



LENOX HILL NEIGHBORHOOD HOUSE
SINCE 1894

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 And 2016

And

Single Audit Reports and Schedule

Year Ended June 30, 2017

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2017 AND 2016

AND
SINGLE AUDIT REPORTS AND SCHEDULE

YEAR ENDED JUNE 30, 2017

<u>Table of Contents</u>	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Consolidated Notes	8-18
Single Audit:	
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditure of Federal Awards	20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance	22-23
Schedule of Findings and Questioned Costs	24
Summary Schedule of Prior Audit Findings	25

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lenox Hill Neighborhood House, Inc. and Affiliates (collectively, the "Organization") which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lenox Hill Neighborhood House, Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards ("SEFA") for the year ended June 30, 2017 (shown on page 19), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



New York, NY

November 27, 2017, except for the SEFA as to which the date is January 16, 2018

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT JUNE 30, 2016 AND 2017**

	2016	2017
ASSETS		
Cash and equivalents (Notes 2 and 15)	\$ 1,028,381	\$ 886,645
Accounts receivable, net (Notes 2, 3 and 12)	1,775,464	2,296,563
Pledges receivable (Notes 2 and 4)	108,500	333,500
Prepayments and other assets	277,283	240,765
Investments (Notes 2 and 5)	20,229,284	21,450,168
Restricted deposits and funded reserves (Note 6)	754,769	561,639
Property and equipment, net (Notes 2 and 7)	8,548,135	8,562,049
TOTAL ASSETS	\$ 32,721,816	\$ 34,331,329
LIABILITIES		
Accounts payable and accrued expenses	\$ 665,279	\$ 581,584
Accrued salaries and others	604,896	450,111
Long-term debt (Note 8)	2,989,399	2,989,399
Tenant security deposits	10,758	9,638
Government and other advances	413,765	439,822
Total	4,684,097	4,470,554
COMMITMENTS AND CONTINGENCIES (Note 14)		
NET ASSETS		
Unrestricted		
Property and equipment	6,313,505	6,134,289
Operations	748,192	1,382,250
Unrestricted endowment (Note 5)	15,705,030	16,222,772
Total unrestricted	22,766,727	23,739,311
Temporarily restricted (Note 13)	746,738	894,068
Restricted endowment (Note 5)	4,524,254	5,227,396
TOTAL NET ASSETS	28,037,719	29,860,775
TOTAL LIABILITIES AND NET ASSETS	\$ 32,721,816	\$ 34,331,329

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2017

	2016			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue								
Government agencies (Note 2)	\$ 11,911,551	\$ -	\$ -	\$ 11,911,551	\$ 11,936,371	\$ -	\$ -	\$ 11,936,371
Special events	1,303,801	-	-	1,303,801	1,242,538	-	-	1,242,538
Associated expenses	(261,892)	-	-	(261,892)	(371,115)	-	-	(371,115)
Special events, net	1,041,909	-	-	1,041,909	871,423	-	-	871,423
Contributions (Notes 2 and 11)	952,631	1,665,781	-	2,618,412	956,868	2,076,617	-	3,033,485
Rental income	542,937	-	-	542,937	556,418	-	-	556,418
Net assets released from restrictions (Note 13)	2,145,756	(2,145,756)	-	-	1,939,287	(1,939,287)	-	-
Subtotal	4,683,233	(479,975)	-	4,203,258	4,323,996	137,330	-	4,461,326
Dues and fees	1,052,028	-	-	1,052,028	1,062,111	-	-	1,062,111
Interest	8,267	-	-	8,267	9,593	-	-	9,593
Subtotal	1,060,295	-	-	1,060,295	1,071,704	-	-	1,071,704
Total Operating Revenues	17,655,079	(479,975)	-	17,175,104	17,332,071	137,330	-	17,469,401
Operating Expenses								
Program services	14,725,495	-	-	14,725,495	14,937,232	-	-	14,937,232
Management and general	1,945,036	-	-	1,945,036	2,104,682	-	-	2,104,682
Fund raising	343,340	-	-	343,340	435,315	-	-	435,315
Total Operating Expenses	17,013,871	-	-	17,013,871	17,477,229	-	-	17,477,229
Operating Income (Loss)	641,208	(479,975)	-	161,233	(145,158)	137,330	-	(7,828)
Non-Operating								
Gifts to endowment (Notes 2 and 11)	-	-	132,600	132,600	-	-	381,100	381,100
Bequests (Notes 2 and 11)	565,000	-	-	565,000	-	-	-	-
Capital gifts (Note 11)	-	-	-	-	-	10,000	-	10,000
Investment income/(loss) (Note 5)	(794,458)	-	(229,544)	(1,024,002)	1,117,742	-	322,042	1,439,784
Total Non-Operating Income (Loss)	(229,458)	-	(96,944)	(326,402)	1,117,742	10,000	703,142	1,830,884
Changes in Net Assets	411,750	(479,975)	(96,944)	(165,169)	972,584	147,330	703,142	1,823,056
Net Assets - Beginning of Year	22,354,977	1,226,713	4,621,198	28,202,888	22,766,727	746,738	4,524,254	28,037,719
Net Assets - End of Year	\$ 22,766,727	\$ 746,738	\$ 4,524,254	\$ 28,037,719	\$ 23,739,311	\$ 894,068	\$ 5,227,396	\$ 29,860,775

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services							Supporting Services		Total 2016	
	Children and Families	Older Adults	Adult Education	Homeless and Housing	Legal Advocacy	Visual and Performing Arts	Fitness and Aquatics	Total	Management and General		Fund Raising
Personnel	\$ 2,456,773	\$ 2,510,514	\$ 122,661	\$ 2,337,910	\$ 1,216,906	\$ 449,996	\$ 302,731	\$ 9,397,491	\$ 1,189,652	\$ 296,072	\$ 10,883,215
Fees for services	60,726	564,013	882	396,437	16,662	16,082	5,720	1,060,522	140,938	4,214	1,205,674
Value of pro-bono legal services (Note 2)	-	154,238	-	65,402	-	-	-	219,640	109,867	-	329,507
Insurance	46,773	30,316	2,497	71,307	22,417	10,949	14,630	198,889	35,085	4,744	238,718
Occupancy	166,676	703,100	8,472	733,842	35,479	45,362	161,350	1,854,281	130,263	9,008	1,993,552
Information and communication technology	37,381	100,162	3,591	84,735	90,472	7,293	10,309	333,943	65,057	13,260	412,260
Supplies	31,082	12,392	1,494	48,943	25,611	6,678	3,145	129,345	11,148	892	141,385
Food	135,128	396,367	-	211,314	-	1,187	-	743,996	473	-	744,469
Transportation	23,307	14,558	3	11,311	625	17	34	49,855	3,705	143	53,703
Professional development	30,106	24,448	4	11,162	7,288	424	1,166	74,598	14,587	2,697	91,882
Bad debt	-	-	-	1,379	-	46	-	1,425	-	-	1,425
Depreciation	181,043	33,067	10,893	82,260	39,186	57,620	117,154	521,223	166,485	11,581	699,289
Loss on write off of property and equipment	6,018	1,099	362	236	1,303	1,915	3,895	14,828	5,535	384	20,747
Interest Expense	-	-	-	20,010	-	-	-	20,010	-	-	20,010
Miscellaneous	8,227	13,229	3	10,645	63,040	4,677	5,628	105,449	72,241	345	178,035
TOTAL EXPENSES	\$ 3,183,240	\$ 4,557,503	\$ 150,862	\$ 4,086,893	\$ 1,518,989	\$ 602,246	\$ 625,762	\$ 14,725,495	\$ 1,945,036	\$ 343,340	\$ 17,013,871

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017 (With Comparative Totals for 2016)

	Program Services								Supporting Services		Total 2017	Year Ended June 30, 2016	
	Children and Families	Older Adults	Adult Education	Homeless and Housing	Legal Advocacy	Visual and Performing Arts	Fitness and Aquatics	Health and Wellness	Total	Management and General			Fund Raising
Personnel	\$ 2,401,291	\$ 2,664,622	\$ 105,955	\$ 2,367,423	\$ 1,439,050	\$ 465,859	\$ 338,089	\$ 302,605	\$ 10,084,894	\$ 1,219,459	\$ 370,926	\$ 11,675,279	\$ 10,883,215
Fees for services	45,128	595,688	1,415	297,352	68,492	20,021	5,602	2,654	1,036,352	136,023	5,671	1,178,046	1,205,674
Value of pro-bono legal services (Note 2)	-	-	-	-	-	-	-	-	-	216,818	-	216,818	329,507
Insurance	41,485	29,153	1,940	66,662	25,414	9,623	15,013	3,526	192,816	26,831	4,921	224,568	238,718
Occupancy	154,660	167,102	6,879	748,763	38,189	42,130	133,735	4,881	1,296,339	108,699	8,723	1,413,761	1,993,552
Information and communication technology	61,098	113,814	7,735	95,860	82,292	13,050	14,643	37,400	425,892	104,483	21,811	552,186	412,260
Supplies	37,091	10,519	1,206	41,105	4,783	8,923	5,173	935	109,735	8,801	717	119,253	141,385
Food	180,400	340,677	1	233,000	184	970	10	87	755,329	11	1	755,341	744,469
Transportation	71,840	16,581	2	9,595	2,256	13	31	2	100,320	1,363	450	102,133	53,703
Professional development	32,449	24,244	330	11,232	11,460	2,080	1,502	21	83,318	16,055	5,523	104,896	91,882
Bad debt	-	10	-	1,268	-	-	-	-	1,278	2,713	-	3,991	1,425
Depreciation	208,280	44,032	9,991	89,587	55,465	60,992	150,515	7,090	625,952	156,952	12,669	795,573	699,289
Loss on write off of property and equipment	10,556	2,232	506	412	2,811	3,091	7,628	359	27,595	7,954	642	36,191	20,747
Interest Expense	-	-	-	20,010	-	-	-	-	20,010	-	-	20,010	20,010
Micellaneous	10,352	23,949	71	13,212	120,018	4,076	5,724	-	177,402	98,520	3,261	279,183	178,035
TOTAL EXPENSES	\$ 3,254,630	\$ 4,032,623	\$ 136,031	\$ 3,995,481	\$ 1,850,414	\$ 630,828	\$ 677,665	\$ 359,560	\$ 14,937,232	\$ 2,104,682	\$ 435,315	\$ 17,477,229	\$ 17,013,871

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2017**

	2016	2017
CASH FLOWS FROM OPERATIONS		
Change in net assets	\$ (165,169)	\$ 1,823,056
Adjustments to reconcile change in net assets to net cash provided by operations		
Depreciation	699,289	795,573
Loss on write off of property and equipment	20,747	36,191
Bad debt	1,425	3,991
Realized gain on the sale of investments	(227,201)	(279,667)
Unrealized loss (gain) on investments	1,485,472	(943,361)
Contributions for capital expenditures	-	(10,000)
Contributions for endowment	(697,600)	(381,100)
Transfer from endowment to operations	600,000	600,000
Sub-total	1,716,963	1,644,683
Changes in operating assets and liabilities		
Decrease or (increase) in assets		
Accounts receivable	(470,744)	(525,090)
Pledges receivable	257,000	(225,000)
Prepayments and other	(71,449)	36,518
Restricted deposits and funded reserves	(20,141)	193,130
Increase or (decrease) in liabilities		
Accounts payable and accrued expenses	168,454	(83,696)
Accrued salaries and others	(140,357)	(154,785)
Tenant security deposits	(231)	(1,120)
Government and other advances	99,211	26,058
Net Cash Provided by Operations	1,538,706	910,698
CASH FLOWS FROM INVESTING		
Purchase of property and equipment	(1,602,735)	(845,678)
Purchase of investments	(7,421,482)	(11,532,129)
Sale of investments	7,089,613	11,534,273
Net Cash Used in Investing	(1,934,604)	(843,534)
CASH FLOWS FROM FINANCING		
Capital gifts	-	10,000
Bequests	565,000	-
Restricted endowment gifts	132,600	381,100
Transfer from endowment to operations	(600,000)	(600,000)
Net Cash Provided by (Used in) Financing	97,600	(208,900)
NET DECREASE IN CASH AND EQUIVALENTS	(298,298)	(141,736)
Cash and equivalents - beginning of the year	1,326,679	1,028,381
CASH AND EQUIVALENTS - END OF YEAR	\$ 1,028,381	\$ 886,645

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Lenox Hill Neighborhood House, Inc. (the "Neighborhood House" or "Organization") is a 123-year-old community service organization located in New York City. Each year, the Organization provides assistance to more than 15,000 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 a 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. 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 oversees a special purpose not-for-profit corporation, 159-61 East 102nd Street Housing Development Fund Corporation (the "HDFC"). The HDFC owns the stock of Casa Mutua, Inc., a New York corporation that serves as General Partner of Casa Mutua Limited Partnership (the "Partnership"). The HDFC is also the sole Limited Partner of the Partnership, making the HDFC the sole owner of 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 live with mental illness. Because the Neighborhood House controls the HDFC and therefore the Partnership, financial statements of the HDFC and Partnership must be consolidated with those of the Neighborhood House. See also Notes 6, 7 and 12.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lenox Hill Neighborhood House, Inc. and Affiliates 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"). Government Funds are recorded as revenue at the end of the month in which expenses to which they relate are incurred, except with regard to performance-based contracts. 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. Reimbursements from government agencies for prior years are occasionally adjusted in subsequent years due to audit adjustments or the receipt of additional monies in excess of contract amounts. Gifts are recorded as revenue when they are reported to the Organization and their amounts become 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 statements of activities as Net Assets Released from Restrictions. Gifts to the endowment received with donor stipulations that do not expire are recorded in The Thomas J. Edelman Restricted Endowment Fund f/b/o Lenox Hill Neighborhood House (the "Restricted Endowment")(see Note 5). All investment earnings on the Restricted Endowment are permanently restricted. Non-operating revenue consists of gifts to endowment,

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 consolidated financial statements.

During the years ended June 30, 2016 and 2017, contributed professional services of \$329,507 and \$216,818, respectively, 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.

Accounts and Pledges Receivable

Allowances for doubtful accounts are provided on accounts and pledges receivable when management deems appropriate. These allowances are based on management's assessment of the collectability of these accounts. At June 30, 2016 and 2017, allowances totaling \$277 and \$2,992, respectively, were booked against accounts receivable. No allowances against pledges were 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 immaterial.

Cash and Equivalents

Cash and equivalents include highly liquid instruments having maturities of 3 months or less from the date acquired. Cash and equivalents in the Endowment (see Note 5) are treated as investments.

Statements of Cash Flows

For purposes of the statements of cash flows, the Organization considers income designated by the Board as unrestricted endowment as a cash flow provided by financing activities. This includes the general allocation of funds from the operating accounts to the unrestricted endowment.

Investments and Investment Income

The Organization reflects investments at fair value in the accompanying statements of financial position. Interest, dividends and gains and losses on investments are reflected in the statements of activities as increases or decreases in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income and gains restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income are recorded on the accrual basis.

Fair Value Measurements

Investments are reported at fair value. 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 order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of more than one year, is capitalized and depreciated over its estimated useful life utilizing the straight-line method if it relates to equipment or betterments in Property owned by the Organization. Betterments with a cost of \$5,000 or more, and a useful life of more than one year, are capitalized and depreciated over the lesser of their estimated useful life or the lease term if they are located in Property leased by the Organization for a term of more than one year. Betterments in Property used by the Organization either without a lease or pursuant to a lease with a term of one year or less will be expensed. When assets are retired or disposed of, their costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations. Repairs and Maintenance are charged to operations as incurred.

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 is unaware of any uncertain tax positions as of June 30, 2017 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.

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 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.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	At June 30,	
	2016	2017
Due from government agencies	\$ 1,748,924	\$ 2,277,328
Due from tenants	4,417	4,747
Other	<u>22,400</u>	<u>17,480</u>
Subtotal	1,775,741	2,299,555
Less: Allowance for doubtful accounts	<u>(277)</u>	<u>(2,992)</u>
Total	<u>\$ 1,775,464</u>	<u>\$ 2,296,563</u>

As of November 27, 2017, all but \$85,759 of fiscal 2017 accounts receivable had been collected.

NOTE 4 - PLEDGES RECEIVABLE

Pledges outstanding were as follows:

	At June 30,	
	2016	2017
Due in less than a year	\$ 108,500	\$ 227,500
Due in more than one year	-	106,000
Total	<u>\$ 108,500</u>	<u>\$ 333,500</u>

As of November 27, 2017, all but \$279,000 of fiscal 2017 pledges receivable had been collected.

NOTE 5 - ENDOWMENT

The Neighborhood House has established 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) funds covered by permanent donor restrictions (the "Restricted Endowment"). In combination, these funds are referred to as the Endowment.

At June 30, 2016, the Unrestricted Endowment totaled \$15,705,030 and the Restricted Endowment totaled \$4,524,254, or \$20,229,284 in total. At June 30, 2017, the Unrestricted Endowment totaled \$16,222,772 and the Restricted Endowment totaled \$5,227,396, or \$21,450,168 in total.

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, to achieve long-term growth and to comply with the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Neighborhood House focuses on total return (capital gains or losses plus interest and dividends).

Changes In Endowment In Fiscal 2016

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Beginning of year	\$ 16,534,488	\$ 4,621,198	\$ 21,155,686
Contributions	565,000	132,600	697,600
Transfer from endowment to operations	(600,000)	-	(600,000)
Investment activity			
Interest and dividends	292,108	79,793	371,901
Realized gain/(loss)	229,345	(2,144)	227,201
Unrealized gain/(loss)	(1,208,885)	(276,587)	(1,485,472)
Management fees	<u>(107,026)</u>	<u>(30,606)</u>	<u>(137,632)</u>
Sub-total investment activity	<u>(794,458)</u>	<u>(229,544)</u>	<u>(1,024,002)</u>
Total Changes	<u>(829,458)</u>	<u>(96,944)</u>	<u>(926,402)</u>
End of year	<u>\$ 15,705,030</u>	<u>\$ 4,524,254</u>	<u>\$ 20,229,284</u>

NOTE 5 - ENDOWMENT (Continued)

Changes In Endowment In Fiscal 2017

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Beginning of year	\$ 15,705,030	\$ 4,524,254	\$ 20,229,284
Contributions	-	381,100	381,100
Transfer from endowment to operations	(600,000)	-	(600,000)
Investment activity			
Interest and dividends	271,837	79,146	350,983
Realized gain/(loss)	247,535	32,132	279,667
Unrealized gain/(loss)	701,767	242,194	943,961
Management fees	<u>(103,397)</u>	<u>(31,430)</u>	<u>(134,827)</u>
Sub-total investment activity	<u>1,117,742</u>	<u>322,042</u>	<u>1,439,784</u>
Total Changes	<u>517,742</u>	<u>703,142</u>	<u>1,220,884</u>
End of year	<u>\$ 16,222,772</u>	<u>\$ 5,227,396</u>	<u>\$ 21,450,168</u>

Endowment assets consist of investments which are carried at fair value. The value of investments, all of which were marketable, was \$24,143,106 as of November 24, 2017. The Neighborhood House's investments are managed, on a discretionary basis by Fiera Capital Inc. ("Fiera Capital"), an independent investment firm. The Endowment is segregated into two separate accounts: Restricted and Unrestricted. Investments consisted of the following at June 30, 2016 and 2017:

	<u>Unrestricted</u>		<u>Restricted</u>		<u>Total</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Cash and equivalents	\$ 308,420	\$ 956,867	\$ 71,815	\$ 315,212	\$ 380,235	\$ 1,272,079
Equities	9,889,766	13,743,391	2,831,762	4,430,882	12,721,528	18,174,273
Fixed income	<u>5,506,844</u>	<u>1,522,514</u>	<u>1,620,677</u>	<u>481,302</u>	<u>7,127,521</u>	<u>2,003,816</u>
Total	<u>\$ 15,705,030</u>	<u>\$ 16,222,772</u>	<u>\$ 4,524,254</u>	<u>\$ 5,227,396</u>	<u>\$ 20,229,284</u>	<u>\$ 21,450,168</u>

Investments are subject to market fluctuations that could substantially change their values. Restricted net assets at June 30, 2017 were \$5,227,396 and were included in investments.

	<u>Unrestricted</u>		<u>Restricted</u>		<u>Total</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Interest and dividends	\$ 292,108	\$ 271,837	\$ 79,793	\$ 79,146	\$ 371,901	\$ 350,983
Realized gain/(loss) on investments	229,345	247,535	(2,144)	32,132	227,201	279,667
Unrealized gain/(loss) on investments	<u>(1,208,885)</u>	<u>701,767</u>	<u>(276,587)</u>	<u>242,194</u>	<u>(1,485,472)</u>	<u>943,961</u>
	(687,432)	1,221,139	(198,938)	353,472	(886,370)	1,574,611
Less Management fees	<u>(107,026)</u>	<u>(103,397)</u>	<u>(30,606)</u>	<u>(31,430)</u>	<u>(137,632)</u>	<u>(134,827)</u>
	<u>(\$ 794,458)</u>	<u>\$ 1,117,742</u>	<u>(\$ 229,544)</u>	<u>\$ 322,042</u>	<u>(\$ 1,024,002)</u>	<u>\$ 1,439,784</u>

NOTE 5 - ENDOWMENT (Continued)

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 are traded.

Financial assets carried at fair value at June 30, 2016 and 2017 are classified as follows:

Level 1

	<u>Unrestricted</u>		<u>Restricted</u>		<u>Total</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Assets Carried at Fair Value						
Investments						
Equities (Common Stocks)	\$ 9,889,766	\$ 13,743,390	\$ 2,831,762	\$ 4,430,882	\$ 12,721,528	\$ 18,174,272
Government obligations	1,399,047	198,750	325,990	89,437	1,725,037	288,187
Corporate bonds	<u>4,107,797</u>	<u>1,323,765</u>	<u>1,294,687</u>	<u>391,865</u>	<u>5,402,484</u>	<u>1,715,630</u>
Total	<u>\$ 15,396,610</u>	<u>\$ 15,265,905</u>	<u>\$ 4,452,439</u>	<u>\$ 4,912,184</u>	<u>\$ 19,849,049</u>	<u>\$ 20,178,089</u>

Financial assets, carried at fair value, in the Endowment at June 30, 2016 and 2017 do not include cash (\$370,028 and \$1,258,376, respectively) and interest receivable (\$10,207 and \$13,703, respectively).

NOTE 6 - RESTRICTED DEPOSITS AND FUNDED RESERVES

As a condition for the long-term debt obtained by the Partnership from the New York City Department of Housing Preservation and Development (“HPD”) to finance the acquisition and operation of the building at 159-61 East 102nd Street in Manhattan (the “Project”), the Partnership agreed to fund Project operating and replacement reserves to ensure the Project’s successful operations as low-income housing. On May 31, 2011, as agreed to by the Partnership and HPD, certain amounts of the restricted deposits for Project operating and replacement reserves were transferred from bank accounts of the Partnership to certain lockbox accounts in the name of NYC HDC. The balances of these accounts as of June 30, 2017 are \$548,306 (Project Operating Reserve) and \$13,333 (Project Replacement Reserve). As of June 30, 2016 and 2017, the Partnership is required to make specified annual contributions to the Project Replacement Reserve but not to the Project Operating Reserve. These balances are net of withdrawals from the Project Operating Reserve and the Project Replacement Reserve, authorized by HPD and transferred from NYC HDC, to finance capital improvements in the Project.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2016 and 2017:

	<u>2016</u>	<u>2017</u>	<u>Estimated Useful Lives</u>
Land	\$ 1,664,999	\$ 1,664,999	N/A
Buildings	1,899,481	1,899,481	25-50 years
Improvements	9,965,016	10,531,691	3-20 years
Furniture and equipment	<u>1,078,177</u>	<u>1,166,627</u>	5 years
Subtotal	14,607,673	15,262,798	
Less: Accumulated depreciation	<u>(6,059,538)</u>	<u>(6,700,749)</u>	
Total	<u>\$ 8,548,135</u>	<u>\$ 8,562,049</u>	

The Organization’s headquarters at 331 East 70th Street in Manhattan was built in 1928 and is fully depreciated. Over the past 14 years, the building has been entirely renovated and its principal systems and finishes restored or replaced. At January 2017, the market value of the land on which the building sits had an estimated market value of \$48.2 million (assumed vacant and available for development) based on an independent appraisal completed by KTR Real Estate Advisors (“KTR”). The building at 159-61 East 102nd Street in Manhattan that provides permanent supportive housing for 54 formerly homeless persons who live with mental illness (see Note 1) and the land on which it sits had an estimated fair market value of \$2.5 million as of January 2017 based on an independent appraisal completed by KTR.

NOTE 8 - LONG-TERM DEBT

At June 30, 2017, the Partnership was liable for two mortgages on the building at 159-61 East 102nd Street as follows:

- A New York City Department of Housing Preservation and Development (“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 accrued 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 0.25% per annum. Principal and all accrued interest is payable at maturity although HHAC’s position is that they do not “typically contemplate” repayment of these types of loans, contingent upon contract compliance throughout the term. Rather, they generally “discharge the notes and mortgages rather than collect any repayment” and issue a formal release/satisfaction at the end of the term.

NOTE 9 - LINE OF CREDIT

The Organization obtained a \$1,000,000 commercial line of credit with a major bank in January 2017. This line is collateralized by all of the Organization’s business assets. There were no drawings on the line of credit during the year ended June 30, 2017. Drawings were subject to interest at a rate of LIBOR Rate plus 3.229%. The line of credit expires on March 6, 2018 with an option to renew.

NOTE 10 - PENSION PLANS

Union Plans

The Neighborhood House is a party to two collective bargaining agreements with unions representing Neighborhood House staff: (a) 1199SEIU National Healthcare Workers East (“1199”); and (b) Local 95 of DC 1707 AFSCME, AFL-CIO (“Local 95”). The Neighborhood House has pension obligations on behalf of employees in each union as required by the respective collective bargaining agreements. The agreement with 1199 expired on September 30, 2017; management expects to renew this agreement during fiscal year 2018 and the terms and conditions of the current agreement continue in effect until renewal. The agreement with Local 95 will expire on January 31, 2019. The Neighborhood House does not administer either of these multiemployer pension plans which are subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”) and the Pension Protection Act of 2006 (“PPA”), among other laws and regulations.

For the years ended June 30, 2016 and 2017, the Neighborhood House contributed an average of 10.71% and 10.76% of salary, respectively, for 1199 employees and 10.89% and 10.89%, respectively, for Local 95 employees. Pension expenses for employees covered by these two collective bargaining agreements for the years ended June 30, 2016 and 2017 totaling \$263,167 and \$299,797, respectively, are included in personnel expense in the consolidated statements of functional expenses.

The risks of participating in multiemployer pension plans are different from sponsoring single-employer plans in that assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers. In addition, if a participating employer stops participating in a multiemployer plan, the former participating employer may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

NOTE 10 - PENSION PLANS (Continued)

The PPA contains certain provisions to address funding problems encountered by many multiemployer plans and established different categories, or “zones”, of plans: (1) “Green Zone” for healthy; (2) “Yellow Zone” for endangered; and (3) “Red Zone” for critical. These categories are based generally upon the funding ratios of plan assets to plan liabilities. In general, Green Zone plans have a funding ratio greater than 80%, Yellow Zone plans have a funding ratio between 65 and 80%, and Red Zone plans are less than 65% funded. The Zone Status for the Plans is based on information obtained from the Form 5500 Annual Report filed by the Plans and certified by the Plans’ actuaries.

Based on Local 1199 Plan’s annual report on Form 5500, the Local 1199 Plan was 87.5% and 83.7% funded for its plan years beginning January 1, 2015 and January 1, 2016, respectively. According to the audited financial statements of the Local 1199 Plan and the actuarial certification, the Local 1199 Plan was therefore not in an endangered or critical status under the PPA for the Plan Year beginning January 1, 2016.

Pension Plan	Employer Identification Number	Pension Plan Number	Beginning of Plan Year	PPA Zone Status As of Beginning of Plan Year 2016	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Local 1199 Plan	13-3604862	001	January 1, 2016	Green	N/A	N/A	September 30, 2017

Pension Plan	Employer Identification Number	Pension Plan Number	Beginning of Plan Year	PPA Zone Status As of Beginning of Plan Year 2015	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Local 1199 Plan	13-3604862	001	January 1, 2015	Green	N/A	N/A	September 30, 2017

Defined Contribution Plans

The Neighborhood House has a defined contribution 403(b) thrift plan covering eligible non-union employees. Contributions to the 403(b) plan for the years ended June 30, 2016 and 2017 amounted to \$105,640 and \$123,158, respectively. The Neighborhood House made additional contributions for certain key employees to the 403(b) plan, which are not recoverable by the Organization, and to a 457(b) plan. For fiscal 2016 and 2017, these additional contributions, excluding applicable fringe benefit costs, totaled \$76,928 and \$79,221 and are paid in subsequent fiscal years. All of these contributions are included in personnel expense on the consolidated statements of functional expenses.

NOTE 11 - CONTRIBUTIONS AND SPECIAL EVENTS

Contributions consisted of the following:

	At June 30,	
	2016	2017
<u>Operating</u>		
Foundations	\$ 1,585,844	\$ 1,805,175
Individuals and others	703,061	1,011,492
Contributed services	<u>329,507</u>	<u>216,818</u>
Sub-total	<u>2,618,412</u>	<u>3,033,485</u>
<u>Non-operating</u>		
Restricted endowment gifts	132,600	381,100
Bequests	565,000	-
Capital gifts	-	<u>10,000</u>
Sub-total	<u>697,600</u>	<u>391,100</u>
Total	<u>\$ 3,316,012</u>	<u>\$ 3,424,585</u>

Special event income consisted of the following:

	At June 30,	
	2016	2017
Special events	\$ 1,303,801	\$ 1,242,538
Associated direct expenses	<u>(261,892)</u>	<u>(371,115)</u>
Special events, net	<u>\$ 1,041,909</u>	<u>\$ 871,423</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

As described in Note 1, the Neighborhood House controls the Partnership, which in turn owns and operates a building at 159-61 East 102nd Street in Manhattan which serves as a permanent supportive housing residence for 54 formerly homeless persons living with mental illness. The Partnership manages the building under a management agreement which expires on December 31, 2017, but which automatically renews for one-year terms unless earlier terminated under certain conditions. For the years ended June 30, 2016 and 2017, the Partnership paid \$12,567 and \$13,071, respectively, to the Neighborhood House for partnership management and \$46,314 and \$47,973, respectively, for property management. At June 30, 2016, the Partnership owed the Neighborhood House \$23,075, which was paid in September 2016. At June 30, 2017, the Partnership owed the Neighborhood House \$29,800, which was paid in July 2017. These intercompany transactions have been eliminated in the consolidated financial statements.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets in the consolidated statements of financial position are comprised of assets that are subject to donor restrictions by time or purpose. At June 30, 2016 and 2017, there were net assets of \$746,738 and \$894,068, respectively, temporarily restricted for use by specific programs. Net assets of \$2,145,756 and \$1,939,287, respectively, were released from donor restrictions during the years ended June 30, 2016 and 2017.

NOTE 14 - 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. At June 30, 2016 and 2017, the accompanying consolidated financial statements included allowances in the amount of \$277 and \$2,992, respectively, against all accounts receivable.

The Neighborhood House leases space and pays for maintenance services for the Lenox Hill Neighborhood House Senior Center at Saint Peter's Church pursuant to an Amended and Restated License Agreement dated as of September 1, 2015 ("License Agreement"), as amended pursuant to an Addendum to the License Agreement dated as of May 9, 2017 ("Addendum"). The Neighborhood House pays Saint Peter's Church a total of \$60,500 annually for all services under the License Agreement and the Addendum and is obligated in the amount of \$60,500 annually for each year until termination. The License Agreement terminates on August 31, 2018, unless sooner terminated, and automatically renews for additional three-year terms through August 2027, each of which may be sooner terminated.

The agreement to use and occupy space at Saint Peter's Church terminates immediately if any one of the following events takes place: (1) in the event that the space or an essential part of the space is totally destroyed by fire or other casualty; (2) 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; (3) written notice is given by either the Neighborhood House or Saint Peter's Church to the other party at least 30 days prior to the current term or any renewal term that the notifying party does not wish to renew the agreement; or (4) funding from the City of New York to operate the Senior Center ceases.

The Neighborhood House has a collective bargaining agreement with 1199 and is a party to a multiemployer collective bargaining agreement with Local 95.

NOTE 15 - CONCENTRATIONS

The only financial instruments that potentially subject the Neighborhood House or the Partnership to a concentration of credit risk are amounts on deposit at Chase that are in excess of FDIC insurance limits. The excess amounts did not exceed approximately \$2,959,000 and \$1,658,000 during 2016 and 2017, respectively for the Neighborhood House, and \$55,000 and \$47,000, during 2016 and 2017, respectively, for the Partnership. 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 Fiera Capital. Investment securities are held in a custody account at BNY Mellon Wealth Management. At June 30, 2016, the Neighborhood House had \$15,705,030 in the Unrestricted Endowment and \$4,524,254 in the Restricted Endowment or a total Endowment of \$20,229,284. At June 30, 2017, the Neighborhood House had \$16,222,772 in the Unrestricted Endowment and \$5,227,396 in the Restricted Endowment or a total Endowment of \$21,450,168.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through November 27, 2017, the date the consolidated financial statements were available to be issued.

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Provided to Sub-recipients
U.S. Department of Health and Human Services				
Head Start	93.600		\$ 1,096,058	\$ -
Head Start	93.600		<u>745,903</u>	
Total 93.600			<u>1,841,961</u>	
Passed-through from the New York City Department for the Aging				
Aging Cluster				
Special Program for the Aging_Title III, Part B Grants for Supportive Services and Senior Centers - Center @ Lenox Hill Neighborhood House	93.044	20160001141	30,478	
Special Program for the Aging_Title III, Part B Grants for Supportive Services and Senior Centers - Senior Center at Saint Peter's Church	93.044	20170000634	19,626	
Special Program for the Aging_Title III, Part B Grants for Supportive Services and Senior Centers - Transportation Program	93.044	20170000482	19,072	
Special Program for the Aging_Title III, Part C_Nutrition Services - Center @ Lenox Hill Neighborhood House	93.045	20160001141	55,314	
Special Program for the Aging_Title III, Part C_Nutrition Services - Senior Center at Saint Peter's Church	93.045	20170000634	31,811	
Nutrition Service Incentive Program - Center @ Lenox Hill Neighborhood House	93.053	20160001141	88,779	
Nutrition Service Incentive Program - Senior Center at Saint Peter's Church	93.053	20170000634	<u>13,716</u>	
Total Aging Cluster			<u>258,796</u>	
Social Services Block Grant - Center @ Lenox Hill Neighborhood House	93.667	20160001141	73,958	
Social Services Block Grant - Senior Center at Saint Peter's Church	93.667	20170000634	62,222	
Social Services Block Grant - Transportation Program	93.667	20170000482	<u>37,102</u>	
Total 93.667			<u>173,282</u>	
Passed-through from the New York City Department of Homeless Services				
Homeless Services Homelessness Prevention Law Project				
TANF Cluster				
Temporary Assistance for Needy Families	93.558	HPLP 7/1/16 - 6/30/17	<u>96,762</u>	
Total 93.558			<u>96,762</u>	
Passed-through from the New York City Department of Health and Mental Hygiene				
Fund for Public Health in New York				
Partnership to Improve Community Health	93.331	82324	<u>27,000</u>	
Total U.S. Department of Health and Human Services			<u>2,397,801</u>	
U.S. Department of Housing and Urban Development				
Supportive Housing Program - East Side Homeless Network	14.235		172,608	54,705
Passed-through from the New York City Department of Homeless Services				
Emergency Shelter Grants Program - Women's Shelter at the Park Avenue Army	14.231	2014-0000661	275,717	
Passed-through from the New York State Office of Temporary and Disability Assistance				
Emergency Solutions Grant - Solutions to End Homelessness Program	14.231	C021828	113,743	
Emergency Solutions Grant - Solutions to End Homelessness Program	14.231	C021828	<u>40,657</u>	
Total 14.231			<u>430,117</u>	
Total U.S. Department of Housing and Urban Development			<u>602,725</u>	
U.S. Department of Agriculture				
Passed-through from the New York State Department of Health				
Child and Adult Care Food Care Program (CACFP) - Headstart and Child Care Program	10.558	3028	185,170	
Passed-through from the New York State Department of Health/ Hunger Solutions New York, Inc.				
SNAP Cluster				
Nutrition Outreach and Education Program	10.561	NOEP 2016-2017	<u>34,125</u>	
Total U.S. Department of Agriculture			<u>219,295</u>	
U.S. Department of Homeland Security				
Passed-through from United Way of New York				
Emergency Food and Shelter Program	97.024	LRO 6314-00-335	<u>18,371</u>	
			<u>18,371</u>	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,238,192</u>	<u>\$ 54,705</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards.

**LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Lenox Hill Neighborhood House, Inc., and Affiliates (the “Agency”) for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of 2 C.F.R. Chapter 1, Chapter 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended, nor does it present, the financial position, changes in net assets or cash flows of the Agency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. The Agency has elected not to use the 10 percent de minimis indirect cost rate as covered in the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements Lenox Hill Neighborhood House, Inc. and Affiliates (collectively, the "Organization") which comprise the consolidated statements of financial position as of June 30, 2016 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Marks Paneth LLP

New York, NY
November 27, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Lenox Hill Neighborhood House, Inc. (collectively, "Lenox Hill") compliance with the types of compliance requirements described in the *Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on Lenox Hill's major federal program for the year ended June 30, 2017. Lenox Hill's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lenox Hill's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lenox Hill's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Lenox Hill complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Marks Paneth LLP

New York, NY
January 16, 2018

**LENOX HILL NEIGHBORHOOD HOUSE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section I—Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weaknesses identified?	_____ Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	_____ Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported

Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>	
---	-------------------	--

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	<u> X </u> No
--	-----------	-----------------

Identification of major program:

U.S. Department of Health and Human Services:
 Head Start (CFDA 93.600)

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$750,000 </u>
--	----------------------

Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
--	------------------	----------

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

**LENOX HILL NEIGHBORHOOD HOUSE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Prior Year Findings:

There were no findings in the prior year.