

Hudson Guild, Inc.

Financial Statements

June 30, 2017

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, 2017, 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.

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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

November 29, 2017

Hudson Guild, Inc.

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 49,152	\$ 92,169
Grants and contracts receivable	1,188,053	1,118,762
Third party insurance fees receivable, net	391,186	193,382
Pledges receivable, net	300,846	661,969
Prepaid expenses and other receivables	155,487	116,523
Investments	505,898	22,761
Property and equipment, net	4,783,780	5,143,792
Restricted investments	<u>1,109,819</u>	<u>1,109,819</u>
	<u>\$ 8,484,221</u>	<u>\$ 8,459,177</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 459,343	\$ 559,185
Accrued payroll and related expenses	334,389	283,822
Due to government agencies	35,187	64,681
Contract advances	332,881	333,491
Line of credit	<u>90,000</u>	<u>190,000</u>
Total Liabilities	<u>1,251,800</u>	<u>1,431,179</u>
Net Assets		
Unrestricted	5,624,361	5,366,708
Temporarily restricted	498,241	551,471
Permanently restricted	<u>1,109,819</u>	<u>1,109,819</u>
Total Net Assets	<u>7,232,421</u>	<u>7,027,998</u>
	<u>\$ 8,484,221</u>	<u>\$ 8,459,177</u>

See notes to financial statements

Hudson Guild, Inc.

Statement of Activities Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT					
Grants and contracts	\$ 6,398,270	\$ -	\$ -	\$ 6,398,270	\$ 6,164,887
Third party insurance fees	1,196,083	-	-	1,196,083	1,135,012
Fees for service	545,025	-	-	545,025	544,957
Program and registration fees	233,026	-	-	233,026	200,281
Rental income	125,450	-	-	125,450	122,331
Investment return	403	4,847	-	5,250	2,019
Other income	19,043	-	-	19,043	29,213
Contributions	692,426	180,530	-	872,956	1,255,111
Foundation awards	491,966	825,000	-	1,316,966	836,172
In-kind services (Note 2)	68,984	-	-	68,984	32,298
In-kind rent (Note 2)	2,148,855	-	-	2,148,855	2,148,855
Special events and other activities, net of direct benefit to donors (\$223,354 and \$198,153 in 2017 and 2016)	<u>787,455</u>	<u>-</u>	<u>-</u>	<u>787,455</u>	<u>439,327</u>
	12,706,986	1,010,377	-	13,717,363	12,910,463
Net assets released from restrictions	<u>1,063,607</u>	<u>(1,063,607)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>13,770,593</u>	<u>(53,230)</u>	<u>-</u>	<u>13,717,363</u>	<u>12,910,463</u>
EXPENSES					
Program Services					
Early childhood education	4,737,147	-	-	4,737,147	4,533,463
Youth development and education	2,311,783	-	-	2,311,783	2,050,509
Mental health and social services	2,384,602	-	-	2,384,602	2,384,363
Adult services	1,644,870	-	-	1,644,870	1,526,875
Arts program	287,613	-	-	287,613	284,629
Communiting building	<u>39,818</u>	<u>-</u>	<u>-</u>	<u>39,818</u>	<u>58,428</u>
Total Program Services	11,405,833	-	-	11,405,833	10,838,267
Management and general	1,238,937	-	-	1,238,937	1,131,801
Development and fundraising	<u>868,170</u>	<u>-</u>	<u>-</u>	<u>868,170</u>	<u>794,876</u>
Total Expenses	<u>13,512,940</u>	<u>-</u>	<u>-</u>	<u>13,512,940</u>	<u>12,764,944</u>
Change in Net Assets	257,653	(53,230)	-	204,423	145,519
NET ASSETS					
Beginning of year	<u>5,366,708</u>	<u>551,471</u>	<u>1,109,819</u>	<u>7,027,998</u>	<u>6,882,479</u>
End of year	<u>\$ 5,624,361</u>	<u>\$ 498,241</u>	<u>\$ 1,109,819</u>	<u>\$ 7,232,421</u>	<u>\$ 7,027,998</u>

See notes to financial statements

Hudson Guild, Inc.

Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Program Services							Management and General	Development and Fundraising	2017 Total Expenses	2016 Total Expenses
	Early Childhood Education	Youth Development and Education	Mental Health and Social Services	Adult Services	Arts Program	Community Building	Total				
Salaries and wages	\$ 2,215,692	\$ 1,175,427	\$ 1,170,995	\$ 683,254	\$ 70,564	\$ 27,233	\$ 5,343,165	\$ 652,564	\$ 418,059	\$ 6,413,788	\$ 6,010,496
Payroll taxes	174,947	101,819	91,351	56,864	5,502	1,978	432,461	60,369	33,015	525,845	518,422
Fringe benefits	<u>380,259</u>	<u>134,258</u>	<u>123,114</u>	<u>99,321</u>	<u>6,510</u>	<u>2,660</u>	<u>746,122</u>	<u>83,022</u>	<u>38,056</u>	<u>867,200</u>	<u>779,557</u>
Total Payroll Costs	2,770,898	1,411,504	1,385,460	839,439	82,576	31,871	6,521,748	795,955	489,130	7,806,833	7,308,475
Temporary help and stipends (including in-kind services of \$68,984 and \$32,298 in 2017 and 2016)	198,700	36,611	122,281	122,487	45,803	250	526,132	9,052	3,082	538,266	496,029
Professional services and management fees	229,127	127,820	106,058	80,003	8,856	571	552,435	87,915	-	640,350	651,472
Staff recruiting and training	24,293	16,438	1,634	-	-	-	42,365	2,811	3,047	48,223	32,369
Printing, postage, shipping and advertising	10,290	6,665	3,399	4,917	1,760	-	27,031	7,080	20,689	54,800	62,911
Transportation	187	463	18,425	106,663	916	1,639	128,293	1,374	538	130,205	38,425
Participant activity cost	877	8,735	-	8,082	-	-	17,694	6,368	-	24,062	51,430
Repairs and maintenance	5,886	6,528	2,295	25,828	2,073	-	42,610	18,003	18	60,631	58,201
Service contracts	64,984	46,844	29,823	39,035	11,460	425	192,571	94,460	39,663	326,694	291,749
Equipment	10,555	19,152	18,081	14,324	435	1,053	63,600	8,538	6,047	78,185	104,171
Dues and subscriptions	11,894	3,017	1,508	2,974	-	-	19,393	20,293	1,814	41,500	28,385
Rent and utilities	143,775	8,144	-	69	-	-	151,988	285	-	152,273	147,991
In-kind rent	714,284	269,366	392,815	-	-	-	1,376,465	498,744	273,646	2,148,855	2,148,855
Telephone and internet access	35,777	30,221	18,978	23,852	1,688	599	111,115	38,872	658	150,645	90,402
Supplies	92,499	45,740	36,720	41,618	17,162	-	233,739	30,265	4,996	269,000	293,824
Insurance	54,070	27,443	19,549	18,348	2,026	-	121,436	17,867	-	139,303	138,421
Food	127,667	4,485	-	154,708	1,180	-	288,040	13,885	12,312	314,237	269,661
Depreciation	188,730	70,774	47,183	47,183	94,365	-	448,235	18,873	4,718	471,826	450,219
Interest expense	-	-	-	-	-	-	-	-	9,234	-	11,416
Bank charges	-	-	-	-	-	-	-	10,565	-	10,565	9,921
Other expenses	149	-	-	1,560	-	-	1,709	24,063	7,812	33,584	24,519
Bad debt expense	-	2,787	59,412	1,470	-	-	63,669	-	-	63,669	56,098
Administrative overhead allocation	<u>52,505</u>	<u>169,046</u>	<u>120,981</u>	<u>112,310</u>	<u>17,313</u>	<u>3,410</u>	<u>475,565</u>	<u>(475,565)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,737,147</u>	<u>\$ 2,311,783</u>	<u>\$ 2,384,602</u>	<u>\$ 1,644,870</u>	<u>\$ 287,613</u>	<u>\$ 39,818</u>	<u>\$ 11,405,833</u>	<u>\$ 1,238,937</u>	<u>\$ 868,170</u>	<u>\$ 13,512,940</u>	<u>\$ 12,764,944</u>

See notes to financial statements

Hudson Guild, Inc.

Statement of Cash Flows Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 204,423	\$ 145,519
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized and unrealized (gain) loss on investments	(3,099)	93
Depreciation	471,826	450,219
Bad debt expense	63,669	56,098
Pledge receivable discount	(7,552)	(8,448)
Changes in operating assets and liabilities		
Grants and contracts receivable	(69,291)	(332,775)
Third party insurance fees receivable	(261,473)	(72,050)
Pledges receivable	368,675	487,793
Prepaid expenses and other receivables	(38,964)	41,227
Accounts payable and accrued expenses	(99,842)	283,240
Accrued payroll and related expenses	50,567	(137,016)
Due to government agencies	(29,494)	(32,175)
Contract advances	(610)	120,090
Net Cash from Operating Activities	648,835	1,001,815
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(111,814)	(416,184)
Purchases of investments	(1,989,161)	(1,637,655)
Proceeds from sale of investments	1,509,123	1,639,333
Net Cash from Investing Activities	(591,852)	(414,506)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from margin loan	-	676,913
Payments of margin loan	-	(1,635,949)
Proceeds from line of credit	515,000	1,084,000
Payments of line of credit	(615,000)	(894,000)
Proceeds from short term loan payable	39,620	36,545
Payment of short term loan payable	(39,620)	(36,545)
Net Cash from Financing Activities	(100,000)	(769,036)
Net Change in Cash and Cash Equivalents	(43,017)	(181,727)
CASH AND CASH EQUIVALENTS		
Beginning of year	92,169	273,896
End of year	\$ 49,152	\$ 92,169
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 9,234	\$ 11,416
See notes to financial statements		

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

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 Asset 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, 2017

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, pledges 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 receivable are reflected in the statement of financial position net of an allowance for doubtful accounts of \$115,510 and \$156,098 as of June 30, 2017 and 2016. There was no allowance for doubtful accounts as of June 30, 2017 and 2016 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, and five to 20 years for furniture and equipment. 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 re-categorized to the appropriate asset category.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount of the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for fiscal 2017 and 2016.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

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 as of and for the year ended June 30, 2016, from which the summarized information was derived.

Advertising

Advertising costs are expensed as incurred and amounted to \$31,673 and \$34,765 for the years ended June 30, 2017 and 2016.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

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 the New York City Housing Authority ("NYCHA") and was granted use of space below fair rental value (see Note 14) at 206 West 64th Street, New York, New York. The space provided is used for the Organization's early childhood programs. For each of the years ended June 30, 2017 and 2016, 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 each of the years ended June 30, 2017 and 2016, 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 each of the years ended June 30, 2017 and 2016, contributed rent reported in the statement of activities is based on fair rental value of \$518,895.

The Organization operates a Headstart program with three locations. Volunteers performed services for this program and contributed amounts are based on their annual teaching salary. Fair value of the services for the years ended June 30, 2017 and 2016 totaled \$68,894 and \$32,298.

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 examinations by the applicable taxing jurisdictions for fiscal periods prior to June 30, 2014.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

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 29, 2017.

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

Pledges receivable are summarized as follows at June 30:

	2017	2016
Due within up to one year	\$ 300,846	\$ 484,275
Due within one to five years	-	185,246
	300,846	669,521
Discount to present value	-	(7,552)
	<u>\$ 300,846</u>	<u>\$ 661,969</u>

Hudson Guild, Inc.

Notes to Financial Statements June 30, 2017

5. Investments and Investment Return

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

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ -	\$ 379
Fixed income	1,112,788	-
Money market	<u>502,929</u>	<u>1,132,201</u>
	<u>\$ 1,615,717</u>	<u>\$ 1,132,580</u>

Investment return consists of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$2,151	\$2,112
Realized and unrealized gain (loss) on investments	<u>3,099</u>	<u>(93)</u>
	<u>\$5,250</u>	<u>\$2,019</u>

6. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Leasehold and building improvements	\$ 8,978,842	\$ 8,978,842
Furniture and equipment	<u>1,400,219</u>	<u>1,288,405</u>
	10,379,061	10,267,247
Accumulated depreciation	<u>(5,595,281)</u>	<u>(5,123,455)</u>
	<u>\$ 4,783,780</u>	<u>\$ 5,143,792</u>

7. 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 5.25%. The outstanding balance at June 30, 2017 and 2016 was \$90,000 and \$190,000. The line expires on December 14, 2017.

8. Margin Loan Payable

The Organization has a margin loan agreement with an investment bank secured by its investment account, under which it can borrow up to its account balance. Fair value of the investment portfolio is the maximum available line of credit and serves as collateral for the loan. The loan was closed in February 2017.

Hudson Guild, Inc.

Notes to Financial Statements June 30, 2017

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 contributions to the plan. There was no pension expense for 2017 and 2016.

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 were no contributions for the years ended June 30, 2017 and 2016.

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 salaries on a monthly basis. For the years ended June 30, 2017 and 2016, the Organization's contributions totaled \$155,335 and \$158,808.

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 requires the Organization to contribute an amount equal to 0.16% of employees' gross wages. For the years ended June 30, 2017 and 2016, the Organization's contributions totaled \$64,773 and \$50,343.

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Children and youth programs	\$ 437,543	\$ 408,137
Scholarships	20,000	20,000
Mental health	-	85,000
Adult services	38,002	38,334
Unappropriated endowment earnings	2,696	-
	<u>\$ 498,241</u>	<u>\$ 551,471</u>

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

10. Temporarily and Permanently Restricted Net Assets (*continued*)

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.

11. Net Assets Released from Restrictions

The amounts released from restrictions are as follows during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Children and youth programs	\$ 526,592	\$ 957,797
Community building	374,864	141,785
Adult services	75,000	79,088
Mental health	85,000	60,000
Operations	2,151	52,112
	<u>\$ 1,063,607</u>	<u>\$1,290,782</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 Trustees. Unless authorized by the Board of Trustees, the appropriations from the endowment fund should not deplete the historical dollar value of the endowment fund.

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

12. Endowment Fund (continued)

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.

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	\$ (403)	\$ -	\$ 1,109,819	\$1,109,416
Interest and dividend income	-	2,151	-	2,151
Realized and unrealized gain on investments	403	2,696	-	3,099
Appropriation for expenditures	2,151	(2,151)	-	-
Expenditures for operations	(2,151)	-	-	(2,151)
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 2,696</u>	<u>\$ 1,109,819</u>	<u>\$1,112,515</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ (310)	\$ -	\$ 1,109,819	\$1,109,509
Interest and dividend income	-	2,112	-	2,112
Realized and unrealized loss on investments	(93)	-	-	(93)
Appropriation for expenditures	2,112	(2,112)	-	-
Expenditures for operations	(2,112)	-	-	(2,112)
Balance, June 30, 2016	<u>\$ (403)</u>	<u>\$ -</u>	<u>\$ 1,109,819</u>	<u>\$1,109,416</u>

Hudson Guild, Inc.

Notes to Financial Statements
June 30, 2017

12. Endowment Fund (continued)

Certain of the Organization's donor restricted endowments have experienced losses due to market fluctuations. U.S. GAAP requires that such excess losses be absorbed by the unrestricted net assets of the Organization and the future gains be allocated to unrestricted net assets until such losses have been restored. Aggregate cumulative losses absorbed by the unrestricted net assets at June 30, 2016 amounted to \$403 and were fully restored during the year ended June 30, 2017.

13. Economic Dependency

For the years ended June 30, 2017 and 2016, approximately 71% and 64% of the Organization's government grants and contracts funding was provided by the following City of New York City 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 at 410 West 40th Street, New York, New York for its early childhood program. Monthly rent is \$8,542 under the terms of the lease. The lease expires on August 31, 2018. Rent expense for the early childhood program for each of the years ended June 30, 2017 and 2016 was \$102,500.

On August 19, 2014, the Organization entered into a lease agreement with NYCHA for space at 206 West 64th Street, New York, New York 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, 2019.

The Organization entered into a lease agreement with NYCHA for space at 459 West 26th Street, New York, New York for its early childhood program. Monthly rent is \$2,883 under the terms of the lease. The lease expires on August 31, 2018. Rent expense for the early childhood program for each of the years ended June 30, 2017 and 2016 was \$34,593.

The remaining commitments under these leases are as follows:

2018	\$ 148,569
2019	56,580
2020	35,135
2021	34,593
	<u>\$ 274,877</u>

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