# Project Renewal, Inc. and Affiliates

## Consolidated Financial Statements
Year Ended June 30, 2011

# Project Renewal, Inc.
# and Affiliates

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## Contents

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## Independent Auditors' Report

To the Board of Trustees
Project Renewal, Inc. and Affiliates
New York, New York

We have audited the accompanying consolidated statement of financial position of Project Renewal, Inc. and Affiliates as of June 30, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Project Renewal, Inc. and Affiliates. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2010 is presented for comparative purposes only and was extracted from the financial statements of Project Renewal, Inc. for that year, on which we expressed an unqualified opinion, dated December 8, 2010.

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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Project Renewal, Inc. and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Project Renewal, Inc. and Affiliates as of June 30, 2011 and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 19, 2011

# Project Renewal, Inc. and Affiliates

## Consolidated Statement of Financial Position
## (with comparative totals for 2010)

| *June 30,* | **2011** | 2010 |
|---|---|---|
| **Assets (Note 10)** | | |
| Cash and cash equivalents | **$ 2,701,286** | $ 3,265,117 |
| Investments at fair value (Note 5) | **32,326** | 24,868 |
| Accounts and grants receivable, net of allowance for doubtful accounts of $91,684 in 2011 and $91,684 in 2010 (Note 6) | **5,926,792** | 5,231,899 |
| Pledges receivable, net of reserve for uncollected pledges of $34,000 in 2011 and 2010 (Note 7) | **424,012** | 351,095 |
| Prepaid expenses | **245,037** | 163,795 |
| Security deposits and other assets, less allowance for doubtful accounts of $16,175 in 2011 and 2010 | **354,883** | 468,036 |
| Due from affiliates, less allowance for doubtful accounts of $645,894 in both 2011 and 2010 (Note 8) | **133,395** | 24,619 |
| Assets held for others (Note 4) | **805,471** | 777,569 |
| Fixed assets, net (Note 11) | **5,455,298** | 5,484,785 |
| Restricted sponsor reserve (Note 10) | **8,936,653** | 9,758,335 |
| Mortgage receivable (Note 9) | **27,919,533** | 17,909,384 |
| | **$52,934,686** | $43,459,502 |
| **Liabilities and Net Assets** | | |
| **Liabilities:** | | |
| Accounts payable and other liabilities | **$ 3,440,636** | $ 3,278,866 |
| Accrued payroll and payroll related liabilities | **1,710,270** | 2,046,858 |
| Due to affiliate (Note 8) | **246,411** | 139,063 |
| Deferred revenue | **4,430,761** | 4,223,362 |
| Deferred rent | **913,143** | 947,051 |
| Mortgages payable (Note 13) | **2,969,770** | 3,279,908 |
| Sponsor reserve held in custody (Note 10) | **8,936,653** | 9,758,335 |
| Enforcement lien mortgage payable (Note 9) | **27,919,533** | 17,909,383 |
| **Total Liabilities** | **50,567,177** | 41,582,826 |
| **Commitments and Contingencies (Notes 9, 12, 16 and 17)** | | |
| **Net Assets (Notes 3 and 14):** | | |
| Unrestricted: | | |
| Operating | **1,185,305** | 575,773 |
| Nonoperating | **(79,294)** | (217,562) |
| **Total Unrestricted** | **1,106,011** | 358,211 |
| Temporarily restricted (Note 14) | **1,261,498** | 1,518,465 |
| **Total Net Assets** | **2,367,509** | 1,876,676 |
| | **$52,934,686** | $43,459,502 |

*See accompanying notes to consolidated financial statements.*

# Project Renewal, Inc. and Affiliates

## Consolidated Statement of Activities
## (with comparative totals for 2010)

*Year ended June 30,*

| | Unrestricted | | | | Total | |
|---|---|---|---|---|---|---|
| | Operating | Nonoperating | Total Unrestricted | Temporarily Restricted | **2011** | 2010 |
| **Public Support and Revenue:** | | | | | | |
| Contributions | $ 334,424 | $ - | $ 334,424 | $ 840,286 | **$ 1,174,710** | $ 1,251,453 |
| Special events, net of direct benefit to donors of $84,228 and $91,905, respectively | 714,474 | - | 714,474 | - | **714,474** | 749,697 |
| Grants and third-party revenue | 40,537,727 | 517,571 | 41,055,298 | - | **41,055,298** | 39,062,221 |
| Management fee income | 25,550 | - | 25,550 | - | **25,550** | 25,550 |
| Rental income | 1,658,233 | - | 1,658,233 | - | **1,658,233** | 1,884,682 |
| Miscellaneous income | 56,824 | - | 56,824 | - | **56,824** | 650,611 |
| Contributions from affiliates | - | - | - | - | **-** | 1,280,486 |
| Interest and dividend income | 3,994 | - | 3,994 | - | **3,994** | 2,846 |
| Net realized and unrealized gains (losses) on investments | 7,303 | - | 7,303 | - | **7,303** | 2,951 |
| Net assets released from restrictions (Note 15) | 1,097,253 | - | 1,097,253 | (1,097,253) | **-** | - |
| **Total Public Support and Revenue** | 44,435,782 | 517,571 | 44,953,353 | (256,967) | **44,696,386** | 44,910,497 |
| **Expenses:** | | | | | | |
| Program services: | | | | | | |
| Outreach | 407,130 | - | 407,130 | - | **407,130** | 514,535 |
| Treatment and transitional housing | 24,025,273 | 379,303 | 24,404,576 | - | **24,404,576** | 23,379,542 |
| Medical services | 5,154,481 | - | 5,154,481 | - | **5,154,481** | 4,841,613 |
| Employment services | 4,317,636 | - | 4,317,636 | - | **4,317,636** | 4,059,934 |
| Permanent housing | 4,657,506 | - | 4,657,506 | - | **4,657,506** | 4,667,363 |
| **Total Program Services** | 38,562,026 | 379,303 | 38,941,329 | - | **38,941,329** | 37,462,987 |
| Supporting services: | | | | | | |
| Management and general | 4,725,735 | - | 4,725,735 | - | **4,725,735** | 6,378,519 |
| Fundraising | 538,489 | - | 538,489 | - | **538,489** | 623,559 |
| **Total Supporting Services** | 5,264,224 | - | 5,264,224 | - | **5,264,224** | 7,002,078 |
| **Total Expenses** | 43,826,250 | 379,303 | 44,205,553 | - | **44,205,553** | 44,465,065 |
| **Change in Net Assets** | 609,532 | 138,268 | 747,800 | (256,967) | **490,833** | 445,432 |
| **Net Assets, Beginning of Year** | 575,773 | (217,562) | 358,211 | 1,518,465 | **1,876,676** | 1,431,244 |
| **Net Assets, End of Year** | **$ 1,185,305** | **$ (79,294)** | **$ 1,106,011** | **$ 1,261,498** | **$ 2,367,509** | $ 1,876,676 |

*See accompanying notes to consolidated financial statements.*

# Project Renewal, Inc. and Affiliates

## Consolidated Statement of Functional Expenses
## (with comparative totals for 2010)

*Year ended June 30,*

| | Program Services | | | | | | Supporting Services | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outreach | Treatment and Transitional Housing | Medical Services | Employment Services | Permanent Housing | Total | Management and General | Fundraising | Total | **2011** | 2010 |
| Salaries | $260,948 | $13,711,001 | $2,916,158 | $1,659,266 | $1,439,035 | $19,986,408 | $2,260,641 | $247,386 | $2,508,027 | **$22,494,435** | $21,680,215 |
| Employee benefits and payroll related taxes | 72,037 | 3,784,592 | 804,787 | 458,138 | 400,353 | 5,519,907 | 612,043 | 68,307 | 680,350 | **6,200,257** | 5,866,020 |
| Pension | - | - | - | - | - | - | - | - | - | **-** | 54,020 |
| **Total Salaries and Related Expenses** | 332,985 | 17,495,593 | 3,720,945 | 2,117,404 | 1,839,388 | 25,506,315 | 2,872,684 | 315,693 | 3,188,377 | **28,694,692** | 27,600,255 |
| Food and kitchen supplies | 220 | 1,350,295 | - | 1,524,529 | 64,559 | 2,939,603 | 4,120 | - | 4,120 | **2,943,723** | 2,996,835 |
| Client supplies | 10,986 | 544,350 | 81,987 | 225,218 | 49,039 | 911,580 | 5,577 | 12,495 | 18,072 | **929,652** | 1,130,294 |
| Lab fees | 1,936 | 21,639 | 48,473 | 550 | 240 | 72,838 | 890 | - | 890 | **73,728** | 166,804 |
| Office rent and occupancy expenses | 17,315 | 1,908,560 | 24,146 | 190,927 | 2,301,962 | 4,442,910 | 441,149 | - | 441,149 | **4,884,059** | 4,089,764 |
| Utilities | 2,735 | 435,544 | - | 17,801 | 203,114 | 659,194 | 69,369 | - | 69,369 | **728,563** | 697,972 |
| Facility maintenance | 5,083 | 959,108 | 4,433 | 2,551 | 19,313 | 990,488 | 27,365 | - | 27,365 | **1,017,853** | 1,147,015 |
| Telephone | 1,859 | 174,353 | 20,140 | 10,021 | 29,015 | 235,388 | 21,613 | 158 | 21,771 | **257,159** | 238,208 |
| Office expense | 4,816 | 304,105 | 246,485 | 35,043 | 51,204 | 641,653 | 182,632 | 33,552 | 216,184 | **857,837** | 993,178 |
| Staff travel | 820 | 44,069 | 24,202 | 9,981 | 4,671 | 83,743 | 20,828 | 1,926 | 22,754 | **106,497** | 106,134 |
| Printing | 539 | 6,462 | 9,158 | 5,367 | 1,496 | 23,022 | 3,181 | 10,897 | 14,078 | **37,100** | 22,078 |
| Professional services | - | 139,889 | 279,613 | 10,740 | 11,951 | 442,193 | 549,786 | 162,357 | 712,143 | **1,154,336** | 1,124,149 |
| Temporary help | 11,430 | 159,074 | 283,449 | 3,867 | 70,701 | 528,521 | 68 | 169 | 237 | **528,758** | 605,410 |
| Vehicle expense | 11,573 | 82,149 | 151,469 | 82,861 | - | 328,052 | 29,017 | - | 29,017 | **357,069** | 343,879 |
| Insurance | 4,788 | 233,056 | 105,024 | 28,618 | 3,360 | 374,846 | 56,369 | - | 56,369 | **431,215** | 408,569 |
| Recruiting | - | 2,241 | 135 | 4,685 | 1,658 | 8,719 | 2,423 | 285 | 2,708 | **11,427** | 89,501 |
| Bad debts | - | - | - | - | - | - | 14,492 | - | 14,492 | **14,492** | 645,894 |
| Data processing | - | - | - | 2,200 | - | 2,200 | 138,040 | 457 | 138,497 | **140,697** | 101,653 |
| Contribution to affiliates | - | - | - | - | - | - | - | - | - | **-** | 797,520 |
| Interest expense | - | 53,229 | - | - | - | 53,229 | - | - | - | **53,229** | 56,931 |
| Depreciation and amortization | - | 74,650 | 151,691 | 18,137 | 276 | 244,754 | 242,078 | 120 | 242,198 | **486,952** | 543,743 |
| Miscellaneous expenses | 45 | 36,907 | 3,131 | 27,136 | 5,559 | 72,778 | 44,054 | 380 | 44,434 | **117,212** | 152,279 |
| **Total Operating Expenses** | 407,130 | 24,025,273 | 5,154,481 | 4,317,636 | 4,657,506 | 38,562,026 | 4,725,735 | 538,489 | 5,264,224 | **43,826,250** | 44,058,065 |
| Interest expense | - | 165,052 | - | - | - | 165,052 | - | - | - | **165,052** | 192,749 |
| Depreciation and amortization | - | 214,251 | - | - | - | 214,251 | - | - | - | **214,251** | 214,251 |
| **Total Nonoperating Expenses** | - | 379,303 | - | - | - | 379,303 | - | - | - | **379,303** | 407,000 |
| **Total Expenses** | **$407,130** | **$24,404,576** | **$5,154,481** | **$4,317,636** | **$4,657,506** | **$38,941,329** | **$4,725,735** | **$538,489** | **$5,264,224** | **$44,205,553** | $44,465,065 |

*See accompanying notes to consolidated financial statements.*

# Project Renewal, Inc. and Affiliates

## Consolidated Statement of Cash Flows
## (with comparative totals for 2010)

| *Year ended June 30,* | **2011** | 2010 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Change in net assets | **$ 490,833** | $ 445,432 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **701,203** | 757,994 |
| Provision for doubtful accounts | **14,492** | 645,894 |
| Unrealized gain from investments | **(7,458)** | (2,951) |
| Realized loss on investments | **155** | - |
| Donated fixed assets | **-** | (45,271) |
| Donated securities | **(10,479)** | - |
| (Increase) decrease in assets: | | |
| Accounts and grants receivable | **(709,385)** | 1,365,370 |
| Pledges receivable | **(72,917)** | 170,628 |
| Prepaid expenses | **(81,242)** | 77,350 |
| Security deposits and other assets | **113,153** | (89,194) |
| Due from affiliates | **(108,776)** | 1,050,621 |
| Assets held for others | **(27,902)** | 45,924 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and other liabilities | **161,771** | (247,588) |
| Accrued payroll and related liabilities | **(336,588)** | 559,936 |
| Due to affiliates | **107,348** | (1,158,379) |
| Deferred revenue | **207,399** | (545,149) |
| Deferred rent | **(33,908)** | (33,908) |
| **Net Cash Provided By Operating Activities** | **407,699** | 2,996,709 |
| **Cash Flows From Investing Activities:** | | |
| Purchase of fixed assets | **(671,716)** | (202,201) |
| Sale of investments | **10,324** | - |
| **Net Cash Used In Investing Activities** | **(661,392)** | (202,201) |
| **Cash Flows From Financing Activities:** | | |
| Payments of loan payable | **-** | (51,339) |
| Payments of mortgage payable | **(310,138)** | (282,870) |
| **Net Cash Used In Financing Activities** | **(310,138)** | (334,209) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(563,831)** | 2,460,299 |
| **Cash and Cash Equivalents, Beginning of Year** | **3,265,117** | 804,818 |
| **Cash and Cash Equivalents, End of Year** | **$2,701,286** | $ 3,265,117 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | **$ 218,281** | $ 249,680 |

*See accompanying notes to consolidated financial statements.*

## 1. Nature of Activities

Project Renewal, Inc. and Affiliates operate facilities in the City of New York that offer a variety of services in accessible settings to homeless and formerly homeless people suffering from mental illness, alcoholism, and substance abuse. Project Renewal, Inc. receives substantial grant awards from various Federal, New York State and City agencies and is affiliated with the following corporations:

- Project Renewal Housing Development Fund Corporation ("PRI HDFC"), whose sole member is Project Renewal, Inc., provides housing for low income persons with mental illness and/or chemical dependency in the Bronx called the Fletcher Place Residence (the "Project").
- Washington OMH Corporation ("Washington OMH") is the general partner of Washington Fletcher OMH L.P. ("Washington Fletcher"), a for-profit corporation controlled by PRI HDFC. See Note 9 for a description of transactions with Washington Fletcher.

## 2. Principles of Consolidation

These financial statements are prepared on a consolidated basis and include the activities of Project Renewal, Inc., PRI HDFC and Washington OMH (collectively, the "Corporation") for the year ended June 30, 2011. All intercompany transactions and balances have been eliminated in consolidation.

## 3. Summary of Significant Accounting Policies

*(a) Basis of Presentation*

The financial statements of the Corporation have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

*(b) Financial Statement Presentation*

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

*(i)* **Permanently Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

*(ii)* **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

*(iii)* **Unrestricted** – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

*(c) Cash and Cash Equivalents*

The Corporation considers all highly liquid instruments purchased with a maturity of three months or less and all money market accounts to be cash equivalents.

*(d) Contributions and Pledges*

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with purpose or time restrictions (defined by management as unrestricted amount due in more than one year) are reported as increases in temporarily restricted net assets. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received and are classified as either unrestricted, temporarily restricted, or permanently restricted support. Promises to give are recorded at net realizable value if expected to be collected in one year. Unconditional promises to give that are expected to be collected in the future years are recorded at the present value of these estimated future cash flows.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at the estimated fair value.

*(e) Investments at Fair Value*

Marketable debt and equity securities are adjusted to their fair market value at the statement of financial position date, resulting in either an unrealized gain or loss. Unrealized gains and losses are included in the statement of activities.

*(f) Fixed Assets*

Equipment acquired under terms of grant provisions, title to which reverts to the grantor at the termination of the contract, are recorded as an asset in the unrestricted fund.

Deferred revenue equal to the cost of the asset is recorded at the time of purchase and is amortized over the useful life of the related asset.

The Corporation has established a $1,000 threshold above which assets are capitalized. Building and equipment are carried at cost less accumulated depreciation. Depreciation is provided under the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and leasehold improvements | 25-30 years |
| Equipment | 4-7 years |
| Mortgage acquisition costs | 25 years |

### *(g) Renovation Costs*

Major renovations of leased and owned facilities are carried at cost less amortization to date. Amortization is provided under the straight-line method based over the term of the lease or the useful life of the renovation, whichever is less.

### *(h) Recognition of Revenue*

Grant revenue is recognized in amounts equal to expenses incurred. Upon termination, the unexpended cash funds received under the terms of the grant provisions revert to the grantor. Third-party revenue is recognized when earned.

### *(i) Contract Disallowances*

The contractual agreements with various funding sources include provisions for claims and program audits in subsequent years. These audits may result in disallowance and repayment of costs previously reimbursed by the funding sources. Management estimates potential disallowances based on past experiences. Accordingly, management has established a contingency reserve to cover the cost of future disallowances, if any. At June 30, 2011, the contingency reserve amounted to $344,802 and is reflected in accounts payable and other liabilities in the accompanying statement of financial position.

### *(j) Income Taxes*

Project Renewal, Inc. was incorporated in the State of New York and is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the Corporation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2011.

PRI HDFC and Washington OMH are New York Corporations subject to Federal income tax and applicable state and local taxes.

The Corporation adopted the provisions of Accounting Standards Codification (“ASC”) 740, “Income Taxes”. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the Corporation’s financial statements. The Corporation does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The Corporation has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, The Corporation has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2011, there was no interest or penalties recorded or included in the statement of activities.

### *(k) Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(l) Comparative Financial Information*

The financial statements include certain prior year summarized comparative information. Accordingly, such information should be read in conjunction with the prior year financial statements from which the summarized information was derived. With respect to the statement of activities, the prior year information is not presented by net asset class. With respect to the statement of functional expenses, the prior year expenses by expense classification are presented in total rather than by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

*(m) Nonoperating Revenue and Expenses*

Nonoperating revenue and expenses include all transactions such as government grant income, depreciation and interest expense relating to the residential care facility for mentally ill individuals and mortgage as described in Note 13. The transactions recorded represent the pass-through financing from New York State of the mortgage payments as described in Note 13 and the New York State financing of the project.

*(n) Concentration of Credit Risk*

Financial instruments which potentially subject the Corporation to concentration of credit risk consists primarily of temporary cash investments. At various times during the year, the Corporation had cash deposits at financial institutions which exceeded the FDIC insurance limit.

*(o) Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*(p) Fair Value Measurements*

ASC 820, “Fair Value Measurements and Disclosures”, defines fair value and establishes a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimized the use of unobservable inputs, requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Corporation would use in pricing the Corporation’s asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that can not be sourced from a broad active market in which assets or liabilities identical or similar to those of the Corporation are traded. The Corporation estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include certain mutual funds and equity that are actively traded on a major exchange.

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. Most debt securities, preferred stocks, certain equity securities, short-term investments and derivatives are model priced using observable inputs and are classified with Level 2.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments, and limited liability investment companies.

## 4. Assets Held for Others

Assets held for others consist of custodial and other funds required to be maintained in separate accounts for specific purposes or future periods. The corresponding liability is reflected in accounts payable.

## 5. Investments at Fair Value

The following is a summary of investments at fair value and cost at June 30, 2011.

| *June 30, 2011* | Fair Value | Cost |
|---|---|---|
| Mutual funds | $32,326 | $10,000 |

The fair market value of the investments detailed above is determined by reference to market quotations at June 30, 2011. The investments are managed by professional investment advisors and managers. In addition to the above, the investment portfolio included $20,745 of cash equivalents at June 30, 2011.

The following table presents the Corporation's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

Fair value measurements by level at June 30, 2011.

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments at fair value: | | | | |
| Mutual funds | $32,326 | $32,326 | $- | $- |

## 6. Accounts and Grants Receivable, Net

Accounts and grants receivable, net at June 30, 2011 consist of the following:

| | |
|---|---|
| Accounts receivable | $ 503,554 |
| Grants receivable: | |
| Federal | 1,386,359 |
| New York State | 1,267,593 |
| New York City | 2,860,970 |
| | 6,018,476 |
| Less: Allowance for doubtful accounts | (91,684) |
| Accounts and grants receivable, net | $5,926,792 |

Accounts receivable represent amounts due to the Corporation from other not-for-profit agencies and private companies for services provided by one of the Corporation's social purpose ventures that are part of employment services.

## 7. Pledges Receivable

The net present value of pledges receivable at June 30, 2011 is as follows:

| *June 30, 2011* | |
|---|---|
| Total pledges receivable | $458,012 |
| Reserve for uncollectible pledges | (34,000) |
| Pledges receivable (net) | $424,012 |

| | |
|---|---|
| Amounts due in: | |
| Less than one year | $458,012 |

## 8. Related Party Transactions

The Corporation is related to all of the following entities through either a common sole member or through common management. Below is a description of the nature of the transaction with these affiliated entities.

Project Renewal Fund Inc. is a not-for-profit entity that is the sole member of Project Renewal and each of the related non-profit entities.

The Corporation shares certain common facilities and management personnel with Manhattan Bowery Management Corporation ("MBMC"), a not-for-profit entity. During the year ended June 30, 2011, the Corporation charged MBMC a management fee of $24,000 for such expenses.

MRG Partners, L.P. ("MRG") was formed for the purpose of acquiring, rehabilitating and operating the Holland House, a low-income rental housing project. The general partner is Starting Homes, Inc., a for-profit corporation controlled by a housing development fund corporation that is owned by the Corporation. See Notes 9 and 10 for a description of transactions with MRG.

St. Nicholas House L.P. (“St. Nicholas”) was formed to acquire, rehabilitate and operate the St. Nicholas House project for occupancy by low income tenants.

North Star Housing, Inc. (“NSH”) is a not-for-profit entity organized to develop and manage affordable housing.

Amounts due from/(to) affiliates at June 30, 2011 are non-interest bearing, payable on demand, and consist of the following:

| | |
|---|---|
| Related party – nature of amount due from (to): | |
| Washington Fletcher | $ 17,127 |
| MBMC | 57,509 |
| North Star Housing | 2,801 |
| MRG | 701,853 |
| St. Nicholas | (246,411) |
| Total | 532,879 |
| Reserve | (645,895) |
| Total related party, net | $(113,016) |

Management believes that these transactions were conducted at arms length.

## 9. Mortgage Receivable and Enforcement Note Payable

*(a)* The Corporation has a security interest of $12,499,999 in the Holland Hotel building which is subordinate to an enforcement lien mortgage held by the City of New York. Principal and interest, at the rate of 5.97% per annum, are not due and payable until December 30, 2026. The agreement also stipulates that the enforcement lien mortgage may be forgiven if the Corporation operates certain social service programs at the Holland Hotel site during the term of the agreement.

On December 30, 1993, the Corporation transferred the Holland Hotel building to the Holland Hotel Housing Development Fund Corp., an affiliate, for a purchase money mortgage of $12,500,000. The property was then transferred to MRG Partners, L.P., which assumed the mortgage. The mortgage receivable bears interest at 5.97% per annum, compounded semi-annually, and both principal and interest mature on December 30, 2026. It is anticipated that some interest payments will be made prior to the maturity date.

As of June 30, 2011, MRG Partners L.P. has paid approximately $3.7 million of interest which has been deposited into a Restricted Sponsor Reserve account maintained by the Corporation. The Corporation records the interest received from MRG Partners L.P. as a liability until the enforcement lien mortgage held by the City of New York is either paid or forgiven.

*(b)* The Corporation is the Sponsor of the Project. On September 30, 2009, NSH transferred the land to be used by the Project with historical value of $310,000 to PRI HDFC via a bargain and sale deed. PRI HDFC transferred the land to Washington Fletcher. PRI HDFC remains the fee owner and owner of record title, but it conveyed the beneficial and equitable interest in the Project to Washington Fletcher pursuant to a Declaration and Nominee Agreement.

Construction on the Project is being financed using the proceeds provided to PRI HDFC of (1) a construction/ permanent mortgage loan from the New York State Housing Finance Agency ("HFA") in the amount not to exceed $14,250,000 to be financed with funds from the proceeds of tax-exempt Affordable Housing Revenue Bonds 2009 Series B Bonds, (2) a subordinate loan from HFA in the approximate principal amount of $200,000 (together with (1) the "HFA Loan"), (3) a building and project loan from New York State Homeless Housing and Assistance Corporation in the principal amount of $4,632,300 ("HHAC Loan"), (4) a mortgage loan from the Sponsor in the approximate principal amount of $759,205 ("Sponsor Loan"), and (5) an equity investment in the amount of $8,132,569 made in connection with the sale of Federal low income housing tax credits generated by the Project.

Proceeds received by PRI HDFC will be loaned to Washington Fletcher to finance costs incurred by Washington Fletcher in connection with the acquisition, development and improvement of the Project and are evidenced by a loan in the aggregate principal amount of $14,250,000 ("HDFC Loan").

As a condition of the HFA Loan, Washington Fletcher will be required to secure for the benefit of HFA an irrevocable standby letter of credit from JPMorgan Chase Bank, N.A. Also as a condition of the HFA Loan, Washington Fletcher will be required to enter into a regulatory agreement with HFA that will regulate the rents and incomes of eligible occupants of the Project for a period of at least 30 years.

The HHAC Loan, Sponsor Loan and HDFC Loan each are secured by mortgages, the liens of which are subordinated to the HFA Loan.

In accordance with the terms and conditions of a loan and operating agreement entered into by Washington Fletcher, the Sponsor and The New York Office of Mental Health ("OMH"), the Project shall be eligible to receive the benefit of certain operating subsidies provided to the Sponsor by OMH. Those subsidies will be paid to the Sponsor and the Sponsor has agreed to (1) pay over to Washington Fletcher a portion of the OMH subsidy it receives for the management and operation of the Project and (2) to use the balance of the subsidy to provide social services to the tenants of the Project. In addition, the Sponsor, as an agent of PRI HDFC, will be eligible to receive the benefit of debt service subsidies to be used by PRI HDFC to make debt service payments on the HFA Loan.

As of June 30, 2011, HFA and HHAC advanced PRI HDFC $11,662,788 and $3,756,746, respectively, which were loaned to Washington Fletcher.

## 10. Sponsor Reserve

As of June 30, 2011, the Corporation has received approximately $8.2 million from MRG Partners, L.P., which includes interest received on the purchase money mortgage (Note 9). In addition, the Corporation is entitled to an escrow account with a balance of $758,836 at June 30, 2011. This escrow account is held by New York City Housing Development Corporation. According to the terms of the agreement, these funds are held in custody by the Corporation on behalf of MRG Partners, L.P. The funds may only be used for specific purposes as stated in the agreement.

## 11. Fixed Assets, Net

Fixed assets, net at June 30, 2011 consists of the following:

| | Cost | Accumulated Depreciation | Net |
|---|---|---|---|
| Land | $ 2,272,210 | $ - | $2,272,210 |
| Buildings | 5,357,492 | 4,599,553 | 757,939 |
| Equipment | 5,490,042 | 4,494,145 | 995,897 |
| Building and leasehold improvements | 1,957,088 | 875,360 | 1,081,728 |
| Mortgage acquisition costs | 127,795 | 107,348 | 20,447 |
| Construction-in-progress | 327,077 | - | 327,077 |
| | $15,531,704 | $10,076,406 | $5,455,298 |

## 12. Line of Credit

The Corporation has a $1,000,000 line of credit with a financial institution maturing on January 3, 2012. Interest payments on all unpaid principal are due on a monthly basis. Interest is charged at the financial institution's prime rate (3.25% at June 30, 2011) plus 1%. The line of credit is collateralized by all personal property of the Corporation, MBMC and Project Renewal Fund. There were no outstanding borrowings at June 30, 2011.

## 13. Mortgages Payable

On November 7, 1990, the Corporation entered into a mortgage agreement which constituted the permanent financing of the construction of a residential care facility for mentally ill individuals.

In accordance with the terms of the agreement, the mortgage is payable in semiannual installments of $240,030 consisting of principal and interest at the rate of 9.42% per annum through May 2015. The mortgage is secured by the building and related personal property.

On January 4, 2007, the Corporation entered into a mortgage agreement with a bank for the purpose of acquiring an undeveloped parcel of property located in the Bronx, New York, to be used for future programs. The mortgage, which consists of a non-restoring line of credit, is secured by both the acquired property and another property owned by the Corporation. The loan which has a principal balance of $1,400,000 and is due July 1, 2011 requires monthly payments of interest at the bank's prime rate plus .5%.

It is the intention of the Corporation to obtain funding for the development of the property, and refinancing of the debt incurred in its acquisition prior to the due date of the mortgage.

Mortgages payable mature as follows:

| *Year ending June 30,* | |
|---|---|
| 2012 | $1,880,060 |
| 2013 | 480,060 |
| 2014 | 480,060 |
| 2015 | 480,060 |
| Thereafter | - |
| | 3,320,240 |
| Less: Interest payments | (350,470) |
| | $2,969,770 |

## 14. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2011:

| | |
|---|---|
| Temporarily restricted net assets: | |
| Treatment and transitional housing | $ 67,705 |
| Medical | 261,913 |
| Employment services | 801,663 |
| Permanent housing | 130,217 |
| | $1,261,498 |

## 15. Net Assets Released From Restrictions

Net assets were released from restrictions during the year ended June 30, 2011 by incurring expenses satisfying the restricted purposes as follows:

| | |
|---|---|
| Net assets released from restrictions: | |
| Treatment and transitional housing | $ 2,000 |
| Medical | 397,364 |
| Employment services | 607,119 |
| Permanent housing | 90,377 |
| Outreach | 393 |
| | $1,097,253 |

## 16. Pension Plan

The Corporation has adopted a defined contribution plan under Section 403(b) of the Internal Revenue Code. The Corporation does not make any matching contributions under this plan.

In addition, the Corporation has a defined contribution plan under Section 401(a) of the Internal Revenue Code. Under this plan, the Corporation makes discretionary contributions for all eligible employees. There were no pension expenses during the year ended June 30, 2011.

## 17. Commitments and Contingencies

*(a) Lease Commitments*

The Corporation entered into an agreement for rental of office space at 200 Varick Street, New York under a lease expiring June 30, 2020 with an option to extend the lease for an additional 5 years. In addition, the Corporation leases apartments which are subleased to tenants in the supportive housing program and storage space. Rent and occupancy expense, related to the above leases, for the year ended June 30, 2011 was $4,884,059.

Minimum annual rentals related to the above leases for the next five years are as follows:

| *June 30,* | |
|---|---:|
| 2012 | $1,960,080 |
| 2013 | 1,022,373 |
| 2014 | 683,576 |
| 2015 | 683,580 |
| 2016 | 683,580 |
| Thereafter | 2,893,534 |
| Total | $7,926,723 |

*(b) Contingencies*

The Corporation is a defendant in several lawsuits that have arisen in the ordinary course of business. It is management's belief that any settlements that arise from these suits will be within the limits of the Corporation's insurance policies. Therefore, no provision has been made in the accompanying financial statements.

## 18. Subsequent Events

During July 2011, the Corporation sold one of its fully amortized properties located in Brooklyn, New York for approximately $2,800,000. Certain proceeds of the sale were used to pay off its mortgage agreement of $1,400,000 that became due July 1, 2011 (Note 13).

The Corporation's management has performed subsequent events procedures through December 19, 2011, which is the date the financial statements were available to be issued and there were no other subsequent events requiring adjustment to the financial statements or disclosures as stated herein.