



Phipps Neighborhoods, Inc.

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Independent Auditor's Report

To the Board of Trustees of
Phipps Neighborhoods, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phipps Neighborhoods, Inc. ("Neighborhoods"), which comprise the statements of financial position as of June 30, 2024 and 2023 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Neighborhoods as of June 30, 2024 and 2023 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Phipps Neighborhoods, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhoods' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Neighborhoods' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhoods' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

CohnReznick LLP

New York, New York
April 21, 2025

Phipps Neighborhoods, Inc.

Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Cash	\$ 1,866,405	\$ 2,635,864
Government and foundation grants receivable, net	3,925,119	4,228,056
Other contributions receivable, net	1,303,849	686,905
Service fees receivable, net	448,914	-
Investments	8,264,171	7,875,045
Notes receivable, including accrued interest	2,688,163	2,547,709
Other assets	674,970	675,683
Operating right-of-use assets	1,227,223	1,387,817
Leasehold improvements, furniture and equipment, net of accumulated depreciation of \$342,240 and \$165,001, respectively	<u>452,376</u>	<u>629,615</u>
Total assets	<u>\$ 20,851,190</u>	<u>\$ 20,666,694</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,359,679	\$ 1,552,108
Deferred revenue	116,658	837,190
Advances payable	1,325,000	2,050,000
Operating lease liabilities	1,231,980	1,390,773
Accrued postretirement benefits	<u>1,746,366</u>	<u>1,790,521</u>
Total liabilities	<u>5,779,683</u>	<u>7,620,592</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	8,361,610	6,878,552
With donor restrictions	<u>6,709,897</u>	<u>6,167,550</u>
Total net assets	<u>15,071,507</u>	<u>13,046,102</u>
Total liabilities and net assets	<u>\$ 20,851,190</u>	<u>\$ 20,666,694</u>

See Notes to Financial Statements.

Phipps Neighborhoods, Inc.**Statement of Activities**
Year Ended June 30, 2024

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Contributions			
Phipps Houses - other	\$ 169,779	\$ -	\$ 169,779
Phipps Houses - in-kind	569,575	-	569,575
Other	251,384	-	251,384
Program and grant revenue	15,846,126	705,000	16,551,126
Service fees	503,914	-	503,914
Investment and other income	264,626	340,955	605,581
Net assets released from restrictions	503,608	(503,608)	-
	<u>18,109,012</u>	<u>542,347</u>	<u>18,651,359</u>
Fundraising events	2,403,913	-	2,403,913
Less: cost of direct benefits to donors	361,208	-	361,208
Net revenue from fundraising events	<u>2,042,705</u>	<u>-</u>	<u>2,042,705</u>
 Total revenue and other support	 <u>20,151,717</u>	 <u>542,347</u>	 <u>20,694,064</u>
Expenses			
Program services	16,133,406	-	16,133,406
General and administrative	3,118,847	-	3,118,847
Fundraising	255,861	-	255,861
 Total expenses	 <u>19,508,114</u>	 <u>-</u>	 <u>19,508,114</u>
Change in net assets before postretirement adjustment	643,603	542,347	1,185,950
Postretirement benefit adjustment	10,884	-	10,884
 Change in net assets	 <u>654,487</u>	 <u>542,347</u>	 <u>1,196,834</u>
Net assets, beginning	6,878,552	6,167,550	13,046,102
Services received from affiliates	828,571	-	828,571
 Net assets, end	 <u>\$ 8,361,610</u>	 <u>\$ 6,709,897</u>	 <u>\$ 15,071,507</u>

See Notes to Financial Statements.

Phipps Neighborhoods, Inc.**Statement of Activities**
Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and other support			
Contributions			
Phipps Houses - other	\$ 184,925	\$ -	\$ 184,925
Phipps Houses - in-kind	384,559	-	384,559
Other	240,908	-	240,908
Program and grant revenue	16,280,162	-	16,280,162
Investment and other income	166,958	770,072	937,030
Net assets released from restrictions	127,687	(127,687)	-
	<u>17,385,199</u>	<u>642,385</u>	<u>18,027,584</u>
Fundraising events	2,080,235	-	2,080,235
Less: cost of direct benefits to donors	248,149	-	248,149
Net revenue from fundraising events	<u>1,832,086</u>	<u>-</u>	<u>1,832,086</u>
Total revenue and other support	<u>19,217,285</u>	<u>642,385</u>	<u>19,859,670</u>
Expenses			
Program services	15,447,942	-	15,447,942
General and administrative	3,106,299	-	3,106,299
Fundraising	309,979	-	309,979
Total expenses	<u>18,864,220</u>	<u>-</u>	<u>18,864,220</u>
Change in net assets before postretirement adjustment	353,065	642,385	995,450
Postretirement benefit adjustment	825,192	-	825,192
Change in net assets	<u>1,178,257</u>	<u>642,385</u>	<u>1,820,642</u>
Net assets, beginning	<u>4,695,185</u>	<u>5,525,165</u>	<u>10,220,350</u>
Services received from affiliates	<u>1,005,110</u>	<u>-</u>	<u>1,005,110</u>
Net assets, end	<u>\$ 6,878,552</u>	<u>\$ 6,167,550</u>	<u>\$ 13,046,102</u>

See Notes to Financial Statements.

Phipps Neighborhoods, Inc.

Statement of Functional Expenses Year Ended June 30, 2024

	Program services						Support services					Total
	Early child education	Youth	Education and employment	Supportive housing	Other	Total program services	Management and general (nondonated)	Management and general (donated by Phipps)	Fund-raising	Total support services		
Salaries	\$ 920,103	\$ 4,294,478	\$ 941,644	\$ 1,460,170	\$ 1,556,627	\$ 9,173,022	\$ 1,176,484	\$ 883,739	\$ 189,223	\$ 2,249,446	\$ 11,422,468	
Payroll taxes and fringe benefits	254,325	845,707	212,201	382,275	338,646	2,033,154	202,787	169,832	42,809	415,428	2,448,582	
Total	1,174,428	5,140,185	1,153,845	1,842,445	1,895,273	11,206,176	1,379,271	1,053,571	232,032	2,664,874	13,871,050	
Program supplies	-	297,112	24,349	33,672	111,865	466,998	7,085	-	45	7,130	474,128	
Overhead reimbursement	-	938,132	133,163	426,888	69,657	1,567,840	225,000	(225,000)	-	-	1,567,840	
Contracted programs and professional fees	9,093	408,807	319,616	24,105	220,580	982,201	172,542	6,663	1,195	180,400	1,162,601	
Facility expense	115,057	67	-	118,048	233,172	-	-	175,561	-	175,561	408,733	
Marketing materials and advertising	-	1,242	65	196	105	1,608	731	-	126	857	2,465	
Office supplies	116,139	366,984	59,431	96,826	266,670	906,050	41,427	7,883	8,075	57,385	963,435	
Depreciation	-	-	6,341	-	170,898	177,239	-	10,705	-	10,705	187,944	
Telephone	11,387	54,865	11,571	22,732	55,833	156,388	22,117	22,820	-	44,937	201,325	
Insurance	28,044	145,236	28,828	49,949	38,168	290,225	39,013	105	6,128	45,246	335,471	
Computer	415	3,635	-	701	2,484	7,235	17,424	12,746	16	30,186	37,421	
Auto/local transportation	194	520,043	44,040	131,589	89,159	785,025	15,935	-	-	15,935	800,960	
Temporary help	134,339	-	-	-	8,464	142,803	-	-	-	-	142,803	
Special events	-	11,574	738	-	22,350	34,662	6,681	4,480	353,082	364,243	398,905	
Stipends	-	62,360	87,661	-	33,517	183,538	-	-	-	-	183,538	
Seminars and training	23	108,346	123,366	24,713	16,109	272,557	55,537	-	-	55,537	328,094	
Protection	4,356	-	19,895	-	3,078	27,329	-	-	-	-	27,329	
Miscellaneous	30,301	78,744	37,591	29,065	84,499	260,200	60,438	6,112	16,370	82,920	343,120	
Total	1,623,776	8,137,332	2,050,500	2,682,881	3,206,757	17,701,246	2,043,201	1,075,646	617,069	3,735,916	21,437,162	
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(361,208)	(361,208)	(361,208)	
Elimination of overhead reimbursement	-	(938,132)	(133,163)	(426,888)	(69,657)	(1,567,840)	-	-	-	-	(1,567,840)	
Total	\$ 1,623,776	\$ 7,199,200	\$ 1,917,337	\$ 2,255,993	\$ 3,137,100	\$ 16,133,406	\$ 2,043,201	\$ 1,075,646	\$ 255,861	\$ 3,374,708	\$ 19,508,114	

Phipps Neighborhoods, Inc.

Statement of Functional Expenses Year Ended June 30, 2023

	Program services						Support services					Total
	Early child education	Youth	Education and employment	Supportive housing	Other	Total program services	Management and general (nondonated)	Management and general (donated by Phipps)	Fund-raising	Total support services		
Salaries	\$ 903,357	\$ 4,663,299	\$ 1,027,740	\$ 1,390,452	\$ 1,204,258	\$ 9,189,106	\$ 1,172,872	\$ 908,218	\$ 218,756	\$ 2,299,846	\$ 11,488,952	
Payroll taxes and fringe benefits	228,687	707,054	244,298	407,335	-	1,587,374	48,207	96,892	50,511	195,610	1,782,984	
Total	1,132,044	5,370,353	1,272,038	1,797,787	1,204,258	10,776,480	1,221,079	1,005,110	269,267	2,495,456	13,271,936	
Program supplies	38,713	319,781	19,378	17,106	-	394,978	27,542	-	425	27,967	422,945	
Overhead reimbursement	-	867,215	97,764	360,217	119,457	1,444,653	225,000	(225,000)	-	-	1,444,653	
Contracted programs and professional fees	9,355	694,597	328,722	18,553	80,669	1,131,896	110,081	26,418	42,678	179,177	1,311,073	
Facility expense	82,950	33,075	-	-	89,505	205,530	-	178,127	-	178,127	383,657	
Marketing materials and advertising	-	-	-	797	52	849	489	-	-	489	1,338	
Office supplies	138,268	622,286	69,409	89,570	132,151	1,051,684	18,459	6,994	322	25,775	1,077,459	
Depreciation	-	-	12,682	-	44,520	57,202	-	28,507	-	28,507	85,709	
Telephone	9,671	55,155	8,933	25,478	60,539	159,776	16,093	12,905	32	29,030	188,806	
Insurance	20,138	118,399	26,176	30,988	10,835	206,536	24,427	374	6,176	30,977	237,513	
Computer	836	21,335	18,134	1,223	946	42,474	18,550	345,331	19	363,900	406,374	
Auto/local transportation	84	574,968	16,871	107,113	47,881	746,917	11,724	291	1,542	13,557	760,474	
Temporary help	141,058	-	-	-	-	141,058	-	-	-	-	141,058	
Special events	-	21,057	195	25,672	20,401	67,325	27,012	2,500	210,966	240,478	307,803	
Stipends	-	44,719	62,050	-	52,348	159,117	-	-	-	-	159,117	
Seminars and training	3,050	102,822	10,297	15,258	9,143	140,570	-	-	69	69	140,639	
Protection	1,958	-	3,396	-	2,065	7,419	-	-	-	-	7,419	
Miscellaneous	33,949	63,636	26,095	16,556	17,895	158,131	16,174	8,112	26,632	50,918	209,049	
Total	1,612,074	8,909,398	1,972,140	2,506,318	1,892,665	16,892,595	1,716,630	1,389,669	558,128	3,664,427	20,557,022	
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(248,149)	(248,149)	(248,149)	
Elimination of overhead reimbursement	-	(867,215)	(97,764)	(360,217)	(119,457)	(1,444,653)	-	-	-	-	(1,444,653)	
Total	\$ 1,612,074	\$ 8,042,183	\$ 1,874,376	\$ 2,146,101	\$ 1,773,208	\$ 15,447,942	\$ 1,716,630	\$ 1,389,669	\$ 309,979	\$ 3,416,278	\$ 18,864,220	

See Notes to Financial Statements.

Phipps Neighborhoods, Inc.

Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Change in net assets	\$ 1,196,834	\$ 1,820,642
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	177,239	57,202
Realized/unrealized gain on investments	(125,113)	(771,722)
Postretirement benefit adjustment	(10,884)	(825,192)
Noncash operating lease costs	160,594	155,980
Services received from affiliates	828,571	1,005,110
Changes in operating assets and liabilities		
Government and foundation grants receivable, other contributions receivable, and service fees receivable, net	(762,921)	286,957
Other assets	713	103,071
Accounts payable and accrued expenses	(192,429)	96,931
Advances payable	(725,000)	(150,000)
Deferred revenue	(720,532)	(593,333)
Operating lease liabilities	(158,793)	(153,023)
Accrued postretirement benefits	<u>(33,271)</u>	<u>(606,868)</u>
Net cash (used in) provided by operating activities	<u>(364,992)</u>	<u>425,755</u>
Cash flows from investing activities		
Purchase of investments in marketable securities	(21,452,322)	(184,513)
Sales of investments in marketable securities	21,188,309	169,952
Increase in notes receivable, including accrued interest	<u>(140,454)</u>	<u>(126,755)</u>
Net cash used in investing activities	<u>(404,467)</u>	<u>(141,316)</u>
Net (decrease) increase in cash	(769,459)	284,439
Cash, beginning	<u>2,635,864</u>	<u>2,351,425</u>
Cash, end	<u>\$ 1,866,405</u>	<u>\$ 2,635,864</u>
Supplemental disclosure cash flow information		
Cash paid for amounts included in measurement of lease liabilities	<u>\$ 199,622</u>	<u>\$ 198,468</u>

See Notes to Financial Statements.

Phipps Neighborhoods, Inc.

Notes to Financial Statements **June 30, 2024 and 2023**

Note 1 - Organization and operations

Phipps Neighborhoods, Inc. ("Neighborhoods" or the "Organization") is a not-for-profit corporation founded in 1972 to provide educational and social services to residents of housing developments owned and/or sponsored by Phipps Houses ("Phipps") and their communities. Neighborhoods provides a broad range of programs, which includes education, recreation, childcare, youth development, case management and employment services.

Under rulings obtained from the Internal Revenue Service ("IRS"), Neighborhoods is classified for federal income tax purposes as a tax-exempt organization, organized and operating exclusively for 501(c)(3) of the Internal Revenue Code, with further classification as a public charity under Sections 509(a)(1) and 170(b)(1)(A)(vi).

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements of Neighborhoods have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), which require Neighborhoods to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Neighborhoods' management and the board of directors.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Neighborhoods or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions whose restrictions are met in the same reporting period are reported as without donor restrictions.

Cash

Neighborhoods maintains cash accounts at a financial institution that is federally insured up to \$250,000 per depositor. At various times during the year, account balances may have exceeded the insured limit. Neighborhoods mitigates this risk by regularly monitoring the financial stability of the financial institution.

Concentration of risk

Neighborhoods is a party to multiple grants from government agencies that represent approximately 82% and 91% of program and grant revenue for the years ended June 30, 2024 and 2023, respectively, and approximately 72% and 98% of government and foundation grants receivable as of June 30, 2024 and 2023, respectively.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

The following table summarizes the breakdown of concentrations of receivables as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Department of Mental Health	16%	23%
Department of Education	25%	24%
Department of Youth and Community Development	<u>41%</u>	<u>44%</u>
Total	<u>82%</u>	<u>91%</u>

The following table summarizes the breakdown of concentrations of revenues for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Department of Mental Health	6%	22%
Department of Education	35%	37%
Department of Youth and Community Development	<u>31%</u>	<u>39%</u>
Total	<u>72%</u>	<u>98%</u>

Investments

Financial instruments are carried at fair value. GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets and liabilities.

Alternative investments in limited partnerships are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may include investments in both nonmarketable and market-traded securities. Fair value of the alternative investments is determined by management based on information provided by investment managers. Values may be based on estimates that require varying degrees of judgement for investments where readily available fair values do not exist. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses.

There is uncertainty in the accounting for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and time lags associated with reporting by the investee companies. As a result, there is at least a reasonable possibility that management's estimates will change by material amounts in the near term.

Valuation techniques under GAAP are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Neighborhoods' market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments at the reporting date.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

Level 2 - Valuations are based on (i) quoted prices - those investments, or similar investments, in active markets; (ii) quoted prices - those investments, or similar investments, in markets that are not active; or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments or similar investments that are redeemable at or near the statement of financial position date and for which a model was derived for valuation.

Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments; (ii) the investments cannot be independently valued; or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

Leasehold improvements, furniture and equipment

Expenditures for additions are capitalized at cost. Amortization of leasehold improvements is computed using the straight-line method over the term of the related lease or life of the asset, whichever is shorter. Depreciation of furniture and equipment is computed using the straight-line method over their estimated useful lives of 10 years. Neighborhoods evaluates long-lived assets for impairment whenever events or changes in circumstances would indicate that the carrying value of an asset may not be recoverable. Long-lived assets would be deemed to be impaired if the carrying value of the asset is in excess of its fair value. There were no impairment charges recognized as of June 30, 2024 and 2023.

Net asset classifications

Neighborhoods classifies net assets in accordance with GAAP, which is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA provides guidance on classifying the net assets (equity) associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor restricted endowment funds. Additionally, Neighborhoods is subject to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which is a modified version of UPMIFA that made significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The law imposes a requirement on organizations to act prudently when spending endowment assets, while allowing the Organizations to appropriate endowment funds, including the principal, taking into account the uses, benefits, purposes and duration for which the fund was established.

Revenue recognition

Program and grant revenue

Program and grant revenue are nonexchange transactions in which no commensurate value is exchanged. Accordingly, contribution accounting is applied under ASC Topic 958, Not-for-Profit Entities. Government and other grants contracts are evaluated for contributions that are conditional. Factors indicating the existence of a conditional contribution include the presence of a barrier that must be overcome and either a right of return of assets transferred or a right of release of a funder's obligation to transfer the assets. Government and other grant revenues are recognized when the conditions are satisfied, which is generally when the expenditures for each contract are incurred.

Contributions

Contributions and promises to give are recorded as revenue at the time they are made or pledged unconditionally and supported by a written commitment. The gifts are reported as with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or

Phipps Neighborhoods, Inc.

Notes to Financial Statements June 30, 2024 and 2023

purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Restricted contributions received and utilized in the same year are reflected in the statements of activities as net assets without donor restrictions. Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

Service fees

Service fees are recognized when earned, which occurs as services are performed. Neighborhoods service fee revenue are earned under service agreements entered into with various affiliate entities.

Allowance for credit losses

Neighborhoods provides an allowance for credit losses for accounts receivable, which is management's best estimate of the amount of probable credit losses in existing service fees receivables. No allowance was deemed necessary at June 30, 2024 and 2023.

Investment income

Investment income is recognized when earned and consists of interest, dividends and realized and unrealized gains and losses. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividends earned in the donor restricted permanent endowment fund of \$222,405 and \$127,687 in the years ended June 30, 2024 and 2023, respectively, are reported as changes in net assets without donor restrictions. Realized and unrealized capital gains and losses in the donor restricted permanent endowment fund are reported as changes in net assets with donor restrictions, as approved by Neighborhoods' Board of Trustees, in accordance with NYPMIFA.

Donated services

Amounts are recognized in the statement of activities if those services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically be purchased if not provided by donation.

Cash flows

For cash flow purposes, assets held for limited use (endowment funds) are not considered to be cash or cash equivalents.

Estimates and assumptions

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Accordingly, actual results could differ from those estimates.

Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Neighborhoods. These costs were allocated based on actual time spent.

Phipps Neighborhoods, Inc.

Notes to Financial Statements June 30, 2024 and 2023

Adoption of new accounting pronouncement

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13 *Financial Instruments-Credit Losses* ("Topic 326"): *Measurement of Credit Losses on Financial Instruments*, which significantly changed how the entities will measure credit losses for most financial assets and certain other instruments that are not accounted for at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. The financial statements will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases and decreases of expected credit losses during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The adoption of this accounting pronouncement on July 1, 2023, had no impact on the Organization's financial statements.

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on the previously reported changes in net assets or net assets.

Note 3 - Government and foundation grants and other contributions receivable, net

Grants and other contributions receivable represent amounts pledged by donors that have not been received by Neighborhoods and are all expected to be received within one year. Neighborhoods regularly monitors its government and foundation grants and other contributions receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. As of June 30, 2024 and 2023, the allowance for uncollectible government and foundation grants and other contributions receivable amounted to \$0, respectively.

Note 4 - Investments - endowment funds - donor restricted and board designated

The following are descriptions of Neighborhoods' investment categories:

Fixed income

Neighborhoods' holdings in fixed income consist principally of fixed income funds carried at their aggregate market values, which are determined by quoted market prices. Each of these investments can be liquidated daily. Their valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Equities

Neighborhoods' holdings in equities consist principally of stock securities carried at their aggregate market value, which is determined by quoted market prices. Each of these investments can be liquidated daily. Their valuation is based on Level 1 inputs within the hierarchy used in measuring fair value.

Limited partnership

The fair value of the limited partnership is determined by the investment manager using either an in-house valuation team or a third-party administrative service and is valued using a net asset value ("NAV") per share. Neighborhoods reviews and evaluates the value provided by the investment manager and believes that the carrying amount of its investment in the limited partnership is a reasonable estimate of fair value. The financial statements of the investee are audited annually by independent auditors.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

There were no transfers between levels during the years ended June 30, 2024 and 2023.

At June 30, 2024 and 2023 the cost basis of investments was \$8,185,673 and \$6,954,974, respectively. Neighborhoods accounts for its investments in accordance with the fair value hierarchy of GAAP.

The following table set forth by level, within the fair value hierarchy, Neighborhoods' assets at fair value as of June 30, 2024:

	Level 1	Total
Cash	\$ 117,226	\$ 117,226
Fixed income	7,053,161	7,053,161
Equities	<u>1,093,784</u>	<u>1,093,784</u>
 Total	 <u>\$ 8,264,171</u>	 <u>\$ 8,264,171</u>

The following table set forth by level, within the fair value hierarchy, Neighborhoods' assets at fair value as of June 30, 2023:

	Level 1	Total
Cash	\$ 306,427	\$ 306,427
Fixed income	2,109,169	2,109,169
Equities	5,039,933	5,039,933
Equities - limited partnerships *	<u>-</u>	<u>419,516</u>
 Total	 <u>\$ 7,455,529</u>	 <u>\$ 7,875,045</u>

*Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been recognized in the fair value hierarchy. The fair value amounts presented in the preceding tables are intended to permit reconciliation of the fair value hierarchy to the accompanying statement of financial position.

The valuation methods as described in Note 2 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Neighborhoods believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In accordance with GAAP, Neighborhoods' disclosures include the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the NAV per share as of June 30, 2024 and 2023. For Neighborhoods, such assets include an investment in a limited partnership.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

The following table for June 30, 2024 and 2023 sets forth a summary of Neighborhoods' investment with a reported NAV.

2024				
Fair value**	Unfunded commitment	Redemption frequency	Other redemption restrictions	Redemption notice period
\$ -	\$ -	-	-	-
2023				
Fair value**	Unfunded commitment	Redemption frequency	Other redemption restrictions	Redemption notice period
\$ 419,516	\$ -	Monthly	None noted	15 days

**The fair value of the investment has been estimated using the NAV of the investment.

Endowment funds consist of a Donor Restricted Permanent Endowment Fund and a Board Designated Endowment Fund.

In 1997, Neighborhoods established, through donor restricted contributions, a donor restricted endowment fund, which consists of monies bequeathed to it, which must be held in perpetuity. Interest and dividends earned on the fund are reported as changes in net assets without donor restrictions, while realized and unrealized gains are reported as changes in net assets with donor restrictions. The investment income earned on the fund is donor restricted. Neighborhoods, as a New York State organization, is subject to the provisions of NYPMIFA. Under the provisions of the law, Neighborhoods must exercise a prudent standard of care when spending funds belonging to its Donor Restricted Endowment Fund. NYPMIFA also allows Neighborhoods to appropriate endowment funds under its own discretion, including the principal, as it finds prudent, while taking into consideration the uses, benefits, purpose and duration for which the fund was established. In exercising the prudent standard of care, Neighborhoods must consider the following factors, among others, that might be relevant for which Donor Restricted Endowment Funds will be spent:

- the duration and preservation of the fund
- purpose of the fund
- general economic conditions
- possible effect of inflation or deflation
- expected total return from income and appreciation of investments
- other resources of the Organization
- the Organization's investment policy
- alternatives to spending from the fund and the effects of those alternatives.

Neighborhoods has adopted investment and spending policies for its Donor Restricted Permanent Endowment Fund that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the original historical value of those assets donated in perpetuity. Under this policy, as approved by the Board, the endowment assets are invested to achieve a total maximum rate of return at a level consistent with prudent management, taking into consideration the safety of principal, potential for market appreciation and income. To achieve its long-term rate-of-

Phipps Neighborhoods, Inc.

Notes to Financial Statements
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return objectives, Neighborhoods relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Neighborhoods invests in a diversified portfolio of assets that place greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints. Neighborhoods measures performance of the endowment funds according to a custom blended benchmark.

In 1989, the Board established a Board Designated Endowment Fund with an initial deposit of \$164,000 with various deposits and withdrawals in subsequent years. There were securities with a fair value of \$0 and \$14,561 received and no withdrawals in the year ended June 30, 2024 and 2023, respectively.

Changes in the endowment funds during fiscal year ended June 30, 2024 are summarized as follows:

	Without donor restrictions		With donor restrictions		<u>Total</u>
	<u>Board designated</u>	<u>Program restrictions</u>	<u>Perpetual in nature</u>		
Endowment net assets, beginning	\$ 1,154,356	\$ 2,860,827	\$ 3,306,723	\$ 7,321,906	
Investment returns	39,797	340,955	-	380,752	
Appropriations for expenditures	-	(222,405)	-	(222,405)	
Endowment net assets, ending	<u>\$ 1,194,153</u>	<u>\$ 2,979,377</u>	<u>\$ 3,306,723</u>	<u>\$ 7,480,253</u>	

Changes in the endowment funds during fiscal year ended June 30, 2023 are summarized as follows:

	Without donor restrictions		With donor restrictions		<u>Total</u>
	<u>Board designated</u>	<u>Program restrictions</u>	<u>Perpetual in nature</u>		
Endowment net assets, beginning	\$ 1,138,145	\$ 2,218,442	\$ 3,306,723	\$ 6,663,310	
Investment returns	1,650	770,072	-	771,722	
Contributions	14,561	-	-	14,561	
Appropriations for expenditures	-	(127,687)	-	(127,687)	
Endowment net assets, ending	<u>\$ 1,154,356</u>	<u>\$ 2,860,827</u>	<u>\$ 3,306,723</u>	<u>\$ 7,321,906</u>	

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historical dollar value of the funds. In accordance with U.S. GAAP, deficiencies of this nature that are reported in with donor-restricted net assets were \$0 for the years ended June 30, 2024 and 2023.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

Note 5 - Liquidity and availability of resources

As of June 30, 2024 and 2023, Neighborhoods' liquidity resources and financial assets available within one year for general expenditures, such as operating expenses, was as follows:

	2024	2023
Financial assets at year end		
Cash	\$ 1,866,405	\$ 2,635,864
Government and foundation grants receivable, net	3,925,119	4,228,056
Other contributions receivable, net	1,303,849	686,905
Investments	8,264,171	7,875,045
Notes receivable, including accrued interest	<u>2,688,163</u>	<u>2,547,709</u>
 Total financial assets	 <u>18,047,707</u>	 <u>17,973,579</u>
Less amounts not available to be used within one year		
Notes receivable, including accrued interest	2,688,163	2,547,709
Board designated endowment fund	1,194,153	1,154,356
Donor-imposed restrictions	<u>6,709,897</u>	<u>6,167,550</u>
 	 <u>10,592,213</u>	 <u>9,869,615</u>
Financial assets available to meet general expenditures over the next 12 months	 <u>\$ 7,455,494</u>	 <u>\$ 8,103,964</u>

As part of Neighborhoods' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need to cover operating deficits, Neighborhoods will seek outside financing.

Note 6 - Fundraising events

In 2024, Neighborhoods sponsored one fundraising events, the Community Builder Awards. The costs of the fundraising events are allocated between direct benefits received by donors and costs incurred by Neighborhoods in the execution of the event. Revenues and expenses in connection with the event are as follows:

	2024	2023
Revenues	\$ 2,403,913	\$ 2,080,235
Less event costs		
Direct benefit to donors	(361,208)	(248,149)
Other	<u>(12,986)</u>	<u>(9,838)</u>
 Net contributions	 <u>\$ 2,029,719</u>	 <u>\$ 1,822,248</u>

Other fundraising expenses amounted to \$242,875 and \$300,141 the years ended June 30, 2024 and 2023, respectively.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are separated into two categories, those that are temporary in nature and those that are perpetual in nature ("Endowment"). Those that are perpetual in nature are available for investment in perpetuity, the income and appreciation from which are expendable. Net assets with donor restrictions are available for the following purposes:

	<u>2024</u>	<u>2023</u>
Education and employment	\$ 127,146	\$ -
Youth	130,294	-
Other	<u>166,357</u>	<u>-</u>
	<u>423,797</u>	<u>-</u>
Endowment	6,286,100	6,167,550
Total	<u>\$ 6,709,897</u>	<u>\$ 6,167,550</u>

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the following purposes:

	<u>2024</u>	<u>2023</u>
Education and employment	\$ 127,854	\$ -
Youth	69,706	-
Other	83,643	-
Endowment appropriations	<u>222,405</u>	<u>127,687</u>
Total	<u>\$ 503,608</u>	<u>\$ 127,687</u>

Note 8 - Program and grant revenue and expenses

The sources of program and grant revenue during the year ended June 30, 2024 are as follows:

Source	Without donor restrictions	With donor restrictions	Total
Government grants	\$ 15,130,494	\$ -	\$ 15,130,494
Program revenue	38,500	-	38,500
Other grants	<u>1,382,132</u>	<u>-</u>	<u>1,382,132</u>
Total	<u>\$ 16,551,126</u>	<u>\$ -</u>	<u>\$ 16,551,126</u>

Phipps Neighborhoods, Inc.

Notes to Financial Statements
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The sources of program and grant revenue during the year ended June 30, 2023 are as follows:

Source	Without donor restrictions	With donor restrictions	Total
Government grants	\$ 15,266,052	\$ -	\$ 15,266,052
Program revenue	38,500	-	38,500
Other grants	<u>975,610</u>	<u>-</u>	<u>975,610</u>
Total	\$ 16,280,162	\$ -	\$ 16,280,162

Youth programs

Consist of after-school educational and recreational programs, Beacon sites, summer camp and teen programs.

After-school programs

(Primarily funded by the New York City Department of Youth and Community Development ("DYCD"), the New York State Department of Education and the United Way) include 10 school-based programs and five community school programs providing structured educational, recreational, and cultural enrichment activities to elementary, middle and high school students.

Community school programs

(Primarily funded by the Department of Education ("DOE")), is a partnership between school staff, families, youth and the community to raise student achievements by ensuring that children are physically, emotionally and socially prepared to learn. A community school serves as a center of the neighborhood by providing access to critical programs and services like health care, mentoring, expanded learning programs, adult education, and other services that support the whole child, engage families, and strengthen the entire community.

Beacon/cornerstone programs

(Funded by DYCD) are a multi-service hub, located in schools or New York City Housing Authority developments, providing a variety of after-school, weekend, and summer programs for youth, families and the community, including structured educational programs with an emphasis on literacy, leadership development, community outreach and improvement, and cultural and recreational activities.

Supportive housing

Consists of programs for mentally ill and formerly homeless men at Honeywell Apartments and Courtlandt Community through a referral program with the New York City Department of Homeless Services ("DHS").

Education and employment programs

Consist of center-based programming and include several programs to provide teens and young adults continuing education, including college and career awareness, and work readiness skills.

Phipps Neighborhoods center at 178th Street

Provides basic literacy and English as a second language ("ESL") classes, assistance with accessing public benefits, and employment coaching and resources.

Phipps Neighborhoods, Inc.

Notes to Financial Statements **June 30, 2024 and 2023**

Phipps Neighborhoods opportunity centers at Melrose and West Farms

Are community-based adult education centers that offer a range of programs, including literacy, ESL and financial counseling and career training in the healthcare sector.

Early childhood education programs

(Funded by the New York City Department of Education) consist of Universal Pre-Kindergarten ("UPK") at two locations. Neighborhoods' UPK childcare programs serve four-year old children for a ten-month duration (September through June).

Other programs

Include education and direct services to adults, seniors, and families, such as resident and family services. Community education programs also supported include financial counseling. These programs are funded by New York City government, foundations and individual donors, under donor-designated program periods of one to two years.

Note 9 - Pension and other postretirement benefits

Neighborhoods accounts for postretirement benefits in accordance with GAAP, which requires organizations to recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement plans on their statement of financial position, with an offsetting adjustment to other changes in net assets. Adjustments, which increased net assets by \$10,884 and \$825,192 were recognized in other changes in net assets during the years ended June 30, 2024 and 2023, respectively, and are included as postretirement benefit adjustments on the accompanying statements of activities.

Pension plan

Nonunion employees of Neighborhoods, hired through June 30, 2013, who met eligibility requirements as to age and length of service, participate in the noncontributory defined benefit pension plan of Phipps. Pension plan benefits are based on the participant's years of service and Average Final Compensation, as defined. Plan assets of the defined benefit plan are not specifically identified to each participating affiliate. Therefore, a breakdown of plan assets is not reflected in these financial statements. Neighborhoods has no legal obligation for benefits under the plan. Phipps' pension plan funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus additional amounts, as Phipps determines to be appropriate from time to time, up to the maximum permitted, and to charge each subsidiary an allocable amount of net periodic benefit cost based on its employee census. Pension expense amounted to \$174,257 and \$187,534 during the years ended June 30, 2024 and 2023, respectively, and is included in management and general expenses on the accompanying statement of activities. Eligible employees of Neighborhoods hired on or after July 1, 2013 participate in the Phipps 401(k) deferred compensation plan.

401(k) plan

Eligible nonunion employees of Neighborhoods, who have completed 60 days of service, automatically participate in the Phipps 401(k) deferred compensation plan. Participants in the plan may defer up to 90% of pretax annual compensation, as limited to the maximum annual amount permitted by law (\$23,000 in calendar year 2024 and \$22,500 in calendar year 2023). Such deferred amounts earn a return relative to a fund selection by the participant from those offered by the plan administrator. Participants are immediately vested in their contributions plus actual earnings thereon. Administrator expenses of the plan, with the exception of the third-party administrator expenses, are paid by Neighborhoods. Third-party administrator expenses are paid by the participants. The plan permits, but does not require, the employer to make a matching contribution. Through December 31,

Phipps Neighborhoods, Inc.

Notes to Financial Statements
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2013, Neighborhoods elected not to make such contributions. Beginning January 1, 2014, eligible new hires are eligible to receive a nonelective employer contribution of 4% of eligible pay to the plan by Neighborhoods. Additionally, Neighborhoods provides a 100% match on the participant's first 4% of eligible pay contributed to the plan for a maximum total employer contribution of 8% per annum. 401(k) expense was \$335,466 and \$326,636 during the years ended June 30, 2024 and 2023, and is included in management and general expenses on the accompanying statement of activities. The plan provides for a five-year graded vesting of employer contributions. Employees hired before July 1, 2013 are not eligible at this time for any employer contribution.

Other postretirement benefits

Phipps provides postretirement health care and life insurance benefits in excess of benefits provided under Medicare Plans A and B to nonunion Project employees who retire at age 65 or above with a minimum of five years of service. Retiree contributions is set at 35% of monthly premiums. ASC 715 requires the cost of postretirement benefits to be accrued during the service lives of employees. While it is the Partnership's intent to provide these postretirement benefits to its employees, it has the right to terminate or modify these postretirement benefits at any time.

Phipps maintains a benefit Plan (the "Plan") and allocates a portion of postretirement benefit expense annually to each participating entity. Other postretirement benefit (recovery) expense applicable to Neighborhoods, which is included in general and administrative expenses on the accompanying statement of activities was (\$33,271) and (\$606,868) as of January 1, 2024 and 2023, respectively.

The changes in benefit obligation, funded status of the Phipps Plan, amounts recognized as a decrease in net and the net periodic benefit cost were as follows:

	2024	2023
Benefit obligation at end of prior year	\$ 6,644,000	\$ 9,650,000
Service cost (with interest)	414,000	668,000
Interest cost	348,000	259,000
Plan participants' contributions	38,000	43,000
Amendments	(1,598,000)	-
Actuarial loss (gain)	707,000	(3,851,000)
Actuarial benefits paid	<u>(135,000)</u>	<u>(125,000)</u>
Accumulated benefit obligation at end of year	6,418,000	6,644,000
Plan assets at end of year	<u>-</u>	<u>-</u>
Funded status at end of year	<u><u>\$ (6,418,000)</u></u>	<u><u>\$ (6,644,000)</u></u>

Amounts recognized in the Phipps statements of assets, financial position liabilities and net assets without restrictions (income tax basis) consist of:

	2024	2023
Current liabilities	\$ (149,000)	\$ (167,000)
Noncurrent liabilities	<u>(6,269,000)</u>	<u>(6,477,000)</u>
Net amount recognized	<u><u>\$ (6,418,000)</u></u>	<u><u>\$ (6,644,000)</u></u>

Phipps Neighborhoods, Inc.

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Additionally, in accordance with ASC 715, Phipps allocates to each participating entity a portion of the liability resulting from the excess of the accumulated benefit obligation over Plan assets at the end of the year. Neighborhoods' share of the liability amounting to \$1,746,366 and \$1,790,521 as of January 1, 2024, and 2023, respectively, are included in accrued postretirement benefits on the accompanying statements of financial position.

Amounts recognized as an increase (decrease) in Phipps net assets but not yet included in net periodic benefit cost consist of:

	2024	2023
Net actuarial gain	\$ (1,976,000)	\$ (2,679,000)
Prior service credit	<u>(1,843,000)</u>	<u>(1,100,000)</u>
Total	<u>\$ (3,819,000)</u>	<u>\$ (3,779,000)</u>

The components of Phipps net periodic benefit (gain) cost are as follows:

	2024	2023
Service cost (with interest)	\$ 414,000	\$ 668,000
Interest cost	348,000	259,000
Recognition of prior service cost	(722,000)	(789,000)
Recognition of gains and losses	<u>(129,000)</u>	<u>-</u>
Total periodic (gain) expense	<u>\$ (89,000)</u>	<u>\$ 138,000</u>

Other changes in Phipps net assets not yet included and reclassifications of amounts previously recognized as changes in net assets but not included in net periodic benefit (gain) cost when they arose:

	2024	2023
Recognized prior service cost	\$ (1,976,000)	\$ 789,000
Net actuarial gain	<u>(1,843,000)</u>	<u>(3,851,000)</u>
Total recognized in other changes in net assets	<u>(3,819,000)</u>	<u>(3,062,000)</u>
Total recognized in net periodic benefit cost and other changes in net assets	<u>\$ (3,908,000)</u>	<u>\$ (2,924,000)</u>
Expected employer contributions in the following fiscal year	<u>\$ 155,000</u>	<u>\$ 171,000</u>

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Expected net benefit payments:

2024	\$ 155,000
2025	187,000
2026	217,000
2027	245,000
2028	273,000
2029-2032	1,803,000

	2024	2023
Weighted-average assumptions used to determine benefit obligations at January 1:		
Discount rate	5.10%	5.30%
Rate of compensation increase	3.25%	3.25%
Current year health care trend rate	7.50%	6.25%
Ultimate health care trend rate	4.75%	4.75%
Year ultimate rate is reached	2035	2029
Weighted-average assumptions used to determine net periodic benefit cost for year ended January 1:		
Discount rate	5.30%	3.00%
Rate of compensation increase	3.25%	3.00%
Current year health care trend rate	6.25%	6.50%
Ultimate health care trend rate	4.75%	4.50%
Year ultimate rate is reached	2029	2030
Corridor	10.00%	10.00%

Note 10 - Related party transactions

Phipps advances funds to Neighborhoods from time-to-time to help Neighborhood's meet its operating expenses, while Neighborhoods waits to receive its requisitioned funding from government and foundation funders. Advances payable to Phipps totaled \$1,325,000 and \$2,050,000 at June 30, 2024 and 2023, respectively, and is included in advances payable on the accompanying statements of financial position.

Phipps contributes, at cost, which approximates fair value, services of professional and accounting personnel, materials and equipment and facilities to Neighborhoods. Such contributions amounted to \$1,398,146 and \$1,389,669 during the years ended June 30, 2024 and 2023, respectively, and were recorded by Neighborhoods as services received from affiliate as an adjustment to net assets, In-kind contributions on the statements of activities, and management and general expenses on the accompanying statements of financial position. In addition, Phipps pledged cash contributions of \$169,779 and \$184,925 to Neighborhoods during the years ended June 30, 2024 and 2023, respectively, with the restriction that such amounts be expended by Neighborhoods for current fundraising, public relations purposes and a leadership program. As of June 30, 2024 and 2023, \$67,520 and \$60,390, respectively, was receivable from Phipps for such contributions and is included in other contributions receivable, net on the accompanying statements of financial position.

Phipps Neighborhoods, Inc.

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Neighborhoods provides housing support services for persons who are formerly homeless and who are residents of Brook 156 Associates, LP ("Brook 156"), Atlantic Chestnut I Associates LP ("AC I"), FRV Phase I LIHTC LLC ("FRV I"), FRV Phase 2 LIHTC LLC ("FRV II"), FRV Phase 3 LIHTC LLC ("FRV III"), FRV Phase 4 LIHTC LLC ("FRV IV"), 1675 Westchester Avenue Associates LLC ("Metcalf"), and 600 Associates LLC ("Cauldwell"), all affiliates of Phipps. Service fee revenue from Brook 156, AC I, FRV I, FRV II, FRV III, FRV IV, Metcalf, and Cauldwell for the year ended June 30, 2024 totaled \$6,881, \$40,509, \$58,802, \$41,781, \$38,686, \$15,474, \$21,410, and \$33,683, respectively, and are included in service fees on the accompanying statements of activities. There was no service fee revenue for the year ended June 30, 2023. Service fees receivable from Brook 156, AC I, FRV I, FRV II, FRV III, FRV IV, Metcalf, and Cauldwell at June 30, 2024 totaled \$6,881, \$40,509, \$58,802, \$41,781, \$38,686, \$15,474, \$21,410, and \$33,683, respectively, and are included in service fees receivable on the accompanying statements of financial position. There were no receivables as of June 30, 2023.

Neighborhoods provides supportive housing services to residents of CPW. For the years ended June 30, 2024 and 2023, Neighborhoods earned service fees revenue of \$246,688 and \$0, respectively. As of June 30, 2024 and 2023, service fees receivable from CPW totaled \$191,688 and \$0, respectively and is included in service fees receivable on the accompanying statements of financial position.

Neighborhoods has leased commercial space from Daly 180 Housing Development Fund Corporation ("Daly"), La Puerta De Vitalidad Associates, L.P. ("LPV"), Crotona Park West Housing Development Fund Corporation ("CPW") and Lebanon West Farms Associates, L.P. ("LWF"), and Boston Tremont, LLC, ("BT"), all affiliates of Phipps. Neighborhoods has used the space to operate the Daly Avenue Universal Prekindergarten Center, the Melrose Community Center, CPW Afterschool Center, the Lebanon West Farms Universal Prekindergarten Center, and West Farms Opportunity Center.

On July 1, 2022, Neighborhoods adopted ASC 842, *Leases*. Neighborhoods leases office space under noncancelable operating lease from related entities as noted above. Neighborhoods recognizes an operating lease liability, which is measured at the present value of future lease payments, and a corresponding operating lease asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentives. Neighborhoods uses the risk free rate to calculate the present value of lease payments because the leases do not have readily determinable implicit discount rates. Neighborhoods has elected and applies the practical expedient available to lessees to combine nonlease components with their related lease components and account for them as single combined lease component for all its leases. Neighborhoods remeasures lease liabilities and related right-of-use assets wherever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

Lease expenses for operating leases continue to be recognized on a straight-line basis over the term of the lease under ASC 842.

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

Rental expense under the leases during the years ended June 30, 2024 and 2023, which is included in program expenses on the accompanying statements of activities, is as follows:

Housing project	Expiration	2024	2023
Daly	June 2043	\$ 40,000	\$ 40,000
LPV	August 2027	93,248	93,248
CPW	March 2031	24,000	24,000
LWF	August 2030	68,175	68,175
BT	December 2027	<u>7,500</u>	<u>-</u>
Total		<u>\$ 232,923</u>	<u>\$ 225,423</u>

The rental expense at CPW and BT is contributed to Neighborhoods by CPW and BT and is included in Phipps Houses - in-kind on the accompanying statements of activities, Other contributions receivable, net on the statements of financial position, and facilities expense on the accompanying statements of functional expenses.

Minimum annual future lease commitments under noncancelable lease agreements are as follows:

<u>Year ending June 30, 2024</u>		
	2025	\$ 199,621
	2026	202,378
	2027	202,929
	2028	125,036
	2029	109,458
	Thereafter	<u>641,033</u>
Total minimum lease payments		1,480,455
Less: imputed interest		<u>(248,475)</u>
Total operating lease liabilities		<u>\$ 1,231,980</u>

Weighted-average remaining lease term and discount rate for operating leases were as follows:

<u>Year ending June 30, 2024</u>	<u>Operating leases</u>
Weighted average remaining terms	12.15 years
Weighted average discount rate	3.13%

In connection with an expired lease with RCB Apartments Associates, L.P. ("RCB"), Neighborhoods loaned RCB \$1,038,550 which is outstanding at June 30, 2024 and 2023, for the construction of an Early Head Start Center. The loan is evidenced by a note and mortgage and accrues interest at 5% per annum, compounded annually, through the maturity date; the later of June 30, 2040 or the date RCB's mortgages are paid in full. Interest is payable only from Surplus Cash Flow, as defined, while the principal is payable at maturity. Interest receivable of \$953,398 and \$853,579 has been accrued at June 30, 2024 and 2023, respectively. RCB is an affiliate of Phipps. The note receivable and accrued interest thereon are included in notes receivable on the accompanying statements of financial position.

Phipps Neighborhoods, Inc.

Notes to Financial Statements June 30, 2024 and 2023

Neighborhoods is the holder of a \$177,000 note receivable from Crotona Estates, a housing project owned by 1691 Fulton Avenue Associates, L.P. ("1691 Fulton"). The note, which bears simple interest at the rate of 5.02% per annum and matures in November 2036, is payable from 1691 Fulton's Surplus Cash, as defined. Interest receivable of \$157,053 and \$148,166 has been accrued at June 30, 2024 and 2023, respectively. 1691 Fulton is an affiliate of Phipps. The note receivable and accrued interest thereon are included in notes receivable on the accompanying statements of financial position.

In 2016, Neighborhoods advanced \$700,000 to LWF for the construction of a prekindergarten center at Lebanon West Farms Apartments ("LWF Apts."), which was evidenced by a note and a mortgage on LWF Apts. and repaid in prior years. The loan accrues interest at 10% per annum, compounded annually, and matures on the earlier of July 27, 2046 or the date that the general partner is removed from LWF. Interest receivable of \$362,162 and \$330,414 has been accrued at June 30, 2024 and 2023, respectively. The accrued interest is included in notes receivable on the accompanying statements of financial position.

The RCB loan is collateralized, while the loan to Crotona Estates is not collateralized. A loan is considered delinquent when the required monthly payment is not received within three months after the due date established in the loan agreement.

Based on management's assessment, Neighborhoods provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after Neighborhoods has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable or loan to affiliated entities.

Neighborhoods considers a loan to be impaired when, based upon current information and events, it believes it is probable that Neighborhoods will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans to affiliated entities are individually evaluated for impairment. In determining impairment, Neighborhoods considers the length of time the loan remains unpaid and the financial condition of the entity. When a loan is impaired, Neighborhoods measures the impairment based on the present value of the expected future cash flows discounted using the loan's effective interest rate. If the expected proceeds from the loan are less than the recorded investment in the loan, Neighborhoods recognizes impairment by creating a valuation allowance with a corresponding charge to bad debt expense for the difference.

As of June 30, 2024 and 2023, no allowance for doubtful accounts has been recorded, affecting the valuation of loans to affiliated entities, as the credit risk associated with these loans was considered to be modest and there were no loans to affiliates that were impaired.

Note 11 - General liability insurance program

Phipps and its affiliates formed an insurance trust to administer the general liability claims under the insured deductible level of \$100,000 per claim, up to \$1,000,000 in the aggregate through May 31, 2022, which has increased to \$250,000 per claim and up to \$2,500,000 in the aggregate as of June 1, 2022. In the years ended June 30, 2024 and 2023, Neighborhoods deposited \$0 and \$70,000, respectively into the insurance trust to cover estimated claims under the insured deductible level through June 30, 2024. Neighborhoods recognizes a loss from actual claims when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Claims and related fees totaled \$13,389 and \$6,629 for the years ended June 30, 2024 and 2023, respectively. Deposits to the insurance trust, including interest earned thereon of \$32,942 and \$18,725 in the years ended

Phipps Neighborhoods, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

June 30, 2024 and 2023, respectively, in excess of claims and fees incurred of \$601,607 and \$582,054 at June 30, 2024 and 2023, respectively, are included in other assets on the accompanying statements of financial position.

Note 12 - Taxes

Neighborhoods was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from federal income taxes under Section 501(c)(3) of the Code. Therefore, there is no provision for income taxes.

Management has analyzed the tax positions taken by Neighborhoods and has concluded that, as of June 30, 2024 and 2023, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. Periods ending June 30, 2021 and subsequent remain subject to examination by applicable taxing authorities. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Neighborhoods recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position. There were no material interest or penalties for the years ended June 30, 2024 and 2023.

Note 13 - Contingencies

In the ordinary course of business, Neighborhoods may be subject to litigation. In the opinion of management, no currently outstanding matters will have a material adverse effect on Neighborhoods' financial position, results of operations or cash flows.

Note 14 - Subsequent events

Neighborhoods' management has performed subsequent event procedures through April 21, 2025 which is the date the financial statements were available to be issued.

On January 27, 2025, the Office of Management and Budget ("OMB") of the United States Federal Government instituted a pause (freeze) on the disbursement of federal grant and loan funds, which became effective on January 28, 2025. The extent to which the funding freeze impacts Neighborhoods operation, financial results and cash flows, both current and future, will depend on future developments, which are highly uncertain and cannot be predicted with any measure of certainty or probability.

There were no subsequent events requiring adjustments to the financial statements.



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