

Hudson Guild, Inc.

Financial Statements

June 30, 2015

Independent Auditors' Report

**Board of Trustees
Hudson Guild, Inc.**

We have audited the accompanying financial statements of Hudson Guild, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

O'CONNOR DAVIES, LLP
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 24, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

November 18, 2015

Hudson Guild, Inc.

Statement of Financial Position
June 30, 2015
(with comparative amounts at June 30, 2014)

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 273,896 | \$ 497,909 |
| Grants and contracts receivable | 785,987 | 677,867 |
| Third party insurance fees receivable, net | 177,430 | 315,932 |
| Pledges receivable, net | 1,141,314 | 1,237,560 |
| Prepaid expenses and other receivables | 157,750 | 139,542 |
| Investments | 24,532 | 104,420 |
| Property and equipment, net | 5,177,827 | 5,133,444 |
| Restricted investments | <u>1,109,819</u> | <u>1,109,819</u> |
| | <u>\$ 8,848,555</u> | <u>\$ 9,216,493</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accrued payroll and related expenses | \$ 420,838 | \$ 355,639 |
| Accounts payable and accrued expenses | 275,945 | 316,810 |
| Due to government agencies | 96,856 | 191,727 |
| Contract advances | 213,401 | 70,951 |
| Margin loan payable | <u>959,036</u> | <u>1,068,850</u> |
| Total Liabilities | <u>1,966,076</u> | <u>2,003,977</u> |
| Net Assets | | |
| Unrestricted | 4,656,902 | 4,956,864 |
| Temporarily restricted | 1,115,758 | 1,145,833 |
| Permanently restricted | <u>1,109,819</u> | <u>1,109,819</u> |
| Total Net Assets | <u>6,882,479</u> | <u>7,212,516</u> |
| | <u>\$ 8,848,555</u> | <u>\$ 9,216,493</u> |

See notes to financial statements

Hudson Guild, Inc.

Statement of Activities Year Ended June 30, 2015 (with summarized totals for the year ended June 30, 2014)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2015 Total | 2014 Total |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| REVENUE AND SUPPORT | | | | | |
| Grants and contracts | \$ 5,421,380 | \$ - | \$ - | \$ 5,421,380 | \$ 4,878,746 |
| Third party insurance fees | 926,453 | - | - | 926,453 | 882,446 |
| Fees for service | 508,376 | - | - | 508,376 | 531,926 |
| Program and registration fees | 154,604 | - | - | 154,604 | 172,083 |
| Rental income | 150,889 | - | - | 150,889 | 177,795 |
| Investment return | 1,481 | 308 | - | 1,789 | 1,436 |
| Other income | 24,217 | - | - | 24,217 | 25,772 |
| Contributions | 287,990 | 125,500 | - | 413,490 | 487,487 |
| Foundation awards | 426,070 | 502,500 | - | 928,570 | 850,375 |
| Contributed services | 31,317 | - | - | 31,317 | 49,690 |
| In-kind rent (Note 2) | 2,148,855 | - | - | 2,148,855 | 402,639 |
| Special events and other activities, net of direct benefit to donors (\$217,125 in 2015) | 377,373 | - | - | 377,373 | 521,901 |
| | <u>10,459,005</u> | <u>628,308</u> | <u>-</u> | <u>11,087,313</u> | <u>8,982,296</u> |
| Net assets released from restrictions | 658,383 | (658,383) | - | - | - |
| Total Revenue and Support | <u>11,117,388</u> | <u>(30,075)</u> | <u>-</u> | <u>11,087,313</u> | <u>8,982,296</u> |
| EXPENSES | | | | | |
| Program Services | | | | | |
| Early childhood education | 3,997,176 | - | - | 3,997,176 | 4,259,704 |
| Youth development and education | 1,549,507 | - | - | 1,549,507 | - |
| Mental health and social services | 2,076,303 | - | - | 2,076,303 | 2,004,205 |
| Adult services | 1,420,236 | - | - | 1,420,236 | 1,341,872 |
| Arts program | 245,049 | - | - | 245,049 | 347,845 |
| Communiting building | 39,431 | - | - | 39,431 | 28,080 |
| | <u>9,327,702</u> | <u>-</u> | <u>-</u> | <u>9,327,702</u> | <u>7,981,706</u> |
| Management and general | 1,364,580 | - | - | 1,364,580 | 866,023 |
| Development and fundraising | 725,068 | - | - | 725,068 | 247,735 |
| Total Expenses | <u>11,417,350</u> | <u>-</u> | <u>-</u> | <u>11,417,350</u> | <u>9,095,464</u> |
| Change in Net Assets | (299,962) | (30,075) | - | (330,037) | (113,168) |
| NET ASSETS | | | | | |
| Beginning of year | 4,956,864 | 1,145,833 | 1,109,819 | 7,212,516 | 7,325,684 |
| End of year | <u>\$ 4,656,902</u> | <u>\$ 1,115,758</u> | <u>\$ 1,109,819</u> | <u>\$ 6,882,479</u> | <u>\$ 7,212,516</u> |

See notes to financial statements

Hudson Guild, Inc.

Statement of Functional Expenses Year Ended June 30, 2015 (with summarized totals for the year ended June 30, 2014)

| | Program Services | | | | | | Total | Management and General | Development and Fundraising | 2015 Total Expenses | 2014 Total Expenses |
|---|------------------------------|--|--|---------------------|-------------------|-----------------------|---------------------|---------------------------|-----------------------------------|---------------------------|---------------------------|
| | Early Childhood Education | Youth Development and Education | Mental Health and Social Services | Adult Services | Arts Program | Community Building | | | | | |
| Salaries and wages | \$ 1,727,585 | \$ 812,890 | \$ 1,055,459 | \$ 655,058 | \$ 67,600 | \$ 25,599 | \$ 4,344,191 | \$ 519,898 | \$ 307,585 | \$ 5,171,674 | \$ 4,733,774 |
| Payroll taxes | 122,138 | 89,611 | 93,694 | 70,087 | 5,869 | 2,004 | 383,403 | 46,472 | 27,277 | 457,152 | 503,978 |
| Fringe benefits | 305,047 | 90,940 | 133,989 | 81,673 | 8,762 | 3,391 | 623,802 | 86,957 | 40,602 | 751,361 | 559,774 |
| Total Payroll Costs | 2,154,770 | 993,441 | 1,283,142 | 806,818 | 82,231 | 30,994 | 5,351,396 | 653,327 | 375,464 | 6,380,187 | 5,797,526 |
| Temporary help and stipends (including in-kind services of \$31,317 in 2015) | 126,053 | 17,035 | 83,026 | 86,566 | 24,110 | 132 | 336,922 | 17,990 | 8,373 | 363,285 | 470,222 |
| Professional services and management fees | 239,033 | 80,645 | 117,110 | 86,262 | 12,756 | - | 535,806 | 107,212 | 5,405 | 648,423 | 627,359 |
| Staff recruiting and training | 8,315 | 3,883 | 1,459 | 1,480 | 145 | - | 15,282 | 7,074 | 748 | 23,104 | 19,795 |
| Printing, postage, shipping and advertising | 3,353 | 2,776 | 965 | 2,985 | 887 | 98 | 11,064 | 7,705 | 11,081 | 29,850 | 36,861 |
| Transportation | 1,440 | 2,373 | 9,087 | 14,043 | 552 | 1,495 | 28,990 | 7,975 | 43 | 37,008 | 52,102 |
| Participant activity cost | 2,957 | 9,589 | - | 9,932 | - | - | 22,478 | - | - | 22,478 | 31,074 |
| Repairs and maintenance | 7,254 | 2,832 | 1,838 | 11,274 | 8,748 | - | 31,946 | 17,562 | 1,080 | 50,588 | 63,646 |
| Service contracts | 31,163 | 19,781 | 29,382 | 35,459 | 8,313 | 1,752 | 125,850 | 86,556 | 13,579 | 225,985 | 243,194 |
| Equipment | 7,771 | 3,897 | 6,465 | 15,625 | 6,828 | - | 40,586 | 5,294 | 2,155 | 48,035 | 32,290 |
| Dues and subscriptions | 8,550 | 866 | 1,450 | 4,125 | 5 | - | 14,996 | 12,048 | 1,305 | 28,349 | 35,100 |
| Rent and utilities | 125,777 | 2,815 | - | 226 | - | - | 128,818 | 13,126 | - | 141,944 | 123,426 |
| In-kind rent | 714,284 | 269,366 | 392,815 | - | - | - | 1,376,465 | 498,744 | 273,646 | 2,148,855 | 402,639 |
| Telephone and internet access | 44,627 | 18,219 | 10,532 | 25,705 | 2,071 | 1,060 | 102,214 | 19,583 | 4,088 | 125,885 | 103,125 |
| Supplies | 96,324 | 41,331 | 30,175 | 34,444 | 10,081 | 272 | 212,627 | 17,369 | 6,879 | 236,875 | 176,194 |
| Insurance | 38,482 | 13,950 | 19,775 | 17,709 | 1,977 | - | 91,893 | 20,407 | 3,430 | 115,730 | 97,952 |
| Food | 91,849 | 4,532 | - | 123,503 | 1,734 | 3,628 | 225,246 | 10,192 | 371 | 235,809 | 209,538 |
| Depreciation and amortization | 165,801 | 62,176 | 41,450 | 41,450 | 82,901 | - | 393,778 | 16,580 | 4,145 | 414,503 | 397,671 |
| Interest expense | - | - | - | - | - | - | - | 52,818 | - | 52,818 | 51,954 |
| Bank charge | - | - | - | - | - | - | - | 8,545 | - | 8,545 | 10,414 |
| Other expenses | 3,722 | - | 729 | 2,605 | - | - | 7,056 | 12,574 | 13,276 | 32,906 | 23,421 |
| Bad debt expense | - | - | 45,828 | - | - | - | 45,828 | 360 | - | 46,188 | 89,961 |
| Administrative overhead allocation | 125,651 | - | 1,075 | 100,025 | 1,710 | - | 228,461 | (228,461) | - | - | - |
| | <u>\$ 3,997,176</u> | <u>\$ 1,549,507</u> | <u>\$ 2,076,303</u> | <u>\$ 1,420,236</u> | <u>\$ 245,049</u> | <u>\$ 39,431</u> | <u>\$ 9,327,702</u> | <u>\$ 1,364,580</u> | <u>\$ 725,068</u> | <u>\$ 11,417,350</u> | <u>\$ 9,095,464</u> |

See notes to financial statements

Hudson Guild, Inc.

Statement of Cash Flows Year Ended June 30, 2015 (with comparative amounts for the year ended June 30, 2014)

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (330,037) | \$ (113,168) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Realized and unrealized gain on investments | (1,481) | (966) |
| Depreciation and amortization | 414,503 | 397,671 |
| Bad debt expense | 46,188 | 89,961 |
| Negotiated reduction in amount due to government agencies | - | (370,665) |
| Changes in operating assets and liabilities | | |
| Grants and contracts receivable | (425,236) | (148,721) |
| Third party insurance fees receivable | 92,674 | (138,573) |
| Pledges receivable | 96,246 | 132,174 |
| Prepaid expenses and other receivables | (18,208) | (81,842) |
| Accrued payroll and related expenses | 65,199 | 61,418 |
| Accounts payable and accrued expenses | (40,865) | (181,501) |
| Due to government agencies | (94,871) | 63,027 |
| Contract advances | <u>459,206</u> | <u>409,767</u> |
| Net Cash from Operating Activities | <u>263,318</u> | <u>118,582</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (458,886) | (95,336) |
| Purchases of investments | (2,911,902) | (3,147,853) |
| Proceeds from sale of investments | <u>2,993,271</u> | <u>3,149,213</u> |
| Net Cash from Investing Activities | <u>(377,517)</u> | <u>(93,976)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from margin loan | 3,593,148 | 3,271,835 |
| Payments of margin loan | (3,702,962) | (3,220,534) |
| Proceeds from line of credit/loans payable | 261,421 | 80,000 |
| Payment of line of credit/loans payable | <u>(261,421)</u> | <u>(80,000)</u> |
| Net Cash from Financing Activities | <u>(109,814)</u> | <u>51,301</u> |
| Net Change in Cash and Cash Equivalents | (224,013) | 75,907 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>497,909</u> | <u>422,002</u> |
| End of year | <u>\$ 273,896</u> | <u>\$ 497,909</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 52,818 | \$ 51,954 |

See notes to financial statements

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

1. Organization and Tax Status

Hudson Guild, Inc. (the "Organization") is a not-for-profit corporation organized in the State of New York in 1895. The Organization provides community services in the Chelsea section of Manhattan, New York, that include early childhood education, culture and arts, youth and education, mental health and social services, senior services and housing and advocacy.

The Organization is exempt from Federal income taxes pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code and has been determined to be a publicly supported organization, not a private foundation under Section 509(a) of the Code.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets Presentation

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted amounts are those currently available at the discretion of the Board of Trustees for use in the Organization's operations. Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or for future periods. Permanently restricted net assets result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Fair Value Measurements

The Organization follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and are used to the extent that observable inputs do not exist.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (*continued*)

Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and money market funds other than those held in long-term investment accounts. Cash and cash equivalents include highly liquid instruments with a maturity of three months or less when acquired.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established for grants and contracts and third party insurance fees receivables where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Organization's historical experience, review of account balances and expectations relative to collections. Third party insurance fees receivables are reflected in the statement of financial position net of an allowance for doubtful accounts of \$100,000 as of June 30, 2015. There was no allowance for doubtful accounts as of June 30, 2015 for grants and contracts and pledges receivable due to management's determination of the collectability of the specific receivables.

Investments and Income Recognition

The Organization reports investments at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the accompanying statement of activities.

Property and Equipment

Purchases of property and equipment are stated at cost. Donated items are stated at fair value on the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are the lesser of the life of the lease or 25 years for leasehold and building improvements, five to 20 years for furniture and equipment and five to eight years for vehicles. At the time of retirement or other disposition of assets, the cost and accumulated depreciation are removed from the accounts and any gains or losses are reflected in the statement of activities. Costs related to the construction or renovation of a facility is categorized in construction in progress until the construction or renovation is substantially completed. At that time, these costs are then re-categorized in the appropriate asset category of leasehold and building improvements.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for fiscal 2015 and 2014.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (*continued*)

Revenue and Support Recognition

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and reports this support as unrestricted or restricted support according to donor stipulations that may limit the use of these assets due to time or purpose restrictions. When a donor restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization recognizes grant and contract revenues in the statement of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period. Funds received in advance of their restricted use are reported as contract advances in the statement of financial position. Revenue for performance based grants and contracts are recognized on a fixed fee unit basis based on actual services rendered, not to exceed the maximum allowable per the grant or contract.

Third party insurance fees are reported at the estimated net realizable amounts from Medicare/Medicaid, third-party payers, and others when services are provided.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with specific program and support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated in accordance with other equitable bases.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Advertising

Advertising costs are expensed as incurred and amounted to \$12,510 for the year ended June 30, 2015.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (*continued*)

In-kind Contributions

The Organization recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Rent-free use of space is recognized by the Organization as contribution income annually as the Organization meets conditions included in the lease agreements.

On August 19, 2014, the Organization entered into a 3 year lease agreement with New York City Housing Authority ("NYCHA") and was granted use of space below fair rental value (see Note 15) at 206 West 64th Street, New York, New York. The space provided is used for the Organization's early childhood programs. For the year ended June 30, 2015, contributed rent reported in the statement of activities is based on fair rental value of \$127,160.

During November 2003, the Organization entered into a 25 year lease agreement with NYCHA and was granted rent free use of space at 441 West 26th Street, New York, New York. The space provided is used for the Organization's program activities and administrative offices. For the year ended June 30, 2015, contributed rent reported in the statement of activities is based on fair rental value of \$1,502,800.

Since April 1992, the Organization has been granted use of space below fair rental value by NYCHA on a month to month basis at 459 West 26th Street, New York, New York. The space provided is used for the Organization's children's center. For the year ended June 30, 2015, contributed rent reported in the statement of activities is based on fair rental value of \$518,895.

During fiscal year 2015, the Organization operated a Headstart program with three locations. Volunteers performed services for this program based on their annual teaching salary. Fair value of the services for the year ended June 30, 2015 totaled \$31,317.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only when they are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to audits by the applicable taxing jurisdictions for fiscal periods prior to June 30, 2012.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 18, 2015.

3. Concentration and Credit Risk

Certain financial instruments potentially subject the Organization to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, grants, contracts, and pledges receivable and investments. The Organization places its cash and cash equivalents with high credit quality financial institutions which, at times, may exceed federally insured limits. Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals composing the entity's program and donor base. The Organization performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

The investment portfolio is managed by professional investment advisors and managers. The Organization performs ongoing evaluations of its portfolio and believes that credit risk to this portfolio is minimal.

4. Pledges Receivable, Net

Pledges receivable at June 30, 2015 are summarized as follows:

| | |
|------------------------------|---------------------|
| Due within up to one year | \$ 832,314 |
| Due within one to five years | <u>325,000</u> |
| | 1,157,314 |
| Discount to present value | <u>(16,000)</u> |
| | <u>\$ 1,141,314</u> |

A present value discount rate of 5.00% has been utilized, which takes into consideration discount factors that approximate the risk and expected timing of future contribution payments.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

5. Investments and Investment Return

All investments at June 30, 2015 are valued using Level 1 inputs in the fair value hierarchy and are summarized as follows:

| | |
|----------------------------|--------------------|
| Mutual funds | \$ 359 |
| U.S. Government securities | <u>1,133,992</u> |
| | <u>\$1,134,351</u> |

Investment return for 2015 consists of the following:

| | |
|---|----------------|
| Interest and dividend income | \$ 308 |
| Realized and unrealized gain on investments | <u>1,481</u> |
| | <u>\$1,789</u> |

6. Property and Equipment

Property and equipment consist of the following at June 30, 2015:

| | |
|-------------------------------------|--------------------|
| Leasehold and building improvements | \$8,654,803 |
| Furniture and equipment | <u>1,196,260</u> |
| | 9,851,063 |
| Accumulated depreciation | <u>(4,673,236)</u> |
| | <u>\$5,177,827</u> |

7. Margin Loan Payable

The Organization has a margin loan agreement with an investment bank secured by its investment account, in which it can borrow up to its account balance. Fair value of the investment portfolio is the maximum available line of credit and the collateral for the loan. Interest charged on borrowings is prime minus 1/4 percent and ranged from 5.01% to 5.50% in 2015. The outstanding borrowing on the line of credit at June 30, 2015 is \$959,036.

8. Line of Credit

The Organization has a \$350,000 line of credit with a financial institution. The credit line is collateralized by all business assets. Interest is payable at a variable rate with a floor of 4.50%. There was no outstanding balance at June 30, 2015. At September 30, 2015 the line of credit was renewed and expires on September 29, 2016.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

9. Employee Benefits

Defined Contribution Plan

The Organization maintains a qualified, noncontributory, defined contribution pension plan covering substantially all eligible union and nonunion employees. As of January 1, 2009, the Organization suspended its contribution. There was no pension expense for 2015.

Employees covered under the collective bargaining agreement with the Local 215, Community and Social Agency, EWLOES Union, District Council 1707, A.F.S.C.M.E, AFL-CIO can contribute to the defined contribution pension plan. The level of benefits is based on the Organization's financial condition. The Organization will match up to 1% of the eligible employee's contribution to the defined contribution pension plan. Due to the suspension of the defined contribution pension plan in 2009, there was no contribution for the year ended June 30, 2015.

Pension Plan

Employees who work on the day care programs funded by The City of New York (the "City") Administration for Children's Services ("ACS") are covered under a pension plan provided by the City as part of a collective bargaining agreement. Retirement benefit contributions are paid by the Organization at a rate of 10.89% of eligible salary on a monthly basis. For the year ended June 30, 2015, the Organization's contributions totaled \$131,678.

Health and Welfare Plan

Employees covered under the collective bargaining agreement of the Daycare Council of New York, Inc. are covered under the Cultural Institution Retirement System which require the Organization to contribute an amount equal to 0.16% of employees gross wages. For the year ended June 30, 2015, the Organization's contributions totaled \$44,830.

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 are available for the following purposes or periods:

| | |
|-----------------------------|---------------------|
| Technology lab | \$ 799,000 |
| Scholarships | 20,000 |
| Mental health | 71,008 |
| Children and youth programs | 175,750 |
| Time restricted | 50,000 |
| | <u>\$ 1,115,758</u> |

Permanently restricted net assets consist of the Monroe C. Gutman Education Fund, which was established on July 1, 1973 in the amount of \$1,009,819 and the William Randolph Hearst Endowment for Chelsea Children which was established in July 1999 in the amount of \$100,000. Income earned thereon is to be used for educational purposes.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2015

11. Net Assets Released from Restrictions

The amounts released from restrictions during the year ended June 30, 2015 are as follows:

| | |
|-----------------------------|-------------------|
| Children and youth programs | \$ 415,416 |
| Community building | 82,667 |
| Adult services | 125,000 |
| Mental health | 34,992 |
| Operations | 308 |
| | <u>\$ 658,383</u> |

12. Endowment Fund

Substantially all investments are included in the Organization's donor-restricted endowment fund. The Organization's endowment consists of gifts established primarily to support the mission of the Organization. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the New York Prudent Management of Institutional Funds Act as allowing the Organization to appropriate for expenditure or accumulate so much of the donor-restricted endowment fund as the Organization determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donors as expressed in their gift instruments except in those cases where the law allows appropriation for spending of the original gift amounts. The assets in the endowment funds shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. Unless authorized by the Board of Directors, the appropriations from the endowment fund should not deplete the historical dollar value of the endowment fund.

Investment Policy

In managing its endowment, the Organization seeks to carry out the intention of its donors and to achieve the programmatic goals of the Organization. In making investment decisions, the Board of Trustees attempts to generate income, while endeavoring to preserve principal. Actual returns will vary between years due to changes in market condition. In deciding on expenditures of endowment funds, the Board of Trustees considers, among other factors, the short-term and long-term needs of the Organization in carrying out its purposes, the present and anticipated financial requirements of the Organization, the expected total returns on the investments of the Organization, price level trends, and general economic conditions.

Hudson Guild, Inc.

Notes to Financial Statements June 30, 2015

12. Endowment Fund (continued)

Investment Policy (continued)

The following is a reconciliation of the investment activity in the donor restricted endowment for the year ended June 30, 2015:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|
| Balance, June 30, 2014 | \$ (1,791) | \$ - | \$ 1,109,819 | \$1,108,028 |
| Interest and dividend income | - | 308 | - | 308 |
| Realized and unrealized gain on investments | 1,481 | - | - | 1,481 |
| Appropriation for expenditures | 308 | (308) | - | - |
| Expenditures for operations | (308) | - | - | (308) |
| Balance, June 30, 2015 | <u>\$ (310)</u> | <u>\$ -</u> | <u>\$ 1,109,819</u> | <u>\$1,109,509</u> |

13. Economic Dependency

For the year ended June 30, 2015, approximately 59% of the Organization's government grants and contracts funding was provided by the following City of New York Agencies: Administration for Children's Services, Department of Education, Housing Authority, Department of Youth and Community Development, Department of Health and Mental Hygiene, Department for the Aging and Department of Housing Preservation and Development. The Organization is economically dependent on these grants and contracts to continue operations.

14. Commitments

On September 1, 2013, the Organization entered into a lease agreement for space for its early childhood program. Monthly rent is \$7,917 under the terms of the lease. The lease expires on August 31, 2016. Rent expense for the early childhood program for the year ended June 30, 2015 was \$95,000.

On August 19, 2014, the Organization entered into a lease agreement with the New York City Housing Authority ("NYCHA") for space for its Early Childhood program. Under the terms of the lease agreement, the Organization shall pay NYCHA a base rent of \$1 per rentable square foot per year for the entire term of the lease. The lease expires on August 31, 2017.

The remaining commitments under these leases are as follows:

| | |
|------|-------------------|
| 2016 | \$ 97,481 |
| 2017 | 18,884 |
| 2018 | 511 |
| | <u>\$ 116,876</u> |

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