
LENOX HILL
NEIGHBORHOOD
House FOUNDED
• 1894 •

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2008 and 2009

 Marks Paneth & Shron LLP
Certified Public Accountants and Consultants

LENOX HILL NEIGHBORHOOD HOUSE, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2008 AND 2009

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INDEPENDENT AUDITORS' REPORT

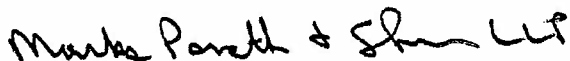
Board of Directors
Lenox Hill Neighborhood House, Inc.

We have audited the accompanying statements of financial position of Lenox Hill Neighborhood House, Inc. (the "Neighborhood House" or "Organization") as of June 30, 2008 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Neighborhood House as of June 30, 2008 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Neighborhood House taken as a whole. The supplementary information (shown on page 18) is the responsibility of management and is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



New York, NY
January 22, 2010

LENOX HILL NEIGHBORHOOD HOUSE, INC.

STATEMENTS OF FINANCIAL POSITION

	At June 30,	
	2008	2009
ASSETS		
Cash and equivalents (Notes 1 and 12)	\$ 2,042,591	\$ 2,296,597
Accounts receivable, net (Notes 1, 2 and 8)	1,468,222	840,017
Pledges receivable (Note 3)	288,025	245,494
Prepayments and other (Note 6)	115,959	82,462
Long-term investments, at market (Notes 1 and 4)	7,872,444	7,065,077
Property and equipment, net (Notes 1 and 5)	3,187,397	3,372,309
TOTAL ASSETS	\$ 14,974,638	\$ 13,901,956
LIABILITIES		
Accounts payable and accrued expenses (Note 1)	\$ 345,080	\$ 266,785
Accrued salaries	232,529	251,510
Accrued vacation	285,988	270,275
Government and other advances	461,105	259,981
Total	1,324,702	1,048,551
NET ASSETS		
Unrestricted		
Property and equipment	3,187,397	3,372,309
Operations	981,418	1,362,316
Endowment (Notes 4, 9 and 10)	6,674,750	5,921,705
Total unrestricted	10,843,565	10,656,330
Temporarily restricted (Note 9)	1,608,677	1,053,703
Permanently restricted (Notes 4, 9 and 10)	1,197,694	1,143,372
TOTAL NET ASSETS	13,649,936	12,853,405
TOTAL LIABILITIES AND NET ASSETS	\$ 14,974,638	\$ 13,901,956

The accompanying notes are an integral part of these statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30,

	2008				2009			
	Unrestricted	Restricted Temporarily	Restricted Permanently	Total	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Operating Revenue								
Government agencies (Note 1)	\$ 9,384,795	\$ -	\$ -	\$ 9,384,795	\$ 8,828,907	\$ -	\$ -	\$ 8,828,907
Special events	1,058,567	-	-	1,058,567	859,120	-	-	859,120
Associated expenses	(196,330)	-	-	(196,330)	(155,565)	-	-	(155,565)
Special events, net	862,237	-	-	862,237	703,555	-	-	703,555
Contributions (Notes 1 and 7)	863,408	1,594,410	-	2,457,818	482,224	1,475,150	-	1,957,374
Net assets released from restrictions (Note 9)	1,579,467	(1,579,467)	-	-	2,094,593	(2,094,593)	-	-
Subtotal	3,305,112	14,943	-	3,320,055	3,280,372	(619,443)	-	2,660,929
Dues and fees (Notes 1 and 8)	1,292,411	-	-	1,292,411	1,668,432	-	-	1,668,432
Interest	79,536	-	-	79,536	28,396	-	-	28,396
Subtotal	1,371,947	-	-	1,371,947	1,696,828	-	-	1,696,828
Total Operating Revenue	14,061,854	14,943	-	14,076,797	13,806,107	(619,443)	-	13,186,664
Operating Expenses								
Program services	11,327,593	-	-	11,327,593	11,026,527	-	-	11,026,527
Management and general	1,559,583	-	-	1,559,583	1,450,612	-	-	1,450,612
Fund raising	375,092	-	-	375,092	362,140	-	-	362,140
Total Operating Expenses	13,262,268	-	-	13,262,268	12,839,279	-	-	12,839,279
Operating Income (loss)	799,586	14,943	-	814,529	966,828	(619,443)	-	347,385
Non-Operating (Note 1)								
Gifts to Endowment (Notes 1 and 7)	-	-	300,300	300,300	-	-	128,250	128,250
Bequests (Notes 1 and 7)	11,989	-	-	11,989	3,500	-	-	3,500
Foundation Capital gifts (Note 7)	-	330,000	-	330,000	-	64,469	-	64,469
Investment income (Note 4)	772,783	-	110,135	882,918	(1,017,474)	-	(182,572)	(1,200,046)
Total Non-Operating Income	784,772	330,000	410,435	1,525,207	(1,013,974)	64,469	(54,322)	(1,003,827)
Change in Net Assets - Before other items	1,584,358	344,943	410,435	2,339,736	(47,146)	(554,974)	(54,322)	(656,442)
Pension related changes other than net periodic pension costs (Note 6)	(43,860)	-	-	(43,860)	(140,089)	-	-	(140,089)
Change in Net Assets (Note 1)	1,540,498	344,943	410,435	2,295,876	(187,235)	(554,974)	(54,322)	(796,531)
Net Assets - Beginning of Year	9,408,184	1,263,734	682,142	11,354,060	10,843,565	1,608,677	1,197,694	13,649,936
Net Assets - Reclassification	(105,117)	-	105,117	-	-	-	-	-
Net Assets - End of Year	\$ 10,843,565	\$ 1,608,677	\$ 1,197,694	\$ 13,649,936	\$ 10,656,330	1,053,703	\$ 1,143,372	\$ 12,853,405

The accompanying notes are an integral part of these statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

	Programs								Support Services		
	Children and Families	Older Adults	Adult Education	Homeless and Housing	Legal Advocacy and Organizing	Visual and Performing Arts	Fitness and Aqautics	Total Program Services	Management and General	Fund Raising	Total
Personnel (Note 6)	\$ 1,988,042	\$ 1,726,020	\$ 283,531	\$ 2,277,657	\$ 475,531	\$ 199,625	\$ 323,670	\$ 7,274,076	\$ 957,991	\$ 302,199	\$ 8,534,266
Professional fees	7,222	-	-	3,500	431	-	-	11,153	56,255	-	67,408
Value of pro-bono legal services (Note 1)	-	-	-	-	-	-	-	-	133,392	-	133,392
Services provided by non-agency personnel	49,009	75,553	3,008	211,501	-	6,450	134	345,655	40,322	-	385,977
Insurance	37,686	20,086	3,425	35,093	7,363	2,028	9,445	115,126	17,409	5,032	137,567
Program activities	78,863	12,226	6,420	64,821	14,337	1,997	13,691	192,355	3,210	-	195,565
Occupancy and supplies (Note 11)	182,127	113,879	10,214	265,557	3,854	2,815	56,151	634,597	36,983	10,886	682,466
Equipment (Note 1)	37,742	165,971	8,412	89,887	11,294	1,186	23,703	338,195	54,972	7,625	400,792
Telephone	12,194	22,633	5,158	43,366	8,125	1,580	2,659	95,715	16,758	4,387	116,860
Office supplies	44,405	53,535	15,490	63,781	22,545	4,177	14,087	218,020	86,014	21,038	325,072
Repairs and materials	184,880	47,483	3,835	109,550	2,777	1,456	41,869	391,850	23,883	4,600	420,333
Food	149,056	250,545	396	232,608	674	663	221	634,163	23,967	337	658,467
Transportation	22,007	50,609	156	27,462	1,196	25	262	101,717	11,934	306	113,957
Bad debt	213,432	-	-	5,718	-	-	-	219,150	-	-	219,150
Payments to subgrantees	-	180,935	-	136,357	-	-	-	317,292	-	-	317,292
Depreciation	180,895	58,546	10,960	12,216	2,166	3,942	70,521	339,246	48,330	15,239	402,815
Other	25,761	14,427	1,175	39,920	7,904	1,011	9,085	99,283	48,163	3,443	150,889
TOTAL EXPENSES	\$ 3,213,321	\$ 2,792,448	\$ 352,180	\$ 3,618,994	\$ 558,197	\$ 226,955	\$ 565,498	\$ 11,327,593	\$ 1,559,583	\$ 375,092	\$ 13,262,268

The accompanying notes are an integral part of these statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
(With Comparative Totals for 2008)

Year Ended June 30, 2009

	Program Services							Support Services			Total 2009	Year Ended June 30, 2008
	Children and Families	Older Adults	Adult Education	Homeless and Housing	Legal Advocacy and Organizing	Visual and Performing Arts	Fitness and Aquatics	Total Program Services	Management and General	Fund Raising		
Personnel (Note 6)	\$ 1,873,960	\$ 2,050,004	\$ 185,761	\$ 2,278,539	\$ 522,882	\$ 232,975	\$ 341,034	\$ 7,485,155	\$ 878,425	\$ 288,090	\$ 8,651,670	\$ 8,534,266
Professional fees	8,222	-	-	-	431	-	-	8,653	61,073	-	69,726	67,408
Value of pro-bono legal services (Note 1)	-	-	-	-	-	-	-	-	140,752	-	140,752	133,392
Services provided by non-agency personnel	26,992	72,667	2,197	212,033	2,950	7,900	215	324,954	15,906	-	340,860	385,977
Insurance	43,519	22,609	3,029	20,683	7,786	2,482	12,164	112,272	19,985	5,501	137,758	137,567
Program activities	37,272	5,299	6,639	97,678	18,548	5,370	5,023	175,829	243	571	176,643	195,565
Occupancy and supplies (Note 11)	178,100	112,806	10,788	210,532	3,650	3,411	65,036	584,323	41,050	19,045	644,418	682,466
Equipment (Note 1)	25,988	7,352	1,734	26,769	5,281	2,485	7,792	77,401	25,060	1,690	104,151	400,792
Telephone	11,034	53,581	3,900	32,214	6,866	1,091	2,100	110,786	14,457	2,046	127,289	116,860
Office supplies	40,282	32,657	5,379	30,692	19,928	15,479	8,771	153,188	62,740	17,945	233,873	325,072
Repairs and materials	76,860	49,965	4,103	34,140	1,573	1,657	35,730	204,028	24,856	5,441	234,325	420,333
Food	112,330	178,064	8	220,340	314	226	210	511,492	21,951	1,133	534,576	658,467
Transportation	22,573	27,628	24	14,744	745	856	179	66,749	9,178	40	75,967	113,957
Bad debt	21,758	-	-	-	-	-	-	21,758	-	-	21,758	219,150
Payments to subgrantees	-	603,742	-	92,248	-	-	-	695,990	-	-	695,990	317,292
Depreciation	223,211	72,241	13,524	15,074	2,673	4,864	87,018	418,605	59,636	18,805	497,046	402,815
Other	23,444	13,314	3,017	16,097	4,386	4,832	10,254	75,344	75,300	1,833	152,477	150,889
TOTAL EXPENSES	\$ 2,725,545	\$ 3,301,929	\$ 240,103	\$ 3,301,783	\$ 598,013	\$ 283,628	\$ 575,526	\$ 11,026,527	\$ 1,450,612	\$ 362,140	\$ 12,839,279	\$ 13,262,266

The accompanying notes are an integral part of these statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2008	2009
CASH FLOWS FROM OPERATIONS		
Change in net assets	\$ 2,295,876	\$ (796,531)
Adjustments to reconcile change in net assets to net cash provided by activities		
Depreciation	402,815	497,046
Bad debt	219,150	21,758
Donated securities	(120,667)	(4,827)
Realized gain/loss on the sale of investments	(354,533)	233,364
Unrealized gain/loss on investments	(417,428)	1,114,173
Contributions for capital expenditures and endowment	(630,300)	(192,719)
Sub-total	1,394,913	872,264
Changes in operating assets and liabilities		
Decrease or (increase) in assets		
Accounts receivable	(572,742)	606,447
Pledges receivable	73,567	42,531
Prepayments and other	(25,600)	33,497
Increase or (decrease) in liabilities		
Accounts payable and accrued expenses	(121,381)	(78,295)
Accrued salaries	66,356	18,981
Accrued vacation	(6,891)	(15,713)
Unfunded pension cost	(92,280)	-
Government and other advances	151,108	(201,124)
Net Cash Provided by Operations	867,050	1,278,588
CASH FLOWS FROM INVESTING		
Purchase of property and equipment	(479,343)	(681,958)
Purchase of investments	(7,686,053)	(9,616,866)
Sale of investments	7,017,474	9,081,523
Net Cash Used by Investing	(1,147,922)	(1,217,301)
CASH FLOWS FROM FINANCING		
Contributions for capital expenditures and endowment	630,300	192,719
NET INCREASE IN CASH AND EQUIVALENTS	349,428	254,006
Cash and equivalents - beginning of the year	1,693,163	2,042,591
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 2,042,591</u>	<u>\$ 2,296,597</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lenox Hill Neighborhood House, Inc. (the "Neighborhood House" or "Organization") is a 115 year-old community service organization located in New York City. Each year, the Organization provides assistance to over 20,000 people in need who live, work or attend school on the East Side of Manhattan. The Neighborhood House is the oldest and largest social service and educational organization on the Upper East Side. Founded in 1894 to provide free kindergarten for immigrant children, the Organization has greatly expanded the range of services it provides. Throughout, it has sought to help people in its community gain the skills necessary to better themselves. The Organization's service area extends from Fifth Avenue to the East River (from 14th Street to 143rd Street) and Roosevelt Island. Its principal programs serve children and families, homeless and formerly homeless adults, older adults, disabled persons, immigrants and adult learners. The Neighborhood House is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code. A significant portion of the Organization's revenue is received from city, state and federal government agencies.

Basis of Presentation

The Neighborhood House's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Gifts are recorded as restricted if donors stipulate their use. When restrictions expire, temporarily restricted assets are reclassified as unrestricted and reported in the statement of activities as Net Assets Released from Restrictions. Gifts received with stipulations that do not expire are recorded as permanently restricted. Gifts to endowment received with donor stipulations that do not expire are recorded as permanently restricted endowment ("Permanent Endowment.") The Permanent Endowment is retained in perpetuity to support the Neighborhood House's mission. All earnings and losses realized or otherwise, on funds in the Permanent Endowment shall automatically adjust upwards or downwards (as appropriate) the value of the Permanent Endowment. The sole exception is for permitted distributions ("Permitted Distributions.") Permitted Distributions may be made only in fiscal years when the balance of the Permanent Endowment on the last day of the prior fiscal year exceeds \$3.0 million. If it does, the Board may in the following fiscal year elect to draw up to 4% of the prior year-end balance of the Permanent Endowment to support operations or for other current needs. Permitted Distributions not taken in a given fiscal year become part of the corpus of the Permanent Endowment and may not be drawn in later years in addition to that future year's Permitted Distribution.

Contributed items are recorded at fair value. During the years ended June 30, 2008 and 2009, donated food having values of \$3,335 and \$2,920, respectively, and contributed professional services of \$133,392 and \$140,752, respectively, were received. These contributions are reflected as revenue and an equal expense. The value of volunteers' time is not reflected in the financial statements, as it does not meet the criteria for recognition. Bequests are recorded as income when they are reported to the Neighborhood House and their amount becomes reasonably certain. Allowances for uncollectible amounts are provided on accounts and pledges receivable when management deems appropriate. These amounts are based on its assessment that the amounts will not be collected. At June 30, 2008 and 2009, allowances of \$222,252 and \$ 24,647, respectively, were booked against accounts receivable. No allowance against pledges receivable was believed necessary. The Organization does not discount to present value contributions that will be received in more than one year because it has deemed that discount to be immaterial.

Cash and equivalents include highly liquid instruments having maturities of 90 days or less. Long-term investments are recorded at market value. Property and equipment is reported at cost less accumulated depreciation. Property and equipment with a cost of \$5,000 or more and a useful life greater than one year is capitalized and depreciated over its estimated useful life on the straight-line method. The cost basis of the Neighborhood House's fixed assets is being depreciated over the following useful lives as of June 30, 2009: \$15,610 over 3 years, \$981,577 over 5 years, \$36,607 over 7 years, \$1,218,156 over 10 years, \$3,477,248 over 15 years and \$63,502 over 20 years. When assets are retired or disposed of, their

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cost and accumulated depreciation is removed from the accounts and any gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred. Costs of betterments, which materially extend the useful lives of property and equipment, are capitalized. If the cost of purchasing equipment is reimbursed by a governmental source, which specifies that title to the asset remains with them, the expenditure is reflected as an expense.

Reimbursements from government agencies for prior years are occasionally adjusted in subsequent years due to audits or the receipt of additional monies over and above contract amounts. Income for services rendered between programs is recorded as revenue in that program which provides the service and as an expense in that program using the service. Such amounts have been eliminated in the financial statements. Non-operating revenue consists of gifts to endowment, capital gifts, bequests and investment income.

The Organization adopted, for use as of July 1, 2008, Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"), which provides a framework for measuring fair value under generally accepted accounting principles. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

In February 2008, FASB issued FSP No. 157-2 (*Effective Date of FASB Statement No. 157*), which permitted a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Organization has adopted SFAS No. 157 for use for the fiscal year beginning July 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning July 1, 2009. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Organization's statements of financial position, activities or cash flows.

As defined in SFAS No. 157, 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. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the input to the valuation technique. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Organization adopted the Financial Accounting Standards Board ("FASB") Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which was issued on September 29, 2007. FASB No. 158 was an amendment of *FASB Statements No. 87, 88, 106, and 132(R)*. FASB No. 158 requires an employer to: (a) recognize in its statement of financial position an asset

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit or postretirement plan in the year in which the changes occur. The measurement date for the Organization's defined benefit pension plan corresponds to the fiscal year end and therefore the Organization is in compliance with the measurement date provisions of FASB No. 158. Since the Organization's pension plan was frozen, there was no incremental effect of applying FASB No. 158 on individual line items in the statement of financial position as disclosed in Note 6. The Plan was terminated on December 31, 2008.

The Organization has adopted FASB Staff Position No. 117-1 ("FSP No. 117-1"), which provides guidance on the net asset classifications of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). FSP No. 117-1 also improves disclosure about the organization's endowment funds, whether or not the organization is subject to UPMIFA. UPMIFA has not been enacted in New York State. Therefore, the Organization has implemented only the disclosure guidance provided for in FSP No. 117-1.

Management has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date through January 22, 2010, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through January 22, 2010 that would require adjustment to or disclosure in the financial statements.

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

Certain line items in the June 30, 2008 financial statements have been reclassified to conform with the June 30, 2009 presentation.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	At June 30,	
	2008	2009
Due from government agencies	\$ 1,596,186	\$ 763,919
Due from related parties	59,060	54,653
Special events	19,395	17,495
Other	15,833	28,597
Sub-total	1,690,474	864,664
Allowance for doubtful accounts	(222,252)	(24,647)
	<u>\$ 1,468,222</u>	<u>\$ 840,017</u>

All amounts due from related parties were collected by September 30, 2008 and July 31, 2009, respectively.

NOTE 3 - PLEDGES RECEIVABLE

Pledges outstanding were as follows:

	At June 30,	
	2008	2009
Due in less than a year	\$ 288,025	\$ 215,494
Due in one to two years	-	30,000
	<u>\$ 288,025</u>	<u>\$ 245,494</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM INVESTMENTS

Long-term investments, referred to by the Organization as their endowment, consist of the following:

	At June 30,	
	2008	2009
Cash and equivalents	\$ 795,248	\$ 517,443
Equities	5,399,476	2,662,096
Fixed Income	<u>1,677,720</u>	<u>3,885,538</u>
	<u>\$ 7,872,444</u>	<u>\$ 7,065,077</u>

Investments are subject to market fluctuations that could substantially change their values. Permanently restricted net assets at June 30, 2008 and 2009 were \$1,197,694 and \$1,143,372, all of which were included in long-term investments.

Investment activity consisted of the following:

	Years Ended June 30,	
	2008	2009
Interest and dividends	\$ 160,543	\$ 195,802
Realized gain on investments	354,533	(233,364)
Unrealized gain on investments	<u>417,428</u>	<u>(1,114,173)</u>
	932,504	(1,151,735)
Less: Management fees	<u>(49,586)</u>	<u>(48,311)</u>
	<u>\$ 882,918</u>	<u>\$ (1,200,046)</u>

Financial assets and liabilities carried at fair value at June 30, 2009 are classified in the table as follows:

	Level 1	Level 2	Total
Assets Carried at Fair Value:			
Long-term Investments:			
Equities	\$ 2,662,096	\$ -	\$ 2,662,096
Fixed Income	<u>2,925,704</u>	<u>959,834</u>	<u>3,885,538</u>
Total Assets Carried at Fair Value	<u>\$ 5,587,800</u>	<u>\$ 959,834</u>	<u>\$ 6,547,634</u>

Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Assets held in corporate bonds are designated as Level 2 since the determination of fair value are obtained from third-party pricing services for identical or similar assets or liabilities. The carrying amount of all other financial instruments approximates fair value because of their short maturity. There are no Level 3 assets.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	At June 30,		Estimated Useful Lives
	2008	2009	
Land	\$ 164,999	\$ 164,999	-
Building	499,481	499,481	50 years
Improvements	4,702,198	5,355,978	3-20 years
Furniture and equipment	<u>408,543</u>	<u>436,721</u>	5 years
	5,775,221	6,457,179	
Less: Accumulated depreciation	<u>(2,587,824)</u>	<u>(3,084,870)</u>	
Net book value	<u>\$ 3,187,397</u>	<u>\$ 3,372,309</u>	

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT (Continued)

The Organization's headquarters at 331 East 70th Street in Manhattan was built in 1928. The building is fully depreciated.

NOTE 6 - PENSION PLANS

Union Plans

The Neighborhood House participates in union-sponsored, multiemployer pension plans with 1199SEIU National Healthcare Workers East and DC 1707. These plans are administered by the unions and contributions to them are set pursuant to contracts. The Organization has no present intention of withdrawing from either plan, nor has it been informed that there is any intention to terminate them. Pension expense for these plans for the years ended June 30, 2008 and 2009 of \$160,424 and \$150,495, respectively, is included in payroll taxes and employee benefits.

Terminated Defined Benefit Pension Plan

Through 2002, the Neighborhood House maintained a qualified defined benefit pension plan (the "Plan") covering eligible employees, as well as those of The Caring Neighbor, Inc. (a related not-for-profit organization). Effective December 31, 2002, the Plan was "frozen" and no further benefits were accrued under it. However, the Plan continued to be managed by the Neighborhood House to meet previously incurred liabilities. The Plan was terminated in December 2008.

The funded status of the Neighborhood House Plan as of June 30, 2008 and 2009 are as follows:

	<u>2008</u>	<u>2009</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 691,645	\$ 401,094
Interest cost	32,009	7,343
Actuarial loss	116,492	167,814
Benefits paid	<u>(439,052)</u>	<u>(576,251)</u>
Benefit obligation at end of year	(401,094)	-
Fair value of plan assets	<u>424,774</u>	<u>-</u>
Funded status	\$ <u>23,680</u>	\$ <u>-</u>

The components of net periodic cost for the years ended June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>
Service cost	\$ -	\$ -
Interest cost	32,009	7,343
Actual return on plan assets	(62,795)	10,949
Amortization of loss	42,438	52,835
Recognized actuarial gain	<u>30,194</u>	<u>(25,110)</u>
Net benefits costs	\$ <u>41,846</u>	\$ <u>46,017</u>

The amount recognized in unrestricted net assets for the Plan for the years ended June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>
Pension related changes other than net periodic pension costs	\$ <u>(43,860)</u>	\$ <u>(140,089)</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLANS (Continued)

The weighted average assumptions used to determine the components of net periodic cost for the years ended June 30, 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>
Weighted average assumptions:		
Discount rate	6.50%	N/A
Expected return on plan assets	6.50%	N/A
Rate of compensation increase	N/A	N/A

The assumption has been determined by reflecting expectation regarding future rates of return for the investment portfolio with considerations given to distributions of investments by asset class and then historical rates of return.

The Plan's assets consisted of the following as of June 30, 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Equities	\$ 146,250	\$ -
Fixed income	47,135	-
Cash and equivalents	<u>231,389</u>	<u>-</u>
	<u>\$ 424,774</u>	<u>\$ -</u>

Defined Contribution Plan

Effective January 2003, the Neighborhood House implemented a defined contribution 403(b) thrift plan covering eligible employees. Contributions to the 403(b) plan for the years ended June 30, 2008 and 2009 amounted to \$82,680 and \$82,434, respectively, representing 3% of eligible employees' compensation. The Neighborhood House made additional deferred compensation contributions to the 403(b) plan for certain key employees. For the years ended June 30, 2008 and 2009, these contributions, excluding applicable fringe benefit costs, totaled \$58,800 and \$49,347, respectively, and were paid in the subsequent fiscal years. All of these contributions are included in Personnel expense.

NOTE 7 - CONTRIBUTIONS

Contributions, one component of private revenue, consisted of the following:

	<u>Years Ended June 30,</u>	
	<u>2008</u>	<u>2009</u>
<u>Operating</u>		
Foundations	\$ 1,566,543	\$ 1,096,321
Individuals and others	757,883	720,301
Contributed services	<u>133,392</u>	<u>140,752</u>
Sub-total	<u>2,457,818</u>	<u>1,957,374</u>
<u>Non-operating</u>		
Endowment gifts	300,300	128,250
Bequests	11,989	3,500
Foundation capital gifts	<u>330,000</u>	<u>64,469</u>
Sub-total	<u>642,289</u>	<u>196,219</u>
TOTAL	<u>\$ 3,100,107</u>	<u>\$ 2,153,593</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - RELATED PARTY TRANSACTIONS

The Neighborhood House contracts with The Caring Neighbor, Inc. ("TCN"), a related not-for-profit organization, to provide rental space and management services. TCN is a related party in that the majority of TCN's Board are also members of the Neighborhood House's Board. The Neighborhood House is not required to consolidate TCN because it does not have an economic interest in the organization. At June 30, 2008 and 2009, the Neighborhood House was due \$30,431 and \$52,686, respectively, from TCN. These amounts were collected by September 30, 2008 and July 31, 2009, respectively. For the years ended June 30, 2008 and 2009, the Neighborhood House recognized revenue of \$250,570 and \$292,566, respectively, which is included in Dues and Fees in the accompanying financial statements, for space rental and services rendered. The Board of Directors of TCN, in consultation with the Board of Directors of Lenox Hill Neighborhood House, decided in December 2008 not to apply to renew TCN's contract with the New York City Human Resources Administration. TCN has ceased to provide home care services and continues to wind down its operations so that it can permanently close.

The Neighborhood House is also related to Casa Mutua Limited Partnership (the "Partnership") through a common board member and senior management that function as the Board of Casa Mutua, Inc. (the "General Partner" of the Partnership) and as the Board of 159-161 East 102nd Street Housing Development Fund Corporation (the corporation that owns all of the Casa Mutua, Inc.'s stock). The Partnership was formed to acquire, rehabilitate, own, operate and lease low-income housing, containing 54 units in two buildings located at 159-161 East 102nd Street, New York, NY (the "Properties"). The Neighborhood House operates the Properties and the Partnership under a management agreement, which expires December 31, 2010, unless earlier terminated by the Partnership or under certain other conditions. The Neighborhood House expects to extend the management agreement when it expires on December 31, 2010. The Partnership cannot transfer, sell, assign or otherwise dispose of the Properties without first offering it to the Neighborhood House for a price equal to the principal amount of all outstanding indebtedness secured by the Project, including any accrued interest and federal, state and local taxes. The right of first refusal is conditioned upon the Neighborhood House's agreement to maintain the Project for low-income use for at least 15 years. As of June 30, 2008 and 2009, the Neighborhood House was owed \$28,719 and \$1,967, respectively, by the Partnership. These amounts were collected by September 30, 2008 and July 31, 2009, respectively.

David Wirtz, a member of the Neighborhood House Board of Directors, is an attorney who for many years has advised the Neighborhood House on employment and labor law matters on a discounted basis as a way of supporting its charitable mission. He is currently a shareholder of the law firm of Littler Mendelson, P.C. For the years ended June 30, 2008 and 2009, Mr. Wirtz and the law firm of which he is a part provided legal services to the Neighborhood House that had a fair market value of \$64,527 and \$69,613, respectively. Of these amounts, \$53,267 and \$59,450 were contributed services and \$10,900 and \$10,163 were billed and paid by the Neighborhood House in 2008 and 2009, respectively.

NOTE 9 - NET ASSETS

Unrestricted net assets included Board designated funds acting as an endowment totaling \$6,674,750 and \$5,921,705 at June 30, 2008 and 2009, respectively. Permanently restricted net assets included \$1,197,694 and \$1,143,372 of endowment funds at June 30, 2008 and 2009, respectively. Therefore, the total value of the endowment was \$7,872,444 and \$7,065,077 at June 30, 2008 and 2009, respectively.

Temporarily restricted net assets of \$1,579,467 and \$2,094,593 were released from donor restrictions during the years ended June 30, 2008 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - NET ASSETS (Continued)

Net assets are temporarily restricted in the following ways:

	At June 30,	
	2008	2009
For specific programs	\$ 1,458,677	\$ 993,703
For time periods	150,000	60,000
	<u>\$ 1,608,677</u>	<u>\$ 1,053,703</u>

NOTE 10 - ENDOWMENT NET ASSETS

Absent explicit donor stipulations to the contrary, the Neighborhood House interprets state law to require preservation of an endowment gift's historic value measured as of the gift date. The policy for valuing the Neighborhood House's investments is described in Note 1.

The Neighborhood House's current endowment investment policy is to invest in a mix of equity and fixed income securities based on a target asset allocation set periodically by the Finance/Investment Committee. The objective is to preserve inflation adjusted principal, obtain relatively stable returns and achieve long-term growth. The Neighborhood House utilizes a total return strategy, with returns being achieved through a combination of capital gains/losses, realized and unrealized, and current yield from interest and dividends.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor required the Neighborhood House to retain as Permanent Endowment. In accordance with donor stipulations, deficiencies of this nature are reported in Permanent Endowment.

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 5,523,978	\$ 787,259	\$ 6,311,237
Contributions to endowments	-	300,300	300,300
Transfers to/from operating activity - net	377,989	-	377,989
Investment activity:			
Interest and dividends	140,517	20,026	160,543
Realized gains	310,309	44,224	354,533
Unrealized gains	365,358	52,070	417,428
Investment fees	(43,401)	(6,185)	(49,586)
	<u>1,150,772</u>	<u>410,435</u>	<u>1,561,207</u>
Endowment net assets, end of year	\$ 6,674,750	\$ 1,197,694	\$ 7,872,444

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 6,674,750	\$ 1,197,694	\$ 7,872,444
Contributions to endowments	-	128,250	128,250
Transfers to/from operating activity - net	264,429	-	264,429
Investment activity:			
Interest and dividends	166,013	29,789	195,802
Realized losses	(197,861)	(35,503)	(233,364)
Unrealized losses	(944,665)	(169,508)	(1,114,173)
Investment fees	(40,961)	(7,350)	(48,311)
	(753,045)	(54,322)	(807,367)
Endowment net assets, end of year	\$ 5,921,705	\$ 1,143,372	\$ 7,065,077

Endowment net assets of \$7,872,444 and \$7,065,077 as of June 30, 2008 and 2009, respectively, are included in investments in the accompanying statements of financial position.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Various government agencies have the right to examine the books and records of the Neighborhood House in regard to transactions relating to contracts with those agencies. The accompanying financial statements made no provision in FY 09 for possible disallowances which might result. Although disallowances could occur, in the opinion of management, it is likely that all disallowances would be immaterial.

The Neighborhood House was required by federal regulation to grant the United States Department of Health and Human Services a beneficial ownership interest ("Federal Interest") of \$375,000 in its property at 331 East 70th Street as a condition for receiving federal funds to renovate its children's play roof. The Federal Interest began on February 1, 2007 and will expire at the termination of the Neighborhood House's Head Start contract or January 31, 2015, whichever is earlier. In the event the property is encumbered or used as collateral in connection with a loan during this period, the Federal Interest will always be subordinated to the interest of the lender.

The Neighborhood House leases space for the Lenox Hill Neighborhood House Senior Center at Saint Peter's Church. Rent expense amounted to \$34,545 and \$30,360 for the years ended June 30, 2008 and 2009, respectively. The Neighborhood House is obligated under its lease with Saint Peter's Church to make the following annual rental payments:

2010	\$ 30,360
2011	30,360
2012	30,815
2013	30,815
2014 to 2016	92,446
Total	\$ 214,796

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

The agreement to use and occupy space at Saint Peter's Church terminates immediately if any one of the following events takes place: (1) the termination or expiration of the service agreement between the Neighborhood House and Saint Peter's Church to operate a Senior Center at Saint Peter's Church; (2) in the event that the space is totally destroyed by fire or another casualty; (3) the space is partially destroyed by fire or other casualty provided that notice is given within 20 days of the partial destruction and not less than 10 days prior to the termination date; (4) written notice is given by either Lenox Hill Neighborhood House or Saint Peter's Church to the other party at least 30 days prior to the current renewal term that the notifying party does not wish to renew the agreement; or (5) funding from the City of New York to operate the Senior Center ceases.

The Neighborhood House has a collective bargaining agreement with 1199SEIU National Healthcare Workers East. In addition, it is a pass through entity for a collective bargaining agreement between the City of New York and DC 1707. These agreements call for the provision of various wage levels and benefits to their members.

NOTE 12 - CONCENTRATIONS

The only financial instruments that potentially subject the Neighborhood House to a concentration of credit risk are amounts on deposit at Chase and previously at Citibank that are in excess of FDIC insurance limits. The excess amount approximated \$3,090,000 (including outstanding checks of approximately \$546,000) at June 30, 2008 and \$1,900,597 (including outstanding checks of approximately \$274,220) at June 30, 2009.

NOTE 13 - NET ASSETS RECLASSIFICATIONS

The Neighborhood House has been advised by the principal donor to the Permanent Endowment (who also arranged for virtually all gifts received to date by the Permanent Endowment) that earnings and losses on funds comprising the Permanent Endowment should adjust upwards or downwards the value of the Permanent Endowment. In prior years, earnings and losses relating to the Permanent Endowment were recorded as an adjustment to unrestricted net assets. In compliance with the donor's request, a total of \$105,117 was reclassified from the unrestricted net assets to Permanent Endowment representing net earnings on the Permanent Endowment for the fiscal years 2003 through 2007. For the year ended June 30, 2008, \$110,135 was reclassified from the unrestricted net assets to Permanent Endowment. A reclassification was also made from the 2008 temporarily restricted contributions to the unrestricted contributions amounting to \$56,250, representing misclassification of certain contributions received in fiscal year 2008.

The unrestricted, temporarily restricted and permanently restricted net assets have been adjusted to record the reclassification of investment income from 2003 to 2007 from unrestricted to permanently restricted net assets and the reclassification of certain contributions amounting to \$56,250 from temporarily restricted to unrestricted contributions as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets June 30, 2007 as previously reported	\$ 9,408,184	\$ 1,263,734	\$ 682,142	\$ 11,354,060
Adjustment - endowment net investment income from FY 2003 -2007	<u>(105,117)</u>	<u>-</u>	<u>105,117</u>	<u>-</u>
Net assets June 30, 2007 as reclassified	<u>\$ 9,303,067</u>	<u>\$ 1,263,734</u>	<u>\$ 787,259</u>	<u>\$ 11,354,060</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - NET ASSETS RECLASSIFICATIONS (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets June 30, 2007 as reclassified	\$ 9,303,067	\$ 1,263,734	\$ 787,259	\$ 11,354,060
Change in net assets as previously reported - 2008	1,594,383	401,193	300,300	2,295,876
Adjustments:				
Allocation of 2008 endowment net investment income	(110,135)	-	110,135	-
Reclassifications:				
Temporarily restricted contributions to unrestricted contributions	<u>56,250</u>	<u>(56,250)</u>	<u>-</u>	<u>-</u>
	<u>1,540,498</u>	<u>344,943</u>	<u>410,435</u>	<u>2,295,876</u>
Net assets June 30, 2008 as reclassified	<u>\$ 10,843,565</u>	<u>\$ 1,608,677</u>	<u>\$ 1,197,694</u>	<u>\$ 13,649,936</u>

During the fiscal year ending 2009, a net investment loss of \$182,572 was recorded in the Permanent Endowment. The cumulative gain on the Permanently Restricted Endowment through the year ended June 30, 2009 is \$32,680.

LENOX HILL NEIGHBORHOOD HOUSE, INC.

GOVERNMENT AGENCIES

	Years Ended June 30,	
	2008	2009
<u>NEW YORK CITY</u>		
Department of Homeless Services		
Women's Shelter at the Park Avenue Armory	\$ 2,457,344	\$ 2,310,863
Manhattan Outreach	296,440	326,200
Total	2,753,784	2,637,063
Administration for Children's Services		
Early Childhood Center - Head Start	831,357	921,091
Early Childhood Center - Child Care	582,408	507,001
After School - Voucher Payments	283,266	188,181
Total	1,697,031	1,616,273
Department for the Aging		
Project SCOPE	501,786	
East Side Case Management Consortium	404,620	1,341,780
70th Street Senior Center	435,286	424,155
Senior Center at Saint Peter's Church	385,513	383,458
HEP Program	219,501	109,500
Transportation Services	282,041	215,962
Legal Advocacy & Organizing	4,525	2,500
Total	2,233,272	2,477,355
Department of Health and Mental Hygiene		
Casa Mutua	587,932	608,031
Homeless Outreach	112,711	-
Women's Shelter at the Park Avenue Armory	115,990	119,955
Geriatric Mental Health Initiative	105,000	100,000
Graduate Housing	13,211	13,675
Total	934,844	841,661
Department of Education (Universal Pre-K)	572,249	369,087
Department of Youth and Community Development	166,149	110,000
Department of Housing Preservation and Development	11,063	9,313
TOTAL NEW YORK CITY	8,368,392	8,060,752
<u>NEW YORK STATE</u>		
Department of Education (English for Speakers of Other Languages)	157,353	-
Department of Health		
Child and Adult Care Food Program (CACFP)	109,626	107,630
Facilitated Enrollment	98,218	74,335
Total	207,844	181,965
Office for the Aging (CARE)	87,732	81,485
Office of Temporary and Disability Assistance	-	28,648
Nutrition Outreach and Education Program	70,772	81,081
Office of Children and Family Services	69,274	66,774
New York State Interest on Lawyer Account Fund (IOLA)	62,500	75,000
Office of Court Administration (Civic Legal Services)	56,250	18,750
TOTAL NEW YORK STATE	711,725	533,703
<u>UNITED STATES OF AMERICA</u>		
Department of Housing and Urban Development (East Side Homeless Network)	292,987	223,202
Department of Homeland Security (Emergency Food and Shelter Program)	11,691	11,250
TOTAL UNITED STATES OF AMERICA	304,678	234,452
TOTAL GOVERNMENT AGENCIES	\$ 9,384,795	\$ 8,828,907

See independent auditors' report.