

PROVIDENCE HOUSE, INC. AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2018 and 2017

Providence House, Inc. and Affiliates

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Providence House, Inc. and Affiliates
Brooklyn, New York

We have audited the accompanying consolidated financial statements of Providence House, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Providence House, Inc. and Affiliates as of June 30, 2018 and 2017, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



New York, New York
December 6, 2018

Providence House, Inc. and Affiliates

Consolidated Statements of Financial Position

	June 30,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 1,044,139	\$ 339,583
Contributions and grants receivable	-	35,000
Program revenue receivable	1,422,709	1,474,264
Prepaid expenses	3,364	3,363
Investments	2,955,079	2,726,173
Developer fees receivable	115,000	230,000
Reserve account	460,000	345,000
Interest receivable from affiliates	539,870	397,014
Notes receivable from affiliates	1,459,768	1,459,768
Property and equipment—net	1,947,052	2,196,099
Total Assets	\$ 9,946,981	\$ 9,206,264
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 821,447	\$ 920,950
Accrued payroll and related expenses	125,107	108,528
Mortgage payable	-	71,591
Line of credit	652,916	652,916
Total liabilities	1,599,470	1,753,985
Net assets:		
Unrestricted:		
Undesignated	6,147,697	4,905,478
Net investment in property and equipment	1,947,052	2,124,508
	8,094,749	7,029,986
Temporarily restricted	252,762	422,293
Total net assets	8,347,511	7,452,279
Total Liabilities and Net Assets	\$ 9,946,981	\$ 9,206,264

See notes to consolidated financial statements

Providence House, Inc. and Affiliates

Consolidated Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING INCOME AND RELEASES:						
Contract revenue	\$ 3,404,394	\$ -	\$ 3,404,394	\$ 3,313,075	\$ -	\$ 3,313,075
Donations and grants	689,192	189,300	878,492	496,422	144,761	641,183
Fundraising event, net of direct expenses	281,319	-	281,319	356,087	-	356,087
Miscellaneous income	3,849	-	3,849	142,914	-	142,914
CACFP and EFSP food grant	85,888	-	85,888	104,136	-	104,136
Rental income	61,102	-	61,102	64,403	-	64,403
Administrative overhead revenue	344,000	-	344,000	39,567	-	39,567
Donated services value	129,012	-	129,012	175,985	-	175,985
NYC Housing HRA payments	1,505	-	1,505	5,483	-	5,483
Investment income (loss)	235,888	-	235,888	128,971	-	128,971
Satisfaction of purpose restrictions	358,831	(358,831)	-	158,070	(158,070)	-
Total Operating Income and Releases	5,594,980	(169,531)	5,425,449	4,985,113	(13,309)	4,971,804
OPERATING EXPENSES:						
Temporary shelter program	2,972,900	-	2,972,900	3,204,635	-	3,204,635
Central - program support	1,486,534	-	1,486,534	1,373,630	-	1,373,630
Kosciusko Street project	469,780	-	469,780	581,089	-	581,089
Lincoln Road project	243,113	-	243,113	294,043	-	294,043
Child care program	63,358	-	63,358	71,710	-	71,710
Permanent housing program	22,536	-	22,536	34,155	-	34,155
178 Halsey	1,016	-	1,016	1,515	-	1,515
Total Operating Expenses	5,259,237	-	5,259,237	5,560,777	-	5,560,777
Change in Net Assets from Operating Activity	335,743	(169,531)	166,212	(575,664)	(13,309)	(588,973)

See notes to consolidated financial statements

Providence House, Inc. and Affiliates

Consolidated Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NONOPERATING ACTIVITY:						
Sale of asset	586,163	-	586,163	-	-	-
Interest income on notes receivable	142,857	-	142,857	-	-	-
Change in Net Assets from Nonoperating Activity	729,020	-	729,020	-	-	-
Net Assets, Beginning of Year	7,029,986	422,293	7,452,279	7,605,650	435,602	8,041,252
Net Assets, End of Year	\$ 8,094,749	\$ 252,762	\$ 8,347,511	\$ 7,029,986	\$ 422,293	\$ 7,452,279

See notes to consolidated financial statements

Providence House, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 895,232	\$ (588,973)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	182,990	146,883
Realized and unrealized gain on investments	(235,723)	(53,443)
Gain on sale of property and equipment	(586,163)	-
Changes in:		
Contributions and grants receivable	35,000	104,938
Program revenue receivable	51,555	(334,554)
Prepaid expenses	(1)	(3,279)
Developer fees receivable	115,000	71,500
Reserve account	(115,000)	-
Interest receivable from affiliates	(142,856)	-
Accounts payable and accrued expenses	(99,503)	233,580
Accrued payroll and related expenses	16,579	18,178
Net Cash Provided (Used) by Operating Activities	117,110	(405,170)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(116,107)	(79,094)
Proceeds from sale of property and equipment	768,327	-
Purchases of investments	(1,211,715)	(1,869,809)
Proceeds from sale of investments	1,218,532	2,047,339
Net Cash Provided by Investing Activities	659,037	98,436
CASH FLOWS FROM FINANCING ACTIVITIES:		
Drawdown on line of credit	-	452,916
Repayment of principal	(71,591)	(123,978)
Net Cash Provided (Used) by Financing Activities	(71,591)	328,938
Change in Cash and Cash Equivalents	704,556	22,204
Cash and Cash Equivalents, Beginning of Year	339,583	317,379
Cash and Cash Equivalents, End of Year	\$ 1,044,139	\$ 339,583
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 24,117	\$ 31,798

See notes to consolidated financial statements

Providence House, Inc. and Affiliates
Consolidated Statements of Functional Expenses

	Year Ended June 30,							
	2018				2017			
	Program	Management and General	Development and Public Relations	Totals	Program	Management and General	Development and Public Relations	Totals
Salaries and wages	\$ 1,995,389	\$ 405,161	\$ 109,958	\$ 2,510,508	\$ 2,060,321	\$ 150,141	\$ 132,495	\$ 2,342,957
Employee benefits	372,859	110,710	44,993	528,562	462,819	12,027	58,039	532,885
Other program expenses	351,707	17,902	50	369,659	633,250	1,282	-	634,532
Professional fees	9,563	253,883	40,700	304,146	2,967	377,333	46,900	427,200
Payroll taxes	151,204	29,531	8,333	189,068	201,297	28,341	14,225	243,863
Utilities	158,415	24,816	-	183,231	161,652	18,695	-	180,347
Depreciation	120,973	62,017	-	182,990	107,416	39,467	-	146,883
Office expenses	82,104	83,880	5,512	171,496	93,129	63,474	-	156,603
Rent	130,500	-	-	130,500	144,850	-	-	144,850
Supplies	91,862	28,118	537	120,517	106,999	24,901	8	131,908
Equipment, purchase, rental and maintenance	90,743	23,848	-	114,591	74,427	28,589	100	103,116
Food	80,898	10,930	270	92,098	37,290	10,759	-	48,049
Insurance	50,695	21,935	-	72,630	24,921	46,348	-	71,269
Telephone	35,524	9,471	-	44,995	32,983	10,795	-	43,778
Printing	8,659	5,494	16,869	31,022	1,099	144	17,001	18,244
Advertising	6,998	18,645	219	25,862	2,816	35,123	13	37,952
Interest expense	4,090	20,027	-	24,117	15,870	25,928	-	41,798
Other fundraising expenses	2,400	-	11,258	13,658	-	-	1,366	1,366
Seminars and training	5,728	5,334	-	11,062	8,357	959	-	9,316
Scholarships	-	10,500	-	10,500	-	2,500	-	2,500
Travel	9,151	904	43	10,098	9,565	1,826	82	11,473
Dues and subscriptions	940	6,870	757	8,567	636	6,544	1,016	8,196
Client assistance and gifts	2,729	2,250	80	5,059	1,260	-	-	1,260
Postage and delivery	335	2,666	1,379	4,380	614	1,261	3,139	5,014
Miscellaneous	9,236	90,563	122	99,921	2,609	211,988	821	215,418
Total expenses	\$ 3,772,702	\$ 1,245,455	\$ 241,080	\$ 5,259,237	\$ 4,187,147	\$ 1,098,425	\$ 275,205	\$ 5,560,777

See notes to consolidated financial statements

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. NATURE OF ORGANIZATION:

Providence House, Inc. (Providence) is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Providence is principally engaged in the housing and feeding of homeless women and their children, and women leaving prison. These services are provided in the City of New York and Westchester County, New York. Providence's primary sources of revenue are grants and contributions.

Providence Kosciuszko Housing Development Fund Corporation (PKHDFC), a nonprofit organization, was incorporated on August 21, 2009, pursuant to Article XI of the New York Private Housing Finance Law and Section 402 of the Not-For-Profit Corporation Law. PKHDFC's mission is to develop and operate the K Street Project. Providence is the sole member of PKHDFC. The board of PKHDFC consists of members that are either board members of Providence or members that are approved by the Providence board.

On April 15, 2010, Providence and Alembic Development Company, LLC (ADC) formed a joint venture to construct, develop and operate the K Street Project.

273-277 Kosciuszko, G.P., LLC (273 GP LLC) was established on November 22, 2010, as a limited liability company. 273 GP LLC consists of two members, PK LLC and ADC, with PK LLC owning the majority interest (51%). 273 GP LLC's sole purpose is to allow PKHDFC, through PK LLC, to partner with ADC in the construction, development and operation of the K Street Project. On February 21, 2014, 273 GP LLC agreement was modified with PK LLC having a 75% interest and an unrelated non-profit partner having a 25% interest.

Providence Kosciuszko LLC (PK LLC) was incorporated on May 17, 2011, as a limited liability company for the purpose of acquiring a membership interest and a partnership interest, respectively, in 273 GP LLC and the 273 Limited Partnership. PKHDFC is the sole member of PK LLC.

Providence I Housing Development Fund Corporation (PIHDFC), a non-profit organization, was incorporated on June 2, 2008, pursuant to Article XI of the New York Private Housing Finance Law and Section 402 of the Not-For-Profit Corporation Law. PIHDFC's mission is to develop and operate the Lincoln Road Project. Providence is the sole member of PIHDFC. The board of PIHDFC consists of members that are either board members of Providence or members that are approved by the Providence board.

On January 30, 2012, Providence and ADC formed another joint venture to construct, develop and operate the Lincoln Road Project.

329 Lincoln Road, G.P., LLC (329 GP LLC) was established on January 30, 2010, as a limited liability company. 329 GP LLC consists of two members, PI LLC and ADC, with PI LLC owning the majority interest (51%). 329 GP LLC's sole purpose is to allow PIHDFC, through PI LLC, to partner with ADC in the construction, development and operation of the Lincoln Road Project.

Providence I LLC (PI LLC) was incorporated as a limited liability company for the purpose of acquiring a membership interest and a partnership interest, respectively, in 329 GP LLC and the 329 Limited Partnership. PIHDFC is the sole member of PI LLC.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. NATURE OF ORGANIZATION, continued:

PH Halsey Hancock Housing Development Fund Corporation (PHHHHDFC) was established on June 29, 2016, as a non-profit corporation. PHHHHDFC was organized under the laws of the State of New York and was established to acquire, develop, finance and construct the Halsey Hancock Development Project. Currently there is no activity for this corporation. Starting in the fiscal year ended June 30, 2018, this corporation will be consolidated into Providence House financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial resources and activities of Providence, PKHDFC, 273 GP LLC, PK LLC, PIHDFC, 329 GP LLC, and PI LLC. All material transactions and balances between the organizations have been eliminated in the consolidated financial statements. Providence House, Inc. and Affiliates shall be referred to as Providence throughout these notes to the consolidated financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all unrestricted cash on hand and in banks. Providence also considers all highly liquid unrestricted investments with a maturity of three months or less when purchased to be cash equivalents. Providence's cash accounts are located in one institution. At June 30, 2018 and 2017, Providence's cash balances exceeded federally insured limits by \$785,480 and \$82,751, respectfully. Providence does not believe these funds to be at substantial risk of loss due to the lack of federal insurance coverage.

CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional promises to give are recognized as income when made and recorded at fair value based upon estimated future cash flows. 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 future years are recorded at the present value of their estimated future cash flows.

INVESTMENTS

Investments are reported at fair value based on quoted market prices. Investment income, including realized and unrealized gains and losses are included in the consolidated statements of activities. Donated investments are reflected as contributions at fair market value at the date of receipt.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

PARTNERSHIP INTERESTS

Providence, indirectly through related entities described in Note 15, is a general partner in two permanent supportive housing project partnerships, 273-277 Kosciusko, L.P. and 329 Lincoln Road, L.P. The limited partners have substantive participating rights; therefore, Providence does not consolidate these partnerships into its consolidated financial statements but accounts for the partnerships using the equity method. Due to immateriality, no amount has been included in these consolidated financial statements. These housing projects are referred to throughout the consolidated financial statements as the K Street Project and the Lincoln Road Project; see Notes 6, 7, 15 and 18 for further information.

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost, or, if donated, at the estimated fair market value at the date of donation. Depreciation is recorded using the straight-line method at various rates calculated to allocate the cost of the respective items over their estimated useful lives.

Estimated useful lives are:

Buildings and improvements	15 - 40 years
Leasehold improvements	Remaining life of the lease
Furniture, fixtures and equipment	5 - 10 years

DEFERRED DEVELOPMENT FEES

Deferred developer fees are recorded for certain unearned developer fees promised under secured notes receivable, as specified in Note 6 herein. Since the developer fees relate to the completion of each project, the revenue is recognized on a percentage of completion method.

NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets:

- *Unrestricted* net assets are those currently available for ministry purposes under the direction of the Board, those designated for specific use and those resources invested in property and equipment.
- *Temporarily restricted* net assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because certain actions are taken by Providence which fulfill the restrictions or because of the passage of time. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTIONS

Contributions are recognized when a commitment is made, which may be when cash is received, an unconditional promise to give is made or when ownership of donated assets is transferred. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Contributions of property, buildings and equipment without donor stipulation concerning the use of such long-lived assets are reported as revenues of the unrestricted net assets. Contributions of cash or other assets to be used to acquire property, plant and equipment are reported as revenue of the temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

GRANTS

Grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors.

Providence receives substantial support from the New York City Department of Homeless Services and the New York City Human Resources Administration. Providence is obligated under the terms of the contracts to comply with specified conditions and program requirements set forth by the grantor.

FUNDRAISING EVENT

Providence hosts an annual fundraising event which is shown on the consolidated statements of activities net of direct benefit costs. Fundraising income consists of contributions from attendees and other revenue from the event. The fundraising event income consists of the following:

	Year Ended June 30,	
	2018	2017
Contributions	\$ 284,022	\$ 354,851
Other revenue	30,625	25,704
Less: costs of direct benefit to donors	<u>(33,328)</u>	<u>(24,468)</u>
	<u>\$ 281,319</u>	<u>\$ 356,087</u>

DEVELOPER FEES

Developer fees are earned for developer services provided in connection with the K Street Project and the Lincoln Road Project, and are earned on a percentage of completion basis, as more specifically outlined in Note 6.

DONATED SERVICES

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by Providence. These services are valued based on the estimated cost of services that would otherwise have had to be purchased.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized below on a functional basis. Certain costs have been allocated among program services and supporting activities as follows:

	Year Ended June 30,	
	2018	2017
Program services	\$ 3,772,702	\$ 4,187,147
Supporting services:		
Management and general	1,245,455	1,098,425
Development and public relations	241,080	275,205
	\$ 5,259,237	\$ 5,560,777

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of:

	June 30,	
	2018	2017
Central accounts checking and savings	\$ 1,032,507	\$ 332,607
Various petty cash accounts	8,515	6,832
PH III checking	144	144
Payroll checking	2,973	-
	\$ 1,044,139	\$ 339,583

4. PROGRAM REVENUE RECEIVABLE:

Program revenue receivable consists of the following agency grants receivable:

	June 30,	
	2018	2017
Department of Health and Mental Hygiene	\$ 638,056	\$ 726,817
Women's Justice	488,739	304,105
PH IV – WDSS	81,257	117,184
DHS – Consolidated	202,782	314,679
Department of Homeless Services	11,875	11,479
	\$ 1,422,709	\$ 1,474,264

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

5. INVESTMENTS:

Investments at fair value and cost consist of the following:

	June 30,	
	2018	2017
Common stock	\$ 1,933,414	\$ 1,677,490
Fixed income	390,328	-
Bonds	309,887	-
Mutual funds	-	836,931
Cash and money market funds	321,450	211,752
	\$ 2,955,079	\$ 2,726,173

Investment income is composed of the following:

Interest and dividends	\$ 70,279	\$ 75,528
Realized and unrealized gain on investments	165,609	53,443
	\$ 235,888	\$ 128,971

6. DEVELOPER FEES RECEIVABLE AND RESERVE ACCOUNT:

Providence, together with a third-party development company, Alembic Development Company, LLC (ADC), provides developer services in connection with the K Street and Lincoln Road projects. Pursuant to development agreements signed in connection with both of the aforementioned housing projects, Providence is entitled to earn developer fees from 273-277 Kosciusko, L.P. and 329 Lincoln Road, L.P., respectively, when various project milestones and conditions are met as follows:

Completion of plans and specifications	10%
Obtaining all building permits	20%
Achieving 25% completion	20%
Achieving 50% completion	10%
Achieving 75% completion	20%
Achieving 100% completion and issuance of final certificate of occupancy	20%
	100%

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. DEVELOPER FEES RECEIVABLE AND RESERVE ACCOUNT, continued:

Developer fees receivable consist of the following amounts:

	June 30,	
	2018	2017
The K Street Project development services agreement entitles Providence to earn \$1,421,415 of a \$1,651,415 total development fee over the life of the K Street Project. On the first \$460,000 of the total developer fee received, Providence and ADC will be paid in a 50/50 split. At June 30, 2018 and 2017, 100% of the total developer fees were earned based upon completion status of the K Street Project. \$616,415 of the development fees owed to Providence are secured by a note receivable and are included in notes receivable from affiliates. Development fees owed to Providence are intended to fund certain required reserve accounts.	\$ 115,000	\$ 230,000

The Lincoln Road Project development services agreement entitles Providence to earn \$941,353 of a \$1,018,353 total development fee over the life of the Lincoln Road Project. On the first \$220,000 of the total developer fee received, Providence and ADC were paid in a 65/35 split, respectively, all of which was received as of June 30, 2016, but was initially recorded incorrectly and later corrected during the year ended June 30, 2017. Therefore, no balance is due for the years ended June 30, 2018 and 2017. At June 30, 2018 and 2017, 100% of the total developer fees were earned based upon completion status of the Lincoln Road Project. \$798,353 of the development fees owed to Providence are secured by a note receivable and are included in notes receivable from affiliates. Development fees owed to Providence are intended to fund certain required reserve accounts.

Actual payments of outstanding developer fees are expected to be received over several years as funds become available from capital contributions, loan proceeds or net cash flow of the projects.

In addition, Providence had a reserve account established from 273 Limited Partnership in the amounts of \$460,000 and \$345,000 earned developer fees placed in operating and social reserve accounts held by 273 Limited Partnership, for the years ended June 30, 2018 and 2017, respectively.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

7. NOTES RECEIVABLE FROM AFFILIATES:

Providence is the holder of multiple notes receivable from affiliated organizations. Payments on all notes are expected to be received as funds become available from net cash flow earned from operation of the respective housing projects. Any and all payments received require deposit into reserve accounts held for the benefit of each project. Receipt of principal payments on all notes receivable is expected to begin in 2024 and thereafter. Notes receivable consist of the following:

	June 30,	
	2018	2017
A \$616,415 secured note receivable, from 273-277 Kosciusko, L.P., with interest at a fixed rate of 7.5% per annum, compounded annually. This note receivable represents deferred development fees in connection with the construction of the K Street Project. The note receivable is secured by a subordinate mortgage on the K Street Project property and has a maturity date of January 30, 2026. Interest earned on the note was \$63,683 and \$-0- during the years ended June 30, 2018 and 2017, respectively, and is included in interest receivable from affiliates.	\$ 616,415	\$ 616,415
A \$523,353 secured note receivable, from 329 Lincoln Road, L.P., with interest at a fixed rate of 8.92% per annum, compounded annually. This note receivable represents deferred development fees due in connection with the construction of the Lincoln Road Project. The note receivable is secured by a subordinate mortgage on the Lincoln Road Project property and has a maturity date not to exceed the 13th anniversary of the date the Lincoln Road Project is placed in service. Interest earned on the note was \$59,459 and \$-0- during the years ended June 30, 2018 and 2017, respectively, and is included in interest receivable from affiliates.	523,353	523,353

(continued)

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

7. NOTES RECEIVABLE FROM AFFILIATES, continued:

	June 30,	
	2018	2017
<p>A \$275,000 secured note receivable, from 329 Lincoln Road, L.P., with interest at a fixed rate of 8.92% per annum, compounded annually. This note receivable represents permanent mortgage financing for the Lincoln Road Project paid from deferred development fees expected to be earned by Providence in connection with the construction of the Lincoln Road Project. These funds are intended to fund certain required reserve accounts. The note receivable is secured by a subordinate mortgage on the Lincoln Road Project property. Interest earned on the note was \$15,711 and \$-0- during the years ended June 30, 2018 and 2017, respectively, and is included in interest receivable from affiliates. The principal and all accrued, unpaid interest is due and payable in full on June 29, 2074.</p>	275,000	275,000
<p>A \$45,000 secured note receivable, with interest at a fixed rate of 8.92% per annum, compounded annually. This note receivable represents permanent mortgage financing for the Lincoln Road Project paid from New York State Energy Research and Development Authority grant proceeds given to Providence in connection with the construction of the Lincoln Road Project. The note receivable is secured by a subordinate mortgage on the Lincoln Road Project property. Interest earned on the note was \$4,014 and \$-0- during the years ended June 30, 2018 and 2017, respectively, and is included in interest receivable from affiliates. The principal and all accrued, unpaid interest is due and payable in full on June 29, 2074.</p>	45,000	45,000
	\$ 1,459,768	\$ 1,459,768

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

8. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30,	
	2018	2017
Land	\$ 319,460	\$ 344,865
Buildings and improvements	3,204,592	3,699,371
Leasehold improvements	339,215	321,080
Furniture, fixtures and equipment	143,224	119,407
	<u>4,006,491</u>	<u>4,484,723</u>
Less accumulated depreciation	<u>(2,059,439)</u>	<u>(2,288,624)</u>
	<u>\$ 1,947,052</u>	<u>\$ 2,196,099</u>

9. MORTGAGE PAYABLE:

Mortgage payable consists of a mortgage secured by property, payable to a bank, with an interest rate of 7.78%. The loan is payable in monthly installments of principal and interest of \$11,316. The loan was paid in full in January 2018. The balance of the loan as of June 30, 2018 and 2017, respectively, was \$-0- and \$71,591.

10. LINE-OF-CREDIT:

Providence entered into a line-of-credit agreement with a bank effective March 18, 2016, to borrow up to \$1,000,000. This arrangement has been extended and now expires on June 2, 2019. Interest is payable monthly with a variable interest rate of 2.759 percentage points over the London Interbank Offered Rate, "LIBOR Rate". The line-of-credit is secured by Providence's real property. As of June 30, 2018 and 2017, there were \$652,916 for both years, in outstanding borrowings on this line-of-credit.

Line-of-credit interest expense charged to operations for the years ended June 30, 2018 and 2017, was \$24,117 and \$31,570, respectively.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2018	2017
Operations	\$ 145,383	\$ 61,250
Renovations, repairs and equipment	48,529	115,073
HARP program implementation	34,850	34,850
Annual scholarships	24,000	24,000
NYS Homeless Housing (Restricted use building)	-	114,325
Sanctuary model implementation	-	52,795
K Street housing support	-	20,000
	<u>\$ 252,762</u>	<u>\$ 422,293</u>

12. CONTRIBUTED SERVICES:

During the years ended June 30, 2018 and 2017, Providence received donated services valued at \$129,012 and \$175,985, respectively. These services were recorded as a contribution and expensed to professional fees in the accompanying consolidated financial statements.

13. RETIREMENT PLAN:

Providence is a participant in the noncontributory lay pension plan established by the Diocese of Brooklyn, New York, covering employees who meet certain minimum service requirements. Pension expense charged to Providence was approximately \$77,075 and \$89,258, respectively, for the years ended June 30, 2018 and 2017.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

14. OPERATING LEASES:

Providence rents properties from several churches in the Diocese of Brooklyn and Queens as follows:

<u>Location</u>	<u>Lease Period</u>	<u>Monthly Rent</u>
PH I	Through August 31, 2018	\$ 2,750
PH III	Through August 31, 2018	\$ 4,083
PH V	Through August 31, 2021	\$ 4,167

The future estimated minimum lease payments for each of the succeeding fiscal years are as follows:

<u>Years Ended June 30,</u>	
2019	\$ 64,421
2020	50,004
2021	8,334
	<u>\$ 122,759</u>

15. RELATED PARTIES:

In order to further its commitment to provide shelter and support to homeless, abused and formerly incarcerated women and their children in a hospitable, non-violent, compassionate atmosphere, Providence desired to develop two new permanent supportive housing buildings. These housing projects would be used to address the scarcity of permanent supportive housing for low-income and special needs individuals and families. In order to have these projects become a reality, Providence had to partner with the city, investors and developers.

K Street Project:

The first permanent supportive housing project partnership that Providence entered into was to develop a 46-unit low-income residential rental apartment project at 273-277 Kosciuszko Street in Brooklyn, New York. The units are to be used and occupied in such a manner so as to fully utilize low-income housing tax credits in accordance with Section 42 of the Internal Revenue Code.

273-277 Kosciuszko, L.P. (273 Limited Partnership) was established on November 22, 2010, as a limited liability partnership, with 273 GP LLC as general partner and PKHDFC as limited partner. 273 Limited Partnership was organized under the laws of the State of New York and was established to acquire, develop, finance and construct the K Street Project.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

15. RELATED PARTIES, continued:

On June 13, 2011, the 273 Limited Partnership agreement was amended and restated to reflect, among other changes, the admittance of PK LLC as general partner, removal of PKHDFC as limited partner, admittance of U.S.A. Institutional Tax Credit Fund LXXXIII, L.P. as the investing partner, and admittance of The Richman Group Capital Corporation as the special limited partner. The terms of the First Amended and Restated Partnership Agreement provide that profits and losses be shared 99.99% by the investing partner and .01% by the general partners (273 GP LLC and PK LLC), with no allocation to the special limited partner. Providence is the holder of a note receivable from 273 Limited Partnership as outlined in Note 7.

In June 2011, PKHDFC and other related affiliated entities entered into multiple borrowing arrangements with different lenders for the purpose of obtaining financing for the construction and completion of the K Street Project. See Note 18 for loans that are guaranteed by Providence.

In June 2011, title to the K Street Project site was conveyed to PKHDFC by the City of New York for consideration of \$3 and PKHDFC's commitment to construct and provide housing for at least thirty years exclusively to persons of low income. Pursuant to the regulatory agreement with The New York City Department of Housing Preservation and Development (NYCHPD), the K Street Project is to be occupied by persons or families of low income, as such term is defined in the regulatory agreement. Simultaneously, the beneficial and equitable interest in the property was conveyed to 273 Limited Partnership. Construction began in June 2011 and was completed in March 2013.

As outlined in Notes 2 and 6, Providence is to receive fees for the developer services it provides to the K Street Project. Development fees of \$660,566 were earned during the year ended June 30, 2013. Development fees were fully earned as of June 30, 2013. Providence had a receivable from 273 Limited Partnership of \$115,000 for cumulative earned developer fees, as of June 30, 2018 and 2017. In addition, Providence had a receivable from 273 Limited Partnership of \$460,000 earned developer fees placed in operating and social reserve accounts held by 273 Limited Partnership, as of June 30, 2018.

Lincoln Road Project:

The second permanent supportive housing project partnership that Providence entered into was to develop a 22-unit low-income residential rental apartment project at 329 Lincoln Road in Brooklyn, New York. The units are to be used and occupied in such a manner so as to fully utilize low-income housing tax credits in accordance with Section 42 of the Internal Revenue Code.

329 Lincoln Road Associates, L.P. (329 Limited Partnership) was established on January 30, 2010, as a limited liability partnership, with 329 GP LLC as general partner and PIHDFC as limited partner. 329 Limited Partnership was organized under the laws of the State of New York and was established to acquire the property and financing for the Lincoln Road Project.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

15. RELATED PARTIES, continued:

On June 1, 2012, the 329 Limited Partnership agreement was amended and restated to reflect, among other changes, removal of PIHDFC as limited partner, the admittance of the U.S.A. Institutional Tax Credit Fund LXXXVI, L.P. as the investing partner, and the admittance of The Richman Group Capital Corporation as the special limited partner. The terms of the First Amended and Restated Partnership Agreement provide that profits and losses be shared 99.99% by the investing partner and .01% by the general partner (329 GP LLC), with no allocation to the special limited partner. Providence is the holder of three notes receivable from 329 Limited Partnership as outlined in Note 7 above.

In June 2012, PIHDFC and other related affiliated entities entered into multiple borrowing arrangements with different lenders for the purpose of obtaining financing for the construction and completion of the Lincoln Road Project. See Note 18 for other loans that are guaranteed by Providence.

On June 29, 2012, title to the Lincoln Project site was conveyed to PIHDFC by the City of New York for consideration of \$1 and PIHDFC's commitment to construct and provide housing for at least thirty years exclusively to persons of low income. Pursuant to the regulatory agreement with NYCHPD, the Lincoln Project is to be occupied by persons or families of low income, as such term is defined in the regulatory agreement. Simultaneously, the beneficial and equitable interest in the property was conveyed to 329 Limited Partnership. Construction began in July 2012 and has been completed in the fiscal year June 30, 2015.

As outlined in Notes 2 and 6, Providence is to receive fees for the developer services it provides to the Lincoln Road Project. \$798,353 of these fees are secured by notes receivable as detailed in Note 7 and were initially included in deferred developer fees. The full amount of these fees were earned during the year ended June 30, 2015.

On August 30, 2013, Providence accepted forty-four shares (22%) in 291 Bainbridge GP Corp. 291 Bainbridge GP Corp is a housing project similar to the K Street Project and Lincoln Road Project. The project required an unrelated non-profit to become a general partner minority shareholder. The majority shareholder, 291 Bainbridge Housing Development Fund Corporation, has signed an indemnity agreement to indemnify and hold Providence against any and all cost, liability, loss, damage or expense incurred by Providence as a result of Providence owning the shares.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

16. OPERATING AND REPLACEMENT RESERVES:

In connection with the K Street and Lincoln Road Projects, Providence has entered into various agreements requiring the establishment of restricted reserves accounts, including replacement, operating and social services reserves for each housing development. The reserves, when received, must be maintained in separate bank accounts and are expected to be funded from developer fees received as follows:

	June 30,	
	2018	2017
<p>For the K Street Project, all development fees earned by Providence as outlined in Note 6, except for the initial \$230,000, shall require deposit into reserve accounts. Installment payments totaling \$115,000 are expected to be deposited annually into multiple reserve accounts beginning on or around April 2014. Additional deposits totaling \$115,000 will continue annually thereafter on or around April of each subsequent year, through and including April 2018. Thereafter, payments will be made as funds become available from net cash flow earned from operation of the K Street Project. Balance represents unfunded operating and replacement reserves expected to be paid from earned development fees in connection with the K Street Project.</p>	\$ 115,000	\$ 230,000
<p>For the Lincoln Road Project, all development fees earned by Providence as outlined in Note 6, except for the initial \$143,000, shall require deposit into reserve accounts. Installment payments totaling \$91,667 are to be deposited into multiple reserve accounts in connection with the Lincoln Road Project beginning on or around February 2016. Additional annual deposits totaling \$91,667 will continue thereafter on or around February of each subsequent year through and including February 2018. Thereafter, payments will be made as funds become available from net cash flow earned from operation of the Lincoln Road Project. Balance represents unfunded operating and replacement reserves expected to be paid from earned development fees in connection with the Lincoln Road Project.</p>	<div style="border-top: 1px solid black;">91,667</div>	<div style="border-top: 1px solid black;">183,334</div>
	\$ 206,667	\$ 413,334

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

17. FAIR VALUE MEASUREMENTS:

Providence uses appropriate valuation techniques to determine fair value based on inputs available. When available, Providence measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements 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 and 2017:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)
June 30, 2018:		
Equities	\$ 1,933,414	\$ 1,933,414
Bonds	390,328	390,328
Mutual funds	309,887	309,887
Cash and money market funds at cost	321,450	
	\$ 2,564,751	\$ 2,243,301
June 30, 2017:		
Mutual funds	\$ 1,677,490	\$ 1,677,490
Common stock	836,931	836,931
Cash and money market funds at cost	211,752	
	\$ 2,726,173	\$ 2,514,421

Valuation techniques: The fair value of mutual funds and money market funds is based on quoted net asset values of the shares held by Providence at year end. The fair values of the certificates of deposit are based on observable inputs other than the quoted prices included in Level 1 and thus are based on yields for securities of comparable maturity, quality and type as obtained from market makers.

Providence House, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

18. CONTINGENCIES:

CONSTRUCTION FINANCING

Providence has guaranteed payment jointly and severally for construction financing for the K Street Project from NYCHPD, in the amount of \$5,675,851. The maturity date of the note and mortgage is October 27, 2053. The balance of the loan as of both June 30, 2018 and 2017, was \$5,675,851.

Providence also guaranteed payment jointly and severally for construction financing for the Lincoln Road Project from NYCHPD, in the amount of \$2,750,000. The maturity date of the note and mortgage was extended from June 29, 2014 to June 29, 2074. The balance of the loan as of both June 30, 2018 and 2017, was \$2,750,000.

LEGAL MATTERS

Providence House, Inc. and Affiliates is subject to claims, legal proceedings, and investigations of matters that arise in the ordinary course of operations. In the opinion of management, all such matters are adequately covered by insurance or by accruals and, if not so covered, are without merit and will be vigorously contested or are of such kind or involve such amounts as would not have a significant effect on the financial position or results of operations of Providence if disposed of unfavorably.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 6, 2018, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY DATA

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA**

Board of Directors
Providence House, Inc. and Affiliates
Brooklyn, New York

We have audited the consolidated financial statements of Providence House, Inc. and Affiliates, as of and for the years ended June 30, 2018 and 2017, and our report thereon dated December 6, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 24-25 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the consolidated financial position and results of operations of the individual sites, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

New York, New York
December 6, 2018

Providence House, Inc. and Affiliates
Schedule of Activities by Program
For the Year Ended June 30, 2018

	DHS Consolidated Program	Westchester Department of Social Services	Women's Criminal Justice Program	Totals	PH IX Permanent Housing Program	Kosciuszko Street Project	Lincoln Road Project	Child Care Program	178 Halsey	Central Operations	Grand Total
Revenues and gains:											
Contract revenue	\$ 1,815,729	\$ 384,561	\$ 405,000	\$ 2,605,290	\$ -	\$ 583,059	\$ 216,045	\$ -	\$ -	\$ -	\$ 3,404,394
Donations and grants	27,157	-	17,560	44,717	-	-	-	-	-	833,775	878,492
Fundraising and special events	-	-	-	-	-	-	-	-	-	281,319	281,319
Interest income on notes receivable	-	-	-	-	-	63,683	79,174	-	-	-	142,857
CACFP and FEFP food grant	68,939	16,949	-	85,888	-	-	-	-	-	-	85,888
Rental income	-	-	-	-	61,102	-	-	-	-	-	61,102
Administrative overhead revenue	180,000	44,000	45,000	269,000	-	52,000	23,000	-	-	-	344,000
Miscellaneous income	-	-	-	-	280	216	-	-	67	-	563
NYC Housing HRA payments	-	-	1,505	1,505	-	-	-	-	-	-	1,505
Sale of asset	-	-	-	-	-	-	-	-	-	586,163	586,163
Donated services value	-	-	-	-	-	-	-	-	-	129,012	129,012
Investment income	-	-	-	-	-	-	-	-	-	235,888	235,888
Total unrestricted revenues	2,091,825	445,510	469,065	3,006,400	61,382	698,958	318,219	-	67	2,066,157	6,151,183
Expenses and losses:											
Salaries and wages	1,000,446	286,328	217,071	1,503,845	-	320,814	125,384	45,346	-	515,119	2,510,508
Other program expenses	261,351	11,443	3,180	275,974	7,706	7,029	60,998	-	-	17,952	369,659
Employee benefits	189,506	61,086	28,138	278,730	-	61,721	17,354	15,054	-	155,703	528,562
Professional fees	9,435	-	-	9,435	-	-	128	-	-	294,583	304,146
Payroll taxes	75,883	21,945	16,531	114,359	-	24,936	9,573	2,336	-	37,864	189,068
Miscellaneous	6,956	652	627	8,235	97	619	240	44	-	90,684	99,919
Utilities	95,355	24,998	19,764	140,117	6,519	914	9,864	-	1,000	24,816	183,230
Office expenses	58,069	8,591	9,357	76,017	1,604	4,046	437	-	-	89,392	171,496
Depreciation	61,313	12,523	43,431	117,267	-	3,706	-	-	-	62,017	182,990
Rent	84,667	-	45,833	130,500	-	-	-	-	-	-	130,500
Supplies	30,528	12,445	14,931	57,904	-	23,071	10,667	220	-	28,655	120,517
Equipment, purchase, rental & maintenance	59,998	12,637	8,575	81,210	700	7,031	1,801	-	-	23,848	114,590
Insurance	30,133	9,744	4,908	44,785	5,910	-	-	-	-	21,935	72,630
Food	44,517	13,132	21,976	79,625	-	1,178	41	55	-	11,200	92,099
Telephone	18,241	3,369	5,148	26,758	-	4,850	3,667	250	-	9,471	44,996
Interest expense	3,988	-	-	3,988	-	-	102	-	-	20,027	24,117
Advertising	2,494	1,486	938	4,918	-	1,700	380	-	-	18,864	25,862
Other fundraising expenses	-	-	-	-	-	2,400	-	-	-	11,258	13,658
Printing	7,582	119	203	7,904	-	517	239	-	-	22,363	31,023
Travel	3,664	610	1,744	6,018	-	1,977	1,122	35	-	947	10,099
Seminars and training	1,500	97	217	1,814	-	2,957	957	-	-	5,334	11,062
Dues and subscriptions	55	-	618	673	-	192	75	-	-	7,627	8,567
Postage and delivery	-	20	75	95	-	122	84	18	16	4,045	4,380
Scholarships	-	-	-	-	-	-	-	-	-	10,500	10,500
Client assistance and gifts	417	658	1,654	2,729	-	-	-	-	-	2,330	5,059
Total expenses	2,046,098	481,883	444,919	2,972,900	22,536	469,780	243,113	63,358	1,016	1,486,534	5,259,237
Net change	\$ 45,727	\$ (36,373)	\$ 24,146	\$ 33,500	\$ 38,846	\$ 229,178	\$ 75,106	\$ (63,358)	\$ (949)	\$ 579,623	\$ 891,946

See notes to consolidated financial statements

Providence House, Inc. and Affiliates
Providence House IV Compared to Approved County Funding
For the Year Ended June 30, 2018

	Approved Budget 2017-2018	Actual 2017-2018
	<u> </u>	<u> </u>
Revenues: *		
CACFP and FEFP food grant	\$ -	\$ 16,949
Westchester DSS payments	422,152	428,561
	<u> </u>	<u> </u>
Total revenues	422,152	445,510
	<u> </u>	<u> </u>
Expenses:		
Salary expense	287,034	286,328
Payroll taxes and employee benefits	66,868	83,031
Utilities	21,000	24,998
Telephone	4,000	3,369
Food expense	6,000	13,132
Client assistance and gifts	-	658
Other program expenses	6,250	11,443
Travel	1,000	610
Professional fees	-	-
Dues and subscriptions	-	-
Insurance	-	9,744
Repairs and maintenance	10,000	12,637
Office expenses	-	8,591
Supplies	6,000	12,445
Occupancy	-	-
Depreciation	14,000	12,523
Postage and delivery	-	20
Miscellaneous	-	2,354
	<u> </u>	<u> </u>
Total expenses	422,152	481,883
	<u> </u>	<u> </u>
Net change	\$ -	\$ (36,373)
	<u> </u>	<u> </u>

* Revenues include only CACFP, FEFP & DSS of Westchester funds.