

The Gracie Mansion Conservancy

(a component unit of the City of New York)

Financial Report
June 30, 2017

PRELIMINARY DRAFT
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Independent Auditor's Report

To the Board of Directors
The Gracie Mansion Conservancy
(a not-for-profit corporation)

Report on the Financial Statements

We have audited the accompanying financial statements of The Gracie Mansion Conservancy (the Conservancy), a not-for-profit corporation and a component unit of the City of New York, which comprise the statements of net position as of June 30, 2017 and 2016, the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

New York, New York
_____, 2018

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The Gracie Mansion Conservancy

Management's Discussion and Analysis (Unaudited)

This section of The Gracie Mansion Conservancy's (the Conservancy) annual financial report presents management's discussion and analysis of the Conservancy's financial performance during the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the Conservancy's financial statements and accompanying notes.

Financial Highlights

The Conservancy raises funds to restore, maintain and furnish Gracie Mansion (the House), improve the historic structure's surrounding landscape and gardens, and provide educational services, including publications and tours.

Below are the highlights of the Conservancy's financial position at June 30, 2017.

- The Conservancy's total net position increased by approximately \$1,700.
- Cash decreased by approximately \$119,100. This decrease is mainly due to cash used to pay for recurring restoration costs, offset with donor contributions received during 2017.
- Accounts receivable increased by approximately \$55,500.
- Prepaid expenses decreased by approximately \$2,100.
- Liabilities decreased by approximately \$25,500.

The following highlights the Conservancy's operations for the fiscal year ended June 30, 2017, as compared with its operations for the fiscal year ended June 30, 2016:

- Total revenue increased by approximately \$71,200.
- Total expenses increased by approximately \$12,700.

Below are the highlights of the Conservancy's financial position at June 30, 2016.

- The Conservancy's total net position decreased by approximately \$56,800.
- Cash decreased by approximately \$44,000. This decrease is mainly due to cash used to pay for recurring restoration costs, offset with donor contributions received during 2016.
- Prepaid expenses increased by approximately \$1,600.
- Liabilities increased by approximately \$21,900.

The following highlights the Conservancy's operations for the fiscal year ended June 30, 2016, as compared with its operations for the fiscal year ended June 30, 2015:

- Total revenue increased by approximately \$408,600.
- Total expenses increased by approximately \$272,900.

The Gracie Mansion Conservancy

Management's Discussion and Analysis (Unaudited)

Overview of Financial Statements

This annual financial report consists of two parts: management's discussion and analysis (this section) and the basic financial statements.

Financial Analysis of the Conservancy

Net position: The following table summarizes the assets, liabilities and net position at June 30, 2017, 2016 and 2015:

	2017	2016	2015	Percentage Change	
				2017	2016
Cash	\$ 599,954	\$ 719,085	\$ 763,077	(16.57)	(5.77)
Short-term investments	838,504	796,650	789,231	5.25	0.94
Accounts receivable	55,525	-	-	100.00	-
Prepaid expenses	5,445	7,551	5,928	(27.89)	27.38
Total assets	1,499,428	1,523,286	1,558,236	(1.57)	(2.24)
Accounts payable and accrued expenses	118	25,660	3,800	(99.54)	575.26
Unrestricted net position	\$ 1,499,310	\$ 1,497,626	\$ 1,554,436	0.11	(3.65)

Operating activities: The Conservancy receives contributions for the restoration, maintenance and preservation of the House as a public landmark. The House and all of its improvements and restorations are the property of the City of New York. Costs incurred by the Conservancy for the restoration, maintenance and preservation of the House are reported as expenses in the accompanying financial statements.

Certain assets contained in the House are the property of the Conservancy. These assets consist of collections of objects, artifacts, documents, and photographs which tell the story of the House and its location, New York City, and the surrounding region. These valuable, and sometimes irreplaceable, collections have been acquired through donations from private sources and purchases, and they help to illustrate the history and the decorative and artistic traditions of New York City. These collections are not recognized as assets by the Conservancy in the accompanying financial statements. They are held under the care of the staff for educational and public exhibition purposes in furtherance of the Conservancy's mission.

At the beginning of fiscal year 2015, the House became a residence again for the first time in over 12 years. This process included putting some pieces of the collection that would not be utilized in climate controlled storage. The People's House should reflect the people of this great city. An effort was made to retain as many of the wonderful pieces of furniture in the Gracie Mansion collection in the House as possible, while also being practical. It was also more cost effective to use protection such as slipcovers and glass tops for certain pieces of furniture than to move and store them. Additionally, important pieces that were on the second floor of the House were moved to the first floor so that they could remain on view for visitors.

The Gracie Mansion Conservancy

Management's Discussion and Analysis (Unaudited)

Financial Analysis of the Conservancy (Continued)

The following table summarizes the comparison of changes in operating and nonoperating revenue and expenses between the fiscal years ended June 30, 2017, 2016 and 2015:

	2017	2016	2015	Percentage Change	
				2017	2016
Revenue:					
Benefit income	\$ 302,500	\$ 417,922	\$ -	(27.62)	100.00
Tour program	-	-	70	-	(100.00)
Grant income	82,499	2,501	5,000	3,198.64	(49.98)
Contributions	95,049	22,525	19,100	321.97	17.93
Net investment income	42,157	8,062	18,242	422.91	(55.81)
Total revenue	522,205	451,010	42,412	15.79	963.40
Expenses:					
Restoration and maintenance of Gracie Mansion	159,669	264,865	158,293	(39.72)	67.33
Other programs	173,756	516	1,794	33,573.64	(71.24)
Benefit and other event expenses	47,253	111,049	-	(57.45)	100.00
Management and general	99,508	103,188	67,696	(3.57)	52.43
Fund-raising	40,335	28,202	7,129	43.02	295.60
Total expenses	520,521	507,820	234,912	2.50	116.17
Change in unrestricted net position	\$ 1,684	\$ (56,810)	\$ (192,500)	102.96	(70.49)

General Outlook

The Conservancy will continue to fulfill its mission of preserving and maintaining the House, as well as operating its tour and educational programs.

Contacting the Conservancy's Financial Management

The financial report is designed to provide donors and the general public with an overview of the Conservancy's finances and to demonstrate the Conservancy's accountability. If you have questions about this report or need additional financial information, contact the Conservancy at Gracie Mansion, East End Avenue at 88th Street, New York, NY 10128.

The Gracie Mansion Conservancy

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 599,954	\$ 719,085
Short-term investments, at fair value	838,504	796,650
Accounts receivable	55,525	-
Prepaid expenses	5,445	7,551
	<u>5,445</u>	<u>7,551</u>
Total assets	<u>\$ 1,499,428</u>	<u>\$ 1,523,286</u>
Liabilities and Unrestricted Net Position		
Liabilities:		
Accounts payable and accrued expenses	\$ 118	\$ 25,660
Total liabilities	<u>118</u>	<u>25,660</u>
Unrestricted net position	<u>1,499,310</u>	<u>1,497,626</u>
Total liabilities and unrestricted net position	<u>\$ 1,499,428</u>	<u>\$ 1,523,286</u>

See notes to financial statements.

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The Gracie Mansion Conservancy

**Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016**

	2017	2016
Operating revenue:		
Benefit income	\$ 302,500	\$ 417,922
Contributions and miscellaneous event revenue	95,049	22,525
Grant income	82,499	2,501
Total operating revenue	480,048	442,948
Expenses:		
Program services:		
Restoration and maintenance of Gracie Mansion	159,669	264,865
Other programs	173,756	516
Benefit and other event expenses	47,253	111,049
Support services:		
Management and general	99,508	103,188
Fund-raising	40,335	28,202
Total expenses	520,521	507,820
Operating loss	(40,473)	(64,872)
Nonoperating revenue:		
Net realized/unrealized gain on short-term investments	40,396	1,256
Investment income	1,761	6,806
Total nonoperating revenue	42,157	8,062
Change in unrestricted net position	1,684	(56,810)
Unrestricted net position:		
Beginning	1,497,626	1,554,436
Ending	\$ 1,499,310	\$ 1,497,626

See notes to financial statements.

The Gracie Mansion Conservancy

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from:		
Benefit income	\$ 302,500	\$ 417,922
Tour program	-	-
Contributions, grants and miscellaneous event expenses	122,023	25,026
Payments for:		
Restoration and maintenance of Gracie Mansion	(185,211)	(241,961)
Other programs	(171,650)	(2,139)
Benefit and other event expenses	(47,253)	(111,049)
Management and general expenses	(99,508)	(104,232)
Fund-raising expenses	(40,335)	(28,202)
Net cash used in operating activities	(119,434)	(44,635)
Cash flows from investing activities:		
Purchase of short-term investments	(1,458)	(6,552)
Investment income	1,761	6,806
Proceeds from sale or liquidation of short-term investments	-	389
Net cash provided by investing activities	303	643
Net change in cash	(119,131)	(43,992)
Cash:		
Beginning	719,085	763,077
Ending	\$ 599,954	\$ 719,085
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (40,473)	\$ (64,872)
Adjustments to reconcile operating loss to net cash used in operating activities:		
(Increase) decrease in accounts receivable	(55,525)	-
Decrease (increase) in prepaid expenses	2,106	(1,623)
(Decrease) increase in accounts payable and accrued expenses	(25,542)	21,860
Net cash used in operating activities	\$ (119,434)	\$ (44,635)

See notes to financial statements.

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies

The Gracie Mansion Conservancy (the Conservancy) is a not-for-profit corporation incorporated in July 1981 and is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code (the Code). The Conservancy is classified as a public charity under Section 509(a)(3) of the Code. The Conservancy's purpose is to assist the City of New York in preserving Gracie Mansion (the House) as a historical public landmark primarily through the renovation of the House and the acquisition and maintenance of decorative objects and furniture which are collections of objects, artifacts, documents, and photographs that tell the story of the House and its location, New York City, and the surrounding region. These valuable, and sometimes irreplaceable, collections have been acquired through donations from private sources and through purchase, and they help to illustrate the history and the decorative and artistic traditions of New York City. These collections are held under the care of the curatorial staff for educational and public exhibition purposes. The House and contents are assets of the City of New York and are not included in these financial statements. The Conservancy is also involved with the planning and operation of public educational programs in the House, including publications, cultural events, and public tours and other forms of public access. The House has been the official residence of the Mayor of the City of New York since 1942. The Conservancy is a component unit of the City of New York. The Mayor of the City of New York appoints all board members of the Conservancy. The Mayor of the City of New York, or his designee, is Chair; the Commissioner of the Department of Parks & Recreation, the Chairperson of the Landmarks Preservation Commission, and the Commissioner of the Department of Cultural Affairs all serve on the board as ex officio members.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (the GASB). The Conservancy follows enterprise fund reporting; therefore, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Conservancy follows GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, the Conservancy reports its statements of revenue, expenses and changes in net position in certain categories. Revenue is reported by major source and operating revenue is distinguished from nonoperating revenue. Management's discussion and analysis is also required by GASB No. 34.

The Conservancy follows GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB No. 33 establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources, such as grants and private contributions. GASB No. 33 identifies four classes of nonexchange transactions, of which contributions received by the Conservancy are considered voluntary nonexchange transactions. For voluntary nonexchange transactions, assets are recognized by the Conservancy when all applicable eligibility requirements are met or resources are received, whichever is first, and revenue is recognized when all applicable eligibility requirements are met. Resources received prior to all eligibility requirements being met are considered deferred inflows of resources. Pursuant to GASB No. 33, eligibility requirements may be stipulated by the provider and comprise one or more of the following:

- a. Required characteristics of recipients – the recipient has the characteristics specified by the provider.
- b. Time requirements – time requirements specified by the provider have been met. For example, the time period when the resources are required to be used has begun.
- c. Reimbursements – the provider offers resources on a reimbursement basis and the recipient has incurred allowable costs.

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

- d. Contingencies – the provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Purpose restrictions do not affect when a nonexchange transaction is recognized. Resources received with purpose restrictions are recognized as revenue and reported as restricted net position by the Conservancy until the resources are used for the specified purpose.

The Conservancy follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and presents the basic financial statements in a statement of net position format.

For purposes of reporting the statements of cash flows, the Conservancy considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid instruments purchased with a maturity of three months or less, to be cash equivalents.

Custodial credit risk is the risk that in the event of a bank failure, the Conservancy’s deposits may not be returned to it. The Conservancy has a deposit policy for custodial credit risk. Operating cash is held in the Conservancy’s name by a commercial banking institution insured by the Federal Deposit Insurance Corporation (the FDIC) and the bank is eligible to act as a depository for public funds. At June 30, 2017 and 2016, the carrying amount of the Conservancy’s deposits amounted to \$606,421 and \$724,364, respectively. The deposits were insured with the FDIC limit of \$250,000 in 2017 and 2016.

The Conservancy continues to undertake restoration and maintenance of the House. From time to time, the Conservancy purchases capital assets for the benefit of the House. The cost of such items is expensed as incurred by the Conservancy, since the items become the property of the City of New York.

Fair value: The Conservancy uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

The Conservancy’s fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

The three categories within the hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads, and market-corroborated inputs.

Level 3: Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment.

See note 2 for additional information regarding fair value measurements.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income taxes: Although the Conservancy is exempt from federal income taxes under Section 501(c)(3) of the Code, it is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2017 and 2016, the Conservancy did not owe any UBIT. Management has evaluated the Conservancy's income tax positions and concluded that the Conservancy had taken no uncertain income tax positions that require adjustments or disclosure to the accompanying financial statements. With few exceptions, the Conservancy is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2014, which is the standard statute of limitations look-back period.

Subsequent events: The Conservancy evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was _____, 2018.

Note 2. Short-Term Investments and Risks

As of June 30, 2017 and 2016, the Conservancy's investments consisted of only Level 1 in the fair value hierarchy investments which are below:

	2017	2016
Mutual funds:		
Short duration bond fund (open end)	\$ 529,694	\$ 528,240
Balanced fund (closed end)	292,897	256,206
Equity securities	15,913	12,204
Total investments	<u>\$ 838,504</u>	<u>\$ 796,650</u>

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 2. Short-Term Investments and Risks (Continued)

Unrealized gains and losses are included in the statements of revenue, expenses and changes in net position.

Credit risk: The Conservancy's investment policy is designed to protect principal and minimize exposure to credit risk by limiting investments in debt securities to certain types of assets that are backed or fully collateralized by the United States Government, certificates of deposit and corporate debt obligations. Equities are not subject to credit risk. The short duration bond fund is not rated by the credit rating agencies.

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Conservancy will not be able to recover the value of its investments that are in the possession of an outside party. The Conservancy's equity securities are held by financial institutions in the Conservancy's name. Mutual funds are not subject to custodial credit risk because their existence is not evidence by securities that exist in physical or book entry form.

Concentration of credit risk: The Conservancy should provide information about the concentration of credit risk associated with its investments by disclosing, by amount and issuer, investments in any one issuer that represent five percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Therefore, there are no investments in any one issuer that represent more than five percent or more of total investments that require disclosure.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Conservancy's investment policy limits its investment to maturities of up to 36 months as a means of managing its exposure to fair value losses arising from increasing interest rates. The balanced fund is not all debt, and therefore there is limited exposure to fair value losses arising from increasing interest rates. The Conservancy has an investment in a short duration bond fund with a fair value of \$529,694 at June 30, 2017 and an average duration of 1.87 years.

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 3. Operating Expenses

Expenses as shown in the accompanying statements of revenue, expenses and changes in net position consisted of the following:

	2017			
	Program Services	Management and General	Fund-Raising	Total
Salaries	\$ 109,500	\$ 41,350	\$ 31,650	\$ 182,500
Payroll taxes and other	24,612	9,295	7,113	41,020
Total personnel services	134,112	50,645	38,763	223,520
Benefit expense	47,253	-	-	47,253
Gracie book club	6,787	-	-	6,787
NY 1942	10,065	-	-	10,065
Tours and gift shop	1,367	-	-	1,367
Website design	-	15,000	-	15,000
Outside services	84,527	-	-	84,527
Collection	5,374	-	-	5,374
Maintenance and supplies	18,921	-	-	18,921
Storage	49,023	-	-	49,023
Office expenses	219	819	73	1,111
Merchant fees	-	-	1,499	1,499
Filing fees	-	275	-	275
Insurance	12,074	7,834	-	19,908
Accounting and auditor	6,200	23,349	-	29,549
Travel, meetings and other	4,756	1,586	-	6,342
Total other expenses	246,566	48,863	1,572	297,001
Total	\$ 380,678	\$ 99,508	\$ 40,335	\$ 520,521

The Gracie Mansion Conservancy

Notes to Financial Statements

Note 3. Operating Expenses (Continued)

	2016			
	Program Services	Management and General	Fund-Raising	Total
Salaries	\$ 85,666	\$ 62,241	\$ 22,453	\$ 170,360
Payroll taxes and other	12,605	8,078	2,854	23,537
Total personnel services	98,271	70,319	25,307	193,897
Benefit expense	97,325	-	-	97,325
Gracie book club	13,724	-	-	13,724
Tours and gift shop	516	-	-	516
Outside services	62,305	-	-	62,305
Collection	9,281	-	-	9,281
Maintenance and supplies	30,184	-	-	30,184
Storage	43,947	-	-	43,947
Office expenses	78	581	25	684
Merchant fees	-	-	2,685	2,685
Filing fees	-	275	-	275
Insurance	12,112	7,133	-	19,245
Accounting and auditor	6,980	22,470	-	29,450
Travel, meetings and other	1,707	2,410	185	4,302
Total other expenses	278,159	32,869	2,895	313,923
Total	\$ 376,430	\$ 103,188	\$ 28,202	\$ 507,820