

**PREBLE STREET RESOURCE CENTER, INC.
AND ITS AFFILIATE**

Consolidating Financial Statements

June 30, 2004 and 2003



Certified Public Accountants and Business Consultants

Independent Auditor's Report

To the Board of Directors of
Preble Street Resource Center, Inc.

We have audited the accompanying consolidating statements of financial position of Preble Street Resource Center, Inc. (a nonprofit corporation) and its affiliate, Stone Soup Foods (a nonprofit corporation), as of June 30, 2004 and 2003 and the related consolidating statements of activities, functional expenses, and cash flows for the years then ended. These consolidating financial statements are the responsibility of Preble Street Resource Center, Inc. and its affiliate's management. Our responsibility is to express an opinion on these consolidating 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 audit to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidating financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position(s) of Preble Street Resource Center, Inc. and its affiliate, Stone Soup Foods, as of June 30, 2004 and 2003, and changes in their net assets and their 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 a report dated September 24, 2004 on our consideration of Preble Street Resource Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

September 24, 2004
South Portland, Maine

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Consolidating Statements of Financial Position
Years ended June 30, 2004 and 2003

	2004			2003			
	Preble Street Resource Center, Inc.	Stone Soup Foods	Eliminations	Consolidated totals	Stone Soup Foods	Eliminations	Consolidated totals
ASSETS							
Current assets:							
Cash	\$ 142,219	12,086	-	154,305	391,006	-	407,453
Investments	6,493	-	-	6,493	4,112	-	4,112
Accounts receivable	44,450	-	(9,284)	35,166	120,468	-	120,468
Capital pledges receivable, current portion	722,769	-	-	722,769	1,153,251	-	1,153,251
Loan receivable, intercompany	46,450	-	(46,450)	-	39,289	(39,289)	-
Grants receivable	264,161	-	-	264,161	243,122	-	243,122
Prepaid expenses	14,273	1,266	-	15,539	3,769	-	4,889
Inventory	17,203	5,164	-	22,367	3,183	-	7,621
Total current assets	1,258,018	18,516	(55,734)	1,220,800	1,958,200	(39,289)	1,940,916
Property and equipment:							
Land	274,380	40,000	-	314,380	274,380	-	314,380
Buildings and improvements	4,666,061	149,076	-	4,815,137	3,228,142	-	3,377,113
Equipment	452,806	153,915	-	606,721	276,443	-	430,180
Vehicles	25,867	430	-	26,297	25,867	-	26,297
Less accumulated depreciation	(516,662)	(127,773)	-	(644,435)	(319,093)	-	(421,464)
Net property and equipment	4,902,452	215,648	-	5,118,100	3,485,739	-	3,726,506
Other assets:							
Capital pledges receivable, noncurrent	927,160	-	-	927,160	1,583,469	-	1,583,469
Organization costs net of amortization costs of \$27,815 and \$23,227, respectively	-	4,521	-	4,521	-	-	9,109
Goodwill costs net of amortization costs of \$500 and \$375, respectively	-	4,500	-	4,500	-	-	4,625
Beneficial interest in perpetual trust	116,175	-	-	116,175	103,349	-	103,349
Other assets	1,417	-	-	1,417	1,331	-	1,331
Total other assets	1,044,752	9,021	-	1,053,773	1,688,149	-	1,701,883
Total assets	\$ 7,205,222	243,185	(55,734)	7,392,673	7,132,088	(39,289)	7,369,305
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current portion of long-term debt	433,334	20,867	-	454,201	233,333	-	254,121
Accounts payable	31,439	16,229	(9,284)	38,384	368,158	-	388,865
Accrued expenses	37,778	9,050	-	46,828	42,766	-	49,698
Loans payable	-	46,450	(46,450)	-	-	(39,289)	2,160
Deferred revenue	111,435	25,000	-	136,435	17,158	-	17,158
Total current liabilities	613,986	117,596	(55,734)	675,848	661,415	(39,289)	712,002
Long-term debt, net of current portion	268,810	93,431	-	362,241	303,246	-	397,543
Total liabilities	882,796	211,027	(55,734)	1,038,089	964,661	(39,289)	1,109,545
Net assets:							
Unrestricted, operating	877,169	(69,192)	-	807,977	828,287	-	794,938
Investment in property and equipment	4,200,308	101,350	-	4,301,658	2,949,160	-	3,074,842
Total unrestricted net assets	5,077,477	32,158	-	5,109,635	3,777,447	-	3,869,780
Temporarily restricted	1,128,774	-	-	1,128,774	2,286,631	-	2,286,631
Permanently restricted	116,175	-	-	116,175	103,349	-	103,349
Total net assets	6,322,426	32,158	-	6,354,584	6,167,427	-	6,259,760
Total liabilities and net assets	\$ 7,205,222	243,185	(55,734)	7,392,673	7,132,088	(39,289)	7,369,305

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

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Consolidating Statements of Activities
Years ended June 30, 2004 and 2003

	2004				2003			
	Preble Street Resource Center, Inc.	Stone Soup Foods	Eliminations	Consolidated totals	Preble Street Resource Center, Inc.	Stone Soup Foods	Eliminations	Consolidated totals
Unrestricted net assets:								
Support and revenue:								
Grant income	\$ 1,082,820	60,016	-	1,142,836	1,196,215	65,844	-	1,262,059
Contributions from individuals, churches and corporations	110,319	40,091	(23,075)	127,335	191,018	13,920	(13,620)	191,318
Foundation income	200,351	-	-	200,351	115,742	-	-	115,742
Donated services	112,165	-	-	112,165	107,720	-	-	107,720
Donated goods	461,428	-	-	461,428	365,870	375	-	366,245
Special events	175,651	-	-	175,651	158,209	-	-	158,209
Unrealized gains (losses) on investments	986	-	-	986	(357)	-	-	(357)
Interest and dividend income	2,877	-	-	2,877	4,451	-	-	4,451
Sales	-	281,637	-	281,637	-	260,725	-	260,725
Loss on sale of assets	-	-	-	-	-	(2,117)	-	(2,117)
Other income	37,504	10,188	(23,075)	24,617	25,114	1,116	-	26,230
Total support and revenue	2,184,101	391,932	(46,150)	2,529,883	2,163,982	339,863	(27,240)	2,476,605
Net assets released from restrictions	1,753,701	-	-	1,753,701	2,701,415	-	-	2,701,415
Total support, revenue and reclassifications	3,937,802	391,932	(46,150)	4,283,584	4,865,397	339,863	(27,240)	5,178,020
Program expenses:								
Breakfast program	290,346	-	-	290,346	262,356	-	-	262,356
Housing and social services program	309,160	-	-	309,160	275,475	-	-	275,475
Day shelter	421,544	-	-	421,544	356,034	-	-	356,034
Food pantry	216,579	-	-	216,579	173,063	-	-	173,063
Advocacy project	104,317	-	-	104,317	93,115	-	-	93,115
Employment and education	146,289	-	-	146,289	157,775	-	-	157,775
Youth program (Teen Center)	687,765	-	-	687,765	605,153	-	-	605,153
Stone Soup Foods retail activities	-	332,192	(15,256)	316,936	-	304,103	(9,636)	294,467
Stone Soup Foods training program	-	119,915	(7,819)	112,096	-	96,877	(3,984)	92,893
Total program expenses	2,176,000	452,107	(23,075)	2,605,032	1,922,971	400,980	(13,620)	2,310,331
Supporting services:								
Management and general	289,262	-	(23,075)	266,187	206,640	-	(13,620)	193,020
Fundraising	97,510	-	-	97,510	368,907	-	-	368,907
Total supporting services	386,772	-	(23,075)	363,697	575,547	-	(13,620)	561,927
Total expenses	2,562,772	452,107	(46,150)	2,968,729	2,498,518	400,980	(27,240)	2,872,258
Increase (decrease) in unrestricted net assets	1,375,030	(60,175)	-	1,314,855	2,366,879	(61,117)	-	2,305,762
Temporarily restricted net assets:								
Restricted contributions	595,844	-	-	595,844	3,259,094	-	-	3,259,094
Losses from uncollectible pledges	(75,000)	-	-	(75,000)	-	-	-	-
Net assets released from restrictions	(1,753,701)	-	-	(1,753,701)	(2,701,415)	-	-	(2,701,415)
Increase (decrease) in temporarily restricted net assets	(1,232,857)	-	-	(1,232,857)	557,679	-	-	557,679
Permanently restricted net assets:								
Gain on endowment	10,864	-	-	10,864	843	-	-	843
Interest and dividend income	1,962	-	-	1,962	106	-	-	106
Increase in permanently restricted net assets	12,826	-	-	12,826	949	-	-	949
Increase (decrease) in net assets	154,999	(60,175)	-	94,824	2,925,507	(61,117)	-	2,864,390
Net assets, beginning of year	6,167,427	92,333	-	6,259,760	3,241,920	153,450	-	3,395,370
Net assets, end of year	\$ 6,322,426	32,158	-	6,354,584	6,167,427	92,333	-	6,259,760

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

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Consolidating Statement of Functional Expenses
Year ended June 30, 2004

	Program services										Supporting services			Stone Soup Foods		
	Breakfast program	Housing and social services program	Day shelter	Food pantry	Advocacy project	Employment and education	Youth program (Teen Center)	Total	Management and general	Fundraising	Total expenses	Retail activities	Training program	Total expenses	Consolidated totals	
Salaries	\$ 30,957	182,341	134,483	14,893	61,655	93,979	334,205	852,513	142,724	45,004	187,728	111,108	56,941	168,049	1,208,290	
Payroll taxes and employee benefits	5,989	44,492	28,958	3,771	13,298	29,052	93,803	219,363	50,192	13,343	63,535	24,732	12,674	37,406	320,304	
Outside services	-	5,000	-	-	-	-	42,850	47,850	-	-	-	-	-	-	47,850	
Donated services	28,017	36,000	4,420	16,139	-	-	27,589	112,165	-	-	-	-	-	-	112,165	
Food	49,326	-	-	5,604	-	-	54,930	-	-	-	-	-	-	-	172,178	
Donated goods	99,279	-	183,086	121,500	-	-	-	403,865	-	-	-	-	-	-	403,865	
Food commodities	22,088	-	-	21,455	-	-	-	43,543	-	-	-	-	-	-	43,543	
Fundraising - operating	-	-	-	-	-	-	-	-	-	5,647	5,647	-	-	-	5,647	
Fundraising - capital campaign	-	-	-	-	-	-	-	-	-	16,087	16,087	-	-	-	16,087	
Occupancy	45,322	29,695	48,539	16,104	12,922	16,104	106,897	275,583	3,228	14,253	17,481	52,023	23,851	75,874	368,938	
Telephone	1,272	2,579	2,501	460	820	1,321	7,600	16,553	1,686	599	2,285	947	478	1,425	20,263	
Program supplies	-	154	505	-	-	-	28,087	28,746	-	-	-	911	2,904	3,815	32,561	
Office supplies	586	1,187	1,152	211	377	608	2,611	6,732	776	276	1,052	630	323	953	8,737	
Bad debt expense	-	-	-	-	-	-	-	-	25,124	-	25,124	-	-	-	25,124	
Printing	512	1,038	1,007	185	330	532	2,614	6,218	679	241	920	1,239	635	1,874	9,012	
Insurance	772	1,564	1,517	279	497	801	3,440	8,870	5,521	363	5,884	2,918	1,496	4,414	19,168	
Professional fees	936	1,897	1,840	338	603	972	4,173	10,759	1,240	441	1,681	1,510	-	1,510	13,950	
Postage	512	1,038	1,007	185	330	532	2,284	5,888	679	241	920	-	-	-	6,808	
Staff development	418	849	1,282	152	366	519	2,665	6,251	554	197	751	-	-	-	7,002	
Travel	3,288	991	1,241	2,975	715	508	2,460	12,178	648	230	878	147	79	226	13,282	
Jesuit and VISTA volunteers	-	(2,219)	7,754	11,877	-	-	7,433	24,845	-	-	-	-	-	-	24,845	
Contributions and donations	-	-	-	-	-	-	-	-	23,075	-	23,075	-	-	-	23,075	
Management contract expense	-	-	-	-	-	-	-	-	-	-	-	15,256	7,819	23,075	23,075	
Volunteer support	63	63	-	63	-	-	63	252	-	-	-	-	-	-	252	
Training/advocacy stipend	1,009	2,491	2,232	388	1,239	1,361	5,421	14,161	33,136	588	33,724	3,523	725	4,248	36,725	
Other	290,346	309,160	421,544	216,579	104,317	146,289	687,765	2,176,000	289,262	97,510	386,772	332,192	119,915	452,107	3,014,879	
Total expenses	\$ 290,346	309,160	421,544	216,579	104,317	146,289	687,765	2,176,000	266,187	97,510	363,697	316,936	112,096	429,032	2,968,729	
Less intercompany eliminations	-	-	-	-	-	-	-	-	(23,075)	-	(23,075)	(15,256)	(7,819)	(23,075)	(46,150)	

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

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Consolidating Statement of Functional Expenses
Year ended June 30, 2003

	Preble Street Resource Center, Inc.											Stone Soup Foods			
	Program services						Supporting services					Total expenses	Training program expenses	Total expenses	Consolidated totals
	Breakfast program	Housing and social services program	Day shelter	Food pantry	Advocacy project	Employment and education	Youth program (Teen Center)	Total	Management and general	Fundraising	Total				
Salaries	\$ 37,210	164,554	129,122	11,165	55,464	100,436	352,796	850,747	95,534	90,526	186,060	91,900	37,996	1,036,807	1,166,703
Payroll taxes and employee benefits	9,829	43,466	34,106	2,949	14,650	26,529	93,189	224,718	25,794	19,819	45,613	22,106	9,179	270,331	301,616
Outside services	118	521	409	35	176	16,362	28,274	45,895	270	60	330	-	-	46,225	46,225
Donated services	28,017	31,401	15,432	32,871	-	-	107,721	107,721	-	-	-	-	-	107,721	107,721
Food	35,689	-	-	5,238	-	-	40,927	40,927	-	-	-	-	-	40,927	145,759
Donated goods	78,424	247	135,349	81,507	-	-	295,527	295,527	-	-	-	-	375	295,527	295,902
Food commodities	44,112	-	-	26,231	-	-	70,343	70,343	-	-	-	-	-	70,343	70,343
Fundraising - operating	-	-	-	-	-	-	-	-	-	3,795	3,795	-	-	3,795	3,795
Fundraising - capital campaign	-	-	-	-	-	-	-	-	-	251,402	251,402	-	-	251,402	251,402
Occupancy	17,009	12,756	17,009	2,126	4,252	7,654	58,756	99,562	26,162	1,701	27,863	53,279	19,650	127,425	200,354
Telephone	1,426	1,376	1,578	213	439	783	8,608	14,423	1,003	192	1,195	1,268	603	15,618	17,489
Program supplies	-	1,254	612	-	-	20	55,281	57,167	-	-	-	923	4,092	57,167	62,182
Security deposit assistance	982	947	1,086	146	302	539	2,944	6,946	690	132	822	367	152	7,768	8,287
Bad debt expense	-	-	-	-	-	-	2,949	2,949	-	-	-	-	-	2,949	2,949
Printing	396	382	438	59	122	217	671	2,285	-	53	331	799	330	2,616	3,745
Insurance	675	652	747	101	208	371	1,045	3,799	475	91	566	2,466	1,644	4,365	8,475
Professional fees	1,876	1,810	2,075	280	578	1,029	2,902	10,550	1,319	252	1,571	9,100	1,576	12,121	22,797
Postage	844	814	934	126	260	463	1,306	4,747	594	113	707	-	-	5,454	5,454
Staff development	666	701	1,264	99	1,600	451	6,483	11,264	468	89	557	-	-	11,821	11,821
Travel	372	359	412	59	577	306	724	2,809	262	50	312	63	118	25,515	3,302
Jesuit and VISTA volunteers	-	6,109	10,250	9,156	-	-	-	25,515	13,620	-	13,620	-	-	13,620	25,515
Contributions and donations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Management contract expense	-	-	-	-	-	291	820	2,980	372	71	443	9,636	3,984	13,620	13,620
Volunteer support	530	511	586	79	163	163	12,565	12,565	-	-	-	-	-	12,565	3,423
Training/advocacy stipend	-	-	-	-	12,565	-	-	12,565	-	-	-	-	14,310	14,310	26,875
Other	4,181	4,034	4,625	623	1,759	2,324	8,405	25,951	39,799	561	40,360	7,364	2,868	66,311	76,543
Total expenses	262,356	275,475	356,034	173,063	93,115	157,775	605,153	1,922,971	206,640	368,907	575,547	304,103	96,877	2,498,518	2,899,498
Less intercompany eliminations	-	-	-	-	-	-	-	-	(13,620)	-	(13,620)	(9,636)	(3,984)	(13,620)	(27,240)
Net expenses	\$ 262,356	275,475	356,034	173,063	93,115	157,775	605,153	1,922,971	193,020	368,907	561,927	294,467	92,893	2,484,898	2,872,258

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

**PREBLE STREET RESOURCE CENTER, INC.
AND ITS AFFILIATE**

**Consolidating Statements of Cash Flows
Years ended June 30, 2004 and 2003**

	2004				2003			
	Preble Street Resource Center, Inc.	Stone Soup Foods	Eliminations	Consolidated totals	Preble Street Resource Center, Inc.	Stone Soup Foods	Eliminations	Consolidated totals
Cash flows from operating activities:								
Increase (decrease) in net assets	\$ 154,999	(60,175)	-	94,824	2,925,507	(61,117)	-	2,864,390
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:								
Depreciation and amortization	197,569	30,115	-	227,684	38,028	36,454	-	74,482
Unrealized (gain) loss on investments	(2,263)	-	-	(2,263)	357	-	-	357
Loss on sale of assets	-	-	-	-	-	2,117	-	2,117
(Increase) decrease in assets:								
Accounts receivable	76,018	-	-	76,018	(63,427)	-	-	(63,427)
Capital pledges receivable	1,086,791	-	-	1,086,791	(788,592)	-	-	(788,592)
Loan receivable	(7,161)	-	7,161	-	(6,788)	-	6,788	-
Grants receivable	(21,039)	-	-	(21,039)	47,265	13,812	-	61,077
Prepaid expenses	(10,504)	(146)	-	(10,650)	672	1,569	-	2,241
Inventory	(14,020)	(726)	-	(14,746)	2,572	376	-	2,948
Other assets	(86)	-	-	(86)	(55)	-	-	(55)
Increase (decrease) in liabilities:								
Accounts payable	(336,719)	(4,478)	-	(341,197)	326,516	4,870	-	331,386
Accrued expenses	(4,988)	2,118	-	(2,870)	202	1,620	-	1,822
Loans payable	-	5,001	(7,161)	(2,160)	-	213	(6,788)	(6,575)
Deferred revenue	94,277	25,000	-	119,277	(40,263)	-	-	(40,263)
Net cash provided by (used in) operating activities	1,212,874	(3,291)	-	1,209,583	2,441,994	(86)	-	2,441,908
Cash flows from investing activities:								
Increase in beneficial interest in perpetual trust	(12,826)	-	-	(12,826)	(949)	-	-	(949)
Reinvestment of dividends	(118)	-	-	(118)	(106)	-	-	(106)
Purchase of property and equipment	(1,614,282)	(283)	-	(1,614,565)	(2,192,100)	(1,779)	-	(2,193,879)
Proceeds from sale of assets	-	-	-	-	-	11,500	-	11,500
Net cash provided by (used in) investing activities	(1,627,226)	(283)	-	(1,627,509)	(2,193,155)	9,721	-	(2,183,434)
Cash flows from financing activities:								
Proceeds from long-term debt	298,898	-	-	298,898	269,912	-	-	269,912
Repayment of long-term debt	(133,333)	(787)	-	(134,120)	(233,262)	(717)	-	(233,979)
Net cash provided by (used in) financing activities	165,565	(787)	-	164,778	36,650	(717)	-	35,933
Net increase (decrease) in cash	(248,787)	(4,361)	-	(253,148)	285,489	8,918	-	294,407
Cash, beginning of year	391,006	16,447	-	407,453	105,517	7,529	-	113,046
Cash, end of year	\$ 142,219	12,086	-	154,305	391,006	16,447	-	407,453
Supplemental cash flow disclosures:								
Cash paid for interest	\$ 31,414	13,411	-	44,825	24,667	13,681	-	38,348

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

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements

DESCRIPTION OF PURPOSE

Preble Street Resource Center, Inc., (PSRC) 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. Its affiliate, Stone Soup Foods (SSF), is a commonly controlled corporation organized in February 1998 as a nonprofit corporation under the laws of the State of Maine for the purpose of providing employment training to economically disadvantaged individuals.

Breakfast Program - PSRC's breakfast program provides breakfast to homeless and low-income individuals and families living in the Greater Portland, Maine area. The program relies significantly upon volunteer labor. In addition, donated goods are a major source of the breakfast program's provisions.

Housing and Social Services Program - PSRC's housing program provides free housing referral service to homeless and low-income citizens. Additionally, as a social service, PSRC provides referrals to substance abuse and mental health treatment centers to individuals who seek this service.

Day Shelter - PSRC's day shelter provides a safe, warm environment for case managers to offer support to homeless and low-income citizens. The day shelter offers free telephones, voice mail, storage space, toilet facilities, showers, and other services.

Food Pantry - PSRC's food pantry, run exclusively by volunteers, facilitates the collection and distribution of donated food for low income and homeless citizens.

Advocacy Project - PSRC's consumer advocacy project is run by consumers and provides advocacy on an individual and systems' basis for people who are experiencing homelessness, mental health issues, and poverty.

Employment and Education - PSRC's employment program works with homeless people in accessing job training programs and in securing employment.

Youth Program (Teen Center) - PSRC operates a drop-in center on Chestnut Street with a wide range of services for homeless and runaway youth, including lunch and dinner, outreach, employment, and casework services. In January 2002, PSRC acquired a building at 343 Cumberland Avenue, which is now the new home of the Teen Center.

Retail Activities / Training program - Stone Soup Foods provides training and employment opportunities to disadvantaged people through its retail activities. These activities include the preparation and sale of various menu items including baked goods, omelets, soups, salads, sandwiches, and a variety of other specialties.

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - PSRC and SSF have adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of PSRC and SSF, and changes therein, are classified and reported as follows:

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

Temporarily restricted net assets - Funds subject to donor imposed stipulations that may or will be met either by actions of PSRC and/or the passage of time. PSRC and SSF have elected to report all temporarily restricted assets received and expended 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 PSRC. Generally, the donors of the assets permit PSRC to use all or part of the income earned on related investments for general or specific purposes.

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 segregated in the current unrestricted fund balance.

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.

Principles of Consolidation - The consolidating financial statements include the accounts of Preble Street Resource Center, Inc. and Stone Soup Foods. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Investments - For the purposes of the statements of cash flows, PSRC and SSF consider all unrestricted highly liquid investments with an initial maturity of three months or less to be cash. Investments are stated at their fair market value in accordance with Statement for Financial Accounting Standards No. 124 "Accounting for Investments of Non-profit Organizations".

Accounts and Grants Receivable - PSRC and SSF primarily operate in the Portland, Maine area and receive 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 deemed to be necessary.

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

Property and Equipment - Property and equipment is capitalized at cost if purchased, or fair market value at the date of the gift if donated and recorded as an addition to unrestricted net assets. Expenditures for minor additions are charged to expense when incurred. Depreciation is being provided by use of 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).

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Indirect Costs - PSRC and SSF allocate administrative 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.

Contributions with Restrictions Met in the Same Year - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Tax Status - PSRC and SSF are tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and are not subject to income taxes. In addition, PSRC and SSF have been determined by the Internal Revenue Service not to be private foundations within the meaning of Section 509(a) of the Code.

Reclassifications - Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 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 various accounts at two Maine financial institutions at June 30, 2004 and 2003. These accounts are all considered cash and cash equivalents for determining the change in cash on the accompanying consolidating statements of cash flows. At each institution, the aggregate of all accounts for each depositor is insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2004 and 2003, PSRC's uninsured cash balances totaled \$103,918 and \$236,651, respectively. Due to the timing of capital campaign receipts, the large amount of uninsured cash on hand at June 30, 2003 primarily relates to a capital campaign construction invoice worth approximately \$189,000 which was included in accounts payable at June 30, 2003 and paid early in the subsequent fiscal year. SSF did not have any uninsured cash balances on either June 30, 2004 or 2003.

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

CAPITAL PLEDGES RECEIVABLE

During 2002, PSRC started a capital campaign, with the help of an outside consultant, to raise funds to cover the cost of purchasing a new building located at 343 Cumberland Avenue, the costs associated with renovating PSRC's existing building on Oxford Street, and to set up an investment fund in which principal contributed will be restricted by the Board of Directors and investment earnings will be used for operating expenditures. The objective of this campaign is to strengthen PSRC's present and future capacity. The new building was purchased in January 2002. It houses the Teen Center, administrative offices, and the City of Portland Homeless Health Clinic. As of the date of this report, a board designated fund had not yet been established.

Capital pledges receivable, net of unamortized discount and allowance for uncollectible pledges, are summarized as follows at June 30:

	<u>2004</u>	<u>2003</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 722,769	1,153,251
One year to five years	1,058,196	1,754,235
Over five years	5,277	11,278
Less allowance for uncollectible pledges	(75,000)	-
Less unamortized discount	(61,313)	(182,044)
Totals	\$ 1,649,929	2,736,720

For the year ended June 30, 2003, all balances were deemed collectible and no allowance for doubtful accounts was established.

GRANTS RECEIVABLE

Following is a summary of grants receivable at June 30:

	<u>2004</u>	<u>2003</u>
Ingraham - Mainstay	\$ 30,186	33,036
DHS	64,714	18,513
DMH/DHS Pilot	89,653	19,773
City of Portland Community Development Program	18,998	18,998
City of Portland Community Development Program - Teen Center	5,032	5,000
City of Portland Community Development Program - TRC	-	9,750
HUD Supportive Housing Grant	39,839	68,611
Southern Maine Area Agency on Aging	3,133	2,191
U.S. Department of Health and Human Services	12,606	64,494
Other grants and foundations	-	2,756
Total grants receivable	\$ 264,161	243,122

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

LONG-TERM DEBT

At June 30, PSRC was liable for the following long-term debt:

	<u>2004</u>	<u>2003</u>
Note payable to a corporation, with monthly payments of interest only at 6.0%, through December 31, 2004, with principal payments in the amount of \$133,333 due on December 31, 2004, secured by land and a building.	\$ 133,334	266,667
Note payable to a bank, with monthly payments of interest only at LIBOR plus 2%, and principal payments in the amount of \$50,000 due on January 1, 2004 and April 1, 2004 and then in the amount of \$75,000 due on July 1, 2004 and the first day of each consecutive quarter thereafter until the maturity date of December 31, 2005, secured by various assets of PSRC.	568,810	269,912
Total long-term debt	702,144	536,579
Less current portion	433,334	233,333
Long-term debt, net of current portion	\$ 268,810	303,246

At June 30, SSF was liable for the following long-term debt:

	<u>2004</u>	<u>2003</u>
Loan payable to an individual, in monthly installments of \$816 including interest at 9.5%, through October 2009 secured by land and a building.	\$ 94,298	95,085
Note payable to an individual, with monthly payments of interest only, at a rate of 12%, due on demand.	20,000	20,000
Total long-term debt	114,298	115,085
Less current portion	20,867	20,788
Long-term debt, net of current portion	\$ 93,431	94,297

Future principal payments of long-term debt for PSRC as of June 30, 2004 are as follows:

2005 (current portion)	\$ 433,334
2006	268,810
Total long-term debt	\$ 702,144

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

Future principal payments of long-term debt for SSF as of June 30, 2004 are as follows:

2005 (current portion)	\$ 20,867
2006	953
2007	1,047
2008	1,151
2009	1,265
<u>Thereafter</u>	<u>89,015</u>
<u>Total long-term debt</u>	<u>\$ 114,298</u>

DEFERRED REVENUE

Deferred revenue represents grant funds received and available to fulfill PSRC's obligations in connection with the following as of June 30:

	<u>2004</u>	<u>2003</u>
State of Maine, DBDS	\$ -	3,613
MEHAF	99,768	-
MCAP	7,500	6,500
Other	4,167	7,045
<u>Totals</u>	<u>\$ 111,435</u>	<u>17,158</u>

RESTRICTIONS AND LIMITATIONS OF NET ASSET BALANCES

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

	<u>2004</u>	<u>2003</u>
Capital campaign	\$ 1,128,774	2,286,631
<u>Total temporarily restricted net assets</u>	<u>\$ 1,128,774</u>	<u>2,286,631</u>

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

	<u>2004</u>	<u>2003</u>
Beneficial interest in perpetual trust with income <u>restricted for self sufficiency efforts</u>	<u>\$ 116,175</u>	<u>103,349</u>

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating 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:

	<u>2004</u>	<u>2003</u>
Private foundation grant	\$ -	25,000
Capital campaign expenses	1,753,701	2,676,415
Totals	\$ 1,753,701	2,701,415

DONATED SERVICES AND FACILITIES

During the years ended June 30, 2004 and 2003, certain goods and professional services were donated to PSRC and to SSF. The estimated fair values of these goods and the estimated fair values of these professional services totaling \$516,029 and \$473,965 for 2004 and 2003, respectively, have been reflected in the accompanying financial statements as public support with a like amount included in donated services and facilities 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 Statement of Financial Accounting Standards No. 116 *Accounting for Contributions Received and Contributions Made*. However, a substantial number of nonprofessional volunteers have donated significant amounts of their time in support of PSRC's programs. The estimated fair value of the nonprofessional donated services was \$116,455 in 2004 and \$162,076 in 2003.

CONTINGENCIES

PSRC and SSF participate in various intergovernmental grant programs that may be subject to future program compliance audits by the grantors or their representatives. Accordingly, PSRC and SSF'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.

RELATED PARTY TRANSACTIONS

PSRC paid a Board member of PSRC \$33,690 and \$87,829 in architectural fees for the years ended June 30, 2004 and 2003, respectively, for design work related to the new 343 Cumberland Avenue building and the renovation of the building at 252 Oxford Street. The amount of fees charged to PSRC by the Board member is at or below the fair value of the services provided. The Board member was absent when the Board of Directors voted to hire him. In addition to the fees paid during the years ended 2004 and 2003, PSRC had an accounts payable balance to the Board member at June 30, 2003 in the amount of \$57,662.

PENSION PLAN

PSRC 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, 2004 and 2003 was \$3,415 and \$4,102, respectively.

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

OCCUPANCY COSTS

In February 1994, PSRC purchased property located on Oxford Street. In January 2002, PSRC purchased another property at 343 Cumberland Avenue. PSRC renovated both of these properties in fiscal 2003. During the renovation period, many of PSRC's programs were temporarily located at the Chestnut Street Church and the Oxford Street Shelter.

All renovations were completed by November 2003 and these facilities now house PSRC'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, 2004 and 2003 these stipends totaled \$54,600 and \$33,600, respectively.

Net occupancy related costs for the years ended June 30 are as follows:

	<u>2004</u>	<u>2003</u>
Rent and costs of temporary Chestnut Street occupancy	\$ 11,787	26,000
Costs of temporary Oxford Street Shelter occupancy	5,262	-
Carrying costs	5,849	16,808
Depreciation	197,569	38,028
Interest expense	-	3,892
Repairs and maintenance	9,533	11,538
Janitorial service	20,470	-
Property insurance	6,091	3,500
Electricity	31,223	16,697
Water and sewer	7,747	10,444
Gas/heat	31,655	12,870
Trash and snow removal	8,932	6,791
Building supplies	11,546	12,474
Other expense	-	1,983
Less rent income	(54,600)	(33,600)
<u>Total occupancy costs</u>	<u>\$ 293,064</u>	<u>127,425</u>

PREBLE STREET RESOURCE CENTER, INC. AND ITS AFFILIATE
Notes to Consolidating Financial Statements, Continued

OCCUPANCY COSTS, CONTINUED

In July, 2001, SSF purchased property in Portland, Maine to house its Café. In addition, SSF operates a retail outlet at the Portland Public Market. Occupancy related costs for the years ended June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Rent	\$ 7,500	6,900
Depreciation and amortization	30,115	29,295
Interest expense	13,411	13,681
Repairs and maintenance	3,441	5,299
Electricity	12,680	11,527
Gas	5,969	4,058
Water and sewer	974	361
Trash removal	1,784	1,808
Total occupancy costs	\$ 75,874	72,929

SUBSEQUENT EVENT

On July 1, 2004, PSRC and SSF merged to form a new, single Maine nonprofit, public benefit corporation known as Preble Street.

BENEFICIAL INTEREST IN PERPETUAL TRUST

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

The United Way Foundation manages and oversees the investment of the assets of the fund. The PSRC 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 3 years. If the fund's value exceeds \$100,000, the PSRC Board of Directors may elect to expend more than the income generated in a specific years, provided the balance of the fund does not fall below the \$100,000 level as a result of the withdrawals.

As of June 30, 2004 and 2003, the balances in this account were \$116,175 and \$103,349, respectively.