



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, 2018 and 2019

and

**Single Audit Reports and Schedule
Required by Office of Management and Budget
Uniform Guidance**

Year Ended June 30, 2019

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, 2018 AND 2019

**AND
SINGLE AUDIT REPORTS AND SCHEDULE
REQUIRED BY OFFICE OF MANAGEMENT AND BUDGET
UNIFORM GUIDANCE**

YEAR ENDED JUNE 30, 2019

<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
Notes to Consolidated Financial Statements.....	8-20
Single Audit:	
Schedule of Expenditures of Federal Awards	21
Notes to the Schedule of Expenditures of Federal Awards	22
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>	23
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	24-25
Schedule of Findings and Questioned Costs	26
Summary Schedule of Prior Audit Findings	27

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated 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, 2018 and 2019, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lenox Hill Neighborhood House, Inc. and Affiliates as of June 30, 2018 and 2019, 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, 2019, 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 audits 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 20, 2019, 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 20, 2019

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT JUNE 30, 2018 AND 2019**

	2018	2019
ASSETS		
Cash and equivalents (Notes 2 and 15)	\$ 1,193,198	\$ 1,495,379
Accounts receivable, net (Notes 2, 4 and 13)	2,202,200	1,519,710
Pledges receivable (Notes 2 and 5)	611,085	389,733
Prepayments and other assets	223,325	181,913
Investments (Notes 2 and 6)	24,671,778	24,432,220
Restricted deposits and funded reserves (Note 7)	585,032	609,540
Property and equipment, net (Notes 2 and 8)	9,454,927	10,622,528
TOTAL ASSETS	\$ 38,941,545	\$ 39,251,023
LIABILITIES		
Accounts payable and accrued expenses	\$ 674,218	\$ 609,496
Accrued salaries and others	457,619	464,209
Long-term debt (Note 9)	2,989,399	2,989,399
Tenant security deposits	9,406	9,173
Government and other advances	475,709	447,851
TOTAL LIABILITIES	4,606,351	4,520,128
COMMITMENTS AND CONTINGENCIES (Note 14)		
NET ASSETS		
Without Donor Restrictions		
Undesignated	1,501,378	1,478,081
Designated by the Board for endowment (Note 6)	18,285,195	17,510,546
Property and equipment	7,050,560	8,242,669
Without Donor Restrictions - Total	26,837,133	27,231,296
With Donor Restrictions		
Perpetual in nature (Note 6)	6,386,583	6,921,675
Purpose restrictions (Note 2)	843,478	560,924
Time-restricted only for future periods (Note 2)	268,000	17,000
With Donor Restrictions - Total	7,498,061	7,499,599
TOTAL NET ASSETS	34,335,194	34,730,895
TOTAL LIABILITIES AND NET ASSETS	\$ 38,941,545	\$ 39,251,023

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, 2018 AND 2019

	2018			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue						
Government agencies (Note 2)	\$ 13,197,918	\$ -	\$ 13,197,918	\$ 12,693,822	\$ -	\$ 12,693,822
Special events	1,092,340	-	1,092,340	1,080,351	-	1,080,351
Associated expenses	(330,017)	-	(330,017)	(327,026)	-	(327,026)
Special events, net	762,323	-	762,323	753,325	-	753,325
Contributions (Notes 2 and 12)	1,081,053	2,206,394	3,287,447	1,060,356	1,642,371	2,702,727
Rental income	581,215	-	581,215	572,722	-	572,722
Net assets released from restrictions (Note 2)	2,173,984	(2,173,984)	-	2,435,925	(2,435,925)	-
Subtotal	4,598,575	32,410	4,630,985	4,822,328	(793,554)	4,028,774
Dues and fees	971,254	-	971,254	1,047,002	-	1,047,002
Interest	10,881	-	10,881	12,151	-	12,151
Subtotal	982,135	-	982,135	1,059,153	-	1,059,153
Total Operating Revenue	18,778,628	32,410	18,811,038	18,575,303	(793,554)	17,781,749
Operating Expenses						
Program services	16,131,711	-	16,131,711	16,463,093	-	16,463,093
Management and general	2,168,394	-	2,168,394	2,202,502	-	2,202,502
Fundraising	447,131	-	447,131	483,397	-	483,397
Total Operating Expenses	18,747,236	-	18,747,236	19,148,992	-	19,148,992
Operating Income (Loss)	31,392	32,410	63,802	(573,689)	(793,554)	(1,367,243)
Non-Operating Income						
Gifts to endowment (Notes 2 and 12)	-	119,750	119,750	15,000	125,090	140,090
Bequests (Notes 2 and 12)	500	-	500	-	-	-
Capital gifts (Note 12)	-	185,000	185,000	-	260,000	260,000
Investment income (Note 6)	3,190,748	1,039,437	4,230,185	1,081,525	410,002	1,491,527
Loss on disposal of property and equipment	(124,818)	-	(124,818)	(128,673)	-	(128,673)
Total Non-Operating Income	3,066,430	1,344,187	4,410,617	967,852	795,092	1,762,944
Changes in Net Assets	3,097,822	1,376,597	4,474,419	394,163	1,538	395,701
Net Assets - Beginning of Year	23,739,311	6,121,464	29,860,775	26,837,133	7,498,061	34,335,194
Net Assets - End of Year	\$ 26,837,133	\$ 7,498,061	\$ 34,335,194	\$ 27,231,296	\$ 7,499,599	\$ 34,730,895

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, 2018

	Program Services								Supporting Services		Total 2018	
	Early Childhood Center	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	\$ 2,417,912	\$ 2,625,066	\$ 126,777	\$ 2,312,297	\$ 1,790,257	\$ 511,853	\$ 294,981	\$ 533,393	\$ 10,612,536	\$ 1,308,064	\$ 379,847	\$ 12,300,447
Fees for services	38,627	581,713	1,285	286,159	27,320	17,811	5,271	2,682	960,868	138,740	97,726	1,197,334
Value of pro-bono legal services (Note 2)	-	-	-	84,459	90,167	-	-	-	174,626	188,758	-	363,384
Insurance	36,953	25,269	1,860	62,170	27,394	8,769	13,204	4,725	180,344	26,871	4,464	211,679
Occupancy	180,644	181,537	7,946	1,149,464	47,169	46,183	157,269	6,041	1,776,253	122,529	14,094	1,912,876
Information and communication technology	57,019	117,063	10,036	124,184	111,150	13,139	23,643	31,867	488,101	88,597	25,615	602,313
Supplies	32,965	10,584	994	38,643	4,644	8,744	1,712	2,919	101,205	10,411	10,815	122,431
Food	197,783	373,058	3	237,319	64	679	50	3,548	812,504	141	220,183	1,032,828
Transportation	57,084	15,828	4	10,828	2,733	20	53	2	86,552	1,094	1,144	88,790
Professional development	25,722	19,721	425	6,998	13,406	3,772	255	3,123	73,422	28,716	4,869	107,007
Bad debt	-	645	-	3,304	-	-	-	-	3,949	-	-	3,949
Depreciation	220,332	50,450	10,573	113,136	62,768	61,096	159,290	6,885	684,530	163,054	12,717	860,301
Interest expense	-	-	-	20,010	-	-	-	-	20,010	-	-	20,010
Miscellaneous	6,735	16,670	110	11,056	114,301	2,647	5,284	8	156,811	91,419	5,674	253,904
	<u>3,271,776</u>	<u>4,017,604</u>	<u>160,013</u>	<u>4,460,027</u>	<u>2,291,373</u>	<u>674,713</u>	<u>661,012</u>	<u>595,193</u>	<u>16,131,711</u>	<u>2,168,394</u>	<u>777,148</u>	<u>19,077,253</u>
Direct special event expenses	-	-	-	-	-	-	-	-	-	-	(330,017)	(330,017)
TOTAL EXPENSES	\$ 3,271,776	\$ 4,017,604	\$ 160,013	\$ 4,460,027	\$ 2,291,373	\$ 674,713	\$ 661,012	\$ 595,193	\$ 16,131,711	\$ 2,168,394	\$ 447,131	\$ 18,747,236

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, 2019 (With Comparative Totals for 2018)

	Program Services								Supporting Services			Total 2019	Total 2018
	Early Childhood Center	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	\$ 2,625,497	\$ 2,796,033	\$ 134,386	\$ 2,339,730	\$ 2,033,000	\$ 460,662	\$ 235,250	\$ 544,974	\$ 11,169,532	\$ 1,311,369	\$ 394,829	\$ 12,875,730	\$ 12,300,447
Fees for services	35,155	600,056	1,224	214,405	38,292	19,422	4,244	12,779	925,577	155,142	115,399	1,196,118	1,197,334
Value of pro-bono legal services (Note 2)	30,421	29,189	1,867	166,111	20,060	8,102	3,332	6,935	266,017	188,021	-	454,038	363,384
Insurance	38,583	25,934	1,775	65,902	29,173	8,375	13,478	5,694	188,914	27,051	4,278	220,243	211,679
Occupancy	171,625	152,301	7,282	823,707	40,951	42,435	141,967	6,293	1,386,561	116,328	12,613	1,515,502	1,912,876
Information and communication technology	52,806	115,716	5,076	117,248	134,392	17,053	12,316	55,896	510,503	72,039	24,292	606,834	602,313
Supplies	41,649	10,903	1,852	35,188	5,281	9,386	1,566	4,647	110,472	11,189	13,978	135,639	122,431
Food	192,623	433,248	168	237,597	406	104	63	475	864,684	1,395	226,252	1,092,331	1,032,828
Transportation	57,734	16,407	5	20,553	3,665	27	70	1,508	99,969	1,960	1,143	103,072	88,790
Professional development	6,072	18,059	-	14,959	5,105	1,300	1,196	6,595	53,286	23,847	1,610	78,743	107,007
Bad debt	-	-	-	3,429	-	-	-	-	3,429	-	-	3,429	3,949
Depreciation	222,095	50,749	10,636	164,108	58,041	61,459	159,906	8,991	735,985	168,001	11,714	915,700	860,301
Interest expense	-	-	-	20,150	-	-	-	-	20,150	-	-	20,150	20,010
Miscellaneous	9,396	15,623	134	11,087	79,065	6,642	4,573	1,494	128,014	126,160	4,315	258,489	253,904
	<u>3,483,656</u>	<u>4,264,218</u>	<u>164,405</u>	<u>4,234,174</u>	<u>2,447,431</u>	<u>634,967</u>	<u>577,961</u>	<u>656,281</u>	<u>16,463,093</u>	<u>2,202,502</u>	<u>810,423</u>	<u>19,476,018</u>	<u>19,077,253</u>
Direct special event expenses	-	-	-	-	-	-	-	-	-	-	(327,026)	(327,026)	(330,017)
TOTAL EXPENSES	\$ 3,483,656	\$ 4,264,218	\$ 164,405	\$ 4,234,174	\$ 2,447,431	\$ 634,967	\$ 577,961	\$ 656,281	\$ 16,463,093	\$ 2,202,502	\$ 483,397	\$ 19,148,992	\$ 18,747,236

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, 2018 AND 2019**

	2018	2019
CASH FLOWS FROM OPERATIONS		
Change in net assets	\$ 4,474,419	\$ 395,701
Adjustments to reconcile change in net assets to net cash provided by operations		
Depreciation	860,301	915,700
Loss on write off of property and equipment	124,818	128,673
Bad debt	3,949	3,429
Realized gain on the sale of investments	(1,671,690)	(341,033)
Unrealized gain on investments	(2,362,155)	(865,301)
Contributions for capital expenditures	(185,000)	(260,000)
Contributions for Board-designated endowment	(500)	(15,000)
Contributions for Thomas J. Edelman Restricted Endowment Fund	(119,750)	(125,090)
Transfer from Board-designated endowment to operations	600,000	600,000
Transfer from Board-designated endowment to capital improvements	528,825	1,271,175
Sub-total	2,253,217	1,708,254
Changes in operating assets and liabilities		
Decrease or (increase) in assets		
Accounts receivable	90,414	679,061
Pledges receivable	(277,585)	221,352
Prepayments and other assets	17,440	41,412
Restricted deposits and funded reserves	(23,393)	(24,508)
Increase or (decrease) in liabilities		
Accounts payable and accrued expenses	92,634	(64,722)
Accrued salaries and others	7,508	6,590
Tenant security deposits	(232)	(233)
Government and other advances	35,887	(27,858)
Net Cash Provided by Operations	2,195,890	2,539,348
CASH FLOWS FROM INVESTING		
Purchase of property and equipment	(1,877,997)	(2,211,974)
Purchase of investments	(8,695,515)	(8,931,637)
Sale of investments	9,507,750	10,377,529
Net Cash Used in Investing	(1,065,762)	(766,082)
CASH FLOWS FROM FINANCING		
Capital gifts	185,000	260,000
Bequests	500	-
Gifts for Board-designated endowment	-	15,000
Gifts for Thomas J. Edelman Restricted Endowment Fund	119,750	125,090
Transfer from Board-designated endowment to operations	(600,000)	(600,000)
Transfer from Board-designated endowment to capital improvements	(528,825)	(1,271,175)
Net Cash Used in Financing	(823,575)	(1,471,085)
NET INCREASE IN CASH AND EQUIVALENTS	306,553	302,181
Cash and equivalents - beginning of the year	886,645	1,193,198
CASH AND EQUIVALENTS - END OF YEAR	\$ 1,193,198	\$ 1,495,379
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 20,010	\$ 20,150

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

LENOX HILL NEIGHBORHOOD HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 and 2019

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Lenox Hill Neighborhood House, Inc. (the "Neighborhood House" or "Organization") is a 125-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, adult learners and other nonprofits. 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 7, 8 and 13.

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 ("U.S. GAAP"). All intercompany transactions have been eliminated in consolidation.

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 with donor restrictions if donors stipulate their use for a specific purpose and/or for a specified time period, or if they stipulate that the gift is perpetual in nature. 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. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the years ended June 30, 2018 and 2019, contributed professional services of \$363,384 and \$454,038, 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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing Board of Directors of the Organization (the “Board”) has designated, from net assets without donor restrictions, net assets for a Board-designated Endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires (i.e., when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both); the related net assets are report in the consolidated statements of activities as Net Assets Released from Restrictions. Net assets of \$2,173,984 and \$2,435,925, respectively, were released from donor restrictions during the years ended June 30, 2018 and 2019. Gifts to the endowment received with donor stipulations that they are perpetual in nature are recorded in the Thomas J. Edelman Restricted Endowment Fund f/b/o Lenox Hill Neighborhood House (the “Thomas J. Edelman Restricted Endowment Fund”)(see Note 6). All investment earnings on the Thomas J. Edelman Restricted Endowment Fund are recorded as perpetual in nature.

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, 2018 and 2019, allowances totaling \$312 and \$2,515, respectively, were recorded against accounts receivable. No allowances against pledges were believed necessary. The Organization does not currently discount to present value contributions that will be received in more than one year because that discount is deemed immaterial given the non-discounted value of such contributions.

Cash and Equivalents

Cash and equivalents include highly liquid instruments having maturities of three months or less from the date acquired. Cash and equivalents in the Board-designated Endowment and in the Thomas J. Edelman Restricted Endowment Fund (see Note 6) are treated as investments.

Statements of Cash Flows

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 6.

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

The costs of providing the various programs and other supporting activities of the Organization have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple programs and/or functions have been allocated among the various programs and/or functions benefited using a reasonable allocation methodology, determined by management, that is consistently applied as follows: salaries and wages, associated fringe benefits and payroll taxes are allocated based on estimates of time and effort; occupancy costs are allocated based on the estimated amount of space used by each program and function; information and communication technology expenses are allocated, when appropriate, on the basis of employee headcount for each program and supporting activity; insurance costs are allocated based on either the estimated amount of space used by each program and function or by total salary cost; and depreciation and loss on write off of property and equipment are allocated based on the estimated amount of space used by each program and function. The basis on which costs are allocated are evaluated annually or more frequently when programs or supporting functions are added or eliminated or when employee headcount changes significantly.

Income Taxes

The Organization is unaware of any uncertain tax positions as of June 30, 2019 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 U.S. GAAP 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain line items in the 2018 financial statements were reclassified to conform to the 2019 presentation. Such reclassification did not have an impact on net assets.

Change in Accounting Principle

FASB Accounting Standards Update (“ASU”) 2016-14, “Not-for-Profit Entities Topic 958” *Presentation of Financial Statements of Not-for-Profit Entities*, was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquidity resources and functional expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2019. As a result of implementing ASU 2016-14, the Organization reports net assets in two classes (see Note 2), the methodologies used to allocate expenses by function (see Note 2) and provides additional information about liquidity (see Note 3).

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization regularly monitors the liquidity required to meet its planned operating needs and other commitments, including non-operating expenditures, while also striving to maximize the investment of its available funds and to provide for unanticipated liquidity needs. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, pledges receivable, marketable fixed income and equity securities in its Board-designated Endowment, marketable fixed income and equity securities available for use, in accordance with law and donor restrictions, from the Thomas J. Edelman Restricted Endowment Fund, and a line of credit. See Notes 4, 5, 6 and 10. For purposes of analyzing liquidity and the availability of resources to meet general operating expenditures and other commitments, including non-operating expenditures, over a twelve-month period, the Organization considers all expenditures, both general operating and non-operating, related to its program activities and supporting services.

As of June 30, 2019, financial assets available without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and equivalents	\$	1,495,379
Accounts receivable, net		1,519,710
Pledges receivables due in less than one year		344,733
Prepayments and other assets		181,913
Investments in the Board-designated Endowment		17,510,546
Total	\$	<u>21,052,281</u>

The Organization’s endowment funds consist of the Board-designated Endowment and the Thomas J. Edelman Restricted Endowment Fund (see Note 6). The Board-designated Endowment of \$17,510,546 (as of June 30, 2019) is subject to a withdrawal rate as determined annually by the Board of the Organization as part of the Board’s annual budget approval and appropriation process for the succeeding year. In 2018 and 2019, the withdrawal rate for general expenditures has been 2.79% and 2.74%, respectively, of the total value of the Board-designated Endowment and the Thomas J. Edelman Restricted Endowment Fund using a three-year smoothing average. The Thomas J. Edelman Restricted Endowment Fund of \$6,921,674 (as of June 30, 2019) was not used for any expenditures in 2018 or 2019; withdrawals can be authorized by the Board of the Organization in accordance with law and donor restrictions. As further described in Note 10, the Organization has a line of credit for \$1,000,000 that can be used to support its operations as needed.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	At June 30,	
	2018	2019
Due from government agencies	\$ 2,169,996	\$ 1,498,667
Due from tenants	4,212	4,221
Other	28,304	19,337
Sub-total	2,202,512	1,522,225
Less: Allowance for doubtful accounts	(312)	(2,515)
Total	\$ 2,202,200	\$ 1,519,710

As of November 20, 2019, all but \$260,437 of fiscal 2019 accounts receivable had been collected.

NOTE 5 - PLEDGES RECEIVABLE

Pledges outstanding were as follows:

	At June 30,	
	2018	2019
Due in less than a year	\$ 553,085	\$ 344,733
Due in more than one year	58,000	45,000
Total	\$ 611,085	\$ 389,733

As of November 20, 2019, all but \$65,000 of fiscal 2019 pledges receivable had been collected.

NOTE 6 - 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 designated by the Board which are unencumbered by donor restrictions ("Board-designated Endowment"); and 2) funds received with donor stipulations that they are perpetual in nature (the "Thomas J. Edelman Restricted Endowment Fund"). In combination, these funds are referred to as the Endowment.

At June 30, 2018, the Board-designated Endowment totaled \$18,285,195 and the Thomas J. Edelman Restricted Endowment Fund totaled \$6,386,583, or \$24,671,778 in total. At June 30, 2019, the Board-designated Endowment totaled \$17,510,546 and the Thomas J. Edelman Restricted Endowment Fund totaled \$6,921,674, or \$24,432,220 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).

NOTE 6 - ENDOWMENT (Continued)

Changes In Endowment In Fiscal 2018

	Board-designated Endowment	Thomas J. Edelman Restricted Endowment	Total
Beginning of year	\$ 16,222,772	\$ 5,227,396	\$ 21,450,168
Contributions	500	119,750	120,250
Transfer from Board-designated Endowment to operations	(600,000)	-	(600,000)
Transfer from Board-designated Endowment to capital improvements	(528,825)	-	(528,825)
Investment activity			
Interest and dividends	264,344	86,387	350,731
Realized gain	1,367,504	304,186	1,671,690
Unrealized gain	1,674,144	688,011	2,362,155
Management fees	(115,244)	(39,147)	(154,391)
Sub-total investment activity	3,190,748	1,039,437	4,230,185
Total Changes	2,062,423	1,159,187	3,221,610
End of year	<u>\$ 18,285,195</u>	<u>\$ 6,386,583</u>	<u>\$ 24,671,778</u>

Changes In Endowment In Fiscal 2019

	Board-designated Endowment	Thomas J. Edelman Restricted Endowment	Total
Beginning of year	\$ 18,285,195	\$ 6,386,583	\$ 24,671,778
Contributions	15,000	125,090	140,090
Transfer from Board-designated Endowment to operations	(600,000)	-	(600,000)
Transfer from Board-designated Endowment to capital improvements	(1,271,175)	-	(1,271,175)
Investment activity			
Interest and dividends	314,706	122,410	437,116
Realized gain (loss)	436,178	(95,145)	341,033
Unrealized gain	440,432	424,869	865,301
Management fees	(109,790)	(42,133)	(151,923)
Sub-total investment activity	1,081,526	410,001	1,491,527
Total Changes	(774,649)	535,091	(239,558)
End of year	<u>\$ 17,510,546</u>	<u>\$ 6,921,674</u>	<u>\$ 24,432,220</u>

NOTE 6 - ENDOWMENT (Continued)

Endowment assets consist of investments which are carried at fair value. The value of investments, all of which were marketable, was \$24,937,830 as of November 20, 2019. The Neighborhood House's investments are managed on a discretionary basis by Wilkinson Global Asset Management LLC ("Wilkinson Global"), an independent investment firm. The Endowment is segregated into two separate accounts: the Board-designated Endowment and the Thomas J. Edelman Restricted Endowment Fund. Investments consisted of the following at June 30, 2018 and 2019:

	Board-designated Endowment		Thomas J. Edelman Restricted Endowment		Total	
	2018	2019	2018	2019	2018	2019
Cash and equivalents	\$ 207,040	\$ 821,706	\$ 29,368	\$ 340,929	\$ 236,408	\$ 1,162,635
Equities	13,489,092	11,979,224	4,644,569	4,688,211	18,133,661	16,667,435
Fixed income	4,589,063	4,709,616	1,712,646	1,892,534	6,301,709	6,602,150
Total	<u>\$18,285,195</u>	<u>\$17,510,546</u>	<u>\$ 6,386,583</u>	<u>\$ 6,921,674</u>	<u>\$24,671,778</u>	<u>\$24,432,220</u>

Investments are subject to market fluctuations that could substantially change their values. Net assets with donor restrictions that are perpetual in nature at June 30, 2018 and 2019 were \$6,386,583 and \$6,921,674, respectively, and were included in investments.

	Board-designated Endowment		Thomas J. Edelman Restricted Endowment		Total	
	2018	2019	2018	2019	2018	2019
Interest and dividends	\$ 264,344	\$ 314,706	\$ 86,387	\$122,410	\$350,731	\$ 437,116
Realized gain (loss) on investments	1,367,504	436,178	304,186	(95,145)	1,671,690	341,033
Unrealized gain on investments	1,674,144	440,432	688,011	424,869	2,362,155	865,301
	3,305,992	1,191,316	1,078,584	452,134	4,384,576	1,643,450
Less Management fees	(115,244)	(109,790)	(39,147)	(42,133)	(154,391)	(151,923)
Total	<u>\$3,190,748</u>	<u>\$1,081,526</u>	<u>\$1,039,437</u>	<u>\$410,001</u>	<u>\$4,230,185</u>	<u>\$ 1,491,527</u>

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.

NOTE 6 - ENDOWMENT (Continued)

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, 2018 and 2019 are classified as Level 1 and were as follows:

	Board-designated Endowment		Thomas J. Edelman Restricted Endowment		Total	
	2018	2019	2018	2019	2018	2019
Assets Carried at Fair Value						
Investments						
Equities (Common Stocks)	\$13,489,092	\$11,979,224	\$4,644,569	\$4,688,211	\$18,133,661	\$16,667,435
Government obligations	525,794	298,134	210,317	110,420	736,111	408,554
Corporate bonds	4,063,269	4,411,482	1,502,329	1,782,114	5,565,598	6,193,596
Total	<u>\$18,078,155</u>	<u>\$16,688,840</u>	<u>\$6,357,215</u>	<u>\$6,580,745</u>	<u>\$24,435,370</u>	<u>\$23,269,585</u>

Financial assets, carried at fair value, in the Endowment at June 30, 2018 and 2019 do not include cash of (\$230,412 and \$1,159,566, respectively) and interest receivable of (\$5,996 and \$3,069, respectively).

NOTE 7 - 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 the 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 New York City Housing Development Corporation (“HDC”). The balances of these accounts as of June 30, 2019 are \$562,627 (Project Operating Reserve) and \$46,913 (Project Replacement Reserve). As of June 30, 2018 and 2019, 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 HDC, to finance capital improvements in the Project.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2018 and 2019:

	<u>2018</u>	<u>2019</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	11,774,496	13,388,184	3-20 years
Furniture and equipment	<u>1,512,033</u>	<u>1,835,771</u>	5 - 10 years
Sub-total	16,851,009	18,788,435	
Less: Accumulated depreciation	<u>(7,396,082)</u>	<u>(8,165,907)</u>	
Total	<u>\$ 9,454,927</u>	<u>\$ 10,622,528</u>	

The Organization's headquarters at 331 East 70th Street in Manhattan was built in 1928 and is fully depreciated. Over the past 17 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 9 - LONG-TERM DEBT

At June 30, 2019, 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 10 - LINE OF CREDIT

The Organization renewed a \$1,000,000 commercial line of credit with a major bank in March 2019. 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, 2019, nor have there been any drawings through November 20, 2019. Drawings were subject to interest at a rate of LIBOR Rate plus 3.00%. The line of credit expires on March 16, 2020 with an option to renew.

NOTE 11 - PENSION PLANS

Union Plans

The Neighborhood House is a party to two collective bargaining agreements with unions representing certain Neighborhood House staff: (a) 1199SEIU National Healthcare Workers East (“1199”); and (b) Local 95 (“Local 95”) of AFSCME (“AFSCME”) Community & Social Agency Employees Union District Council 1707 (“DC 1707”). In September 2019, the Organization was notified by DC 1707 that, effective September 1, 2019, DC 1707 had unified with AFSCME District Council 37 (“DC 37”) and that representational responsibilities would be fulfilled by DC 1707 and that all matters related to the negotiation and administration of the collective bargaining agreement would be managed by DC 37. The agreement with 1199 expires on September 30, 2021; the agreement with Local 95/DC 1707/DC 37 expires on January 31, 2022.

The Neighborhood House has pension obligations on behalf of employees in each union as required by the respective collective bargaining agreements. 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, 2018 and 2019, the Neighborhood House contributed an average of 10.76% and 12.14% of salary, respectively, for 1199 employees and 10.89% and 10.89%, respectively, for Local 95/DC 1707/DC 37 employees. Pension expenses for employees covered by these two collective bargaining agreements for the years ended June 30, 2018 and 2019 totaling \$317,164 and \$336,884, 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.

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 82.5% and 83.5% funded for its plan years beginning January 1, 2017 and January 1, 2018, 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, 2018.

NOTE 11 - PENSION PLANS (Continued)

Pension Plan	Employer Identification Number	Pension Plan Number	Beginning of Plan Year	PPA Zone Status As of Beginning of Plan Year 2017	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Local 1199 Plan	13-3604862	001	January 1, 2017	Green	N/A	N/A	September 30, 2018

Pension Plan	Employer Identification Number	Pension Plan Number	Beginning of Plan Year	PPA Zone Status As of Beginning of Plan Year 2018	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Local 1199 Plan	13-3604862	001	January 1, 2018	Green	N/A	N/A	September 30, 2021

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, 2018 and 2019 amounted to \$141,499 and \$154,679, 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 2018 and 2019, these additional contributions, excluding applicable fringe benefit costs, totaled \$85,260 and \$81,685 and are paid in subsequent fiscal years. All of these contributions are included in personnel expense on the consolidated statements of functional expenses.

NOTE 12 - CONTRIBUTIONS AND SPECIAL EVENTS

Contributions consisted of the following:

	At June 30,	
	2018	2019
<u>Operating</u>		
Foundations	\$ 2,177,083	\$ 1,659,342
Individuals and others	746,980	589,347
Contributed services	363,384	454,038
Sub-total	<u>3,287,447</u>	<u>2,702,727</u>
<u>Non-operating</u>		
Gifts for Thomas J. Edelman Restricted Endowment	119,750	125,090
Gifts for Board-designated Endowment	-	15,000
Bequests	500	-
Capital gifts	185,000	260,000
Sub-total	<u>305,250</u>	<u>400,090</u>
Total	<u>\$ 3,592,697</u>	<u>\$ 3,102,817</u>

NOTE 12 - CONTRIBUTIONS AND SPECIAL EVENTS (Continued)

Special event income consisted of the following:

	At June 30,	
	2018	2019
Special events	\$ 1,092,340	\$ 1,080,351
Associated direct expenses	(330,017)	(327,026)
Special events, net	<u>\$ 762,323</u>	<u>\$ 753,325</u>

NOTE 13 - 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, 2019, but which automatically renews for one-year terms unless earlier terminated under certain conditions. For the years ended June 30, 2018 and 2019, the Partnership paid \$13,594 and \$14,137, respectively, to the Neighborhood House for partnership management and \$48,868 and \$48,899, respectively, for property management. At June 30, 2018, the Partnership owed the Neighborhood House \$591,225, of which \$31,676 was paid in September 2018. At June 30, 2019, the Partnership owed the Neighborhood House \$673,593, of which \$620,104 was for capital improvements made at the building which were paid for by the Neighborhood House. These intercompany transactions have been eliminated in the consolidated financial statements.

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, 2018 and 2019, the accompanying consolidated financial statements included allowances in the amount of \$312 and \$2,515, 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”), and as further amended pursuant to a Second Addendum to the License Agreement dated September 17, 2018 and effective as of July 1, 2018 (“Second Addendum”). The License Agreement, as amended, terminates on August 31, 2021, unless sooner terminated, and automatically renews for additional three-year terms through August 2027, each of which may be sooner terminated pursuant to the terms of the License Agreement, as amended.

Pursuant to the License Agreement, as amended, the Neighborhood House pays Saint Peter’s Church a monthly License Fee and a monthly Maintenance Fee as follows:

License Fee

- \$2,575/month for the term expiring August 31, 2018
- \$2,613/month for the term expiring August 31, 2021
- \$2,652/month for the term expiring August 31, 2024
- \$2,691/month for the term expiring August 31, 2027

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

Maintenance Fee

\$2,515.32/month for the period expiring June 30, 2019. This monthly Maintenance Fee will increase annually in each subsequent fiscal year (i.e., July 1 through June 30) in an amount equal to the announced Social Security Administration Cost of Living Adjustment (COLA) applicable to Social Security beneficiaries.

The License Agreement 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.

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 Federal Deposit Insurance Corporation insurance limits. The excess amounts did not exceed approximately \$3,344,000 and \$2,996,000 on the last day of any month during 2018 and 2019, respectively, for the Neighborhood House, and \$0 and \$0, during 2018 and 2019, 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 Endowments are managed by Wilkinson Global. Investment securities are held in a custody account at BNY Mellon Wealth Management. At June 30, 2018, the Neighborhood House had \$18,285,195 in the Board-designated Endowment and \$6,386,583 in the Thomas J. Edelman Restricted Endowment or a total Endowment of \$24,671,778. At June 30, 2019, the Neighborhood House had \$17,510,546 in the Board-designated Endowment and \$6,921,674 in the Thomas J. Edelman Restricted Endowment or a total Endowment of \$24,432,220.

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 20, 2019, the date the consolidated financial statements were available to be issued.

LENOX HILL NEIGHBORHOOD HOUSE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Sub-recipient
U.S. Department of Health and Human Services				
Head Start 2019	93.600		\$ 1,086,995	\$ -
Head Start 2020	93.600		<u>606,237</u>	
Total 93.600			<u>1,693,232</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	2,099	
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	12,593	
Special Program for the Aging_Title III, Part C_Nutrition Services - Center @ Lenox Hill Neighborhood House	93.045	20160001141	22,801	
Special Program for the Aging_Title III, Part C_Nutrition Services - Senior Center at Saint Peter's Church	93.045	20170000634	39,859	
Nutrition Service Incentive Program - Center @ Lenox Hill Neighborhood House	93.053	20160001141	46,664	
Nutrition Service Incentive Program - Center @ Lenox Hill Neighborhood House	93.053	20191410562	44,602	
Nutrition Service Incentive Program - Senior Center at Saint Peter's Church	93.053	20170000634	<u>14,164</u>	
Total Aging Cluster			<u>182,782</u>	
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services - Center @ Lenox Hill Neighborhood House	93.043	20160001141	1,527	
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services - Center @ Lenox Hill Neighborhood House	93.043	20191410562	<u>1,942</u>	
Total 93.043			<u>3,469</u>	
Social Services Block Grant - Center @ Lenox Hill Neighborhood House	93.667	20160001141	60,365	
Social Services Block Grant - Senior Center at Saint Peter's Church	93.667	20170000634	<u>43,077</u>	
Total 93.667			<u>103,442</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 7/1/18 - 6/30/19	<u>266,043</u>	
Total 93.558			<u>266,043</u>	
Passed-through from Centers for Disease Control and Prevention - Institute for Family Health/				
Bronx Health Reach				
Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds	93.738	CDC Reach - DP18 - 1813	<u>3,450</u>	
Total 93.738			<u>3,450</u>	
Total U.S. Department of Health and Human Services			<u>2,252,418</u>	
U.S. Department of Housing and Urban Development				
Passed-through from the New York City Department of Homeless Services				
Emergency Shelter Grants Program - Women's Shelter at the Park Avenue Armory				
Passed-through from the New York State Office of Temporary and Disability Assistance	14.231	2014-0000661	275,717	
Emergency Solutions Grant - Solutions to End Homelessness Program	14.231	C021828	119,968	
Emergency Solutions Grant - Solutions to End Homelessness Program	14.231	C021828	<u>34,335</u>	
Total 14.231			<u>430,020</u>	
Total U.S. Department of Housing and Urban Development			<u>430,020</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	195,066	
Passed-through from Council on the Environment, Inc d/b/a GrowNYC				
Local Food Promotion Program				
	10.172	LFPP17-01	30,000	
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 2018-2019	<u>42,631</u>	
Total U.S. Department of Agriculture			<u>267,697</u>	
U.S. Department of Homeland Security				
Passed-through from the United Way of New York				
Emergency Food and Shelter Program				
	97.024	LRO 6314-00-335	<u>22,926</u>	
Total U.S. Department of Homeland Security			<u>22,926</u>	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,973,061</u>	<u>\$ -</u>

LENOX HILL NEIGHBORHOOD HOUSE, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) only includes the federal award activity of Lenox Hill Neighborhood House, Inc., (the “Agency”) for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the 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”). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to present, 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, 2018 and 2019, 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 20, 2019.

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 20, 2019

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.

Report on Compliance for Each Major Federal Program

We have audited Lenox Hill Neighborhood House, Inc.'s ("Lenox Hill") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Lenox Hill's major federal program for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2019.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marks Paneth LLP

New York, NY
November 20, 2020

**LENOX HILL NEIGHBORHOOD HOUSE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

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: \$750,000

Auditee qualified as low-risk auditee? X 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, 2019**

Prior Year Findings:

There were no findings in the prior year.