

**Forestdale, Inc.**

Financial Statements

June 30, 2010



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## Independent Auditors' Report

### Board of Directors Forestdale Inc.

We have audited the accompanying statement of financial position of Forestdale, Inc. as of June 30, 2010 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Forestdale, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Forestdale, Inc.'s 2009 financial statements and, in our report dated November 3, 2009 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Forestdale, 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 audit provides 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 Forestdale, Inc. as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*O'Connor Davies Munns & Dobbins, LLP*

New York, New York  
October 29, 2010

**Forestdale, Inc.**  
Statement of Financial Position  
June 30, 2010  
(with comparative amounts at June 30, 2009)

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 882,780	\$ 918,874
Due from governmental agencies	2,527,883	2,341,447
Prepaid expenses and other assets	20,275	149,330
Investments	13,038,112	11,689,273
Property, plant and equipment, net	497,841	481,597
Restricted investments	187,295	187,295
	\$ 17,154,186	\$ 15,767,816
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 412,002	\$ 458,692
Accrued payroll and benefits	400,313	419,755
Accrued foster care payments	350,557	361,870
Due to governmental agencies	389,283	364,445
Estimated liability for rate adjustment and underspending	100,000	100,000
Total Liabilities	1,652,155	1,704,762
Net Assets		
Unrestricted		
Operating	1,626,856	1,620,859
Investment in property, plant and equipment	497,841	481,597
Board designated	13,038,112	11,689,273
Total Unrestricted	15,162,809	13,791,729
Temporarily restricted	151,927	84,030
Permanently restricted	187,295	187,295
Total Net Assets	15,502,031	14,063,054
	\$ 17,154,186	\$ 15,767,816

See notes to financial statements

**Forestdale, Inc.**  
Statement of Activities  
Year Ended June 30, 2010

(with summarized totals for the year ended June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
<b>OPERATING INCOME</b>					
Foster boarding homes	\$ 9,730,855	\$ -	\$ -	\$ 9,730,855	\$ 9,462,487
Foster parent support	331,837	-	-	331,837	256,475
Aftercare reinvestment	582,178	-	-	582,178	406,587
Medicaid	2,052,661	-	-	2,052,661	1,928,644
Preparing youth for adulthood	439,186	-	-	439,186	435,486
Preventive services	644,408	-	-	644,408	661,022
Infant mortality reduction program	40,675	-	-	40,675	40,350
Forestdale fathering initiative	504,575	-	-	504,575	376,689
Community partnership initiative	148,507	-	-	148,507	149,037
Teenage Services Act program	107,628	-	-	107,628	-
Contributions and grants (including in-kind of \$142,855 in 2010)	204,752	132,117	-	336,869	53,153
Net assets released from restrictions	64,499	(64,499)	-	-	-
Total Operating Income	<u>14,851,761</u>	<u>67,618</u>	<u>-</u>	<u>14,919,379</u>	<u>13,769,930</u>
<b>OPERATING EXPENSES</b>					
Program services	13,455,751	-	-	13,455,751	13,053,566
Supporting services					
Management and general	1,451,999	-	-	1,451,999	1,299,413
Fundraising	76,438	-	-	76,438	24,912
Total Expenses	<u>14,984,188</u>	<u>-</u>	<u>-</u>	<u>14,984,188</u>	<u>14,377,891</u>
Excess (Deficiency) of Operating Income over Operating Expenses	(132,427)	67,618	-	(64,809)	(607,961)
<b>NON OPERATING INCOME</b>					
Investment return	1,503,507	279	-	1,503,786	(3,261,385)
Change in Net Assets	1,371,080	67,897	-	1,438,977	(3,869,346)
<b>NET ASSETS</b>					
Beginning of year	13,791,729	84,030	187,295	14,063,054	17,932,400
End of year	<u>\$ 15,162,809</u>	<u>\$ 151,927</u>	<u>\$ 187,295</u>	<u>\$ 15,502,031</u>	<u>\$ 14,063,054</u>

See notes to financial statements

**Forestdale, Inc.**  
Statement of Functional Expenses  
Year Ended June 30, 2010  
(with summarized totals for the year ended June 30, 2009)

	Program Services										Supporting Services				
	Foster Boarding Homes	Foster Boarding Homes (RIP)	Medicaid	Preparing Youth for Adulthood	Preventive Services	Infant Mortality Reduction Program	Forestdale Fathering Initiative	Community Partnership Initiative	Teenage Services Act Program	Foster Parent Support	Total Program Services	Management and General	Fundraising	2010 Total	2009 Total
<b>PERSONNEL</b>															
Salaries	\$ 2,492,024	\$ 364,802	\$ 256,175	\$ 121,951	\$ 338,599	\$ 24,454	\$ 351,451	\$ 54,529	\$ 108,072	\$ 155,977	\$ 4,268,034	\$ 951,591	\$ -	\$ 5,219,625	\$ 4,883,519
Employee benefits and payroll taxes	750,538	109,749	77,154	36,688	101,865	7,365	92,789	16,405	32,549	46,925	1,272,027	286,596	-	1,558,623	1,332,033
Total Personnel	3,242,562	474,551	333,329	158,639	440,464	31,819	444,240	70,934	140,621	202,902	5,540,061	1,238,187	-	6,778,248	6,215,552
<b>OTHER EXPENSES</b>															
Children's allowances and pass-thru	4,480,023	-	-	87,594	-	-	-	-	-	-	4,567,617	10,400	55,341	4,633,358	4,537,721
Transportation and workers expense	70,601	3,027	119	704	5,556	142	1,264	412	752	188	82,765	63,557	26	146,348	246,666
Purchase of services	288,772	12,165	28,359	117,818	32,321	838	30,523	69,919	879	16,543	598,137	39,802	-	637,939	666,669
Purchase of health services	-	-	1,559,823	-	-	-	-	-	-	-	1,559,823	-	-	1,559,823	1,473,343
Supplies and equipment	36,046	668	2,444	2,066	1,348	-	2,621	2,069	260	2,593	50,115	3,350	90	53,555	69,608
Supplies and equipment - medical	-	-	179,297	-	-	-	-	-	-	-	179,297	-	-	179,297	155,341
Rent - furniture and equipment	8,618	454	1,661	585	876	-	1,488	607	-	-	14,289	2,278	-	16,567	16,512
Rent - office space	-	-	-	-	-	-	24,000	-	-	-	24,000	-	-	24,000	10,000
Utilities	45,206	2,384	8,715	3,067	4,593	-	9,160	2,945	-	-	76,070	11,949	-	88,019	89,097
Repairs and maintenance	58,530	1,135	3,061	2,673	3,403	-	2,635	1,442	-	21,163	94,042	4,197	-	98,239	95,780
Telephone	27,438	1,315	1,316	627	1,740	126	5,133	1,933	-	802	40,430	4,890	-	45,320	36,978
Postage	31,332	1,155	1,102	992	1,457	148	2,144	115	-	671	39,116	4,095	190	43,401	39,155
Dues, licenses and permits	19,703	-	9,038	1,900	1,900	-	-	-	388	-	32,929	3,453	-	36,382	29,701
Office supplies	68,841	750	5,238	485	1,284	71	1,780	704	331	455	79,939	2,773	70	82,782	105,601
Subscriptions and publications	-	-	-	-	-	-	565	3	-	-	568	1,280	-	1,848	6,365
Conferences	1,527	-	-	-	-	-	2,724	-	-	-	4,251	1,059	-	5,310	13,004
Staff development	11,037	-	59	-	45	25	109	255	59	27	11,616	2,685	270	14,571	24,127
Publicity and recruitment	76,212	160	80	85	80	100	2,984	958	85	1,902	82,646	2,688	448	85,782	86,334
Professional services	168,144	2,601	2,604	1,240	3,442	249	-	-	-	1,586	179,866	9,674	-	189,540	170,312
Insurance	83,213	8,543	8,554	4,072	11,306	817	-	2,011	-	5,208	123,724	31,775	-	155,499	179,478
Depreciation and amortization	52,617	2,774	10,143	3,570	5,346	-	-	-	-	-	74,450	13,907	20,003	108,360	110,547
Total Other Expenses	5,527,860	37,131	1,821,613	227,478	74,697	2,516	87,130	83,373	2,754	51,138	7,915,690	213,812	76,438	8,205,940	8,162,339
Total Expenses	\$ 8,770,422	\$ 511,682	\$ 2,154,942	\$ 386,117	\$ 515,161	\$ 34,335	\$ 531,370	\$ 154,307	\$ 143,375	\$ 254,040	\$ 13,455,751	\$ 1,451,999	\$ 76,438	\$ 14,984,188	\$ 14,377,891

See notes to financial statements

**Forestdale, Inc.**  
Statement of Cash Flows  
Year Ended June 30, 2010  
(with summarized totals for the year ended June 30, 2009)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,438,977	\$ (3,869,346)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	108,360	110,547
Realized (gain) loss on investments	(283,325)	2,576,224
Unrealized (gain) loss on investments	(908,832)	1,001,216
Changes in operating assets and liabilities		
Due from governmental agencies	(186,436)	407,381
Prepaid expenses and other assets	129,055	52,879
Accounts payable and accrued expenses	(46,690)	122,655
Accrued payroll and benefits	(19,442)	9,650
Accrued foster care payments	(11,313)	(18,043)
Due to governmental agencies	24,838	280,863
Net Cash from Operating Activities	245,192	674,026
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(124,604)	(133,365)
Purchase of investments	(6,370,531)	(9,041,419)
Proceeds from sale of investments	6,157,300	8,648,828
Change in short term investments	56,549	98,614
Net Cash from Investing Activities	(281,286)	(427,342)
Net Change in Cash and Cash Equivalents	(36,094)	246,684
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	918,874	672,190
End of year	\$ 882,780	\$ 918,874
<b>SUPPLEMENTAL INFORMATION</b>		
Disposal of fully depreciated property, plant and equipment	\$ 21,958	\$ -

See notes to financial statements

# Forestdale, Inc.

## Notes to Financial Statements

### 1. Organization and Tax Status

Forestdale, Inc. ("Forestdale") is a not-for-profit organization which provides services to children in the metropolitan area. These services include foster boarding homes, preparing youth for adulthood, general preventive services, infant mortality reduction, Forestdale fathering initiative, preventive community partnership innovative procurement, and teenage services act program.

Forestdale was incorporated in the State of New York and is exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue. In addition, Forestdale has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509 (a) of the Internal Revenue Code. Forestdale is exempt from New York State income taxes.

### 2. Summary of Significant Accounting Policies

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *Financial Statement Presentation*

The classification of Forestdale's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for permanently restricted, temporarily restricted, and unrestricted net assets be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

#### *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid fixed income investments purchased with an original maturity of three months or less at time of purchase.

#### *Fair Value Measurements*

Forestdale follows Financial Accounting Standards Board ("FASB") guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest level of reliance and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

**Forestdale, Inc.**

**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

***Investments Valuations***

Investments are carried at fair value. Certificates of deposit are carried at cost plus accrued interest.

***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost or, if donated, at fair market value on the date of the gift. Depreciation and amortization are computed over the estimated useful lives of the assets using the straight line method for financial reporting purposes as follows:

Building and improvements	10-40 years
Furniture and equipment	5-10 years
Equipment under capitalized lease	5 years
Computer software and hardware	3 years
Vehicles	3 years

***Contributions and Promises to Give***

All contributions, including unconditional promises to give, are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

***Third-Party Reimbursement and Revenue Recognition***

Forestdale receives substantially all its revenue for services provided to approved clients from third-party reimbursement agencies, primarily New York City Administration for Children's Services ("ACS") and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. Forestdale records an estimated liability to governmental agencies for excess reimbursement over allowable costs and underspending of interim rates.



**Forestdale, Inc.**

**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

***Third-Party Reimbursement and Revenue Recognition (continued)***

Revenue is recognized from rate-based programs when services are provided (e.g. care days and clinic visits). Contract revenue is recognized as expenses for these programs are incurred to the maximum of the contract award.

***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain administrative, fundraising and maintenance costs have been allocated among the programs and supporting services.

***Summarized Financial Information***

The statements of activities and functional expenses include prior year summarized comparative information in total which does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2009 from which the summarized information was derived.

***Accounting for Uncertainty in Income Taxes***

Forestdale recognizes the effect of income tax positions only of those positions are more likely than not of being sustained. Management has determined that Forestdale had no uncertain tax positions that would require financial statement recognition. Forestdale is no longer subject to audits by the applicable taxing jurisdictions for tax periods prior to 2006.

***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 29, 2010.

**Forestdale, Inc.**

**Notes to Financial Statements**

**3. Investments**

The following are major categories of investments measured at estimated fair value as of June 30, 2010 and 2009:

Description	2010		
	Level 1	Level 2	Total
Money market funds	\$ 386,461	\$ -	\$ 386,461
Equity securities	5,319,318	-	5,319,318
Debt securities	524,702	-	524,702
Mutual funds	702,500	-	702,500
Publicly traded partnerships	44,579	-	44,579
Fixed income			
US treasury bonds and notes	838,561	-	838,561
US government agency obligations	-	2,165,625	2,165,625
Corporate bonds	-	2,763,353	2,763,353
Asset-backed securities	-	461,182	461,182
Total investments at fair value	<u>\$ 7,816,121</u>	<u>\$ 5,390,160</u>	13,206,281
Certificate of deposit			<u>19,126</u>
Total investments			<u>\$ 13,225,407</u>
Description	2009		
	Level 1	Level 2	Total
Money market funds	\$ 443,009	\$ -	\$ 443,009
Equity securities	5,530,997	-	5,530,997
Debt securities	473,907	-	473,907
Mutual funds	543,460	-	543,460
Publicly traded partnerships	24,221	-	24,221
Fixed income			
US treasury bonds and notes	168,264	-	168,264
US government agency obligations	-	2,138,447	2,138,447
Corporate bonds	-	2,044,646	2,044,646
Asset-backed securities	-	490,608	490,608
Total investments at fair value	<u>\$ 7,183,858</u>	<u>\$ 4,673,701</u>	11,857,559
Certificate of deposit			<u>19,009</u>
Total investments			<u>\$ 11,876,568</u>

## Forestdale, Inc.

### Notes to Financial Statements

#### 3. Investments (continued)

The composition of investment return as reported in the statement of activities for the year ended June 30 is as follows:

	2010	2009
Interest on cash and cash equivalents	\$ 4,947	\$ 16,568
Interest and dividends	412,400	415,016
Realized and unrealized gain (loss) on investments	1,192,157	(3,577,440)
Investment fees	(105,718)	(115,529)
	<u>\$ 1,503,786</u>	<u>\$ (3,261,385)</u>

#### 4. Property, Plant and Equipment

Property, plant and equipment consist of the following as of June 30:

	2010	2009
Land	\$ 100,868	\$ 100,868
Buildings and improvements	1,311,815	1,311,815
Furniture and equipment	1,353,280	1,270,315
Vehicles	34,900	15,219
	<u>2,800,863</u>	<u>2,698,217</u>
Accumulated depreciation and amortization	(2,303,022)	(2,216,620)
	<u>\$ 497,841</u>	<u>\$ 481,597</u>

#### 5. Due to Governmental Agencies

Due to governmental agencies consists of the following as of June 30, 2010:

Due to ACS for working capital advances received	\$ 380,000
Advances received from various funding agencies	<u>9,283</u>
	<u>\$ 389,283</u>

#### 6. Estimated Liability for Rate Adjustment and Underspending

ACS, Forestdale's primary governmental supporter, has completed its audits through June 30, 2008 with a net amount due Forestdale of approximately \$40,873. Management has established an estimated liability of \$100,000 for future audits and Medicaid rate adjustments. Rate adjustments are accrued as information becomes available. Revenues resulting from rate appeals are recorded in the period such appeals are determined to be probable of collection.

## Forestdale, Inc.

### Notes to Financial Statements

#### 7. Board Designated Net Assets

Forestdale's Board of Directors designated a portion of the unrestricted net assets to be used for future program operations and capital improvements.

#### 8. Temporarily Restricted Net Assets

Changes in the temporarily restricted net assets consist of the following:

<u>Purpose / Restriction</u>	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Assets Released</u>	<u>Balance at June 30, 2010</u>
Frishman Noble				
Relyea scholarship fund	\$ 84,030	\$ 28,297	\$ (10,400)	\$ 101,927
Teen health clinic	-	50,000	-	50,000
Community partnership initiative	-	6,000	(6,000)	-
Forestdale fathering initiative	-	16,649	(16,649)	-
Aftercare reinvestment	-	21,450	(21,450)	-
Teenage Services Act	-	10,000	(10,000)	-
	<u>\$ 84,030</u>	<u>\$ 132,396</u>	<u>\$ (64,499)</u>	<u>\$ 151,927</u>

#### 9. Permanently Restricted Net Assets

Permanently restricted net assets represent donor restricted contributions to be held in perpetuity, the income from which is expended to support the programs and operations of Forestdale.

#### 10. Endowment Funds

##### *Interpretation of Law*

Forestdale maintains various donor-restricted funds and board designated funds whose purpose is to provide long term support for its charitable programs. In classifying such funds for financial statement purposes as either permanently restricted, temporarily restricted or unrestricted net assets, the Board of Directors looks to the explicit directions of the donor where applicable and the provisions of the laws of the State of New York. The Board has determined that, absent donor stipulations to the contrary, the provisions of New York State law do not impose either a permanent or temporary restriction on the income or capital appreciation derived from the original gift.

**Forestdale, Inc.**

**Notes to Financial Statements**

**10. Endowment Funds (continued)**

***Investment Strategy***

Forestdale employs a strategic asset allocation strategy with its asset allocations diversified over multiple classes and sub classes. Forestdale's investment objective is for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a time weighted total rate of return in excess of the established medium and long term benchmarks. Forestdale expects the portfolio's asset allocation to reflect the investment objectives, goals, time horizon, risk tolerances and any investment restrictions that may exist within the policy.

***Spending Policy***

The spending policy of Forestdale stipulates that 4% of the market value of the investment portfolio may be disbursed annually. These calculations are made on an annual basis.

The following is a reconciliation of the board designated and donor restricted endowment funds for the year ended June 30, 2010:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 11,689,273	\$ 187,295	\$ 11,876,568
Investment income, net	306,682	-	306,682
Realized/unrealized gain on investments	1,192,157	-	1,192,157
Appropriation for expenditure	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Balance, end of year	<u>\$ 13,038,112</u>	<u>\$ 187,295</u>	<u>\$ 13,225,407</u>

**11. Pension Plan**

Forestdale has a defined contribution pension plan which covers all employees meeting eligibility requirements. Pension expense was \$440,121 for the year ended June 30, 2010.

**12. Economic Dependency**

Forestdale is an authorized social service agency under the regulations of the New York State Office of Children and Family Services. Reimbursement rates for the services provided by Forestdale are promulgated by this department and payments for such services are received through various governmental agencies. Forestdale is economically dependent on these funds to continue operations.

**Forestdale, Inc.**

**Notes to Financial Statements**

**13. Concentration of Credit Risk**

Financial instruments which potentially subject Forestdale to a concentration of credit risk consist primarily of cash and cash equivalents in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, or group of investments, represent a significant concentration of market risk.

Forestdale provides program services that are covered under various third party agreements. Receivables from such arrangements totaled \$2,527,883 and \$2,341,447 as of June 30, 2010 and 2009.

The percentage of the total by third party payor was as follows:

	<u>2010</u>	<u>2009</u>
New York City	84%	83%
Medicaid	<u>16%</u>	<u>17%</u>
	<u>100%</u>	<u>100%</u>