

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENT
WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Settlement Housing Fund, Inc. and Affiliates

We have audited the accompanying consolidated of financial statements of Settlement Housing Fund, Inc. and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of Settlement Housing Fund, Inc. and Affiliates, as of December 31, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014, on our consideration of Settlement Housing Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Settlement Housing Fund, Inc.'s internal control over financial reporting and compliance

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 27 through 28 and the Settlement Housing Fund, Inc. financial report are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to

the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Loch Group + Company, LLP
Certified Public Accountants

New York, New York
September 22, 2014

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,900,855
Escrows and reserves	3,340,136
Restricted cash	187,935
Tenants' security deposits	735,117
Investments	1,457,447
Grants and contributions receivable	286,982
Rents and other receivables	753,372
Other assets	544,797
Total Current Assets	10,206,641

FIXED ASSETS

Property and equipment, net of accumulated depreciation of \$35,038,970	63,413,853
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OTHER ASSETS

Fees receivable	524,816
Mortgage receivable	389,786
Due from affiliates	245,725
Deferred expenses, net accumulated amortization of \$57,270	209,064

Total Assets	<u><u>\$ 74,989,885</u></u>
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See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 866,179
Accounts payable and accrued expenses	1,114,555
Accrued interest payable	226,406
Tenant security deposits payable	770,169
Current portion of deferred rent payable	10,436
Deferred revenue	216,398
Due to affiliate of general partner	<u>809,476</u>
Total Current Liabilities	4,013,619

OTHER LIABILITIES

Long-term debt	49,460,310
Deferred rent payable	<u>103,248</u>

TOTAL LIABILITIES	<u>53,577,177</u>
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COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	
Undesignated	16,903,619
Board designated for operating reserves	950,000
Noncontrolling interest	3,288,865
Temporary restricted	<u>270,224</u>
Total net assets	<u>21,412,708</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 74,989,885</u></u>
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See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OPERATING REVENUE			
Grants and contributions	\$ 9,159,287	\$ 270,224	\$ 9,429,511
Special grants and contributions	4,200,000	-	4,200,000
Special events, net	236,888	-	236,888
Program and other fees	393,917	-	393,917
Rental income	15,275,830	-	15,275,830
Interest and dividend income	293,798	-	293,798
Realized and unrealized gain on investments	35,007	-	35,007
Other income	721,898	-	721,898
Net assets released from restrictions	<u>453,649</u>	<u>(453,649)</u>	<u>-</u>
 Total Public Support and Operating Revenue	 <u>30,770,274</u>	 <u>(183,425)</u>	 <u>30,586,849</u>
EXPENSES			
Program services			
Development and technical assistance	8,154,314	-	8,154,314
Housing	17,211,561	-	17,211,561
Management and general	2,380,112	-	2,380,112
Fundraising	<u>490,497</u>	<u>-</u>	<u>490,497</u>
 Total Expenses	 <u>28,236,484</u>	 <u>-</u>	 <u>28,236,484</u>
 CHANGE IN NET ASSETS BEFORE LOSS ALLOCATED TO NONCONTROLLING OWNERSHIP INTEREST	 2,533,790	 (183,425)	 2,350,365
 LOSS ALLOCATED TO NONCONTROLLING OWNERSHIP INTEREST	 <u>(220,329)</u>	 <u>-</u>	 <u>(220,329)</u>
 CHANGE IN NET ASSETS	 <u><u>\$ 2,754,119</u></u>	 <u><u>\$ (183,425)</u></u>	 <u><u>\$ 2,570,694</u></u>

See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2013

NET ASSETS	Total	Temporarily Restricted	Unrestricted	
			Controlling Interest	Noncontrolling Interest
Balance, January 1, 2013	\$ 18,842,014	\$ 453,649	\$ 14,879,171	\$ 3,509,194
Changes in net assets	<u>2,570,694</u>	<u>(183,425)</u>	<u>2,974,448</u>	<u>(220,329)</u>
Balance, December 31, 2013	<u><u>\$ 21,412,708</u></u>	<u><u>\$ 270,224</u></u>	<u><u>\$ 17,853,619</u></u>	<u><u>\$ 3,288,865</u></u>

See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 2,570,694
ADJUSTMENTS TO RECONCILE INCREASE IN NET	
ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Realized and unrealized gain on investments	(35,007)
Depreciation	2,402,103
Amortization	10,119
Rent	(15,108)
Changes in assets and liabilities	
Tenants' security deposits	10,184
Grants and contributions receivable	830,986
Fees receivable	545,960
Loans receivable	15,686
Rents and other receivables	81,728
Other assets	92,189
Accounts payable and accrued expenses	(1,261,624)
Accrued interest payable	(169,905)
Tenant security deposits payable	(18,902)
Deferred revenue	(291,295)
	<u>4,767,808</u>
Net cash provided by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Mortgage receivable	(18,561)
Due from affiliates	699,368
Investments	183,986
Property and equipment	(323,680)
Deferred expenses	(8,376)
Escrows and reserves	2,482,613
	<u>3,015,350</u>
Net cash provided by investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of long-term debt	(5,356,966)
Construction costs payable	(1,664,406)
	<u>(7,021,372)</u>
Net cash used in financing activities	
NET INCREASE IN CASH AND CASH EQUIVALENTS	761,786
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>2,139,069</u>
End of year	<u><u>\$ 2,900,855</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for Interest	<u><u>\$ 974,624</u></u>

See notes to financial statements.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. Organization

Settlement Housing Fund, Inc. (SHF) and Affiliates (collectively “the Organization”) provides affordable housing, technical assistance, development services, social, recreational and cultural activities, events and after school programs for low income individuals and families, and transitional housing and day care for formerly homeless families in the City of New York.

Further, the Organization is affiliated with and under common board control with other nonprofit corporations and for profit limited partnerships and corporations which have been formed as supporting entities to further the Organization’s objectives. These entities are included in the consolidated financial statements of the Organization in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) The following summarizes the entities comprising the Organization.

Semiperm Housing Development Fund Corp. (Semiperm)
Newset II HDFC (Newset)
Shuhab HDFC (Shuhab)
New Hull Street HDFC, Inc. (New Hull)
New Settlement Community Campus Corp. (NSCCC)
287 Housing Development Fund Corporation (287 HDFC)
The Crenulated Company, Ltd. (Crenulated)
The St. John’s Place Family Center Housing Development Fund Corp.
(St. John’s HDFC)
The St. John’s Place Family Center Day Care Corporation (St. John’s
Day Care)
Marcy Baer, Inc.
Marcy Baer, LP
1615 St. John’s Place, Inc.
1615 St. John’s Place, LP

SHF was organized on August 20, 1969, under Section 402 of the Not-for-Profit Corporation Law and pursuant to Article XI of the Private Housing Finance Law (“Housing Development Fund Companies Law”) of the State of New York. SHF is a not-for-profit charitable organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. SHF is operated for the charitable purpose of creating and maintaining economically and ethnically diverse affordable housing with community programs and neighborhood amenities throughout New York City. SHF provides technical assistance, development services and supervision to low and moderate income housing projects, including projects owned by

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. Organization (Continued)

SHF's affiliates and projects in which the Organization's affiliates are principals in joint ventures. Services include analyzing projects, choosing and supervising development teams, obtaining financing and subsidies, and supervising management and social services. SHF is supported primarily by fees charged for services provided and government, foundation and corporate contributions and grants.

Semiperm was formed as a nonprofit organization under the laws of the State of New York on May 2, 2006, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Semiperm was organized to operate a building in which single parent, formerly homeless families can live for two to five years, benefiting from education programs and task-oriented counseling so that they can attain self-sufficiency and the ability to live in permanent housing. In April 2008, Semiperm received a 36,000 square foot building, consisting of 24 residential units, from a developer who, by providing this building to Semiperm, received zoning bonuses allowing the developer to build additional stories on a nearby building. Semiperm recorded the building at the market value as assessed by the New York City Department of Finance.

Newset II was formed as a nonprofit organization under the laws of the State of New York on September 14, 1999, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. The Company owns and operates two rental housing projects consisting of 53 units located in the Bronx, New York. Newset also provides a space for The Crenulated Company Ltd.'s College Access Program. The Organization also owns a 99% non-controlling ownership interest in Marcy Baer Associates LP and has recorded its investment in the partnership at \$0. The equity method of accounting has been discontinued as the Organization is not liable for any of the Partnership's liabilities.

Shuhab was formed as a nonprofit organization under the laws of the State of New York on March 28, 2002, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Shuhab was organized to develop ten residential buildings containing 400 units that were acquired through the NYC Department of Housing Preservation and Development's Third Party Transfer Program and to convert these buildings to cooperative ownership or rental use. At December 31, 2013, seven buildings have been renovated and converted to either cooperative ownership or remain as rentals and three buildings remain in the renovation process.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. Organization (Continued)

New Hull was formed as a nonprofit organization under the laws of the State of New York on December 12, 1990, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. New Hull owns and operates a 33 unit apartment project in Brooklyn, New York.

NSCCC was formed as a nonprofit organization under the laws of the State of New York on August 23, 2005, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. NSCCC was formed to develop a school facility and community center in the Mt. Eden section of the Southwest Bronx, New York. The land and buildings containing this facility are leased from the New York City School Construction Authority. Further, the Organization provides social, recreational and cultural activities, events and after-school programs in the community center to benefit the school and the surrounding community. The Organization has leased a portion of the building back to the New York City School Construction Authority.

287 HDFC was formed as a nonprofit corporation under the laws of the State of New York on January 24, 2013, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. 287 HDFC was organized for the purpose of acquiring, developing and managing an affordable housing project that was transferred from Shuhab. The project was acquired on June 28, 2013.

Crenulated was formed as a nonprofit organization under the laws of the State of New York on April 21, 1989, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Crenulated owns and operates 14 buildings known as the New Settlement Apartments in the West Bronx, New York, as low and moderate income housing and housing for the homeless. In addition, Crenulated provides community programs for its tenants and neighborhood residents.

St. John's HDFC was formed as a nonprofit organization under the laws of the State of New York on March 24, 1987, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. St. John's HDFC owns and operates a facility in Brooklyn, New York that provides transitional housing and ancillary services to displaced and homeless families within The City of New York. St. John's HDFC also provides management services to an adjoining property of permanent residential housing.

St. John's Day Care was formed as a nonprofit organization under the laws of the State of New York on May 22, 2000, and is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. St. John's Day Care provides day care for children aged 2.6 to 5

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. Organization (Continued)

years old to shelter residents in St. John's Place HDFC and the surrounding community. St. John's Day Care's main source of revenue is the New York City Administration for Children's Services.

SHF is the sole owner of the general partners which each own a percentage of their associated limited partnerships. These partnerships were formed to own individual properties which are developed to provide low-income housing:

General Partner	Percent of Limited Partnership Owned	Limited Partnership
Marcy Baer, Inc. 1615 St. John's Place, Inc.	1% 0.01%	Marcy Baer, L.P. 1615 St. John's Place, L.P

SHF is a 50% owner, along with Two Bridges Neighborhood Council, of Two Bridgeset Towers, Inc., which owns a 100% general partnership interest in Two Bridgeset Associates, L.P., an unconsolidated affiliate.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis and conform to accounting principles generally accepted in the United States of America as applicable to nonprofit entities.

b) Principles of Consolidation

Nonprofit Corporations. The accompanying financial statements of the Organization include the accounts of Settlement Housing Fund, Inc. and other nonprofit entities that are commonly controlled by SHF's officers or Board of Directors. All intercompany transactions and accounts have been eliminated in consolidation.

Limited Partnerships. Partnerships that are controlled by Settlement Housing Fund are included in the consolidated financial statements. The general partnership interests held by SHF entities equal .01% to 1% of the respective limited partnerships' equity, with the remainder of the partnerships' equity held by the limited partners of the respective limited

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. Summary of Significant Accounting Policies (Continued)

b) Principles of Consolidation (Continued)

partnerships. The portion of the limited partnerships not owned by SHF affiliated entities is presented in the consolidated financial statements as noncontrolling interests.

c) Cash and Cash Equivalents

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant credit risk on cash and equivalents. For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

d) Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair value at the date of donation. The cost of buildings and improvements is depreciated over estimated useful lives of 30 to 40 years. The cost of furniture and equipment is depreciated over estimated useful lives of three to seven years. When assets are disposed of, their costs and accumulated depreciation are removed from the accounts and resulting gains or losses are included in operations. Management generally capitalizes items in excess of \$500.

e) Income Taxes

SHF, Semiperm, Newset, Shuhab, New Hull, NSCCC, Crenulated and St John's are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The subsidiaries of the Organization are treated as partnerships and corporations for tax purposes. Partnership taxable income or loss passes through to, and is reportable by, the partners, individually. The Corporations have been carrying losses that are carried forward for future netting against taxable income. These losses are carried forward for 20 years and then permanently suspended if unused. Losses carried forward should be computed as assets using the applicable tax rate and reported on the consolidated statement of financial position, subject to valuation allowance. In the case of the wholly-owned subsidiaries, it is more likely than not that the respective asset will never be realized as the possibility of net income or gain is unlikely for these corporations. Therefore, no asset has been recognized in this financial report as the valuation allowance would equal 100% of the asset value. The city and state taxes reflected in the consolidated statements of activities and included in

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. Summary of Significant Accounting Policies (Continued)

e) Income Taxes (Continued)

management and general expenses for certain subsidiaries are minimum New York City and State taxes due from corporations.

Management has determined that SHF and its affiliated entities had no uncertain tax positions that would require financial statement recognition. SHF and its affiliates are no longer subject to income tax examination by federal, state or local tax authorities in the United States for years before 2010, which is the standard statute of limitations look-back period.

f) Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

g) Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. All contributions are due in one year and are recorded at their net realizable value.

Contributions of cash and other assets are reported as temporarily 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in temporarily restricted net assets. It is SHF's policy to imply a time restriction, based on the assets' estimated useful lives, on such property and equipment. SHF

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. Summary of Significant Accounting Policies (Continued)

g) Revenue Recognition (Continued)

reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to such property and equipment.

Contributions of in-kind services are recorded at fair value at date of service.

Grants included as increases in unrestricted net assets are recognized as revenue during the period the related services are provided or during the period the related costs are incurred. Funds received prior to providing services or prior to incurring the related costs are deferred to future periods.

Rental income, principally from short-term leases on apartment units, is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the consolidated partnerships and tenants of the property are operating leases.

The Organization receives supervisory fees from several of its affiliated projects. In addition, the Organization provides services, such as marketing, to unaffiliated projects. The fees are recognized as revenue when earned.

h) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited.

i) Investments

Investments are stated at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' declines, and that such changes could materially affect the amounts reported in the consolidated financial statements.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

2. Summary of Significant Accounting Policies (Continued)

j) Deferred Expenses

Deferred expenses are amortized over their estimated useful lives.

k) Impairment of Long-Lived Assets

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2013.

3. Fixed Assets

A summary of fixed assets in as follows:

		<u>Useful lives</u>
Land	\$ 817,929	
Building and improvements	93,222,270	40 years
Furniture, fixtures and equipment	<u>4,414,459</u>	5-10 years
	98,454,658	
Less: Accumulated depreciation	<u>(35,040,805)</u>	
	<u>\$63,413,853</u>	

In 2013, Newset II acquired a building from the City of New York for one dollar and recorded the fair market value of \$900,000 for land and building at the time of acquisition as grant income.

In 2013, Shuhab sold a building to an unrelated party.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

4. Escrows and Reserves

Pursuant to the terms of loan and partnership agreements, operating and replacement reserves and escrow deposits have been established by the various projects. Operating reserves are to be used for funding operating deficits of the projects and replacement reserves are to be used for the future improvement and replacement for the rental properties

5. Fair Value Measurements

The Organization adopted the updated provisions of the “Fair Value Measurements” topic of the FASB ASC, which establish a fair value hierarchy for disclosure of fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 – inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The following table summarizes investment assets measured at fair value at December 31, 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 3</u>
Corporate fixed income	\$363,466	\$363,466	\$ -
Mutual funds	750,223	750,223	-
Captive insurer organization	343,758	-	343,758
Total	<u>\$1,457,447</u>	<u>\$1,113,689</u>	<u>\$343,758</u>

6. Grants and Contributions Receivable

Grants and contributions receivable are due as follows:

Contributions receivable – foundations and funds	\$ 90,000
Contributions receivable - individuals	37,500
Grants receivable	<u>159,482</u>
Total	<u>\$286,982</u>

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

7. Related Party Transactions

a) Annual Fees

SHF earns the following annual fees from its affiliated and unaffiliated entities: partnership management fees for services related to reporting and monitoring operations, supervisory fees for services performed in the supervision and development of certain operating procedures, and accounting and data processing fees for services performed in maintaining the books and records of the entities.

b) Developer Fees

SHF, along with an unrelated co-developer, earned a developer fee from Two Bridgeset Associates L.P. The fee for these services was \$5,067,500, 50% of which was earned by SHF. As of December 31, 2013, the amount due SHF was \$436,217. SHF expects to collect a portion of the fee within the next twelve months but the amount cannot be determined.

c) Due from Affiliates

SHF has made advances to certain affiliated and unaffiliated entities for development and operational costs. These advances are noninterest bearing and payable on demand. SHF does not expect to collect these advances within the next twelve months.

8. Loans Receivable

A Senior Fund Note in the amount of \$8,827,851 dated August 11, 2011, from NSCCC Investment Fund LLC to GSUIG Real Estate Member LLC and loaned to NSCCC, was subsequently assigned to SHF. Interest only payments are due quarterly at 1% per annum through July 1, 2018. Beginning October 5, 2018, payments of principal and interest are due quarterly. The unpaid outstanding principal balance, together with any unpaid and accrued interest, is due on January 1, 2045.

A Junior Fund Note in the amount of \$4,127,549 dated August 11, 2011, from NSCCC Investment Fund LLC to SHF and loaned to NSCCC requires interest only payments quarterly at 1% per annum. The principal balance of \$4,127,549 is due on January 1, 2045.

Both notes have been eliminated in consolidation.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

9. Mortgage Receivable

The loan to Two Bridgeset Associates, L.P. bears no interest and is due on October 29, 2025. The receivable is reported at its net present value using a discount rate of 5%. In 2008, SHF donated half the mortgage to the Two Bridges Neighborhood Council. As of December 31, 2013, the balance of SHF's 50% share of the receivable was \$389,786.

10. Deferred Rent

SHF occupies its premises under a lease terminating September 14, 2017. The annual base rent was \$222,938 from September 1, 2008 through September 1, 2009, and increases annually at 2.5% plus escalations for real estate tax and maintenance. SHF recognizes \$243,899 per year of rental expense on a straight-line basis. Deferred rent payable at December 31, 2013, was \$113,684.

Minimum future rental payments for each of the remaining three years and in the aggregate are:

<u>Year</u>	
2015	\$260,693
2016	267,211
2017	<u>192,403</u>
Total	<u>\$720,307</u>

11. Long-Term Debt

a) Settlement Housing Fund

Loan payable to the Fund for the City of New York in the amount of \$250,000 is due on November 14, 2014.

b) Newset II Housing Development Fund Corporation

Newset II has a mortgage with the City of New York in the amount of \$2,698,931, secured by a mortgage on 1563 Walton Avenue, New York, New York. The loan is non-interest-bearing, requires no repayment of principal and will be forgiven on June 30, 2016, if the requirements of the loan are met.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. Long-Term Debt (Continued)

c) Newset II Housing Development Fund Corporation (Continued)

Newset II has a construction loan with HPD in the amount of \$580,183, secured by a mortgage on 1484 Inwood Avenue, Bronx, New York. During the construction period, the loan bears interest of 3% per annum and requires monthly payments of interest-only on the amount disbursed. During the permanent loan period, the mortgage bears interest of 3% per annum and requires monthly principal and interest payments in the amount of \$2,498, with maturity of 29 years after expiration of the construction loan period. The mortgage is secured by a lien on the property. As of December 31, 2013, the construction loan has not been disbursed.

d) Shuhab

Shuhab has obtained a mortgage from HPD in the principal amount of \$331,283, secured by a first mortgage on 285 West 150th Street. The loan requires monthly payment of \$2,244 of principal and interest at 7.18% per annum with final payment on January 1, 2041. The outstanding balance at December 31, 2013 was \$321,114.

Shuhab obtained a mortgage from HPD in the principal amount of \$2,793,005, secured by a second mortgage on 285 West 150th Street. The loan bears interest at a rate of .25% per annum. Principal and interest payments of \$937 are due in monthly installments through maturity on January 1, 2041. The outstanding balance at December 31, 2013 was \$2,780,887.

On June 28, 2012, Shuhab obtained a mortgage from HPD in the amount of \$1,328,213, secured by a first mortgage on 22-24 Mt. Morris Park West. The loan bears interest at a rate of 4.59% per annum. Principal and interest payments of \$6,801 are due in monthly installments through maturity on July 1, 2042. The outstanding balance at December 31, 2013 was \$1,298,049.

On June 28, 2012, Shuhab obtained a mortgage from HPD in the amount of \$4,066,451, secured by a second mortgage on 22-24 Mt. Morris Park West. The loan bears interest at a rate of .25% per annum. Principal and interest payments of \$3,118 are due in monthly installments through maturity on July 1, 2042. The outstanding balance at December 31, 2013 was \$4,027,777.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. Long-Term Debt (Continued)

d) Shuhab (Continued)

On June 28, 2012, Shuhab obtained a mortgage from HPD in the amount of \$1,075,000, secured by a third mortgage on 22-24 Mt. Morris Park West. The loan bears no interest and the principal is due on the earlier of July 1, 2027, or the occurrence of a default.

Shuhab has entered into a loan agreement with Bank of America to provide a construction loan for the rehabilitation of 640-644 Riverside Drive. The loan bears interest at rates varying from 1.92% to 1.96%. The loan will be repaid from the proceeds of the sale of the buildings. At December 31, 2013, the loan is due. Bank of America has agreed to defer further action contingent on permanent conversion. The outstanding balance at December 31, 2013, was \$18,437,943.

e) 287 HDFC

Community Preservation Corporation (CPC) has committed construction and permanent financing of \$1,543,659 bearing interest at LIBOR plus 4.8% (currently 6%). At June 30, 2015, the loan will convert to permanent financing requiring monthly payments of \$8,044 of principal and interest at 4.28% with final payment due June 2042. The balance at December 31, 2013, was \$234,008.

HPD has committed construction and permanent financing of \$1,564,495 through Article XV Funds and \$826,000 through HOME Funds. During construction the Article XV Funds bear interest at 1.25% and HOME Funds bear interest at .25%. On June 30, 2015, the loans will convert to permanent financing. The Article XV Funds will require monthly payments of interest only at 1% with a balloon payment of outstanding principal in June 2045. The HOME Funds will be non-interest bearing and will be forgiven in June 2031 if all requirements of the mortgage have been met. The balances of the Article XV Funds and the HOME Funds at December 31, 2013, were \$358,641 and \$214,885, respectively.

f) New Hull

HPD has provided a mortgage in the amount of \$2,055,634 which bears interest at 1% and a .25% service fee per annum. Interest and the service fee are payable monthly. All outstanding principal and unpaid interest and service fee are due at maturity on December 3, 2022.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. Long-Term Debt (Continued)

f) New Hull (continued)

HPD has provided a loan in the amount of \$286,861. The loan bears no interest and all outstanding principal is due at maturity in June 2021.

g) New Settlement Community Campus Corp.

Note payable to Low Income Investment Fund in the amount of \$9,700,000, with interest paid quarterly at an annual rate of 1.431% through June 30, 2018. Additional interest at a fixed rate of 0.442% shall accrue on the unpaid principal balance until the maturity date.

Commencing July 1, 2018, interest and principal shall be paid quarterly through the maturity date of June 30, 2051. A portion of the interest payment is being funded by grants.

Note payable to New Markets Investment 62, LLC, in the amount of \$7,920,000, with interest paid quarterly at an annual rate of 1.431% through June 30, 2018. Commencing July 1, 2018, interest and principal shall be paid quarterly through the maturity date of July 1, 2051. A portion of the interest payment is being funded by grants.

\$12,955,400 of these notes for which SHF is the beneficial owner has been eliminated in consolidation. See Note 8.

h) The Crenulated Company, Ltd.

The Crenulated Company, Ltd. entered into an agreement with the City of New York on September 23, 2003, for a mortgage in the amount of \$831,000. The first \$551,000 bears interest at 1% per annum, and the remainder of \$280,000 is non-interest bearing. Monthly principal and interest payments are \$2,655. Any unpaid principal and interest on the mortgage is due upon maturity on September 1, 2023. As of December 31, 2013, \$574,870 was outstanding.

The Crenulated Company, Ltd. has an unsecured line of credit with Capital One N.A. Community Development Corporation in an amount not to exceed \$400,000. The line of credit is payable interest only at 3% per annum beginning on January 1, 2010, through maturity on June 30, 2014, when all unpaid principle and interest shall be due in full. The loan has been renewed through July 11, 2017. As of December 31, 2013, \$300,000 has been advanced and remains payable.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. Long-Term Debt (Continued)

i) St John's Place Family Center HDFC

On June 24, 2011, St. John's HDFC executed a loan agreement with the New York City Department of Housing Preservation and Development (HPD) in the aggregate amount of \$2,010,990, for building renovations at 1604 St. John's Place, 1620 St. John's Place, and 1630 St. John's Place as follows:

\$1,508,242 HOME Fund, with interest to be paid at 2% per annum in equal monthly installments of \$2,512 through July 1, 2022. At maturity, unpaid principal is to be reduced to \$0 and deemed paid as long as all interest payments were made on a timely basis and St. John's HDFC remains as affordable housing. As of December 31, 2013, \$1,486,860 has been advanced and remains unpaid.

\$502,748 Capital Fund, with interest to be paid at 3% per annum in equal monthly installments of \$5,318 through July 1 2022. At maturity, unpaid principal and interest is due in full. As of December 31, 2013, \$490,604 has been advanced and \$405,142 remains unpaid.

The Department of Homeless Services has agreed to supplement the base per diem rate in an amount that is sufficient to meet all debt service payments.

St. John's HDFC entered into an unsecured agreement with TD Bank for a line of credit not to exceed \$500,000. As of December 31, 2013, the outstanding balance was \$155,000. The interest rate at December 31, 2013 was 3.25%.

j) Marcy Baer Associates Limited Partnership

A \$7,308,367 loan is payable to the Housing Trust Fund Corporation (HTF), a subsidiary of the New York State Housing Finance Agency, secured by a mortgage on the rental property. The loan is non-interest bearing until restatement at which time interest will be at a rate set by HTF and will mature on May 16, 2093. In accordance with the terms of the loan agreement, no principal payments are due until maturity.

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

11. Long-Term Debt (Continued)

k) 1615 Limited Partnership

1615 Limited Partnership has a loan from the City of New York Housing Development Corporation in the principal amount of \$788,000, secured by a first mortgage. The loan bears interest at a rate of 7.05% per annum. Principal and interest payments of \$5,269 are due in monthly installments through maturity on November 30, 2034. As of December 31, 2013, \$691,920 remains payable.

1615 Limited Partnership has also obtained a permanent loan from the Housing Trust Fund Corporation in the principal amount of \$700,000, secured by a second mortgage. The loan bears interest at a rate of 1 % per annum. Interest and principal payments are due only to the extent of cash flow, as defined in 1615's Partnership agreement, through maturity on November 30, 2034. As of December 31, 2013, \$700,000 is unpaid.

Aggregate annual maturities of the total mortgage loans payable over each of the next five years and thereafter as of December 31, 2013, are as follows:

2014	\$866,179
2015	165,778
2016	170,583
2017	175,607
2018	180,861
2019 and subsequent years	<u>44,366,805</u>
	45,925,813
Amounts to be forgiven	<u>4,400,676</u>
	<u>\$50,326,489</u>

Interest expense incurred for the year ended December 31, 2013, was \$765,096.

12. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013, are related to the following purposes:

SETTLEMENT HOUSING FUND, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

12. Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

D.R.E.A.M.S. Program	\$ 65,000
Student Success Center	1,326
Children and Adult Food Care Program	1,791
Multi-culture After School Program	43,598
After School Program	12,675
College Access Center	118,280
On Point	<u>27,554</u>
	<u>\$270,224</u>

13. Pension

The Organization sponsors a defined contribution pension plan covering all full-time employees after two to three years of service, depending on position, who have reached the age of 21. SHF contributes 10% of each eligible employee's salary. In order to receive matching employer contributions, the employee must contribute 3% of his or her salary. Additional voluntary contributions by the employees are permissible subject to IRS limitations. Pension expense for 2013 was \$223,671.

14. Subsequent Events

In March, 2014, Shuhab entered an agreement with an unrelated party to sell 22-24 Mt. Morris Park West, New York, NY for \$3,250,000 plus outstanding debt of \$6,400,826.

The Organization evaluated its December 31, 2013, consolidated financial statements for subsequent events through September 22, 2014, the date the consolidated financial statements were available to be issued. Except as disclosed in the following text, the Organization is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

	Settlement Housing Fund, Inc.	Nonprofit Affiliates	Real Estate Affiliates	Consolidating Balance	Eliminations	Consolidated Balance
CURRENT ASSETS						
Cash and cash equivalents	\$ 235,408	\$ 2,371,448	\$ 293,999	\$ 2,900,855	\$ -	\$ 2,900,855
Escrows and reserves	-	1,855,351	1,484,785	3,340,136	-	3,340,136
Restricted cash	-	187,935	-	187,935	-	187,935
Tenants' security deposits	-	659,652	75,465	735,117	-	735,117
Investments	1,457,447	-	1,876,377	3,333,824	(1,876,377)	1,457,447
Grants and contributions receivable	247,643	39,339	-	286,982	-	286,982
Rents and other receivables	-	706,765	46,607	753,372	-	753,372
Other assets	344,538	528,172	45,349	918,059	(373,262)	544,797
Total Current Assets	2,285,036	6,348,662	3,822,582	12,456,280	(2,249,639)	10,206,641
FIXED ASSETS						
Property and equipment, net of accumulated depreciation of \$35,038,970	125,832	55,778,772	8,150,761	64,055,365	(641,512)	63,413,853
OTHER ASSETS						
Fees receivable	510,467	-	14,349	524,816	-	524,816
Loans receivable	12,955,400	-	-	12,955,400	(12,955,400)	-
Mortgage receivable	389,786	-	-	389,786	-	389,786
Due from affiliates	892,859	152,267	7,331	1,052,457	(806,732)	245,725
Deferred expenses, net accumulated amortization of \$57,270	-	163,602	45,462	209,064	-	209,064
Total Assets	\$ 17,159,380	\$ 62,443,303	\$ 12,040,485	\$ 91,643,168	\$ (16,653,283)	\$ 74,989,885

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES						
Current portion of long-term debt	\$ 250,000	\$ 601,167	\$ 15,012	\$ 866,179	\$ -	\$ 866,179
Accounts payable and accrued expenses	206,801	1,811,848	148,929	2,167,578	(1,053,023)	1,114,555
Accrued interest payable	-	158,190	68,216	226,406	-	226,406
Tenant security deposits payable	-	694,704	75,465	770,169	-	770,169
Current portion of deferred rent payable	10,436	-	-	10,436	-	10,436
Deferred revenue	-	216,398	-	216,398	-	216,398
Developers fee payable	-	-	65,000	65,000	(65,000)	-
Due to affiliate of general partner	-	911,946	24,501	936,447	(126,971)	809,476
Total Current Liabilities	467,237	4,394,253	397,123	5,258,613	(1,244,994)	4,013,619
OTHER LIABILITIES						
Long-term debt	-	53,730,435	8,685,275	62,415,710	(12,955,400)	49,460,310
Deferred rent payable	103,248	-	-	103,248	-	103,248
TOTAL LIABILITIES	570,485	58,124,688	9,082,398	67,777,571	(14,200,394)	53,577,177
COMMITMENTS AND CONTINGENCIES						
NET ASSETS						
Unrestricted						
Operations	15,573,895	4,113,391	-	19,687,286	(2,783,667)	16,903,619
Board designated for operating reserves	950,000	-	-	950,000	-	950,000
Unrestricted noncontrolling interest	-	-	-	-	3,288,865	3,288,865
Temporary restricted	65,000	205,224	-	270,224	-	270,224
Total net assets	16,588,895	4,318,615	-	20,907,510	505,198	21,412,708
STOCKHOLDERS' AND PARTNERS' EQUITY (ACCUMULATED DEFICIT)	-	-	2,958,087	2,958,087	(2,958,087)	-
TOTAL LIABILITIES, NET ASSETS AND STOCKHOLDERS' & PARTNERS' EQUITY (ACCUMULATED DEFICIT)	\$ 17,159,380	\$ 62,443,303	\$ 12,040,485	\$ 91,643,168	\$ (16,653,283)	\$ 74,989,885

SETTLEMENT HOUSING FUND, INC.
AND AFFILIATES

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	Unrestricted Settlement Housing Fund, Inc	Temporarily Restricted Settlement Housing Fund, Inc	Total Settlement Housing Fund, Inc	Nonprofit Affiliates	Real Estate Affiliates	Consolidating Balance	Eliminations	Consolidated Balance
PUBLIC SUPPORT AND OPERATING REVENUE								
Grants and contributions	2,093,499	\$ 65,000	\$ 2,158,499	\$ 11,968,832	\$ -	\$ 14,127,331	(4,697,820)	\$ 9,429,511
Special grants and contributions	4,200,000		4,200,000			4,200,000		4,200,000
Special events, net	236,888	-	236,888	-	-	236,888	-	236,888
Program and other fees	925,086	-	925,086	81,856	-	1,006,942	(613,025)	393,917
Rental income	-	-	-	13,983,036	1,292,794	15,275,830	-	15,275,830
Interest and dividend income	284,676	-	284,676	3,572	5,550	293,798	-	293,798
Realized and unrealized gain (loss) on investments	35,007	-	35,007	-	3,641	38,648	(3,641)	35,007
Other income	81,281	-	81,281	1,978,763	44,143	2,104,187	(1,382,289)	721,898
Total Public Support and Operating revenue	7,856,437	65,000	7,921,437	28,016,059	1,346,128	37,283,624	(6,696,775)	30,586,849
EXPENSES								
Program services								
Development and technical assistance	3,683,309	-	3,683,309	9,773,498	-	13,456,807	(5,302,493)	8,154,314
Housing	-	-	-	16,150,475	1,615,712	17,766,187	(554,626)	17,211,561
Operational support services								-
Management and general	707,324	-	707,324	1,777,104	10,439	2,494,867	(114,755)	2,380,112
Fundraising	309,552	-	309,552	180,945	-	490,497	-	490,497
Total Expenses	4,700,185	-	4,700,185	27,882,022	1,626,151	34,208,358	(5,971,874)	28,236,484
CHANGE IN NET ASSETS BEFORE LOSS ALLOCATED TO NONCONTROLLING OWNERSHIP INTEREST	3,156,252	65,000	3,221,252	134,037	(280,023)	3,075,266	(724,901)	2,350,365
LOSS ALLOCATED TO NONCONTROLLING OWNERSHIP INTEREST	-	-	-	-	-	-	(220,329)	(220,329)
CHANGE IN NET ASSETS	3,156,252	65,000	3,221,252	134,037	(280,023)	3,075,266	(504,572)	2,570,694
NET ASSETS								
Net assets or retained earnings (accumulated deficit) January 1, 2013	13,367,643	-	13,367,643	4,184,578	3,238,110	20,790,331	(1,948,317)	18,842,014
Net assets, December 31, 2013	\$ 16,523,895	\$ 65,000	\$ 16,588,895	\$ 4,318,615	\$ 2,958,087	\$ 23,865,597	\$(2,452,889)	\$ 21,412,708

SETTLEMENT HOUSING FUND, INC.

SCHEDULE OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 235,408
Investments-marketable securities	1,113,689
Grants and contributions receivable	247,643
Other assets	344,538
Total Current Assets	1,941,278

FIXED ASSETS

Property and equipment, net of accumulated depreciation of of \$407,784	125,832
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OTHER ASSETS

Fees receivable	510,467
Loans receivable	12,955,400
Investments-other	343,758
Mortgage receivable	389,786
Due from affiliates	892,859

TOTAL ASSETS	<u><u>\$17,159,380</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 250,000
Accounts payable and accrued expenses	206,801
Current portion of deferred rent payable	10,436
Total Current Liabilities	467,237

OTHER LIABILITIES

Deferred rent payable	103,248
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TOTAL LIABILITIES	<u>570,485</u>
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COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	
Undesignated	15,573,895
Board designated	950,000
Temporarily restricted	65,000
Total Net Assets	<u>16,588,895</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 17,159,380</u></u>
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See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.

SCHEDULE OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND OPERATING REVENUE			
Grants and contributions	\$ 2,093,499	\$ 65,000	\$ 2,158,499
Special grants and contributions	4,200,000	-	4,200,000
Special events, net of direct costs of of \$81,795	236,888	-	236,888
Program and other fees	925,086	-	925,086
Interest and dividend income	284,676	-	284,676
Realized and unrealized gain on investments	35,007	-	35,007
Other income	81,281	-	81,281
	<u>7,856,437</u>	<u>65,000</u>	<u>7,921,437</u>
EXPENSES			
Program services			
Development and technical assistance	3,683,309	-	3,683,309
Housing			
Operational support services			
Management and general	707,324	-	707,324
Fundraising	309,552	-	309,552
	<u>4,700,185</u>	<u>-</u>	<u>4,700,185</u>
CHANGE IN NET ASSETS	3,156,252	65,000	3,221,252
NET ASSETS			
Net assets, January 1, 2013	<u>13,367,643</u>	<u>-</u>	<u>13,367,643</u>
Net assets, December 31, 2013	<u>\$ 16,523,895</u>	<u>\$ 65,000</u>	<u>\$ 16,588,895</u>

See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.

SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ 3,221,252</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS	
TO NET CASH USED IN OPERATING ACTIVITIES	
Depreciation and Amortization	44,616
Realized and unrealized gain on investments	(35,007)
Bad debt	145,876
Rent	(15,108)
Changes in assets and liabilities	
Other assets	598,595
Grants and contributions receivable	356,363
Fees receivable	120,226
Accounts payable and accrued expenses	<u>(379,861)</u>
Total adjustments	<u>835,700</u>
Net cash provided by operating activities	<u>4,056,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments-marketable securities	183,986
Mortgage receivable	(18,561)
Due from affiliates	<u>238,445</u>
Net cash provided by investing activities	<u>403,870</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Long-term debt	<u>(4,547,404)</u>
Net cash used in financing activities	<u>(4,547,404)</u>
NET DECREASE IN CASH	(86,582)
CASH	
Beginning of year	<u>321,990</u>
End of year	<u><u>\$ 235,408</u></u>

See notes to financial statements.

SETTLEMENT HOUSING FUND, INC.

SELECTED NOTES TO SCHEDULES

DECEMBER 31, 2013

1. Organization

SHF has elected to present parent-only schedules as supplementary data accompanying the primary consolidated financial statements.

2. Summary of Significant Accounting Policies

Program Fees

SHF receives fees for the performance of project development. The fees are generally earned over the development period in accordance with the fee agreements. Development fees are recognized as revenue as the milestones in the development agreements are achieved.

SHF receives supervisory fees from several of its affiliated projects. In addition, SHF provides services, such as marketing, to unaffiliated projects. The fees are recognized as revenue when earned.

Fees from all other services are recognized as earned in accordance with agreements or as services are rendered.

3. Investments-Other

Investments-Other consists of an investment in Housing Partnership Insurance Exchange, which is stated at cost at December 31, 2013.

4. Fees Receivable

SHF, along with an unrelated co-developer, earned a developer fee from Two Bridgeset Associates Limited Partnership for the development of a mixed-income apartment building. The fee for these services was \$5,067,500, 50% of which was earned by SHF. As of December 31, 2013, \$436,217 of the fees was not paid.

In 2013, SHF earned an incentive management fee from Two Bridgeset Associates Limited Partnership in the amount of \$49,500. Total fees outstanding as of December 31, 2013 are \$74,250.

SHF earned a fee of \$922,595 from 1615 St. John's Place Limited Partnership (1615 SJP) for developing a mixed-income apartment building. At December 31, 2013, \$65,000 is outstanding.

SETTLEMENT HOUSING FUND, INC.

SELECTED NOTES TO SCHEDULES

DECEMBER 31, 2013

4. Fees Receivable (Continued)

As of December 31, 2013, the balance of development fees owed to SHF by New Hull Street HDFC was \$153,670.

SHF earns a supervisory management fee from Marcy Baer Associates Limited Partnership for services performed in the supervision and development of certain operating procedures. For the year ended December 31, 2013, supervisory management fees of \$50,988 were earned, \$10,008 of which remained unpaid.

SHF has earned various fees from other affiliated entities. The amounts due at December 31, 2013 were \$36,694.

5. Due from Affiliates

Amounts due from affiliates at December 31, 2013, are as follows:

	<u>For profit</u>	<u>Nonprofit</u>	<u>Total</u>
1615 General Partners Inc.	\$ 1,986	\$ -	\$ 1,986
1615 St Johns Place, LP	15,595		15,595
First Women's Development Corp.	1,056		1,056
Two Bridges Settlement Housing Corp	1,484		1,484
Two Bridgeset ALP	173,516		173,516
Two Bridgeset Towers	9,610		9,610
CCLTD		10,575	10,575
New Hull Street HDFC		43,121	43,121
Newset II HDFC		99,022	99,022
SemiPerm HDFC		506,290	506,290
St. John's Place		18,659	18,659
Two Bridgeset HDFC		11,945	11,945
	<u>\$203,247</u>	<u>\$689,612</u>	<u>\$892,859</u>

The balances are noninterest bearing, unsecured, and due on demand.

SETTLEMENT HOUSING FUND, INC.

SELECTED NOTES TO SCHEDULES

DECEMBER 31, 2013

6. Loans Receivable

A Senior Fund Note in the amount of \$8,827,851 dated August 11, 2011, from NSCCC Investment Fund LLC to GSUIG Real Estate Member LLC and loaned to NSCCC, was subsequently assigned to SHF. Interest only payments are due from borrower quarterly at 1% per annum. Principal payments are to be received commencing July 1, 2018, through the maturity date of January 1, 2045.

A Junior Fund Note in the amount of \$4,127,549 dated August 11, 2011, from NSCCC Investment Fund LLC to SHF and loaned to NSCCC requires interest only payments quarterly at 1% per annum. The principal balance of \$4,127,549 is due on January 1, 2045.

The Organization reviewed its receivables for collectability, resulting in a bad debt expense of \$145,876.

7. Fair Value Measurements

The Organization adopted the updated provisions of the “Fair Value Measurements” topic of the FASB ASC, which establish a fair value hierarchy for disclosure of fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 – inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

The following table summarizes investment assets measured at fair value at December 31, 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 3</u>
Corporate fixed income	\$363,466	\$363,466	\$ -
Mutual funds	750,223	750,223	-
Captive insurer organization	343,758	-	343,758
Total	<u>\$1,457,447</u>	<u>\$1,113,689</u>	<u>\$343,758</u>

SETTLEMENT HOUSING FUND, INC.

SELECTED NOTES TO SCHEDULES

DECEMBER 31, 2013

8. Note Payable

The Organization has received \$250,000 from the Fund for the City of New York which is subject to a 3% service charge. This loan is unsecured and is due on November 14, 2014.

9. Net Assets

Unrestricted – Board Designated

The SHF Board of Directors has designated that \$950,000 of unrestricted net assets be set aside for operating reserves.

Temporarily Restricted

Pledges in the amount of \$65,000 are donor restricted for the DREAMS program.

10. Special Grants and Contributions

A special grant of \$4,200,000 was received to reduce the debt incurred in the construction of the New Settlement Community Campus Corp. community center. At the current time, this grant is not expected to be recurring.

SETTLEMENT HOUSING FUND, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	Program Services	Supporting Services		
	Development and Technical Assistance	Management & General	Fundraising	Total
Salaries and related expenses	\$ 2,333,574	\$ 484,898	\$ 212,143	\$ 3,030,615
Professional fees and contract service payments	58,335	72,477	45,961	176,773
Occupancy	249,270	43,622	18,695	311,587
Telephone	30,989	5,422	2,324	38,735
Postage	4,380	766	329	5,475
Supplies	30,463	5,331	2,285	38,079
Conferences, training, seminars and travel	3,677	704	18	4,399
Publications and printing	13,012	2,277	976	16,265
Purchase, rental and maintenance of equipment	46,380	8,117	3,479	57,976
Insurance	3,462	13,847	-	17,309
Depreciation and amortization	35,693	6,246	2,677	44,616
Contributions	275,103	48,143	20,633	343,879
DREAMS/Youthbuild expenses	132,330	-	-	132,330
Donated services and supplies	228,518	-	-	228,518
Interest expense	91,898	-	-	91,898
Bad debt	145,876	-	-	145,876
Miscellaneous	349	15,474	32	15,855
	<u>\$ 3,683,309</u>	<u>\$ 707,324</u>	<u>\$ 309,552</u>	<u>\$ 4,700,185</u>

See notes to financial statements.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Settlement Housing Fund, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Settlement Housing Fund, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Settlement Housing Fund, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Settlement Housing Fund, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Settlement Housing Fund, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Koch Group & Company, LLP
Certified Public Accountants

New York, New York
September 22, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

To the Board of Directors
Settlement Housing Fund, Inc.

Report on Compliance for Each Major Federal Program

We have audited Settlement Housing Fund, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Settlement Housing Fund, Inc.'s major federal programs for the year ended December 31, 2013. Settlement Housing Fund, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Settlement Housing Fund, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Settlement Housing Fund, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Settlement Housing Fund, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Settlement Housing Fund, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Settlement Housing Fund, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Settlement Housing Fund, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Settlement Housing Fund, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Koch Group & Company, LLP
Certified Public Accountants

New York, New York
September 22, 2014

SETTLEMENT HOUSING FUND, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDING DECEMBER 31, 2013

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Labor Employment and Training Administration Workforce Investment Act		
Youthbuild	17.274	\$387,366
WIA Pilots, Demonstrations & Research Projects	17.261	291,571
Corporation for National Community Service		
AmeriCorps	94.006	<u>1,485</u>
		<u>\$680,422</u>

SETTLEMENT HOUSING FUND, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDING DECEMBER 31, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Settlement Housing Fund, Inc. under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Settlement Housing Fund, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Settlement Housing Fund, Inc.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

SETTLEMENT HOUSING FUND, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING DECEMBER 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs

<u>CFDA#</u>	<u>Name of Federal Program</u>
17.274	United States Department of Labor Employment and Training Administration Workforce Investment Act - Youthbuild

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk Auditee	no
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SETTLEMENT HOUSING FUND, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDING DECEMBER 31, 2013

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

2013-1 Filing Requirements

United States Department of Labor Employment and Training Administration Workforce Investment Act – Youthbuild

Grantor: U.S. Department of Labor, Employment and Training Administration

Award Name: Youthbuild

Award Year: 9/1/12 – 12/31/15

Award Number: YB-23503-12-60-A-36

CFDA Number: 17.274

Condition

The data collection form and reporting package for the 2012 financial statements were not submitted to the Federal Clearing House in a timely manner.

Criteria

Circular A-133, Subpart C.320, states that the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period.

Cause

The late submission of the data collection form occurred because there was no mechanism in place to assure that the report was submitted on a timely basis.

Effect

Late submission may cause additional testing in subsequent years.

Questioned Cost

None noted.

Recommendation

We recommend the Organization continue to review controls around reporting deadlines to ensure the timeliness of reporting.

Management's Views and Corrective Action Plan

Management's reviews and corrective action plan is included at the end of this report.

SETTLEMENT HOUSING FUND
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Management's View and Corrective Action Plan

2013-1 Filing Requirements

This finding relates to late filing of the Data Collection Form with the Federal Audit Clearinghouse. Better controls and communication have been initiated to ensure reporting timeliness.