LENOX HILL NEIGHBORHOOD HOUSE FOUNDED · 1894 ·

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Year Ended June 30, 2011

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEAR ENDED JUNE 30, 2011

CONTENTS

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lenox Hill Neighborhood House, Inc. and Affiliates

We have audited the accompanying consolidated statement of financial position of Lenox Hill Neighborhood House, Inc. and Affiliates (collectively, the "Organization") as of June 30, 2011 and the related consolidated statement of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

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

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of Lenox Hill Neighborhood House, Inc. and Affiliates taken as a whole. The consolidating information (shown on pages 16-17) is presented for the purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is 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 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Marks Paneth & Shron LLP

New York, NY
February 17, 2012

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LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2011

ASSETS		
Cash and equivalents (Notes 1 and 13)	$	2,688,979
Accounts receivable, net (Notes 1, 2 and 10)		1,152,190
Pledges receivable (Notes 1 and 3)		80,100
Prepayments and other		157,456
Investments (Notes 1 and 4)		10,027,550
Restricted deposits and funded reserves (Note 5)		663,548
Property and equipment, net (Notes 1 and 6)		6,915,912
TOTAL ASSETS	$	21,685,735
LIABILITIES		
Accounts payable and accrued expenses		666,280
Accrued salaries and other		483,980
Government and other advances		306,328
Long-term debt (Note 7)		2,989,399
Tenant security deposits		21,238
Total		4,467,225
COMMITMENTS AND CONTINGENCIES (Note 12)		
NET ASSETS		
Unrestricted		
Property and equipment		4,590,061
Operations		1,973,473
Unrestricted Endowment (Note 4)		8,027,438
Total unrestricted		14,590,972
Temporarily restricted (Note 11)		627,426
Restricted Endowment (Notes 4 and 9)		2,000,112
TOTAL NET ASSETS		17,218,510
TOTAL LIABILITIES AND NET ASSETS	$	21,685,735

The accompanying notes are an integral part of these financial statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
AS OF JUNE 30, 2011

	Unrestricted	Restricted Temporarily	Restricted Permanently	Total
Operating Revenue				
Government agencies (Note 1)	$ 8,374,735	$ -	$ -	$ 8,374,735
Special events	1,011,019	-	-	1,011,019
Associated expenses	(214,184)	-	-	(214,184)
Special events, net	796,835	-	-	796,835
Contributions (Notes 1 and 9)	1,536,201	1,180,461	-	2,716,662
Rental income	11,446	-	-	11,446
Net assets released from restrictions (Note 11)	1,424,263	(1,424,263)	-	-
Subtotal	3,768,745	(243,802)	-	3,524,943
Dues and fees	1,209,664	-	-	1,209,664
Interest	9,054	-	-	9,054
Subtotal	1,218,718	-	-	1,218,718
Total Operating Revenues	13,362,198	(243,802)	-	13,118,396
Operating Expenses				
Program services	10,538,964	-	-	10,538,964
Management and general	1,698,559	-	-	1,698,559
Fund raising	283,346	-	-	283,346
Total Operating Expenses	12,520,869	-	-	12,520,869
Operating Income	841,329	(243,802)	-	597,527
Non-Operating (Note 1)				
Gifts to endowment (Notes 1 and 9)	-	-	259,696	259,696
Bequests (Notes 1 and 9)	294,307	-	-	294,307
Foundation capital gifts (Note 9)	-	55,000	-	55,000
Investment income (Note 4)	1,129,074	-	254,104	1,383,178
Total Non-Operating Income	1,423,381	55,000	513,800	1,992,181
Changes in Net Assets (Note 1)	2,264,710	(188,802)	513,800	2,589,708
Net Assets/Equity - Beginning of Year	12,007,340	816,228	1,486,312	14,309,880
Adjustment (Note 14)	318,922	-	-	318,922
	12,326,262	816,228	1,486,312	14,628,802
Net Assets/Equity - End of Year	$ 14,590,972	$ 627,426	$ 2,000,112	$ 17,218,510

The accompanying notes are an integral part of these financial statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
AS OF JUNE 30, 2011

	Lenox Hill Neighborhood House, Inc.										
	Program Services								Supporting Services		
	Children and Family	Older Adults	Adult Education	Homeless and Housing	Legal Advocacy and Organizing	Visual and Performing Arts	Fitness	Total	Management and General	Fund Raising	Consolidated Total
Personnel (Note 8)	$ 1,633,482	$ 1,706,294	$ 127,311	$ 2,259,967	$ 564,144	$ 384,363	$ 411,161	$ 7,086,722	$ 1,090,282	$ 250,659	$ 8,427,663
Professional fees	9,122	-	-	432	432	-	-	9,986	65,427	-	75,413
Value of pro-bono legal services (Note 1)	-	-	-	-	-	-	-	-	208,759	-	208,759
Services provided by non-agency personnel	18,535	40,702	-	210,507	-	4,485	-	274,229	4,997	825	280,051
Insurance	38,475	17,868	2,038	18,944	7,828	7,693	15,667	108,513	19,009	3,784	131,306
Program activities	33,446	6,625	2,291	47,871	23,269	9,899	8,767	132,168	2,014	1,083	135,265
Occupancy and supplies (Note 12)	218,444	82,933	5,843	215,056	6,999	22,024	65,843	617,142	28,887	691	646,720
Equipment (Note 1)	9,131	6,851	123	4,830	84	576	1,625	23,220	735	1,817	25,772
Telephone	10,188	36,334	3,262	29,371	6,564	2,700	1,869	90,288	12,841	1,991	105,120
Office supplies	30,035	27,649	2,596	33,562	18,714	9,484	8,124	130,164	68,708	14,609	213,481
Repairs and materials	60,550	29,411	2,031	67,305	2,207	8,880	36,306	206,690	14,932	331	221,953
Food	133,806	193,262	24	159,819	3	745	57	487,716	465	346	488,527
Transportation	2,565	31,578	14	11,578	317	4,043	241	50,336	9,293	19	59,648
Bad debt	34,728	-	-	-	-	6,056	-	40,784	-	-	40,784
Payments to Subgrantees	-	438,399	-	149,093	-	-	-	587,492	-	-	587,492
Depreciation	215,082	41,908	9,352	5,968	6,386	43,793	123,591	446,080	55,921	1,374	503,375
Loss on write off of property and equipment	88,845	17,311	3,863	1,831	2,638	18,090	51,053	183,631	23,100	568	207,299
Interest Expense	-	-	-	1,038	-	-	-	1,038	-	-	1,038
Other	7,220	10,683	1,044	12,935	16,818	3,653	10,412	62,765	93,189	5,249	161,203
TOTAL EXPENSES	$ 2,543,654	$ 2,687,808	$ 159,792	$ 3,230,107	$ 656,403	$ 526,484	$ 734,716	$ 10,538,964	$ 1,698,559	$ 283,346	$ 12,520,869

The accompanying notes are an integral part of these financial statements.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATIONS	
Change in net assets	$ 2,589,708
Adjustments to reconcile change in net assets to net cash provided by operations	
Depreciation	503,375
Loss on write off of property and equipment	207,299
Bad debt	40,784
Realized gain on the sale of investments	(371,684)
Unrealized gain on investments	(851,010)
Interest and dividends Income on investments	(229,302)
Management fees on investments	68,840
Contributions for capital expenditures	(55,000)
Contributions for endowment	(554,003)
Contributions as a result of the acquisition of the HDFC and its affiliates	(794,928)
Sub-total	554,079
Changes in operating assets and liabilities	
Decrease or (increase) in assets	
Accounts receivable	(43,929)
Pledges receivable	170,900
Prepayments and other	44,378
Restricted deposits and funded reserves	247,327
Increase or (decrease) in liabilities	
Accounts payable and accrued expenses	56,607
Accrued salaries and others	(35,464)
Government and other advances	18,937
Net Cash Provided by Operations	1,012,835
CASH FLOWS FROM INVESTING	
Purchase of property and equipment	(951,480)
Management fees on investments	(68,840)
Purchase of investments	(4,844,832)
Sale of investments	4,684,370
Net transfers (to) from the endowment	(554,003)
Cash acquired in purchase of Casa Mutua Limited Partnership	296,549
Cash acquired in the purchase of Casa Mutua, Inc.	319,022
Net Cash Used in Investing	(1,119,214)
CASH FLOWS FROM FINANCING	
Foundation capital gifts	55,000
Bequests	294,307
Restricted endowment gifts	259,696
Interest and dividend restricted for reinvestment	229,302
Net Cash Provided by Financing	838,305
NET INCREASE IN CASH AND EQUIVALENTS	731,926
Cash and equivalents - beginning of the year	1,957,053
CASH AND EQUIVALENTS - END OF YEAR	$ 2,688,979

Supplementary Disclosure of Cash Flow Information:

Cash paid during the period for interest	$ 580

Supplementary Disclosure of Noncash Investing and Financing activities:

On June 21, 2011, a third party elected to turn over their Limited Partner interest in Casa Mutua Limited Partnership to 159-61 East 102nd Street Housing Development Fund Corporation, a not-for-profit entity controlled by the Neighborhood House. (see Note 14 for details).

Fair value of assets acquired	$ 4,217,404
Liabilities assumed	3,422,476
Contribution	$ 794,928

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lenox Hill Neighborhood House, Inc. (the "Neighborhood House" or “Organization”) is a 117 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 its range of services. 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 and from 14th Street to 143rd Street, as well as 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.

The Neighborhood House appoints the directors of and has overseen a special purpose not-for-profit corporation, 159-61 East 102nd Street Housing Development Fund Corporation (the “HDFC”). HDFC owns all of the stock of Casa Mutua, Inc., a New York corporation that serves as General Partner of Casa Mutua Limited Partnership (the “Partnership”). The Partnership owns and operates a building at 159-61 East 102nd Street in Manhattan and provides permanent supportive housing for 54 formerly homeless persons who suffer from mental illness.

Until June 21, 2011, a third party owned the limited partner’s interest in the Partnership. On that date, having exhausted the tax benefits available through the Partnership, the third party elected to turn over the Limited Partner’s interest to the HDFC. That made the HDFC the sole owner of the Partnership. Because the Neighborhood House controls the HDFC and no other party held an interest in the Partnership subsequent to that date, the Partnership became an affiliate whose financial statements must be consolidated with those of the Neighborhood House.

These statements reflect the fair value of the assets acquired and liabilities assumed at June 21, 2011. Because of the lack of comparability, only a single year’s financial results are reflected in these statements. For further details of the acquisition, the long-term debt and other consequent changes in the financial statements and the details of a distribution of funds by HDFC to the Neighborhood House, see Notes 5, 7, 10 and 14.

Basis of Presentation

Lenox Hill Neighborhood House, Inc. and Affiliate’s (the “Organization”) consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany transactions are eliminated.

Revenue Recognition

The Neighborhood House receives its funding from city, state and federal government agencies (“Government Funds”) and from private donors including individuals, estates, corporations, foundations and other not-for-profit entities (“Gifts”). Other than in the case of performance based contracts, Government Funds are recorded as revenue once the expense to which they are related are incurred. In the case of performance based government contracts, revenue is recognized when the service associated with the revenue has been completed and the related vouchers have been submitted to the government for payment. Gifts are recorded as revenue when they are reported to the Organization and their amount becomes reasonably certain. 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 the endowment received with donor stipulations that do not expire are recorded in the “Restricted Endowment.” The Restricted Endowment may not be drawn from until its balance exceeds $3 million and its assets will be retained in perpetuity to support the Neighborhood House’s mission.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed professional services of $208,759 were received. These contributions are reflected as revenue and an equal expense in the period received. The value of non-professional time is not reflected in the financial statements as it does not meet the criteria for recognition.

Reimbursements from government agencies for prior years are occasionally adjusted in subsequent years due to audit adjustments or the receipt of additional monies over and above contract amounts. Income for services rendered between programs is recorded as revenue in the program that provides the service and as an expense in the 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 Partnership's apartment rental income is recognized as it accrues. Advanced receipt of rental income is deferred until earned.

Accounts and Pledges Receivable

Allowances for uncollectible amounts are provided on accounts and pledges receivable when management deems appropriate. These amounts are based on management's assessment that the amounts will not be collected. The Neighborhood House continues to seek collection of these funds. At June 30, 2011, allowances of $24,005 were booked against accounts receivable due from some government agencies. No allowance against pledges and receivable was believed necessary. The Organization does not discount to present value contributions that will be received in more than one year because that discount is deemed to be immaterial.

Cash and Equivalents

Cash and equivalents include highly liquid instruments having maturities of 3 months or less. Cash and equivalents in the endowment are treated as investments.

Property and Equipment

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 utilizing the straight-line method. When assets are retired or disposed of, their cost and accumulated depreciation is removed from the accounts and any gain or loss is reflected in operations. Prior to July 1, 2010, the cost of purchasing property and equipment that was reimbursed by a governmental source was reflected as an expense and was not capitalized. Since that time, similar purchases have been capitalized. Maintenance and repairs are charged to operations as incurred. Costs of betterments, which are not from a government source and materially extend the useful lives of property and equipment, are capitalized.

Property acquired in the consolidation of Casa Mutua was measured at fair value, which was determined by an independent appraiser.

Allocation of Expenses

Because the Organization is a multi-program/multi-funded organization, certain costs have been allocated among programs and supporting functions as determined by management.

Income Taxes

The Organization has no uncertain tax positions as of June 30, 2011 in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. The Organization is no longer subject to federal or state and local tax examinations by tax authorities for fiscal years before 2008.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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.

Recent Accounting Standards

Effective July 1, 2010, the Organization partially adopted Accounting Standards Update 2010-6 ("ASU 2010-6"), Fair Value Measurements and Disclosures (Topic 820), "*Improving Disclosures about Fair Value Measurements.*" This updated guidance requires separate disclosure of significant transfers between Level 1 and Level 2 and reasons for the transfers and clarified existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities. Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both Level 2 and 3 are also required (see Note 4).

In addition, this updated guidance also requires disclosure on a gross basis of purchases, sales, issuances, and settlements within Level 3 rather than as one net amount. This requirement is effective for years beginning after December 15, 2010. The Organizations' management does not expect the adoption to have a material impact on the Organizations' financial statements.

Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through February 17, 2012, the date the consolidated financial statements were available to be issued. Except as discussed in Note 5, no events have occurred subsequent to the consolidated statement of financial position date through February 17, 2012 that would require adjustment to or disclosure in the consolidated financial statements.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011:

Due from government agencies	$ 1,086,065
Due from related parties (Note 10)	22,387
Due from tenants	25,664
Other	42,079
Subtotal	1,176,195
Less: Allowance for doubtful accounts	(24,005)
Total	$ 1,152,190

All amounts due from related parties had been collected by July 7, 2011. As of February 17, 2012, all but $109,829 of the amount due from government agencies had been collected.

NOTE 3 - PLEDGES RECEIVABLE

Pledges outstanding at June 30, 2011:

Due in less than a year	$ 55,100
Due in fiscal 2013	25,000
Total	$ 80,100

NOTE 4 - ENDOWMENT

As one of its major organizational objectives, the Neighborhood House has in recent years sought to establish a significant pool of financial assets to serve as an endowment (the "Endowment"). The Endowment is comprised of two parts: 1) funds set aside by the Board which are unencumbered by donor restrictions (the "Unrestricted Endowment") and 2) amounts covered by permanent donor restrictions (the "Restricted Endowment"). The Unrestricted Endowment is intended to provide sustainable financial support for the Organization and, if deemed necessary, support in an emergency as determined by the Board. In combination, these funds are referred to as the Endowment.

Unrestricted Endowment totaled $8,027,438 at June 30, 2011. The Restricted Endowment was $2,000,112 at June 30, 2011. Therefore, the total Endowment was $10,027,550 on that date.

The Neighborhood House's current investment policy for the Endowment is to invest in a mix of equity and fixed income securities based on a target allocation set periodically by the Board's Finance and Audit Committee. The objective is to preserve the "real" or inflation adjusted principal of the Endowment, to obtain relatively stable returns and to achieve long-term growth. The Neighborhood House focuses on total return (capital gains or losses plus interest and dividends).

Changes In Endowment In Fiscal 2011

	Unrestricted	Restricted	Total
Beginning of year	$ 6,604,079	$ 1,486,312	$ 8,090,391
Contributions	-	259,696	259,696
Transfers from operating accounts - net	294,307	-	294,307
Investment activity			
Interest and dividends	187,176	42,126	229,302
Realized gain/(loss)	303,401	68,283	371,684
Unrealized gain/(loss)	694,668	156,342	851,010
Management fees	(56,193)	(12,647)	(68,840)
Sub-total	1,129,052	254,104	1,383,156
Total Changes	1,423,359	513,800	1,937,159
End of year	$ 8,027,438	$ 2,000,112	$10,027,550

Endowment assets of $10,027,550 as of June 30, 2011 consist of investments which are carried at fair value. The value of investments, all of which were marketable, as of February 3, 2012 was $10,211,146. The Neighborhood House's investments are managed by Wilkinson O'Grady, a New York-based investment firm, and, as of August 19, 2011, have been segregated into two separate accounts: Restricted and Unrestricted. Investments consist of the following at June 30, 2011:

Cash and equivalents	$ 369,862
Equities	7,320,224
Fixed income	1,952,009
Exchange-traded fund	385,455
Total	$ 10,027,550

Investments are subject to market fluctuations that could substantially change their values. Restricted net assets at June 30, 2011 were $2,000,112, all of which were included in investments.

NOTE 4 - ENDOWMENT (Continued)

Investment activity during the year ended June 30, 2011:

Interest and dividends	$ 229,302
Realized gains on investments	371,684
Unrealized gains on investments	851,010
	1,451,996
Less Management fees	(68,840)
	$ 1,383,156

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 based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 – Valuations based on unobservable inputs are used when little or no market data is available. The hierarchy gives lowest priority to Level 3 inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Equities

Equities are valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Bonds, Foreign Bonds and Government Obligations

Corporate bonds, foreign bonds and government obligations are valued at the closing price reported in the active market in which the individual securities is traded.

Exchange-traded Funds

An exchange-traded fund combines the valuation feature of a mutual funds or unit investment trust, which can be bought or sold at the end of each trading day for its net asset value, with the tradability feature of a closed-end fund, which trades throughout the trading day at prices that may be more or less than its net asset value.

NOTE 4 - ENDOWMENT (Continued)

Financial assets carried at fair value at June 30, 2011 can be classified as follows:

	Level 1
Assets Carried at Fair Value	
Investments	
Equities	
Energy	$ 1,029,469
Materials	255,611
Industrials	258,725
Consumer discretionary	1,000,310
Consumer staples	296,305
Healthcare	429,291
Financials	515,948
Information technology	545,793
Utilities	191,805
International-developed	2,504,104
Other equity	292,863
Fixed Income	
Government obligations	262,118
Corporate bonds	787,450
Foreign bonds	902,441
Exchange-traded Funds	385,455
Total	$ 9,657,688

Financial assets in the endowment of $9,657,688 above do not include endowment cash ($346,496) and interest receivable ($23,366).

NOTE 5 – RESTRICTED DEPOSITS AND FUNDED RESERVES

In June 2011, the New York City Department of Housing Preservation and Development ("HPD") reviewed the reserve requirements for the Casa Mutua Limited Partnership and determined that $318,698 of reserves were excess. As a result, the Partnership transferred those funds to the Neighborhood House on June 21, 2011. After the end of the fiscal year, it was determined that additional funds not related to the Partnership's reserves described above could be released from Casa Mutua, Inc., the Partnership's general partner, to the Neighborhood House. On October 13, 2011, $245,731 was transferred to the Neighborhood House.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011.

		Estimated Useful Lives
Land	$ 1,664,999	
Building	1,899,481	25-50 years
Improvements	6,293,213	3-20 years
Furniture and equipment	505,476	5 years
Subtotal	10,363,169	
Less: Accumulated depreciation	(3,447,257)	
Total	$ 6,915,912	

The Organization's headquarters at 331 East 70th Street in Manhattan was built in 1928. The building is fully depreciated but it is continuously being renovated and improved. As described in Note 1, the Partnership owns and operates a building at 159-61 East 102nd Street in Manhattan that provides permanent supportive housing for 54 formerly homeless persons who suffer from mental illness.

NOTE 7 – LONG-TERM DEBT

At June 30, 2011, the Partnership was liable for two mortgages on the building at 159-61 East 102 Street as follows:

- A HPD mortgage in the principal amount of $1,671,575 due May 14, 2037. Through January 1, 2015, simple interest on the principal amount of this mortgage accrues at the rate of one percent (1%) per annum. Beginning January 1, 2015, interest is payable monthly. A servicing fee of one quarter of one percent (0.25%) per annum is payable monthly.

- A New York State Homeless Housing and Assistance Corporation ("HHAC") mortgage in the principal amount of $1,317,824 due May 14, 2022. Simple interest accrues at 1.25% per annum. Principal and all accrued interest is payable at maturity.

NOTE 8 - PENSION PLANS

Union Plans

The Neighborhood House participates in union-sponsored, multiemployer pension plans with 1199SEIU National Healthcare Workers East and DC 1707 AFSCME, AFL-CIO. 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 year ended June 30, 2011, totalling $160,968, is included in personnel expense.

Defined Contribution Plan

In 2003, the Neighborhood House implemented a defined contribution 403(b) thrift plan covering eligible employees. Contributions to the 403(b) plan for the year ended June 30, 2011 amounted to $86,019. The Neighborhood House made additional deferred compensation contributions to the 403(b) plan for certain key employees. For fiscal 2011, these additional contributions, excluding applicable fringe benefit costs, totaled $53,000. This amount was paid in January 2012. All of these contributions are included in personnel expense on the consolidated statement of functional expenses.

NOTE 9 - CONTRIBUTIONS

Contributions, a component of private revenue, consisted of the following for the year ended:

Operating	
Foundations	$ 1,023,487
Individuals and others	1,484,416
Contributed services	208,759
Sub-total	2,716,662
Non-operating	
Restricted endowments gifts	259,696
Bequests	294,307
Foundation capital gifts	55,000
Sub-total	609,003
TOTAL	$ 3,325,665

NOTE 10 - RELATED PARTY TRANSACTIONS

The Caring Neighbor, Inc. ("TCN"), a related not-for-profit organization that management of the Neighborhood House expects will be wound up no later than December 31, 2012, has contracted with the Neighborhood House to receive management services and space. TCN is a related party in that TCN's Board Members 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, 2011, the Neighborhood House was due $22,387 from TCN. These amounts were collected by July 7, 2011. For the year ended June 30, 2011, the Neighborhood House recognized revenue of $49,058, which is included in Dues and Fees in the consolidated financial statements. 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 ("HRA"). TCN stopped providing home care services to clients in June 2009. HRA recently completed the financial audits of TCN for all fiscal years through June 30, 2011. TCN intends to permanently close and dissolve its corporate structure no later than December 31, 2012. Neighborhood House management believe that the dissolution will require, among other things, approval by the Supreme Court of the State of New York and the Office of the Attorney General of the State of New York.

As described above in Note 1, the Neighborhood House controls the Partnership and operates the Casa Mutua building. The Partnership manages the building under a management agreement which expires on December 31, 2011. This agreement automatically renews for one-year terms unless earlier terminated under certain conditions. For the period June 21, 2011 (the date on which the transfer of the Limited Partner interest was made) to June 30, 2011, the Partnership paid $293 to the Neighborhood House for partnership management and $346 for property management. As of June 30, 2011, the Neighborhood House owed the Partnership $41,768, which was paid on October 28, 2011, representing funds received by the Neighborhood House from the New York City Department of Homeless Services for the operation of the Casa Mutua building.

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 year ended June 30, 2011, 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 $63,909. Of these amounts, $53,250 were contributed services and $10,659 were billed to and paid by the Neighborhood House.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets in the consolidated statement of financial position are comprised of assets that are subject to donor restrictions by time or purpose. Net assets of $1,424,263 were released from donor restrictions during the year ended June 30, 2011.

Net asset were temporarily restricted in the following ways at June 30, 2011:

For specific programs	$ 627,426

NOTE 12 - 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. As of June 30, 2011, the accompanying consolidated financial statements made provisions for disallowances related to contracts with various government agencies of $24,005 - amounts which, in the opinion of management, are 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.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

The Neighborhood House leases space for the Lenox Hill Neighborhood House Senior Center at Saint Peter's Church. Rent expense amounted to $34,492 for the year ended June 30, 2011. The lease terminates on June 30, 2016. The Neighborhood House is obligated under its lease with Saint Peter's Church to make the following annual rental payments:

2012	$	30,815
2013		30,815
2014		30,815
2015		30,815
2016		30,815
Total	$	154,075

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 AFSCME, AFL-CIO. These agreements call for the provision of various wage levels and benefits to their members.

NOTE 13 - CONCENTRATIONS

The only financial instruments that potentially subject the Neighborhood House to a concentration of credit risk are amounts on deposit at Chase that are in excess of FDIC insurance limits. The excess amount approximated $2,065,683 at June 30, 2011. Given the size and credit rating of its bank, management believes that the credit risk related to these accounts is minimal.

The Neighborhood House's Restricted and Unrestricted Endowments are managed by Wilkinson O'Grady. Investment securities are held in a custody account at BNY Mellon Wealth Management. As of June 30, 2011, the Neighborhood House had $8,027,438 in the Unrestricted Endowment and $2,000,112 in the Restricted Endowment.

NOTE 14 – ACQUISITION OF AFFILIATES

As described above in Note 1, the Neighborhood House assumed complete control of the Partnership on June 21, 2011. No consideration was transferred by the Neighborhood House in this transaction. The following table summarizes the fair values of the assets of the partnership on that date:

Assets		
Cash	$	296,549
Restricted deposits and funded reserves		910,875
Property and equipment		2,900,000
Other assets		109,980
		4,217,404
Liabilities		
Long-term debt		2,989,399
Other liabilities		433,077
		3,422,476
Contribution	$	794,928

NOTE 14 – ACQUISITION OF AFFILIATES (Continued)

The Neighborhood House also controls Casa Mutua, Inc., which reported the following:

Cash	$ 319,022
Accounts payable and accrued expenses	(100)
Net Assets	$ 318,922

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
AS OF JUNE 30, 2011

	Lenox Hill Neighborhood House, Inc.	159-61 East 102nd Street Housing Development Fund Corporation and Affiliates	Sub-total	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and equivalents	$ 2,205,511	$ 483,468	$ 2,688,979	$ -	$ 2,688,979
Accounts receivable, net	1,122,937	71,021	1,193,958	(41,768)	1,152,190
Pledges receivable	80,100	-	80,100	-	80,100
Prepayments and other	121,366	36,090	157,456	-	157,456
Investments	10,027,550	-	10,027,550	-	10,027,550
Restricted deposits and funded reserves	-	663,548	663,548	-	663,548
Property and equipment, net	4,017,446	2,898,466	6,915,912	-	6,915,912
TOTAL ASSETS	$ 17,574,910	$ 4,152,593	$ 21,727,503	$ (41,768)	$ 21,685,735
LIABILITIES					
Accounts payable and accrued expenses	$ 355,917	$ 352,131	$ 708,048	$ (41,768)	$ 666,280
Accrued salaries and others	483,980	-	483,980	-	483,980
Government and other advances	306,328	-	306,328	-	306,328
Long-term debt	-	2,989,399	2,989,399	-	2,989,399
Tenant security deposits	-	21,238	21,238	-	21,238
Total	1,146,225	3,362,768	4,508,993	(41,768)	4,467,225
NET ASSETS					
Unrestricted					
Property and equipment	4,017,446	572,615	4,590,061	-	4,590,061
Operations	1,756,263	217,210	1,973,473	-	1,973,473
Unrestricted Endowment	8,027,438	-	8,027,438	-	8,027,438
Total unrestricted	13,801,147	789,825	14,590,972	-	14,590,972
Temporarily restricted	627,426	-	627,426	-	627,426
Restricted Endowment	2,000,112	-	2,000,112	-	2,000,112
	16,428,685	789,825	17,218,510	-	17,218,510
TOTAL LIABILITIES AND NET ASSETS	$ 17,574,910	$ 4,152,593	$ 21,727,503	$ (41,768)	$ 21,685,735

See Independent Auditors' Report.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES
CONSOLIDATING SCHEDULES OF ACTIVITIES
AS OF JUNE 30, 2011

	Lenox Hill Neighborhood House, Inc.	159-61 East 102nd Street Housing Development Fund Corporation and Affiliates *	Sub-total	Consolidating Eliminations	Consolidated Total
CHANGES IN UNRESTRICTED NET ASSETS:					
Operating Revenue					
Government agencies	$ 8,374,735	$ -	$ 8,374,735	$ -	$ 8,374,735
Special events	1,011,019	-	1,011,019	-	1,011,019
Associated expenses	(214,184)	-	(214,184)	-	(214,184)
	796,835	-	796,835	-	796,835
Contributions	1,059,972	794,927	1,854,899	(318,698)	1,536,201
Rental income	-	11,446	11,446	-	11,446
Net assets released from restrictions	1,424,263	-	1,424,263	-	1,424,263
	3,281,070	806,373	4,087,443	(318,698)	3,768,745
Dues and fees	1,210,303	-	1,210,303	(639)	1,209,664
Interest	8,826	228	9,054	-	9,054
	1,219,129	228	1,219,357	(639)	1,218,718
Total Operating Revenues	12,874,934	806,601	13,681,535	(319,337)	13,362,198
Operating Expenses					
Program services	10,522,581	17,022	10,539,603	(639)	10,538,964
Management and general	1,698,559	318,698	2,017,257	(318,698)	1,698,559
Fund raising	283,346	-	283,346	-	283,346
	12,504,486	335,720	12,840,206	(319,337)	12,520,869
Operating Income	370,448	470,881	841,329	-	841,329
Non-Operating					
Bequests	294,307	-	294,307	-	294,307
Investment income	1,129,052	22	1,129,074	-	1,129,074
Total Non-Operating Income	1,423,359	22	1,423,381	-	1,423,381
Change in Unrestricted Net Assets	1,793,807	470,903	2,264,710	-	2,264,710
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS					
Contributions	1,180,461	-	1,180,461	-	1,180,461
Foundation capital gifts	55,000	-	55,000	-	55,000
Net assets released from restrictions	(1,424,263)	-	(1,424,263)	-	(1,424,263)
Change in Temporarily Restricted Net Assets	(188,802)	-	(188,802)	-	(188,802)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS					
Gifts to endowment	259,696	-	259,696	-	259,696
Investment Income	254,104	-	254,104	-	254,104
Change in Permanently Restricted Net Assets	513,800	-	513,800	-	513,800
CHANGE IN NET ASSETS/EXCESS OF EXPENSES OVER REVENUES	2,118,805	470,903	2,589,708	-	2,589,708
Net Assets/Equity - Beginning of Year	14,309,880	-	14,309,880	-	14,309,880
Adjustment	-	318,922	318,922	-	318,922
	14,309,880	318,922	14,628,802	-	14,628,802
Net Assets/Equity - End of Year	$ 16,428,685	$ 789,825	$ 17,218,510	$ -	$ 17,218,510

** Includes Casa Mutua, Inc., 159-61 East 102 Street Housing Development Fund Corporation and Casa Mutua Limited Partnership*

See independent Auditors' Report.