

PREBLE STREET

Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 December 12, 2012, 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

December 12, 2012
South Portland, Maine

PREBLE STREET
Statements of Financial Position
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash	\$ 3,476,337	927,506
Investments	1,346,053	1,527,118
Accounts receivable	1,546	15,403
Pledges receivable, current portion	423,851	202,500
Grants receivable	548,624	614,933
Prepaid expenses	83,513	108,110
Inventory	30,825	29,322
Total current assets	5,910,749	3,424,892
Property and equipment:		
Land	274,380	274,380
Buildings and improvements	5,035,438	5,022,013
Construction in progress	1,346,011	-
Equipment	762,338	732,255
Vehicles	25,500	25,500
	7,443,667	6,054,148
Less accumulated depreciation	(2,055,175)	(1,847,801)
Net property and equipment	5,388,492	4,206,347
Other assets:		
Pledges receivable, noncurrent, net	507,425	93,548
Beneficial interest in perpetual trust	125,630	137,987
Total other assets	633,055	231,535
Total assets	\$ 11,932,296	7,862,774
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	322,215	77,790
Accrued expenses	234,311	149,025
Total current liabilities	556,526	226,815
Total liabilities	556,526	226,815
Net assets:		
Unrestricted:		
Undesignated	1,168,083	1,114,505
Board-designated investments	1,311,754	1,497,120
Investment in property and equipment	5,388,492	4,206,347
Total unrestricted net assets	7,868,329	6,817,972
Temporarily restricted	3,381,811	680,000
Permanently restricted	125,630	137,987
Total net assets	11,375,770	7,635,959
Total liabilities and net assets	\$ 11,932,296	7,862,774

See accompanying notes to financial statements.

PREBLE STREET
Statements of Activities
Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Unrestricted support:		
Government grant income	\$ 3,261,159	3,882,086
Fee for service income	284,648	223,164
Contributions from individuals, churches and corporations	474,594	489,965
Foundation income	1,049,665	1,304,366
Donated services	82,720	109,824
Donated goods	1,109,322	914,129
United Way	444,100	435,869
Net realized/unrealized gains (losses) on investments	(105,083)	226,716
Interest and dividend income	48,627	51,258
Other income	37,075	51,015
Total unrestricted support	6,686,827	7,688,392
Net assets released from restrictions	2,071,215	800,077
Total unrestricted support and reclassifications	8,758,042	8,488,469
Expenses:		
Program services:		
Food Programs	1,829,814	1,732,777
Resource Center	1,346,620	1,461,104
Veterans Services	474,767	-
Maine Hunger Initiative	237,909	1,389,850
Community Advocacy	129,033	397,230
Teen Center	784,904	749,846
Lighthouse Shelter	405,430	424,138
Logan Place	522,940	546,185
Florence House	1,094,902	1,148,391
Total program services	6,826,319	7,849,521
Supporting services:		
38 Preble	23,118	-
Administrative	646,060	609,140
Development	215,787	228,708
Total supporting services	884,965	837,848
Total expenses	7,711,284	8,687,369
Change in unrestricted net assets	1,046,758	(198,900)
Temporarily restricted net assets:		
Contributions	4,773,026	650,000
Net assets released from restrictions	(2,071,215)	(800,077)
Change in temporarily restricted net assets	2,701,811	(150,077)
Permanently restricted net assets:		
Net investment gains (losses)	(8,758)	23,330
Change in permanently restricted nets assets	(8,758)	23,330
Change in net assets	3,739,811	(325,647)
Net assets, beginning of year	7,635,959	7,961,606
Net assets, end of year	\$ 11,375,770	7,635,959

PREBLE STREET
Statement of Functional Expenses
Year Ended June 30, 2012

	Program services										Supporting services			Total expenses	
	Food Programs	Resource Center	Veterans Services	Maine Hunger Initiative	Community Advocacy	Teen Center	Lighthouse Shelter	Logan Place	Florence House	Total	38 Preble	Administrative	Development		Total
Salaries	\$ 400,064	731,078	177,861	109,008	81,348	435,239	256,564	384,742	714,368	3,290,272	-	408,599	129,962	538,561	3,828,833
Payroll taxes and employee benefits	116,706	203,144	57,666	35,481	26,544	135,384	77,233	111,672	203,293	967,123	-	143,997	42,263	186,260	1,153,383
Outside services	7	13,040	124,426	-	-	41,840	4	4	4,873	184,194	-	5	4,502	4,507	188,701
Donated services	14,540	15,400	-	35,840	-	-	-	3,080	10,780	79,640	-	3,080	-	3,080	82,720
Food and program expenses	221,036	17,953	79,716	27,696	1,089	12,756	4,041	3,904	18,856	387,047	232	1,890	2,098	4,220	391,267
Donated goods	873,180	214,668	-	-	-	8,957	-	2,095	8,837	1,107,797	-	1,585	-	1,585	1,109,322
Occupancy	101,547	73,737	5,399	1,863	1,438	51,857	46,707	492	82,866	365,906	8,086	19,364	4,866	31,316	397,222
Telephone	3,919	4,230	1,840	672	261	4,639	1,150	2,119	3,838	22,668	-	3,037	650	3,687	26,355
Office supplies	2,313	4,998	5,079	357	309	4,017	626	1,539	3,479	22,717	2,441	2,959	1,769	6,869	29,586
Technology	2,428	3,709	2,307	734	241	2,081	1,104	1,453	2,709	16,766	1,734	2,595	8,979	13,308	30,074
Printing	182	463	97	42	67	447	83	107	218	1,706	30	372	6,918	7,320	9,026
Insurance	4,353	5,313	2,329	992	694	3,579	1,977	2,556	5,217	26,950	2,576	4,278	1,038	7,892	34,842
Professional fees	2,098	2,561	1,122	478	305	1,725	953	1,232	2,590	13,064	-	2,415	501	2,616	15,680
Postage	1,167	1,447	624	266	170	976	530	685	1,399	7,264	-	1,442	1,558	3,000	10,264
Staff development	3,269	3,825	1,408	725	626	3,457	3,449	2,356	2,913	22,029	-	8,444	937	9,381	31,410
Travel	6,161	2,694	3,945	6,647	1,439	8,841	3,078	1,075	2,576	36,456	5	3,137	1,093	4,235	40,691
Jesuit and VISTA volunteers	5,996	-	-	8,500	-	-	-	-	-	14,496	-	-	-	-	14,496
Volunteer support	1,583	1,858	729	311	253	1,121	619	800	1,633	8,907	-	1,138	576	1,714	10,621
Training/advocacy stipend	3,875	-	-	4,400	12,990	10,089	-	-	-	31,354	-	-	-	-	31,354
Research and evaluation	-	-	1,500	1,267	-	2,853	-	-	5,073	10,693	-	107	-	107	10,800
Bad debts	-	-	-	-	-	-	-	-	-	-	-	240	-	-	240
Other	2,438	2,623	4,145	849	304	1,814	973	1,270	2,568	16,985	8,314	17,490	1,934	27,738	44,723
Depreciation expense	1,766,862	1,302,741	470,194	236,129	128,018	731,672	399,091	521,181	1,078,086	6,633,974	23,118	624,874	209,644	857,636	7,491,610
	62,952	43,879	4,573	1,780	1,015	53,232	6,339	1,759	16,816	192,345	-	21,186	6,143	27,329	219,674
Total expenses	\$ 1,829,814	1,346,620	474,767	237,909	129,033	784,904	405,430	522,940	1,094,902	6,826,319	23,118	646,060	215,787	884,965	7,711,284

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 Maine 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
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 3,739,811	(325,647)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	219,674	214,453
Change in unamortized discount	27,832	(24,282)
Realized and unrealized gains on investments	105,083	(226,716)
(Gains) losses on beneficial interest in perpetual trust	8,758	(23,330)
(Increase) decrease in assets:		
Accounts receivable	13,857	7,932
Pledges receivable	(607,396)	223,218
Grants receivable	66,309	766,568
Prepaid expenses	24,597	(43,434)
Inventory	(1,503)	6,478
Increase (decrease) in liabilities:		
Accounts payable	244,425	(52,761)
Accrued expenses	85,286	32,992
Deferred revenue	-	(15,047)
Net cash provided by operating activities	3,926,733	540,424
Cash flows from investing activities:		
Proceeds from sale of investments	447,167	1,110,762
Purchases of investments	(410,527)	(1,228,645)
Purchase of property and equipment	(1,414,542)	(120,835)
Net cash used in investing activities	(1,377,902)	(238,718)
Net change in cash	2,548,831	301,706
Cash, beginning of year	927,506	625,800
Cash, end of year	\$ 3,476,337	927,506

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 drop-in services 365 days a year for adults and families, meeting basic needs, such as phone, mail, and showers to approximately 400 adults a day; as well as street outreach, casework support, and referrals to address problems such as housing, healthcare, employment, mental health and substance abuse to empower people to move beyond homelessness.

Supports residential stability and homelessness prevention for formerly homeless tenants of local mixed-income housing developments throughout Greater Portland.

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.

Teen Services

Operates 24/365 to meet the basic needs of approximately 400 homeless and runaway youth, ages 12-20, including:

Teen Center: drop-in services open 8am-8pm to provide meals, clothing, mail, etc. as well as street outreach, casework, and on-site collaborative services connecting youth to housing, healthcare, mental health and substance abuse treatment, educational/vocational services, and legal resources.

Joe Kreisler Teen Shelter: formerly known as the Lighthouse Shelter, 24-bed overnight emergency shelter open 8pm-8am to commence in fiscal 2013.

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 nearly 400 low-income individuals every week.

Florence House

Provides comprehensive 24/365 supportive housing for 65 women, including 25 permanent efficiency apartments with support services, 15 semi-private safe haven units, and an emergency shelter with 25 beds providing basic needs, casework support, and referrals to address needs for housing, healthcare, employment, mental health and substance abuse treatment, and legal assistance.

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.

PREBLE STREET
Notes to Financial Statements, Continued

DESCRIPTION OF PURPOSE, CONTINUED

Advocacy

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

Veterans Housing Services

Preventing homelessness and ensuring residential stability for veterans throughout southern Maine.

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.

PREBLE STREET
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

Property and Equipment - Property and equipment with a value of \$2,500 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, 2009 through 2012.

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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.

PREBLE STREET
Notes to Financial Statements, Continued

CONCENTRATION OF CREDIT RISK

Cash balances were held in accounts at various financial institutions during the years ended June 30, 2012 and 2011. As of June 30, 2012 and 2011, Preble Street's accounts at each such institution were insured by the Federal Deposit Insurance Corporation at levels set by applicable statute and regulation. During fiscal 2012, Preble Street entered into a repo sweep agreement whereby any amounts greater than the FDIC insured limit are swept into an overnight repurchase investment account. As a result, Preble Street had \$0 and \$53,749 of uninsured cash balances at June 30, 2012 and 2011, respectively.

GRANTS RECEIVABLE

Following is a summary of grants receivable at June 30:

	<u>2012</u>	<u>2011</u>
Opportunity Alliance - Mainstay	\$ 15,093	15,093
Maine Department of Health and Human Services	221	4,960
Maine Department of Health and Human Services - Teen Center	28,478	3,894
City of Portland -- Shelter/HPRP	27,000	45,888
City of Portland - HCD	36,684	46,500
Economic Development Initiative - Special Project	-	196,000
City of Portland - General assistance	10,348	9,892
City of Portland - Logan Place	6,082	18,250
HUD Supportive Housing Grant	112,638	76,935
HUD Logan Place	35,950	77,794
Maine Care - Targeted Case Management	13,988	15,860
Maine State Housing Authority	40,996	38,897
Milestone Foundation	-	5,672
PROP	-	3,892
SARSSM	1,875	1,875
Cumberland County	6,541	6,541
Cultivating Community	5,250	5,250
Southern Maine Area Agency on Aging	6,423	7,351
U.S. Department of Health and Human Services	19,952	21,673
United Way	13,314	12,716
Veterans Affairs	167,791	-
Total grants receivable	\$ 548,624	614,933

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.

In fiscal 2012, Preble Street launched a capital campaign to raise funds for the purchase and renovation of a property located at 38 Preble Street. Upon full renovation, the building will serve as the new home for the Lighthouse Shelter and will be renamed the Joe Kreisler Shelter, in honor of Preble Street's founder.

Contributions to each of these campaigns 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>2012</u>	<u>2011</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 423,851	202,500
One year to five years	538,150	96,441
Over five years	-	-
<u>Less unamortized discount at 3%</u>	<u>(30,725)</u>	<u>(2,893)</u>
 Totals	 \$ 931,276	 296,048

CONDITIONAL PROMISES TO GIVE RECEIVABLE

In June, 2012 the United Way of Greater Portland committed to provide funding to Preble Street for the fiscal year ending June 30, 2013. 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, 2012, 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 \$352,983. 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, 2013.

INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Mutual funds	\$ 954,925	1,028,090
Exchange-traded funds	298,578	368,306
Money market funds and cash equivalents	58,251	100,724
<u>Equities</u>	<u>34,299</u>	<u>29,998</u>
 Totals	 \$ 1,346,053	 1,527,118

PREBLE STREET
Notes to Financial Statements, Continued

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, 2012 and 2011, the balances in this account were \$125,630 and \$137,987, respectively.

ENDOWMENT

As noted earlier, at June 30, 2012 and 2011, 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 \$1,311,754 and \$1,497,120 in its board-designated endowment at June 30, 2012 and 2011, 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.

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.

PREBLE STREET
Notes to Financial Statements, Continued

ENDOWMENT, CONTINUED

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, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Board-designated endowment	\$ 1,311,754	-	-	1,311,754
Donor-restricted endowment	-	-	125,630	125,630
Totals	\$ 1,311,754	-	125,630	1,437,384

PREBLE STREET
Notes to Financial Statements, Continued

ENDOWMENT, CONTINUED

The changes in Preble Street's endowment balances for the year ending June 30, 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 1,497,120	-	137,987	1,635,107
Contributions	-	-	-	-
(Distributions)	(116,500)	-	(5,691)	(122,191)
Investment return:				
Investment income, net of fees	36,216	-	2,092	38,308
Net appreciation (depreciation)	(105,082)	-	(8,758)	(113,840)
Total investment return	-	-	-	-
Endowment net assets, end of year	\$ 1,311,754	-	125,630	1,437,384

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

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 (depreciation)	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
Notes to Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

In accordance with the *Fair Value Measurements 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. The guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are as follows:

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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

- *Equity securities, Corporate Bonds, and U.S. Government Securities:* Valued at the closing price as reported on the active market on which the individual securities are traded.
- *Mutual Funds and Exchange Traded Funds:* Valued at the net asset value (NAV) of shares held by Preble Street at year end.
- *Beneficial Interest in Perpetual Trust:* Valued at the closing price as reported on the active market on which the underlying individual securities of the Trust are traded.

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

The table below segregates all financial assets and liabilities as of June 30, 2012 and 2011 that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date:

PREBLE STREET
Notes to Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

	<u>Fair value measurements at reporting date using:</u>			
	<u>Totals</u> <u>6/30/2012</u>	<u>Quoted prices in</u> <u>active markets for</u> <u>identical assets</u> <u>(Level 1)</u>	<u>Significant other</u> <u>observable</u> <u>inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>unobservable</u> <u>inputs</u> <u>(Level 3)</u>
Mutual funds:				
Algar Small Cap & Midcap	\$ 26,072	26,072	-	-
Blackrock High Yield Bond Port	52,137	52,137	-	-
Blackrock Inflation Protected	26,149	26,149	-	-
Columbia Marsico Growth FD	108,274	108,274	-	-
Eaton Vance Large Cap Value FD	65,711	65,711	-	-
Harbor International Fund	41,558	41,558	-	-
ING Global Real Estate Fund	26,917	26,917	-	-
Lazard Developing Mkts Equity FD	100,188	100,188	-	-
Loomis Bond Fund	130,762	130,762	-	-
Manning & Napier World Opportunity	41,438	41,438	-	-
Permanent Portfolio Fund	73,555	73,555	-	-
Pimco Emerging Local Bond	52,974	52,974	-	-
Prudential Short-Term Corp Bond FD	129,959	129,959	-	-
Royce Premier Fund	25,858	25,858	-	-
Templeton Global Bond Fund	53,373	53,373	-	-
Exchange-traded funds:				
Index total return	13,179	13,179	-	-
Vanguard MSCI EAFE ETF	36,179	36,179	-	-
Vanguard MSCI Emerging Mkt	43,604	43,604	-	-
Vanguard Growth	47,335	47,335	-	-
Vanguard Value ETF	27,914	27,914	-	-
Vanguard BD Index FD Inc	130,367	130,367	-	-
Money market funds				
and cash equivalents	58,251	58,251	-	-
Equities				
Energy	11,936	11,936	-	-
Transportation	1,858	1,858	-	-
BioTech	3,565	3,565	-	-
Financial services	16,940	16,940	-	-
Beneficial interest in perpetual trust	125,630	-	125,630	-
Totals	\$ 1,471,683	1,346,053	125,630	-

PREBLE STREET
Notes to Financial Statements, Continued

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS, CONTINUED

	Totals 6/30/2011	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	-

Transfers between level 2 and level 3 assets are recognized on the actual date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 2 and level 3 assets or liabilities during the years ended June 30, 2012 and 2011.

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, 2012 and 2011). 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, 2012 and 2011, there were no amounts outstanding on this line of credit.

In March 2012, Preble Street entered into a second line of credit agreement with a local bank for a maximum borrowing limit of \$350,000. Interest is payable monthly on all outstanding advances at a rate equal to prime plus 0.5% (equal to 3.75% at June 30, 2012). At June 30, 2012, 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. As previously discussed in these footnotes, Preble Street purchased and is currently renovating a building located at 38 Preble Street that will serve as the new home for the Joe Kreisler Teen Shelter. Renovations are expected to be completed and full occupancy is expected to take place in the fall of 2012.

PREBLE STREET
Notes to Financial Statements, Continued

OBLIGATION UNDER OPERATING LEASE, CONTINUED

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 \$5,926, which may be adjusted annually to reflect changes in the facility's operating expenses, and a term of 30 years. As of June 30, 2012 future minimum operating lease payments amounted to the following:

<u>For year ended</u>	<u>Total</u>
2013	\$ 71,112
2014	71,112
2015	71,112
2016	71,112
2017	71,112
Thereafter	<u>1,617,798</u>
Total	<u>\$ 1,973,358</u>

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 has been extended on a month to month basis. As of June 30, 2012, rental payments continue to be made on this lease utilizing the monthly extension option.

Preble Street is a party to two operating leases by which it obtained the use of certain vehicles. These agreements call for minimum required monthly rental payments ranging from \$356 to \$555. As of June 30, 2012 future minimum operating lease payments under these agreements amounted to the following:

<u>For year ended</u>	<u>Total</u>
2013	\$ 10,932
2014	9,864
2015	<u>3,330</u>
Total	<u>\$ 24,126</u>

During the years ended June 30, 2012 and 2011, total rent expense incurred by Preble Street related to these agreements amounted to \$98,921 and \$86,608, respectively.

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.

PREBLE STREET
Notes to Financial Statements, Continued

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, 2012 and 2011 was \$11,803 and \$10,680, respectively.

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

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

	<u>2012</u>	<u>2011</u>
Food Programs	\$ 305,025	150,000
Maine Hunger Initiative	186,924	230,000
Homeless Voices for Justice	5,000	-
38 Preble Street Building and Operating Fund	2,709,862	-
Resource Center	75,000	-
Home for Good/Capacity Building	100,000	300,000
Totals	\$ 3,381,811	680,000

Included within the 38 Preble Street Building and Operating Fund is an estimated \$1.1 million of funds intended to supplement the budget of the Teen Services programs, as needed, in future years.

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

	<u>2012</u>	<u>2011</u>
Beneficial interest in perpetual trust with income restricted for self sufficiency efforts	\$ 125,630	137,987

As previously discussed, Preble Street has a board-designated endowment fund. At June 30, 2012 and 2011, these board-designated net assets amounted to \$1,311,754 and \$1,497,120, respectively.

PREBLE STREET
Notes to Financial Statements, Continued

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>2012</u>	<u>2011</u>
Food	\$ 232,087	7,688
38 Preble Street	1,369,128	-
Maine Hunger Initiative	220,000	369,889
Teen Center	17,500	-
Resource Center	25,000	-
Lighthouse Shelter	7,500	-
Florence House	-	75,000
Capacity building expenditures	200,000	347,500
Totals	\$ 2,071,215	800,077

DONATED SERVICES AND GOODS

During the years ended June 30, 2012 and 2011, certain goods and professional services were donated to Preble Street. The estimated fair values of these goods and professional services totaling \$1,192,042 and \$1,023,953 for 2012 and 2011, 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 \$493,420 in 2012 and \$458,625 in 2011.

OTHER ECONOMIC CONCENTRATIONS AND RISKS

Approximately 54% 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.

PREBLE STREET
Notes to Financial Statements, Continued

OTHER ECONOMIC CONCENTRATIONS AND RISKS, CONTINUED

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. The large increase in net assets from 2011 to 2012 is attributable to the very successful 38 Preble Street capital campaign.

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, 2012 and 2011 these stipends totaled \$36,280 and \$37,200, respectively.

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

	<u>2012</u>	<u>2011</u>
Depreciation	\$ 219,674	214,453
Rent	98,921	105,801
Repairs and maintenance	68,590	61,887
Electricity	60,128	53,438
Water and sewer	41,795	29,750
Gas/heat	40,848	49,475
Trash and snow removal	16,806	15,282
Building supplies	69,139	75,853
Less stipend income	(36,280)	(37,200)
<u>Net occupancy costs</u>	<u>\$ 579,621</u>	<u>568,739</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 December 12, 2012, which is the date these financial statements were available to be issued.