, known as inputs, used to determine those fair value measurements.

Level 1: Level 1 inputs are quoted prices in active markets for identical assets and liabilities that an entity has the ability to access at a measurement date. *Level 2:* Level 2 inputs are inputs other than quoted prices that are observable for the specific asset or liability, either directly or indirectly. *Level 3:* Level 3 inputs are unobservable inputs for the asset or liability in which little or no market activity is available for the asset or liability at the measurement date.

The reported values of assets measured at fair value on a recurring basis are categorized as follows at June 30, 2011 and 2010, with such valuations all based on readily available market prices for the respective assets, with the exception of the perpetual trust beneficial interest, which is valued based on readily available market prices for the underlying assets held by that trust.

	Totals 6/30/11	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds	\$ 1,028,090	1,028,090	-	-
Exchange-traded funds	368,306	368,306	-	-
Money market funds and cash equivalents	100,724	100,724	-	-
Equities	29,998	29,998	-	-
Beneficial interest in perpetual trust	137,987	-	137,987	-
Totals	\$ 1,665,105	1,527,118	137,987	-

	Totals 6/30/10	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds	\$ 1,168,251	1,168,251	-	-
Equities	9,080	9,080	-	-
Beneficial interest in perpetual trust	114,657	-	114,657	-
Totals	\$ 1,291,988	1,177,331	114,657	-

PREBLE STREET
Notes to Financial Statements, Continued

DEFERRED REVENUE

Deferred revenue represents grant funds received, but not earned, to fulfill Preble Street's obligations in connection with the following as of June 30:

	<u>2011</u>	<u>2010</u>
Haymarket Peoples Fund	\$ -	5,000
Other	-	10,047
<u>Totals</u>	<u>\$ -</u>	<u>15,047</u>

LINE OF CREDIT

Preble Street has a line of credit arrangement with a local bank with a maximum borrowing limit of \$50,000. Interest is payable monthly on all outstanding advances at a rate equal to prime plus 0.5% (equal to 3.75% at both June 30, 2011 and 2010). This agreement requires an annual clearance period of 30 days, during which the outstanding balance must be brought to and maintained at \$0. At both June 30, 2011 and 2010, there were no amounts outstanding on this line of credit.

OBLIGATION UNDER OPERATING LEASE

Preble Street leases a building which is used to house its Lighthouse Shelter program in Portland under the terms of a non-cancelable operating lease which expired on May 31, 2010. Though a renewal of this lease has not been formalized, rental payments continue to be made on a month-to-month basis.

During the year ended June 30, 2010, Preble Street entered into a non-cancelable operating lease for the safe haven and shelter portions of the building that houses Florence House. The agreement calls for monthly rental payments of \$6,055, adjusted annually to reflect changes in the facility's operating expenses, and a term of 30 years. As of June 30, 2011 future minimum operating lease payments amounted to the following:

<u>For year ended</u>	<u>Total</u>
2012	\$ 71,496
2013	72,660
2014	72,660
2015	72,660
2016	72,660
Thereafter	1,743,840
<u>Total</u>	<u>\$ 2,105,976</u>

PREBLE STREET
Notes to Financial Statements, Continued

OBLIGATION UNDER OPERATING LEASE, CONTINUED

During the year ended June 30, 2010, Preble Street entered into a one year operating lease for the use of staff office space. The lease agreement calls for monthly payments of \$470 and after a one year term, provides for a month to month option. The one year term expired August 30, 2010 and is being extended on a month to month basis. During the same fiscal period, Preble Street entered into a six month lease, calling for monthly payments of \$370, with a monthly extension option for additional office space for staff. As of June 30, 2011, rental payments continue to be made on both leases utilizing the monthly extension option.

During the years ended June 30, 2011 and 2010, total rent expense incurred by Preble Street related to these agreements amounted to \$86,608 and \$56,105, respectively.

Preble Street is a party to two operating leases by which it obtained the use of certain vehicles. This agreement calls for minimum required monthly rental payments ranging from \$356 to \$489. As of June 30, 2011 future minimum operating lease payments under these agreements amounted to the following:

<u>For year ended</u>	<u>Total</u>
2012	\$ 7,697
2013	4,272
2014	3,204
<u>Total</u>	<u>\$ 15,173</u>

Total vehicle rent expense under these agreements amounted to \$9,870 for the year ended June 30, 2011.

CONTINGENCIES

Preble Street participates in various intergovernmental grant programs that may be subject to future program compliance audits by the grantors or their representatives. Accordingly, Preble Street's compliance with applicable grant requirements may be established at some future date. The amount, if any, of liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

PENSION PLAN

Preble Street participates in a tax deferred investment plan under section 403(b) of the Internal Revenue Code. Eligible employees are able to defer salary and participate in the employer match portion of the plan. Total retirement expense under this plan for the years ended June 30, 2011 and 2010 was \$10,680 and \$10,470, respectively.

PREBLE STREET
Notes to Financial Statements, Continued

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

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

	<u>2011</u>	<u>2010</u>
Food for Maine	\$ -	7,688
Maine Hunger Initiative	380,000	99,889
Florence House	-	75,000
Home for Good/Capacity Building	300,000	647,500
<u>Totals</u>	<u>\$ 680,000</u>	<u>830,077</u>

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

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

	<u>2011</u>	<u>2010</u>
Beneficial interest in perpetual trust with income restricted for self sufficiency efforts	<u>\$ 137,987</u>	<u>114,657</u>

As previously discussed, Preble Street has a board-designated endowment fund. At June 30, 2011 and 2010, these board-designated net assets amounted to \$1,497,120 and \$1,136,180, respectively.

NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Food for Maine	\$ 7,688	5,879
Maine Hunger Initiative	369,889	260,111
Florence House	75,000	175,000
Capacity building expenditures	347,500	472,500
<u>Totals</u>	<u>\$ 800,077</u>	<u>913,490</u>

PREBLE STREET
Notes to Financial Statements, Continued

DONATED SERVICES AND GOODS

During the years ended June 30, 2011 and 2010, certain goods and professional services were donated to Preble Street. The estimated fair values of these goods and professional services totaling \$1,023,953 and \$850,507 for 2011 and 2010, respectively, have been reflected in the accompanying financial statements as public support with a like amount included in expenses as donated services and goods, food commodities, and food and program expenses.

The value of nonprofessional, donated services is not reflected in the accompanying financial statements as these services do not meet the criteria outlined in the *Not-for-Profit Entities: Revenue Recognition* topic of the FASB Accounting Standards Codification. However, a substantial number of nonprofessional volunteers have donated significant amounts of their time in support of Preble Street's programs. The estimated fair value of the nonprofessional donated services was \$458,625 in 2011 and \$337,260 in 2010.

OTHER ECONOMIC CONCENTRATIONS AND RISKS

Approximately 44% of Preble Street's annual funding, other than in-kind goods and services, is provided through various local, state and federal governmental grants and contracts. Any significant reduction in this funding could affect Preble Street's ability to fulfill its mission.

As detailed previously, Preble Street invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

As noted on the statements of activities of these financial statements, Preble Street experienced a deficit of (\$325,647) for the year ended June 30, 2011. This deficit was planned by management and the Board of Directors and was the result of program expansion to three meals per day at the Resource Center and investing resources in the Maine Hunger Initiative. Preble Street had built surplus funds in prior years in anticipation of this organizational growth.

OCCUPANCY COSTS

In February 1994, Preble Street purchased property located on Oxford Street. In January 2002, Preble Street purchased another property at 343 Cumberland Avenue. Preble Street renovated both of these properties in fiscal years 2003 and 2004. All renovations were completed by November 2003 and these facilities now house Preble Street's programs as well as various other social welfare programs provided by other nonprofit and governmental agencies. These agencies are tenants-at-will and pay monthly stipends to help support the costs of occupying the facilities. During the years ended June 30, 2011 and 2010 these stipends totaled \$37,200 and \$45,200, respectively.

PREBLE STREET
Notes to Financial Statements, Continued

OCCUPANCY COSTS, CONTINUED

Net occupancy related costs consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Depreciation	\$ 214,453	203,389
Rent	105,801	56,105
Repairs and maintenance	61,887	56,489
Electricity	53,438	54,726
Water and sewer	29,750	30,091
Gas/heat	49,475	45,259
Trash and snow removal	15,282	10,674
Building supplies	75,853	53,071
Less stipend income	(37,200)	(45,200)
Net occupancy costs	<u>\$ 568,739</u>	<u>464,604</u>

SUBSEQUENT EVENTS

In accordance with the *Subsequent Events* topic of the FASB Accounting Standards Codification, management has evaluated subsequent events for possible recognition or disclosure through November 29, 2011, which is the date these financial statements were available to be issued.

In August, 2011 Preble Street entered into a purchase and sale agreement totaling \$975,000 on a building for the purposes of expanding and relocating the Lighthouse Shelter. The Preble Street Board of Directors has embarked on a capital campaign to fund the purchase.