New York City Mission Society

Independent Auditor's Report and Financial Statements

June 30, 2018

BKD
CPAs & Advisors

New York City Mission Society
June 30, 2018

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Independent Auditor's Report

Board of Directors
New York City Mission Society
New York, New York

We have audited the accompanying financial statements of New York City Mission Society, which comprise the statement of financial position as of June 30, 2018, 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.

Auditor's 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 from 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 auditor's 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 statement of financial position of New York City Mission Society as of June 30, 2018, 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.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated January 26, 2018, expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

New York, New York
January 10, 2019

New York City Mission Society

Statement of Financial Position

June 30, 2018

(With Summarized Financial Information for June 30, 2017)

	2018	2017
Assets		
Cash	$ 873,208	$ 974,827
Grants receivable	1,608,026	1,010,062
Contribution receivable	300,000	300,000
Prepaid expenses	26,831	32,369
Investments in securities	36,270,778	37,174,627
Property and equipment, net	1,284,693	972,320
Beneficial interest in perpetual trust	5,731,754	5,294,814
Total assets	$ 46,095,290	$ 45,759,019
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 948,017	$ 673,123
Accrued pension costs	-	1,022,314
Total liabilities	948,017	1,695,437
Net Assets		
Unrestricted	32,813,728	31,943,022
Temporarily restricted	1,492,102	1,716,057
Permanently restricted	10,841,443	10,404,503
Total net assets	45,147,273	44,063,582
Total liabilities and net assets	$ 46,095,290	$ 45,759,019

New York City Mission Society

Statement of Activities

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Operating Revenues, Gains and Other Support					
Contributions	$ 1,404,703	$ -	$ -	$ 1,404,703	$ 1,253,556
Grants from government agencies	5,971,273	-	-	5,971,273	6,571,939
Special events	688,964	-	-	688,964	597,015
Investment proceeds designated for current operations	820,000	-	-	820,000	1,170,000
Investment income from beneficial interest in perpetual trust	213,122	-	-	213,122	213,886
Occupancy income	116,318	-	-	116,318	88,217
Other income	4,624	-	-	4,624	5,467
Net assets released from restrictions	339,598	(339,598)	-	-	-
Total operating revenues, gains and other support	9,558,602	(339,598)	-	9,219,004	9,900,080
Operating Expenses					
Program services					
Youth and family programs	4,487,554	-	-	4,487,554	3,425,088
Young adult programs	4,934,635	-	-	4,934,635	3,859,748
Preventive services programs	63,425	-	-	63,425	438,301
Total program services	9,485,614	-	-	9,485,614	7,723,137
Management and general	1,458,578	-	-	1,458,578	1,683,248
Fund raising and public relations	621,941	-	-	621,941	524,840
Direct costs of special events	202,713	-	-	202,713	216,942
Total operating expenses	11,768,846	-	-	11,768,846	10,148,167
Change in Net Assets from Operations	(2,210,244)	(339,598)	-	(2,549,842)	(248,087)
Nonoperating Revenues and Gains (Losses)					
Investment proceeds transferred to operations	(820,000)	-	-	(820,000)	(1,170,000)
Investment income - net of investment fees	1,580,361	115,643	-	1,696,004	2,471,679
Gain on beneficial interest in perpetual trust	-	-	436,940	436,940	640,430
Net pension (loss) gain arising during period	(870,015)	-	-	(870,015)	469,534
Less: amortization of unrecognized net gain/loss	123,604	-	-	123,604	208,919
Change in net loss - pension settlement	3,067,000	-	-	3,067,000	1,065,556
Total nonoperating revenues and gains	3,080,950	115,643	436,940	3,633,533	3,686,118
Change in Net Assets	870,706	(223,955)	436,940	1,083,691	3,438,031
Net Assets, Beginning of Year	31,943,022	1,716,057	10,404,503	44,063,582	40,625,551
Net Assets, End of Year	$ 32,813,728	$ 1,492,102	$ 10,841,443	$ 45,147,273	$ 44,063,582

New York City Mission Society

Statement of Functional Expenses

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Program Services				Supporting Services				Total	
	Youth and Family Programs	Young Adult Programs	Preventive Services Programs	Total	Management and General	Fund Raising and Public Relations	Total	Direct Costs of Special Events	2018	2017
Salaries	$ 2,030,614	$ 2,371,249	$ 49,646	$ 4,451,509	$ 518,897	$ 273,996	$ 792,893	$ -	$ 5,244,402	$ 5,888,895
Payroll taxes	215,188	247,337	6,992	469,517	23,783	21,996	45,779	-	515,296	602,310
Fringe benefits	1,552,728	1,695,657	4,163	3,252,548	271,778	95,387	367,165	-	3,619,713	1,490,943
Total personal services	3,798,530	4,314,243	60,801	8,173,574	814,458	391,379	1,205,837	-	9,379,411	7,982,148
Professional fees and contracted services	67,352	47,309	-	114,661	250,015	122,815	372,830	-	487,491	425,733
Participant stipend	150	-	-	150	-	-	-	-	150	13,000
Client needs/incentives	110,186	92,265	751	203,202	1,319	9,191	10,510	-	213,712	216,004
Rental, catering, printing and invitations	-	-	-	-	-	-	-	202,713	202,713	216,942
Supplies	122,244	71,455	581	194,280	20,205	8,436	28,641	-	222,921	206,668
Food	34,042	51,517	-	85,559	7,005	1,296	8,301	-	93,860	91,191
Postage	3,780	1,596	-	5,376	1,416	538	1,954	-	7,330	7,052
Printing and training materials	259	239	-	498	1,935	7,112	9,047	-	9,545	11,690
Marketing/public relations	85	-	-	85	3,073	1,805	4,878	-	4,963	695
Occupancy	9,432	10	-	9,442	54,558	16,682	71,240	-	80,682	86,823
Maintenance and repairs	78,569	88,232	379	167,180	6,212	2,636	8,848	-	176,028	127,577
Equipment lease and rental	24,696	24,288	24	49,008	18,458	4,884	23,342	-	72,350	68,071
Telephone	16,114	12,582	-	28,696	37,844	12,424	50,268	-	78,964	84,345
Commercial insurance	64,730	82,094	-	146,824	25,635	5,435	31,070	-	177,894	167,310
Staff travel and messenger	3,961	1,787	632	6,380	4,392	907	5,299	-	11,679	16,980
Transportation	38,476	21,217	-	59,693	3,100	-	3,100	-	62,793	53,449
Investment management fees	-	-	-	-	330,402	-	330,402	-	330,402	280,486
Staff training and development	13,953	15,211	-	29,164	1,850	-	1,850	-	31,014	8,654
Meetings/ads/dues/subscriptions	4,100	3,840	-	7,940	51,377	28,076	79,453	-	87,393	79,934
Bank fees and payroll charges	34,109	43,769	257	78,135	1,869	8,284	10,153	-	88,288	99,605
Miscellaneous	62,786	62,981	-	125,767	5,786	41	5,827	-	131,594	13,397
Total expenses before depreciation	4,487,554	4,934,635	63,425	9,485,614	1,640,909	621,941	2,262,850	202,713	11,951,177	10,257,754
Depreciation	-	-	-	-	148,071	-	148,071	-	148,071	170,899
Total functional expenses	4,487,554	4,934,635	63,425	9,485,614	1,788,980	621,941	2,410,921	202,713	12,099,248	10,428,653
Less:										
Investment management fees	-	-	-	-	(330,402)	-	(330,402)	-	(330,402)	(280,486)
Total expenses as reported by function in the statement of activities	$ 4,487,554	$ 4,934,635	$ 63,425	$ 9,485,614	$ 1,458,578	$ 621,941	$ 2,080,519	$ 202,713	$ 11,768,846	$ 10,148,167

New York City Mission Society

Statement of Cash Flows

Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018	2017
Operating Activities		
Change in net assets	$ 1,083,691	$ 3,438,031
Items not requiring (providing) operating activities cash flows		
Depreciation	148,071	170,899
Net realized and unrealized gain on investments	(1,629,695)	(2,333,133)
Gain on beneficial interest in perpetual trust	(436,940)	(640,430)
Change in net loss related to pension settlement	775,548	-
Changes in		
Grants receivable	(597,964)	(28,177)
Contribution receivable	-	(300,000)
Prepaid expenses	5,538	48,799
Accounts payable and accrued expenses	274,894	(26,109)
Accrued pension costs	(1,797,862)	(945,482)
Other liabilities	-	(312,178)
Net cash used in operating activities	(2,174,719)	(927,780)
Investing Activities		
Purchase of investments	(5,403,640)	(10,217,888)
Proceeds from sales of investments	7,937,184	11,507,845
Purchase of fixed assets	(460,444)	(99,681)
Net cash provided by investing activities	2,073,100	1,190,276
Increase (Decrease) in Cash	(101,619)	262,496
Cash, Beginning of Year	974,827	712,331
Cash, End of Year	$ 873,208	$ 974,827
Supplemental Cash Flows Information		
Interest paid	$ -	$ 192

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

New York City Mission Society (the Society) operates as a not-for-profit voluntary health and welfare society. For over 200 years, the Society has been making a positive, long-term impact on children, youth, and families in New York City's most underserved communities. The Society's progressive portfolio of educational, workforce development and cultural enrichment programs provide those they serve with the tools to break the cycle of poverty and achieve success. From their flagship community Society in Central Harlem and 11 sites throughout the Bronx, Brooklyn, and the Lower East Side, they serve thousands of children and young adults annually with their programs, services, and events. The Society is supported primarily by grants from government agencies, investment income, and contributions.

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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2018 the Society's cash accounts exceeded federally insured limits by approximately $749,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private comingled funds and hedge funds are recorded at net asset value (NAV), as a practical expedient. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Society maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Grants Receivable

Grants receivable from government agencies, occupancy and other sources of income are recorded when services are rendered or qualifying expenses are incurred. The Society determines whether an allowance for uncollectibles should be provided for other receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent collections and historical information. Grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of June 30, 2018, the Society had no allowance for doubtful accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	3 - 50 years
Equipment	3 - 5 years

Long-Lived Asset Impairment

The Society evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2018.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Society has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Society in perpetuity, but permit the Society to use or expend part or all of the income derived from the resources for either specified or unspecified purposes. Permanently restricted net assets also include the Society's beneficial interest in a perpetual trust.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as unrestricted contributions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-kind Contributions

In addition to receiving cash contributions, the Society receives in-kind contributions of donated legal services from various donors. It is the policy of the Society to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the year ended June 30, 2018, $85,535 was received in in-kind contributions.

Grants from Government Agencies

Support funded by government agencies is recognized as the Society performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Society is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. The Society is also exempt from New York State and New York City income and sales taxes. However, the Society is subject to federal income tax on any unrelated business taxable income.

The Society files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities.

Summarized 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through January 10, 2019, which is the date the financial statements were available to be issued.

Note 2: Property and Equipment

Property and equipment at June 30, consists of:

Land	$ 210,000
Buildings and improvements	3,148,983
Equipment	835,840
	4,194,823
Less accumulated depreciation	2,910,130
	$ 1,284,693

Note 3: Investments, Investment Return and Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2,042,150	$ 2,042,150	$ -	$ -
Mutual funds				
Equities	12,133,947	12,133,947	-	-
Fixed income	8,202,494	8,202,494	-	-
Balanced	1,345,166	1,345,166	-	-
	23,723,757	$ 23,723,757	$ -	$ -
Investments measured at net asset value (A):				
Hedge funds	10,957,947			
Private comingled funds	1,589,074			
Total investments	$ 36,270,778			
Beneficial interest in perpetual trust	$ 5,731,754	$ -	$ -	$ 5,731,754

(A) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trust
Balance, June 30, 2017	$ 5,294,814
Unrealized gains included in change in net assets	436,940
Balance, June 30, 2018	$ 5,731,754

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements:

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Inputs
Beneficial interest in perpetual trust	$ 5,731,754	Estimated value of expected cash flows	Cash flows

Fair Value of Financial Instruments

The fair values of other financial instruments are not materially different than their carrying values.

Alternative Investments

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund (A)	$ 1,395,497	$ -	Quarterly (up to 25%)	60 days
Hedge funds (B)	6,360,451	-	Quarterly	45 - 90 days
Hedge funds (C)	2,419,904	-	Annually	45 - 90 days
Hedge fund (D)	782,095	-	Monthly	30 days
Private comingled funds (E)	1,589,074	-	Monthly	5 - 10 days
	$ 12,547,021	$ -		

(A) This category includes an investment in a hedge fund that takes a classic value approach that relies upon thorough fundamental analysis to identify and understand mispricing in the market. The fund seeks to be contrarian in its views and avoid highly trafficked investment opportunities, preferring to focus on off-the-run opportunities where it has a variant perspective.

(B) This category includes investments in hedge funds that utilize conservative investment philosophy as they seek to produce absolute returns. The funds seek to invest in corporate, consumer and real estate loans, structured products, high yield debt and certain equity securities and derivatives primarily in the U.S. and Europe. Management of the funds has the ability to shift investments among differing investment strategies and generally concentrate no more than 25 percent of its total capital in the securities of a single issuer.

(C) This category includes investments in hedge funds that take both long and short positions, employ fundamental analysis to pursue multiple strategies to diversify risks and reduce volatility. The funds seek to perform extensive internal and external research and due diligence on all investments and target investments with an emphasis on potential cash flows which can include bank debt, high yield bonds, convertible arbitrage, distressed debt, securitized assets and equity securities related to a particular event (such as a bankruptcy or restructuring).

(D) This category includes an investment in a hedge fund that seeks to provide its investors with an above average long-term return from portfolios invested primarily in equity securities, primarily of small and mid-size companies located outside the United States. The fund may invest in a wide variety of other financial instruments, including without limitation, common stock, preferred stock, warrants, debt, exchange-traded notes, exchange-traded funds, currencies and cash and cash equivalents.

(E) This category includes investments in private comingled funds that seek to preserve capital while constructing a portfolio that reflects attractive returns for a given level of risk.

Total investment return is comprised of the following:

Interest and dividend income	$	396,711
Net realized and unrealized gains on investments reported at fair value		1,629,695
		2,026,406
Less investment management fees		330,402
Total investment return	$	1,696,004

Note 4: Beneficial Interest in Perpetual Trust

The Society is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, the Society has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is $5,731,754, which represents the fair value of the trust assets at June 30, 2018. The income from this trust for 2018 was $436,940.

Note 5: Note Payable to Bank

The Society had a $500,000 revolving bank line of credit that expired on December 10, 2018. There were no borrowings against this line during the year. The line was collateralized by substantially all of the Society's assets. Interest was at the adjusted LIBOR plus 3 percent, which was 5.0 percent at June 30, 2018. Currently the extension of the line of credit is being negotiated.

Note 6: Net Assets

Temporarily Restricted Net Assets

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

Scholarships	$	1,269,534
Renovations		212,568
Other		10,000
	$	1,492,102

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, are restricted to:

Endowments, which consist of two funds:	
Scholarships	$ 1,342,689
General operations	3,767,000
Total endowments	5,109,689
Beneficial interest in perpetual trust	5,731,754
	$ 10,841,443

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. There were net assets released from restrictions for renovations of $339,598 during the year ended June 30, 2018.

Note 7: Endowment

The Society's endowment consists of individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society's Board of Directors has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. NYPMIFA moves away from the "historical dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Society is now governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7 percent of the average of its previous five years' balance. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Society and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Society
7. Investment policies of the Society

The composition of net assets by type of endowment fund at June 30, 2018, was:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,270,534	$ 5,109,689	$ 6,380,223

Changes in endowment net assets for the year ended June 30, 2018, were:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,154,891	$ 5,109,689	$ 6,264,580
Interest and dividend income	68,251	-	68,251
Net realized and unrealized gains	280,378	-	280,378
Investment fees	(56,844)	-	(56,844)
Appropriation for expenditure	(176,142)	-	(176,142)
Endowment net assets, end of year	$ 1,270,534	$ 5,109,689	$ 6,380,223

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Society is required to retain as a fund of perpetual duration pursuant to donor stipulation or NYPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There was no deficiency at June 30, 2018.

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Society must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. The Society expects its endowment funds to provide a total return (net of investment management fees) of at least 6% per year in excess of inflation. This objective assumes that withdrawals from the fund will average, long-term, no more than 6 percent of the fund’s value over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Society relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Under the Society’s policies, endowment assets are invested in a manner that is intended to produce results to achieve its long-term return objectives within prudent risk constraints.

Note 8: Retirement Plans

Pension Plans

The Society had a noncontributory defined benefit pension plan covering substantially all employees. Plan benefits were based on a percentage of the highest three-year average compensation for each year of service. The Society's funding policy was to annually contribute amounts recommended by its consulting actuaries. The governing body of the Plan approved a plan of termination effective April 10, 2017. After filing the application to terminate the Plan on February 15, 2017 with the Department of the Treasury Internal Revenue Service, the Society received the related approval dated December 28, 2017. Subsequently, the Society settled the remaining obligations of the plan utilizing the existing plan assets and by contributing an additional $1,797,862 to the plan.

As of June 30, 2018, there are no assets or liabilities recognized in the statement of financial position.

Other significant balances and costs are:

Net periodic benefit cost	$ 3,079,908
Employer contributions	1,797,862
Benefits paid	170,814

Actuarial assumptions used to determine benefit costs for the year ended June 30, 2018, were as follows:

Discount rate	4.21%
Expected return on plan assets	6.00%
Rate of compensation increase	N/A
Cost of living increase	N/A

Commencing September 2016, the Society amended the pension plan to offer a special lump sum benefit distribution to certain vested terminated participants, deferred alternated payees and deferred beneficiaries who were terminated prior to July 1, 2016. The lump sum distributions paid out during December 2017 were $1,729,318.

403(b) Plan

The Society has a 403(b) plan that covers substantially all employees. On January 1, 2017, the Society amended its 403(b) plan to include employer contributions. Beginning March 1, 2017, the Society will make a one-time contribution of $500 for all eligible employees upon plan entry and an ongoing 1 percent match of elective deferrals of compensation per payroll period. All full-time employees who have worked for the Society for at least three months will be eligible for the employer contributions. The expense related to this plan for the year ended June 30, 2018 was $31,708.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grants

Approximately 81 percent of all other receivables were due from two governmental agencies at June 30, 2018 and approximately all grant revenues were from two governmental agencies for the year ended June 30, 2018.

Litigation

The Society is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the statement of financial position, change in net assets and cash flows of the Society. Events could occur that would change this estimate materially in the near term.

Investments

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

Note 10: Future Accounting Changes

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for annual periods beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the Society is as follows:

<u>Statement of Financial Position</u>

- The statement of financial position will distinguish between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.
- Investment income will be shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.
- Amounts and purposes of governing board designations and appropriations as of the end of the period are disclosed.

The Society is evaluating the impact the standard will have on the financial statements.

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018. The Society is in the process of evaluating the impact the amendment will have on the financial statements.