

SAFE SPACE NYC, INC.
FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
JUNE 30, 2010 AND 2009

SAFE SPACE NYC, INC.

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Independent Auditor's Report

**Board of Directors
Safe Space NYC, Inc.**

We have audited the accompanying balance sheet of Safe Space NYC, Inc. as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Safe Space NYC, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Safe Space NYC, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Safe Space NYC, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Loeb & Troper LLP

February 16, 2011

SAFE SPACE NYC, INC.

BALANCE SHEET

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 253,833	\$ 842,428
Accounts receivable (net of allowance for doubtful accounts of \$52,000 in 2010 and 2009)	2,324,864	2,111,157
Contributions receivable - current	44,598	
Escrow deposits (Note 2)		734,799
Prepaid expenses and other assets	175,862	53,488
Security deposits	<u>175,541</u>	<u>187,415</u>
Total current assets	2,974,698	3,929,287
Fixed assets - net (Note 3)	<u>964,236</u>	<u>862,886</u>
Total assets	<u>\$ 3,938,934</u>	<u>\$ 4,792,173</u>
LIABILITIES AND NET ASSETS		
Accounts and accrued expenses payable	\$ 400,221	\$ 1,114,247
Accrued salaries and related liabilities	972,851	739,157
Due to governmental agencies (Note 4)	286,613	310,221
Advances payable	575,678	144,898
Loans payable (Note 5)	<u>300,000</u>	<u>400,000</u>
Total current liabilities	2,535,363	2,708,523
Due to governmental agencies (Note 4)	<u>4,000,392</u>	<u>4,525,644</u>
Total liabilities	<u>6,535,755</u>	<u>7,234,167</u>
Net assets (deficit) (Exhibit B)		
Unrestricted	(2,751,571)	(3,040,270)
Temporarily restricted (Note 9)	<u>154,750</u>	<u>598,276</u>
Total net assets (deficit)	<u>(2,596,821)</u>	<u>(2,441,994)</u>
Total liabilities and net assets	<u>\$ 3,938,934</u>	<u>\$ 4,792,173</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues, gains, losses and other support						
Government fees and contracts	\$ 12,294,282		\$ 12,294,282	\$ 11,486,643		\$ 11,486,643
Program service revenue	155,903		155,903	153,805		153,805
Contributions - foundations	526,423	\$ 180,300	706,723	715,829	\$ 580,000	1,295,829
Contributions - individuals	100,450	57,500	157,950	86,816		86,816
Special events revenue	38,357		38,357	76,693		76,693
Direct benefits of special events	(15,820)		(15,820)	(18,188)		(18,188)
Interest and dividends	2,070		2,070	6,727		6,727
Net loss on investments				(27,474)		(27,474)
Donated legal services	35,000		35,000	30,000		30,000
Miscellaneous income	143,298		143,298	31,809		31,809
Net assets released from restrictions						
Satisfaction of program restrictions (Note 9)	681,326	(681,326)		712,372	(712,372)	
Total revenues, gains, losses and other support	13,961,289	(443,526)	13,517,763	13,255,032	(132,372)	13,122,660
Operating expenses (Exhibit C)						
Program services						
Mental health services	1,397,731		1,397,731	968,271		968,271
Community health services	1,942,320		1,942,320	1,980,043		1,980,043
Education services	1,666,443		1,666,443	1,398,182		1,398,182
Preventive services	4,860,731		4,860,731	4,970,250		4,970,250
Young adult services	2,114,271		2,114,271	1,819,660		1,819,660
Total program services	11,981,496		11,981,496	11,136,406		11,136,406
Supporting services						
Management and general	1,854,195		1,854,195	1,890,402		1,890,402
Fund raising	184,406		184,406	302,042		302,042
Total supporting services	2,038,601		2,038,601	2,192,444		2,192,444
Total expenses	14,020,097		14,020,097	13,328,850		13,328,850
Change in net assets from operations	(58,808)	(443,526)	(502,334)	(73,818)	(132,372)	(206,190)
Other changes in net assets						
Gain on sale of building (Note 8)				1,621,377		1,621,377
Deposit forfeiture (Note 8)				151,359		151,359
Prior year contract adjustments (Note 4)	525,695		525,695	(1,671,775)		(1,671,775)
Prior year contract closeout	(78,188)		(78,188)			
Settlement of prior lease agreement	(100,000)		(100,000)			
Change in net assets (Exhibit D)	288,699	(443,526)	(154,827)	27,143	(132,372)	(105,229)
Net assets (deficit) - beginning of year	(3,040,270)	598,276	(2,441,994)	(3,067,413)	730,648	(2,336,765)
Net assets (deficit) - end of year (Exhibit A)	\$ (2,751,571)	\$ 154,750	\$ (2,596,821)	\$ (3,040,270)	\$ 598,276	\$ (2,441,994)

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010										
	Program Services					Supporting Services					
	Mental Health Services	Community Health Services	Education Services	Preventive Services	Young Adult Services	Total	Management and General	Fund Raising	Cost of Direct Benefits of Special Events	Total	Total Expenses
Salaries	\$ 499,800	\$ 1,055,459	\$ 1,151,242	\$ 2,895,691	\$ 1,178,588	\$ 6,780,780	\$ 763,887	\$ 51,563		\$ 815,450	\$ 7,596,230
Payroll taxes and fringe benefits	109,091	276,586	155,099	850,459	277,733	1,668,968	238,438	6,055		244,493	1,913,461
Total salaries and related expenses	608,891	1,332,045	1,306,341	3,746,150	1,456,321	8,449,748	1,002,325	57,618		1,059,943	9,509,691
Transportation	27,803	25,150	46,552	36,090	25,209	160,804	22,433			22,433	183,237
Participant activities	5,575	47,126	122,336	102,869	112,048	389,954					389,954
Professional fees	356,017	240,975	16,061	348,756	51,213	1,013,022	500,590	89,354		589,944	1,602,966
Food	265	555	1,000	6,025	35,434	43,279					43,279
Supplies and equipment	9,057	16,017	42,438	32,179	47,472	147,163	1,254	15		1,269	148,432
Occupancy	119,281	170,999	1,622	298,036	164,981	754,919	78,258	20,038		98,296	853,215
Rent - equipment	8,932	22,109	25,083	57,400	22,052	135,576	114,463	858		115,321	250,897
Utilities	14,153	4,881		33,504	30,088	82,626	14,438	2,939		17,377	100,003
Repairs and maintenance	858	692		8,475	6,082	16,107	512	166		678	16,785
Telephone	19,741	29,288	19,731	55,464	30,916	155,140	15,291	1,586		16,877	172,017
Postage	845	2,785	303	6,024	1,027	10,984	3,429	306		3,735	14,719
Dues and licenses	3,610	325		100	142	4,177	8,061	6,869		14,930	19,107
Office supplies	8,318	13,339	11,369	33,936	10,698	77,660	11,221	712		11,933	89,593
Meetings and conferences	25	858	8,492	846	1,060	11,281	1,628			1,628	12,909
Staff development	5,860	4,492	1,692	21,920	3,245	37,209	3,325			3,325	40,534
Insurance	8,922	13,805	14,074	29,208	13,890	79,899					79,899
Interest	105,272					105,272	15,548			15,548	120,820
Bad debt	52,000	2,680	30,028	6,980	15,252	106,940					106,940
Depreciation and amortization	2,717	6,964	8,250	19,182	39,000	76,113	7,787	693		8,480	84,593
Miscellaneous	39,589	7,235	11,071	17,587	7,475	82,957	52,988	3,252		56,240	139,197
Moving costs					40,666	40,666	100,644			100,644	141,310
Event catering and rental									\$ 15,820	15,820	15,820
Total expenses	1,397,731	1,942,320	1,666,443	4,860,731	2,114,271	11,981,496	1,954,195	184,406	15,820	2,154,421	14,135,917
Less:											
Cost of direct benefits of special events									(15,820)	(15,820)	(15,820)
Settlement of prior lease agreement							(100,000)			(100,000)	(100,000)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,397,731	\$ 1,942,320	\$ 1,666,443	\$ 4,860,731	\$ 2,114,271	\$ 11,981,496	\$ 1,854,195	\$ 184,406	\$ -	\$ 2,038,601	\$ 14,020,097

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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2009										
	Program Services					Supporting Services					
	Mental Health Services	Community Health Services	Education Services	Preventive Services	Young Adult Services	Total	Management and General	Fund Raising	Cost of Direct Benefits of Special Events	Total	Total Expenses
Salaries	\$ 270,555	\$ 1,128,719	\$ 992,093	\$ 3,124,880	\$ 1,000,228	\$ 6,516,475	\$ 918,882	\$ 173,397		\$ 1,092,279	\$ 7,608,754
Payroll taxes and fringe benefits	54,163	246,069	150,807	694,118	212,669	1,357,826	204,526	37,215		241,741	1,599,567
Total salaries and related expenses	324,718	1,374,788	1,142,900	3,818,998	1,212,897	7,874,301	1,123,408	210,612		1,334,020	9,208,321
Transportation	13,836	22,385	4,358	23,981	12,000	76,560					76,560
Participant activities	1,645	27,076	121,478	98,133	79,363	327,695					327,695
Professional fees	333,493	276,461	14,524	346,628	33,374	1,004,480	251,657	30,853		282,510	1,286,990
Food	6	464	731	3,531	41,108	45,840					45,840
Supplies and equipment	1,390	20,877	11,295	26,413	29,362	89,337	4,732	840		5,572	94,909
Occupancy	98,341	126,987		321,493	226,219	773,040	72,973	24,222		97,195	870,235
Rent - equipment	10,182	25,415	2,630	46,834	12,963	98,024	144,147			144,147	242,171
Rent - vehicles			20,126	2,961	1,376	24,463				174	24,637
Utilities	14,769	7,297		37,025	27,480	86,571	27,138	3,140		30,278	116,849
Repairs and maintenance	2,030	4,179	460	18,186	8,369	33,224	4,627	3,787		8,414	41,638
Telephone	17,529	32,647	14,551	57,912	36,888	159,527	50,278			50,278	209,805
Postage	264	1,905	41	5,225	302	7,737	4,378	927		5,305	13,042
Dues and licenses	1,948	425		105	13	2,491	12,679	255		12,934	15,425
Office supplies	3,489	11,222	26,122	29,020	24,794	94,647	13,587	10,710		24,297	118,944
Meetings and conferences		968	1,875	258	1,591	4,692	7,604	6,274		13,878	18,570
Staff development	44	12,391	12,720	33,831	13,609	72,595	26	1,565		1,591	74,186
Insurance	10,238	25,139	19,521	66,512	24,977	146,387	11,609	3,978		15,587	161,974
Interest expense	101,566					101,566	69,146			69,146	170,712
Bad debt expense	30,841					30,841					30,841
Depreciation and amortization	1,942	9,417	4,350	28,928	29,746	74,383	36,662	2,226		38,888	113,271
Miscellaneous expenses			500	4,276	3,229	8,005	55,751	2,479		58,230	66,235
Event catering and rental									\$ 18,188	18,188	18,188
Total expenses	968,271	1,980,043	1,398,182	4,970,250	1,819,660	11,136,406	1,890,402	302,042	18,188	2,210,632	13,347,038
Less cost of direct benefits of special events									(18,188)	(18,188)	(18,188)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 968,271	\$ 1,980,043	\$ 1,398,182	\$ 4,970,250	\$ 1,819,660	\$ 11,136,406	\$ 1,890,402	\$ 302,042	\$ -	\$ 2,192,444	\$ 13,328,850

See independent auditor's report.

The accompanying notes are an integral part of these statements.

SAFE SPACE NYC, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (154,827)	\$ (105,229)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	84,593	113,271
Net loss on investments		27,474
Gain on sale of building		(1,621,377)
Decrease (increase) in assets		
Accounts receivable	(213,707)	(1,373,792)
Contributions receivable	(44,598)	795,000
Prepaid expenses and other assets	(122,374)	17,834
Security deposits	11,874	(251)
Increase (decrease) in liabilities		
Accounts and accrued expenses payable	(714,026)	(143,574)
Accrued salaries and related liabilities	233,694	(35,729)
Due to governmental agencies	(548,860)	1,510,300
Advances payable	430,780	144,898
Net cash used by operating activities	<u>(1,037,451)</u>	<u>(671,175)</u>
Cash flows from investing activities		
Purchase of fixed assets	(185,943)	(21,967)
Proceeds from release of escrow funds	734,799	1,628,641
Proceeds from sale of investments		420,105
Net cash provided by investing activities	<u>548,856</u>	<u>2,026,779</u>
Cash flows from financing activities		
Proceeds from loan	300,000	
Repayments of loan	(400,000)	(800,360)
Net cash used by financing activities	<u>(100,000)</u>	<u>(800,360)</u>
Net change in cash and cash equivalents	(588,595)	555,244
Cash and cash equivalents - beginning of year	842,428	287,184
Cash and cash equivalents - end of year	<u>\$ 253,833</u>	<u>\$ 842,428</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 120,820</u>	<u>\$ 170,712</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ENTITY

Safe Space NYC, Inc. ("Safe Space"), located in New York City, is a multi-service social, educational and planning organization. Its mission is to ensure that all of New York's children receive the safety they seek, the care they require and the direction they deserve, so that they might have the opportunity to grow, thrive and succeed. Its programs include child abuse prevention and treatment, teen pregnancy prevention, literacy enrichment, family preservation services, mental health services, youth residences, HIV/AIDS outreach and education, community health education and comprehensive services for runaway and street youth. Safe Space is funded primarily by service fees paid by New York City and various New York State agencies, and government contracts.

Safe Space is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include all highly liquid instruments with maturities when acquired of three months or less at the date of purchase.

Accounts receivable - Safe Space records receivables based on established rates or contracts for service provided. Interest is not charged on overdue receivables.

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SAFE SPACE NYC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Interest is not charged on overdue receivables.

Allowance for doubtful accounts - Safe Space's management determines whether an allowance for uncollectible accounts should be provided for its accounts and contributions receivable. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Escrow deposits - In the prior year, proceeds from the sale of a building were deposited into an escrow account, which was released to Safe Space in 2010.

Fixed assets - Fixed assets and leasehold improvements itemized in Note 3 are recorded at cost. Acquisitions with a cost of \$500 and an estimated useful life of greater than one year are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Amortization of the leasehold improvements is recorded on the straight-line method over the lesser of the estimated useful life or the term of the lease.

Due to governmental agencies - Included in due to governmental agencies are liabilities from Medicaid, contract adjustments and underutilization of contracts, the details of which are further disclosed in Note 4.

Advances payable - Amounts received from government agencies in excess of amounts applied are reported as advances payable.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by Safe Space has been limited by donors to a specific time period or purpose.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government fees and contracts - Safe Space records government fees as revenues when earned based on established rates multiplied by the number of units of service provided. Government contract revenues are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the contract. Laws and regulations governing health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recoded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated legal services - Donated legal services represents the value of contributed legal services. The contributed expenses are recognized as income and expenses and are included in professional fees in the statement of functional expenses.

Rent expense - Rent expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Measure of operations - Safe Space excludes gain on sale of building, deposit forfeiture, prior year contract adjustments, prior year contract closeout and settlement of prior year lease agreement from its measure of operations.

Reclassifications - The 2009 balances of accounts receivable and prepaid expenses and other assets were reclassified to conform to the 2010 presentation, as well as classifying the balance sheet. Additionally, information included in Note 9 was reclassified or renamed to conform to the 2010 presentation.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes - Effective July 1, 2009, Safe Space adopted the provision pertaining to uncertain tax positions and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Tax returns for the years June 30, 2007 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through February 16, 2011, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Lives</u>
Land	\$ 64,500	\$ 64,500	
Buildings	580,500	580,500	40 years
Leasehold improvements	2,097,977	2,097,977	10 years
Furniture and equipment	1,141,834	1,114,929	5-10 years
Website	4,000		5-10 years
Construction in progress	<u>155,038</u>	<u> </u>	
	4,043,849	3,857,906	
Accumulated depreciation and amortization	<u>(3,079,613)</u>	<u>(2,995,020)</u>	
	<u>\$ 964,236</u>	<u>\$ 862,886</u>	

NOTE 4 - DUE TO GOVERNMENTAL AGENCIES

- A. Safe Space receives Medicaid funding for its clinic services in the form of a Comprehensive Outpatient Provider System (COPS) add-on. The COPS add-on is derived from a formula calculated by the New York State Office of Mental Health (OMH). Once certain thresholds are met, if the provider served beyond that threshold a COPS Medicaid liability is imposed. A long-term payment plan was established for Safe Space to pay the amounts due. These payments are made by withholding 15% of the total Medicaid payment and applying them to a detailed repayment schedule. The amount due to OMH as of June 30, 2010 was \$2,473,701, of which \$190,000 was a current liability and \$2,283,701 was classified as non-current liability. The amount due to OMH as of June 30, 2009 was \$2,463,886, of which \$180,628 was current liability and \$2,283,258 was classified as noncurrent liability.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 4 - DUE TO GOVERNMENTAL AGENCIES

A. (continued)

At June 30, 2010, Safe Space also had a current liability due to the Department of Health (DOH) in the amount of \$96,613. The liabilities were due to negative retroactive rate adjustments which were processed by the Medicaid Management Information System (MMIS).

- B. Prior to 2007, Safe Space operated a number of foster care facilities. In 2006, the agency closed the last of these facilities. There were amounts due to the New York City Agency for Children's Services (ACS) for overpayments for these services dating back to 1996. Safe Space has conducted audits required by ACS for its foster care program for fiscal years 1996-1999 and 2000-2003. Final reports were issued for 1996-1999 and draft reports issued for 2000-2003.

Because there were no findings or questionable expenses, ACS encouraged Safe Space to appeal starting with 2000-2003 and then the earlier years. Management has appealed the finding for 2000-2003 through a Level I appeal. A \$496,381 reduction was granted (from \$1,045,406 to \$549,025). The estimate for this liability had been higher in the previous report, resulting in a total adjustment of \$525,695. Management has the opportunity and intends to submit a Level II appeal to further reduce this liability.

Based on the technical findings of the Level I appeal for 2000-2003, management intends to submit a Level I appeal for the years 1996, 1998 and 1999 and a Level II appeal for 1997. The liability for this period is currently \$597,055.

Safe Space will complete an audit for its foster care programs for fiscal years 2004-2006, the last three years the program was operating. This audit is expected to take place during the 2011 fiscal year. In 2010 and 2009, a preliminary liability of \$570,611 was recorded as an estimate of what will be due to ACS for those years. ACS, however, advises that this remaining amount cannot be estimated at this time.

The total liability for ACS is currently estimated at \$1,716,691 for 2010 and \$2,242,386 for 2009 but is subject to change as these appeals progress. After the amount is finalized, a long-term payment plan will be established with ACS. This plan will not take affect until fiscal year 2012.

- C. At June 30, 2009, Safe Space had a current liability due to the New York City Department of Health and Mental Hygiene, the New York City Administration for Children's Services and the New York State Office of Mental Health of \$19,561, \$23,085 and \$86,947, respectively. The liabilities were due to underspending of its respective contracts. At June 30, 2010, these liabilities were paid.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 4 - DUE TO GOVERNMENTAL AGENCIES (continued)

- D. Accounts receivable are recorded at rates established by governmental payors (principally New York State and New York City). Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

Safe Space receives certain funding for its programs in the form of operational grants, which usually run for a period of one year or longer. This support is restricted to operations within the terms of the grants and, accordingly, recognition of grant support is deferred until qualified expenditures are incurred. Any excess of grant support over expenses incurred is recorded as due to third parties.

- E. In prior years, Safe Space was awarded a 20-year \$725,000 grant to purchase a building for the use of a specific program. The award documents stipulate that, should the program close, the grant awarded is due back to the grantor in its entirety. As of June 30, 2010, there are approximately five years remaining on this obligation. No liability has been included in these financial statements, since the program is in operation and Safe Space plans to continue it for at least the next five years. However, should the program terminate prior to the expiration date, Safe Space would owe the entire award back to the grantor.
- F. Safe Space is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General (OIG) and the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit Safe Space. These agencies have the right to audit fiscal, as well as programmatic compliance, amongst other compliance requirements.

NOTE 5 - LOANS PAYABLE

A. JP Morgan Chase Bank

Safe Space had a line of credit due on April 1, 2010. The line was secured by money market funds included as cash. Interest was at a rate mutually agreed upon on an intermittent basis. At June 30, 2009, the interest rate at prime was 3.25%. The balance at June 30, 2009 of \$400,000 was repaid by June 30, 2010.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 5 - LOANS PAYABLE (continued)

B. Fund for the City of New York

On May 26, 2010, Safe Space obtained a \$300,000 cash flow loan to cover its moving expenses. The loan is due April 1, 2011. Interest, due immediately upon the receipt of the loan, is at 1.5%. The balance at June 30, 2010 is \$300,000. The loan is not collateralized.

NOTE 6 - PENSION PLAN

Safe Space has a 401(k) retirement plan covering substantially all full-time employees who have attained the age of 21. Safe Space provides a matching contribution of up to 3% of participants' salary and up to 50% of the next 2% of the participants' contributions after one year of service. Pension expense for the years ended June 30, 2010 and 2009 was \$98,760 and \$103,357, respectively.

NOTE 7 - LEASES

Safe Space leases various property and equipment under operating leases. Rent expense for the years ended June 30, 2010 and 2009 was \$812,000 and \$800,000, respectively. The commitments under these non-cancelable leases, which have various expiration dates through 2021, are as follows:

2011	\$ 990,427
2012	925,910
2013	891,176
2014	800,910
2015	707,729
Thereafter	<u>3,741,252</u>
	<u>\$ 8,057,404</u>

NOTE 8 - SALE OF BUILDING

During 2009, Safe Space sold a building with a cost of \$742,063, net of accumulated depreciation of \$247,310, for \$2,363,440. The resulting gain was \$1,621,377. In relation to this sale, a prior prospective purchaser had deposited \$151,359 in escrow to be transferred to Safe Space upon finalization of the sale. Subsequently, said prospective purchaser was unable to complete the transaction and forfeited the amount in escrow to Safe Space.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Moving and office consolidation		\$ 150,000
Preventive services	\$ 45,574	228,868
Stabilization fund	50,000	25,000
Young adult services	<u>59,176</u>	<u>194,408</u>
	<u>\$ 154,750</u>	<u>\$ 598,276</u>

During 2010 and 2009, net assets were released from contractual or donor restrictions by incurring expenses satisfying the following restricted purposes or by occurrence of other events specified by donors:

	<u>2010</u>	<u>2009</u>
Arts academy		\$ 71
Capital acquisitions		97,600
IT upgrade		50,000
March of Dimes		1,916
Moving and office consolidation	\$ 222,500	
Preventive services	258,294	379,317
Young adult services	<u>200,532</u>	<u>183,468</u>
	<u>\$ 681,326</u>	<u>\$ 712,372</u>

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject Safe Space to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

As of June 30, 2010, slightly more than 50% of Safe Space's income is from New York City Administration for Children's Services and other New York State and City contracts; therefore, Safe Space is highly dependent on New York State and New York City funding.

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SAFE SPACE NYC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 11 - ACS COMPREHENSIVE FINANCIAL REVIEW

During 2009, ACS contracted with a management consulting firm to perform a comprehensive financial review of Safe Space's financial operations. The firm provided Safe Space with a corrective action plan to be implemented by May 2010. The corrective action plan was implemented and ACS has awarded Safe Space a new four-year contract, subject to two four-year noncompetitive renewals.

NOTE 12 - MANAGEMENT OPERATIONAL PLANS

A new President and CEO joined Safe Space at the start of the 2010 fiscal year. This management has made and continues to make significant progress in improving the organization's financial position. Management is pursuing multiple strategies to address the negative net asset balance: significantly clearing up liabilities and pursuing all available appeals to reduce its ACS liabilities.

Management continues to improve its daily operations, implementing better accounting and fiscal controls, developing cash management tools and practices, and monitoring and reducing expenses. Management has pursued expense reductions in its daily operations, including IT and telecommunications upgrades that will ultimately eliminate old systems and unify the agency under one phone system as well as expand the technical capacity of the agency. In fiscal year 2011, Safe Space has consolidated multiple program locations and its administrative offices with its move to one location (89-74 162nd Street, Jamaica). This consolidation is anticipated to further reduce occupancy costs.

Management is also investing in its development and program revenue capacity. The agency recently hired a Vice President of External Affairs and Development and a Vice President of Clinical Operations. Throughout fiscal year 2010, the agency was engaged in an executive search for the Vice President of External Affairs.