



***CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT***

YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Community Service Society of New York and Affiliates
New York, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Service Society of New York and Affiliates which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of Institute for Community Empowerment; and Friends of R.S.V.P., Inc. were not audited in accordance with *Government Auditing Standards*.

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 auditors' 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 consolidated financial position of Community Service Society of New York and Affiliates as of June 30, 2016 and 2015, 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:

Other Information

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 as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016 on our consideration of Community Service Society of New York and Affiliates' 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 the 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 Community Service Society of New York and Affiliates' internal control over financial reporting and compliance.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

October 27, 2016, except for the Schedule of Expenditures of Federal Awards which is dated December 7, 2016

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

ASSETS

	June 30,	
	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 5,673	\$ 2,463
Investments	158,224	166,850
Government and other receivables	5,797	9,010
Prepaid and other assets	611	611
Beneficial interest in perpetual trusts	33,738	33,982
Investment in The United Charities		8,012
Property and equipment, net	<u>37,362</u>	<u>32,478</u>
Total assets	<u>\$ 241,405</u>	<u>\$ 253,406</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 5,516	\$ 6,966
Accrued pension and post-retirement liability	16,128	8,526
Line of credit	<u>25,604</u>	<u>21,700</u>
Total liabilities	<u>47,248</u>	<u>37,192</u>
Net assets:		
Unrestricted:		
Undesignated	106,520	123,952
Board designated - general reserve	<u>1,023</u>	<u>1,404</u>
Total unrestricted	<u>107,543</u>	<u>125,356</u>
Temporarily restricted	23,781	27,781
Permanently restricted	<u>62,833</u>	<u>63,077</u>
Total net assets	<u>194,157</u>	<u>216,214</u>
Total liabilities and net assets	<u>\$ 241,405</u>	<u>\$ 253,406</u>

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

COMMUNITY SERVICE SOCIETY AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
(in thousands)

	Year ended June 30, 2016			Year ended June 30, 2015				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue and support:								
Government grants	\$ 16,726	\$	\$	\$ 16,726	\$ 13,538	\$	\$	\$ 13,538
Direct contributions and federated campaigns	759	1,838		2,597	617	3,374		3,991
Bequests and trusts	987			987	29			29
Program fees and other revenue	167			167	441			441
Special events, net of expenses of \$107 in 2015					63			63
Investment return used for operations, net	3,526	5,114		8,640	1,940	6,066		8,006
Net assets released from restrictions	11,584	(11,584)			9,096	(9,096)		
Total operating revenue and support	33,749	(4,632)		29,117	25,724	344		26,068
Operating expenses:								
Program services:								
Direct program services	22,429			22,429	18,491			18,491
Policy, research and advocacy	3,250			3,250	3,586			3,586
Public interest	925			925	843			843
Total program services	26,604			26,604	22,920			22,920
Supporting services:								
Management and general	4,893			4,893	4,056			4,056
Fundraising	1,161			1,161	1,036			1,036
Total supporting services	6,054			6,054	5,092			5,092
Total operating expenses	32,658			32,658	28,012			28,012
Deficit of operating revenue over operating expenses	1,091	(4,632)		(3,541)	(2,288)	344		(1,944)
Non-operating activities:								
Investment return in excess (deficiency) of amount used for operations, net	(11,385)	632	(244)	(10,997)	(3,574)	474	(657)	(3,757)
Gain from equity interest in The United Charities					60,718			60,718
Loss on disposition of property and equipment					(1,522)			(1,522)
Total non-operating activities	(11,385)	632	(244)	(10,997)	55,622	474	(657)	55,439
Change in net assets before pension and post-retirement related charges	(10,294)	(4,000)	(244)	(14,538)	53,334	818	(657)	53,495
Pension and post-retirement related charges other than net periodic pension costs	(7,519)			(7,519)	385			385
Change in total net assets	(17,813)	(4,000)	(244)	(22,057)	53,719	818	(657)	53,880
Net assets, beginning of year	125,356	27,781	63,077	216,214	71,637	26,963	63,734	162,334
Net assets, end of year	\$ 107,543	\$ 23,781	\$ 62,833	\$ 194,157	\$ 125,356	\$ 27,781	\$ 63,077	\$ 216,214

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

COMMUNITY SERVICE SOCIETY AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended June 30,	
	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (22,057)	\$ 53,880
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,366	297
Net realized and unrealized gain on investments	(6,543)	(1,582)
Decrease in beneficial interest in perpetual trusts	244	657
Change in equity investment in The United Charities		(60,718)
Pension and post-retirement related changes other than net periodic pension cost	7,519	(385)
Bad debt expense	9	28
Loss on disposition of property and equipment		1,522
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Government and other receivables	3,204	(3,773)
Prepaid and other assets		(199)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,450)	1,701
Accrued pension and post-retirement liability	83	(262)
Net cash used by operating activities	<u>(17,625)</u>	<u>(8,834)</u>
Cash flows from investing activities:		
Purchases of investments	(44,663)	(117,323)
Proceeds from sale/maturity of investments	59,832	82,501
Distributions from The United Charities	8,012	54,828
Purchases of property and equipment	(6,250)	(32,493)
Net cash provided (used) by investing activities	<u>16,931</u>	<u>(12,487)</u>
Cash flows from financing activities:		
New borrowings - line of credit	4,300	21,700
Principal repayments	(396)	
Net cash provided by financing activities	<u>3,904</u>	<u>21,700</u>
Net increase in cash and cash equivalents	3,210	379
Cash and cash equivalents, beginning of year	<u>2,463</u>	<u>2,084</u>
Cash and cash equivalents, end of year	<u>\$ 5,673</u>	<u>\$ 2,463</u>
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 268</u>	<u>\$ 110</u>
Non-Cash Investing Activities		
Disposition of fully depreciated property and equipment	<u>\$</u>	<u>\$ 3,796</u>

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

COMMUNITY SERVICE SOCIETY AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(in thousands)

Years Ended June 30, 2016 and 2015

	Program services expenses							
	Direct program services		Policy, research and advocacy		Public interest		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaries	\$ 6,534	\$ 5,566	\$ 1,449	\$ 1,474	\$ 390	\$ 334	\$ 8,373	\$ 7,374
Fringe benefits and payroll taxes	2,669	2,074	579	585	158	130	3,406	2,789
Total salaries and related expenses	9,203	7,640	2,028	2,059	548	464	11,779	10,163
Professional fees	10,688	9,030	811	1,185	160	168	11,659	10,383
Supplies	140	95	15	17	2	2	157	114
Telephone and communication	137	105	21	18	7	5	165	128
Postage and shipping	33	19	2	4			35	23
Occupancy	401	636	115	169	24	39	540	844
Insurance	8	7	14	16			22	23
Printing and other office expenses	47	9	28	12	11	5	86	26
Transportation	180	159	33	22		2	213	183
Conferences, conventions and meetings	128	179	35	29	13	13	176	221
Direct assistance	402	268					402	268
Support payments	86	98	3	4	122	135	211	237
Equipment rentals and expenses	52	27	11	14		1	63	42
Interest								
Bad debt expense	5	28					5	28
Depreciation	919	191	134	37	38	9	1,091	237
Total operating expenses	<u>\$ 22,429</u>	<u>\$ 18,491</u>	<u>\$ 3,250</u>	<u>\$ 3,586</u>	<u>\$ 925</u>	<u>\$ 843</u>	<u>\$ 26,604</u>	<u>\$ 22,920</u>

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

COMMUNITY SERVICE SOCIETY AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(in thousands)

Years Ended June 30, 2016 and 2015

	Supporting services expenses						Total program and supporting services expenses	
	Management and general		Fundraising		Total		2016	2015
	2016	2015	2016	2015	2016	2015		
Salaries	\$ 1,966	\$ 1,910	\$ 583	\$ 535	\$ 2,549	\$ 2,445	\$ 10,922	\$ 9,819
Fringe benefits and payroll taxes	930	794	236	210	1,166	1,004	4,572	3,793
Total salaries and related expenses	2,896	2,704	819	745	3,715	3,449	15,494	13,612
Professional fees	576	297	111	90	687	387	12,346	10,770
Supplies	79	20	4	2	83	22	240	136
Telephone and communication	95	87	5	2	100	89	265	217
Postage and shipping	12	10	31	61	43	71	78	94
Occupancy	123	255	34	61	157	316	697	1,160
Insurance	136	121			136	121	158	144
Printing and other office expenses	19	14	90	51	109	65	195	91
Transportation	137	99	7	1	144	100	357	283
Conferences, conventions and meetings	188	138	3	4	191	142	367	363
Direct assistance							402	268
Support payments							211	237
Equipment rentals and expenses	132	152	10	8	142	160	205	202
Interest	268	110			268	110	268	110
Bad debt expense	4				4		9	28
Depreciation	228	49	47	11	275	60	1,366	297
Total operating expenses	<u>\$ 4,893</u>	<u>\$ 4,056</u>	<u>\$ 1,161</u>	<u>\$ 1,036</u>	<u>\$ 6,054</u>	<u>\$ 5,092</u>	<u>\$ 32,658</u>	<u>\$ 28,012</u>

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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

June 30, 2016 and 2015

1. Summary of significant accounting policies

This summary of significant accounting policies of Community Service Society of New York (CSS) and its affiliated organizations: Institute for Community Empowerment (Institute); and Friends of R.S.V.P., Inc. (CSS and its affiliates are collectively referred to as the Society), is presented to assist in understanding the Society's consolidated financial statements. The consolidated financial statements and notes are representations of the Society's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification) and have been consistently applied in the preparation of the consolidated financial statements.

Nature of the Organization

CSS, Institute and Friends of R.S.V.P., Inc. are affiliated through common board control. CSS is a 501(c)(3) not-for-profit corporation operating under a Certificate of Consolidation granted by the State of New York in 1939, merging the New York Association for Improving the Condition of the Poor and The Charity Organization Society of the City of New York. It is a private, nonsectarian, voluntary social service agency. The mission of Community Service Society of New York is to identify problems which create a permanent poverty class in New York City, and to advocate the systemic changes required to eliminate such problems. CSS's primary goals are to advocate for better job opportunities to break the cycle of intergenerational poverty that particularly affects communities of color; promote policies and programs that advance the economic security of the poor and working poor; and promote health care reform as an essential strategy for alleviating barriers to employment and economic stability.

The Institute is a 501(c)(4) not-for-profit corporation which was established in November 1988 to perform certain electoral advocacy, research, and lobbying activities with other community-based organizations. The Institute did not engage in any activities during either the years ended June 30, 2016 or 2015.

Friends of R.S.V.P., Inc. is a 501(c)(3) private foundation created in 1986 as a fund-raising vehicle for the Retired and Senior Volunteer Program administered by CSS. On January 23, 2005, the Board of Trustees voted to dissolve the Friends of R.S.V.P. Inc. Implementation of this decision has yet to occur citing the potential of a name change or reorganization.

The Society's primary sources of revenues are contributions, investment income and government grants.

Principles of consolidation

The consolidated financial statements include the accounts of CSS, Institute and Friends of R.S.V.P., Inc. All material intercompany balances and transactions have been eliminated in consolidation.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

1. Summary of significant accounting policies (continued)

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets are board-designated funds of \$1,023 and \$1,404 as of June 30, 2016 and 2015, respectively.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on any related investments for general or specific purposes.

Cash and cash equivalents

Cash consists of demand deposit accounts which are highly liquid financial instruments with maturities of three months or less. Demand deposit accounts that are held in the Society's investment portfolio are classified as investments and are not considered to be cash for the purposes of the statement of cash flows.

Support and revenue

Contributions, including unconditional pledges, are recorded at fair value as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional pledges are recognized when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, if a restriction is fulfilled in the same accounting period the contribution is received, the Society reports the support as unrestricted.

Governmental support is reported in the year earned at net realized amounts for services rendered under reimbursement agreements. Rates under reimbursement agreements are subject to change based on subsequent review by funding agencies. Accordingly, contract support and grants are reported net of estimated retroactive adjustment of rates and may be adjusted in future periods, as final settlements are determined. Rate appeals may also be initiated by the Society; revenues from such appeals are recorded in the period such appeals are determined to be probable of collection. Funds received in periods prior to the cost being incurred are deferred until future periods.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

June 30, 2016 and 2015

1. Summary of significant accounting policies (continued)

Donated services

The Society records the value of donated facilities or services when there is an objective basis available to measure their value and when they enhance non-financial assets or require a specialized skill which the Organization would otherwise need to purchase.

The Society does not record contribution revenue for the donated services of volunteers, since such services primarily supplement the efforts of the Society's professional staff in providing its essential services. The activities of such volunteers include working with and providing assistance to the elderly and children of minority group families, providing legal and financial assistance to low-income families, serving on advisory committees, and assisting in fundraising activities.

The Society recognized no in-kind donations during either the years ended June 30, 2016 or 2015.

Investment in The United Charities

The investment in The United Charities was recorded on the equity method. The Society received its final distributions from The United Charities during the year ended June 30, 2016 (see note 5).

Beneficial interest in perpetual trusts

The Society has beneficial interests in various perpetual trusts. The Society's interest in these trusts is reported as a contribution in the year received at their fair value. Changes in the fair value of the underlying assets are recognized in permanently restricted non-operating activities on the statement of activities.

Allowance for uncollectible accounts and doubtful pledges

Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of client balances by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. As of June 30, 2016 and 2015, management determined that an allowance was not necessary.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value, based on quoted market prices, on the statement of financial position. The Society invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Society's consolidated financial statements. Investment fees are netted against the investment return.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

1. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost, if purchased, or if donated, at fair value at the date of gift, less accumulated depreciation. Property and equipment are depreciated on the straight-line basis over the following estimated useful lives:

Building	39 years
Building improvements	15 years
Computer and office equipment	3 - 7 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income. Expenditures for maintenance and repairs are charged to expense as incurred; replacements and betterments that extend the useful lives are capitalized.

Fair value of financial instruments

The carrying amounts reported on the consolidated statement of financial position of the Society approximate their fair value.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services based on management's best estimates.

Uncertain tax positions

As of June 30, 2016, management believes that based on evaluation of the Society's tax positions that any liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the Society's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of an income tax provision. Income tax returns are filed only with the U.S. federal jurisdiction as state and local tax returns are not applicable. U.S. federal income tax returns prior to fiscal year 2012 are closed.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

1. Summary of significant accounting policies (continued)

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

2. Risks and uncertainties

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, cash equivalents, investments, and governmental and other receivables. The Society maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. The Organization limits its exposure by performing periodic evaluations of the financial institution where it maintains its cash and cash equivalents. Investment securities are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Concentration of credit risk with respect to receivables is limited due to the fact that they are mainly derived from governmental agencies.

3. Government and other receivables

Government and other receivables consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Government receivables:		
U.S. Department of Health and Human Services:		
New York State Establishment Exchange Grant	\$ 800	\$ 1,519
Navigator Program Grant	1,637	2,447
ABD Healthcare Program Grant	<u>385</u>	<u>356</u>
	2,822	4,322
Corporation for National and Community Service:		
RSVP Program	191	157
New York State Department of Health:		
ICAN Healthcare Program Grant	1,412	2,953
New York City DOHMH:		
Harlem Healthcare Program Grant	<u>468</u>	<u>360</u>
Total government receivables	4,893	7,792
Non-government receivables	<u>904</u>	<u>1,218</u>
	<u>\$ 5,797</u>	<u>\$ 9,010</u>

At June 30, 2016, all receivables are expected to be collected within one year.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

4. Fair value measurements

The Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly, including inputs that are not considered to be active;

Level 3 - Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad criteria data, liquidity statistics, and other factors.

An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Society. The Society considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Society's perceived risk of that investment.

The following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds, fixed-income securities and equities, and U.S. Government obligations - Valued at the closing price reported on the active market on which the individual securities are traded.

Commingled funds, structured debt fund, and real estate fund - Valued at the net asset value (NAV) of shares held at year end as determined by the managers of the underlying funds.

Alternative investment - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The funds are valued by the managers of the underlying funds at the NAV of shares held by CSS at year end or other pricing methodologies.

Beneficial interest in perpetual trusts - Beneficial interest in perpetual trusts is valued at fair value of the Society's beneficial interest in the fair value of underlying assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

4. Fair value measurements (continued)

Investment securities are stated at fair value and are summarized as follows at June 30:

	2016		2015	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 1,010	\$ 1,010	\$ 85	\$ 85
Money market funds	1,359	1,359	9,131	9,131
Fixed income:				
U.S government and agency	15,356	15,581	12,721	12,716
Corporate bonds	10,651	10,897	9,118	9,063
Mutual funds:				
Equity	37,991	39,159	38,077	40,144
Fixed income	4,296	4,313	6,132	6,132
Alternative investment	15,647	13,911	15,529	14,786
U.S. equity	35,100	36,166	35,515	37,866
Non U.S. equity	30,661	29,065	30,385	29,891
Alternative investment	6,611	6,361	6,190	6,517
Structured debt fund	190	402	257	519
	<u>\$ 158,872</u>	<u>\$ 158,224</u>	<u>\$ 163,140</u>	<u>\$ 168,850</u>

The classification of the Society's investment securities at fair value are as follows at June 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 1,010	\$	\$	\$ 1,010
Money market funds	1,359			1,359
Fixed income:				
U.S. government and agency	15,581			15,581
Corporate bonds	10,897			10,897
Mutual funds:				
Equity	39,159			39,159
Fixed income	4,313			4,313
Alternative investment			13,911	13,911
U.S. equity	36,166			36,166
Non U.S. equity	29,065			29,065
Alternative investment			6,361	6,361
Structured debt fund			402	402
	<u>137,550</u>		<u>20,674</u>	<u>158,224</u>
Beneficial interest in perpetual trusts			<u>33,738</u>	<u>33,738</u>
	<u>\$ 137,550</u>	<u>\$</u>	<u>\$ 54,412</u>	<u>\$ 191,962</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2016 and 2015

4. Fair value measurements (continued)

	2015			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 85	\$	\$	\$ 85
Money market funds	9,131			9,131
Fixed income:				
U.S. government and agency	12,716			12,716
Corporate bonds	9,063			9,063
Mutual funds:				
Equity	40,144			40,144
Fixed income	6,132			6,132
Alternative investment			14,786	14,786
U.S. equity	37,866			37,866
Non U.S. equity	29,891			29,891
Alternative investment			6,517	6,517
Structured debt fund			519	519
	145,028		21,822	166,850
Beneficial interest in perpetual trusts			33,982	33,982
	<u>\$ 145,028</u>	<u>\$</u>	<u>\$ 55,804</u>	<u>\$ 200,832</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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June 30, 2016 and 2015

4. Fair value measurements (continued)

The table below sets forth a summary of changes in the fair value of the level 3 assets for the year ended June 30, 2016:

	Investments										
	Structured Debt	Alt. Investment	Mutual Funds - Alternative Investments							Beneficial Interest in Perpetual Trusts	Total
	JPM Structured Debt Fund	Goldman Sachs Tactical TILT Overlay Mutual Fund	Marketfield Fund	BlackRock Strategic Income Opprtns PTF Inst	BlackRock Allocation Shares Series P	Legg Mason BW Absolute	Wells Fargo Absolute	Goldman Sachs Tactical TILT Overlay Mutual Fund	Total		
Balance, beginning of year	\$ 519	\$ 6,517	\$ 4,452	\$ 6,891	\$ 3,443	\$	\$	\$	\$ 21,822	\$ 33,982	\$ 55,804
Purchases		400		858	386	1,353	1,353		4,350		4,350
Sales	(138)	(250)	(301)	(1,657)	(1,718)				(4,064)		(4,064)
Interest/dividend income		287				46	17		350		350
Unrealized loss	(50)	(577)	(166)	(185)	(144)	(74)	(90)		(1,286)	(244)	(1,530)
Realized gain (loss)	71	(16)	(340)	(97)	(116)				(498)		(498)
Net change	(117)	(156)	(807)	(1,081)	(1,592)	1,325	1,280		(1,148)	(244)	(1,392)
Balance, end of year	\$ 402	\$ 6,361	\$ 3,645	\$ 5,810	\$ 1,851	\$ 1,325	\$ 1,280	\$	\$ 20,674	\$ 33,738	\$ 54,412

The table below sets forth a summary of changes in the fair value of the level 3 assets for the year ended June 30, 2015:

	Investments										
	Structured Debt	Alt. Investment	Mutual Funds - Alternative Investments							Beneficial Interest in Perpetual Trusts	Total
	JPM Structured Debt Fund	Goldman Sachs Tactical TILT Overlay Mutual Fund	Marketfield Fund	BlackRock Strategic Income Opprtns PTF Inst	BlackRock Allocation Shares Series P	Legg Mason BW Absolute	Wells Fargo Absolute	Goldman Sachs Tactical TILT Overlay Mutual Fund	Total		
Balance, beginning of year	\$ 574	\$	\$ 5,006	\$	\$	\$	\$	\$ 5,061	\$ 10,641	\$ 34,639	\$ 45,280
Purchases		6,126		7,014	3,508				16,648		16,648
Sales	(93)							(5,016)	(5,109)		(5,109)
Interest/dividend income		64							64		64
Unrealized gain (loss)	(13)	327	(554)	(123)	(65)			(61)	(489)	(657)	(1,146)
Realized gain	51							16	67		67
Net change	(55)	6,517	(554)	6,891	3,443			(5,061)	11,181	(657)	10,524
Balance, end of year	\$ 519	\$ 6,517	\$ 4,452	\$ 6,891	\$ 3,443	\$	\$	\$	\$ 21,822	\$ 33,982	\$ 55,804

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

4. Fair value measurements (continued)

The following table describes the investments that are included in level 3 of the fair value hierarchy.

Fund name	Redemption Period	Notice Period	Description of fund	2016	2015
<u>Structured Debt Funds:</u>					
JPM Structured Debt Fund	Fund is winding down and distributing remaining assets as they are liquidated	None	The Fund consists of various co-op and commercial mortgages.	\$ 402	\$ 519
<u>Alternative Investments:</u>					
Goldman Sachs Tactical TILT Overlay Mutual Fund			The Fund is an open-end Fund incorporated in USA. The Fund's objective is long-term total return. The portfolio will use investment ideas that are generally derived from short-term or medium-term market views on a variety of asset classes and instrument generated by Goldman.	6,361	6,517
<u>Mutual Funds - Alternative Investments:</u>					
Marketfield Fund			The Fund seeks long-term growth of capital above that of the broad equity market over a full market cycle, with volatility that is lower than that of broad equity market. Correlation between the Fund and the broad equity market may vary considerably over the course of an investment cycle. The Fund has a broad investment charter that allows it to allocate its assets among investments in equity securities, fixed-income instruments, commodities, futures, options, and other investment companies, including ETFs.	3,645	4,452
BlackRock Strategic Income Opportunities Fund			Employs a flexible investment approach across fixed income sectors without constraints on maturity, sector, quality or geography. The Fund actively manages two main risks in fixed income, interest rate risk and credit risk, to provide a compelling combination of income, low volatility and attractive returns.	5,810	6,891
BlackRock Allocation Shares Series P			The Fund seeks to provide adoration that is the inverse of its benchmark. The fund pursues its investment objectives primarily by engaging in short sales of U.S. Treasury securities and investing in derivative instruments that provide returns that are inverse to those available by investing directly in U.S. Treasury securities. Derivative instruments that the Fund may invest in include: futures, options, forward contacts and/or swaps, including interest rate swaps, swap options and total return swaps. This Fund is non-diversified.	1,851	3,443
Legg Mason BW			The Fund seeks to provide absolute return in any market environment. The Fund invest strategically across global fixed income securities: including sovereign debt, corporate bonds, mortgages, currencies and derivative instruments. Actively manages duration and uses long or short exposures to capture evolving opportunities.	1,325	
Absolute Return Fund			The Fund is a nontraditional fund that seeks positive total returns-with an emphasis on capital preservation-through tactical allocations to equity, bond, and alternative investments	1,280	
Total mutual funds - alternative investments				13,911	14,786
				\$ 20,674	\$ 21,822

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

June 30, 2016 and 2015

4. Fair value measurements (continued)

The following schedule summarizes the investment return. The classification of the investment return is reported on the statement of activities.

	2016	2015
Interest and dividend income	\$ 3,044	\$ 2,100
Net realized and unrealized gain (loss) on investments	(6,299)	925
Perpetual trust investment income	1,537	1,830
Less investment management fees	(639)	(606)
	\$ (2,357)	\$ 4,249

Consistent with the Society's spending policy for the years ended June 30, 2016 and 2015, \$8,640 and \$8,006 was appropriated and spent, respectively.

5. Related party transactions

The United Charities (the Corporation), a charitable corporation which was organized to provide a center in which certain benevolent organizations would maintain their headquarters, leased office space to the Society. The Society had a 50% undivided interest in the ownership of the Corporation. Rent expenses paid by the Society for the fiscal year ended June 30, 2015 totaled \$171.

During the year ended June 30, 2015, the Board of Trustees of the Society authorized its representatives of the Board of Corporation to vote in favor of the sale of its building (105 East 22nd Street) at a sale price of \$128,000. The Society recognized \$60,718 of income from the Corporation for the year ended June 30, 2015. Substantially all of this income was attributable to the sale of building. The Society's interest in the Corporation on the equity method was \$8,012 at June 30, 2015. This amount was received as final distributions during the year ended June 30, 2016.

The Society performed certain administrative functions for the Corporation for a fee. Management fees received from the Corporation were \$70 and \$90 for the years ended June 30, 2016 and 2015, respectively.

No amounts were due the Society by the Corporation at June 30, 2016.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

6. Property and equipment

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 5,035	\$ 5,035
Building and improvements	32,019	23,551
Computer and office equipment	1,674	2,992
Construction in process - office space		900
	<u>38,728</u>	<u>32,478</u>
Less accumulated depreciation	<u>1,366</u>	
	<u>\$ 37,362</u>	<u>\$ 32,478</u>

Depreciation expense was \$1,366 and \$297 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2015, the Society had purchased and was in the process of relocating to its new location at 633 3rd Avenue, New York, NY. The building and related improvements, as well as the computers and office equipment, had not yet been put into service and, accordingly, no depreciation on these assets was recorded. All fixed assets maintained at the old location were deemed to have little to no value and the Society recognized a loss on disposition of \$1,522.

7. Temporarily restricted net assets and net assets released from restrictions

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Direct service programs	\$ 21,523	\$ 24,323
Policy research and advocacy	271	513
Program administration	676	424
Unappropriated investment income from endowments	<u>1,311</u>	<u>2,521</u>
	<u>\$ 23,781</u>	<u>\$ 27,781</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. The net assets released from restriction for the years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Direct service programs	\$ 6,237	\$ 5,515
Policy research and advocacy	3,142	2,729
Public interest	886	842
Management and general	<u>1,319</u>	<u>10</u>
	<u>\$ 11,584</u>	<u>\$ 9,096</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

8. Permanently restricted net assets

Community Service Society of New York and Affiliates' endowment consists of individual donor-restricted endowment funds established for Direct Service Programs. As required by accounting principles generally accepted in the United States of America, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Society is responsible for the long-term investment policies for donor-restricted endowment funds, unless otherwise specified by the donor.

The Board of Directors of Community Service Society of New York and Affiliates has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Society is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Permanently restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Endowment:		
Direct service program:		
Income restricted for specific purposes	\$ 4,741	\$ 4,741
Income restricted for program administration	455	455
Income available for general purposes	<u>23,899</u>	<u>23,899</u>
Total endowment	<u>29,095</u>	<u>29,095</u>
Beneficial interest in perpetual trusts - income restricted	13,966	12,140
Beneficial interest in perpetual trusts - income unrestricted	<u>19,772</u>	<u>21,842</u>
Total beneficial interest in perpetual trusts	<u>33,738</u>	<u>33,982</u>
	<u>\$ 62,833</u>	<u>\$ 63,077</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

8. Permanently restricted net assets (continued)

Return objectives, strategies employed and spending policy

The overall financial objective of the endowment is to provide the operations of the Society with a relatively stable stream of spendable revenue that increases over time and matches the general rate of inflation, as measured by the Consumer Price Index.

The long-term investment objective for the total endowment is to attain a total return (net of investment management fees) of at least 6% per year in excess of inflation. This objective assumes that withdrawals from the Fund will average, long term, no more than 6% of the Fund's value over time.

Funds with deficiencies

The Society does not have any funds with deficiencies.

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:			
Interest and dividend income	\$ 624	\$	\$ 624
Realized loss	(419)		(419)
Unrealized loss	(791)		(791)
Total investment return	(586)		(586)
Appropriation of endowment assets for expenditures	(624)		(624)
Net change	(1,210)		(1,210)
Endowment net assets, beginning of year	<u>2,521</u>	<u>29,095</u>	<u>31,616</u>
Endowment net assets, end of year	<u>\$ 1,311</u>	<u>\$ 29,095</u>	<u>\$ 30,406</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

8. Permanently restricted net assets (continued)

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:			
Interest and dividend income	\$ 378	\$	\$ 378
Realized gain	223		223
Unrealized gain	<u>36</u>		<u>36</u>
Total investment return	637		637
Appropriation of endowment assets for expenditures	<u>(637)</u>		<u>(637)</u>
Net change			
Endowment net assets, beginning of year	<u>2,521</u>	<u>29,095</u>	<u>31,616</u>
Endowment net assets, end of year	<u>\$ 2,521</u>	<u>\$ 29,095</u>	<u>\$ 31,616</u>

9. Line of credit

During the year ended June 30, 2015, The Board of Trustees authorized a security-based loan with a financial institution, which would provide a revolving line of credit of up to \$26,000 with interest payable monthly, at a rate of LIBOR plus 0.70%. Management and the board have allocated \$21,000 of the line towards the purchase and renovation of 633 3rd Avenue, New York, NY and the remaining \$5,000 of the line to operations. The loan is secured by certain investments and expires on October 10, 2017. Amounts outstanding at June 30, 2016 and 2015 were \$25,604 and 21,700, respectively.

Interest expense incurred under the facility amounted to \$268 and \$110 for the years ended June 30, 2016 and 2015, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

10. Commitments and contingencies

The Society leases various equipment and automobiles under operating leases which expire through December 2018. Rent expense for these leases were \$61 and \$128 for the years ended June 30, 2016 and 2015, respectively.

Minimum annual rental commitments for the remaining term of the Society's noncancelable operating leases are as follows:

Year ending June 30:	
2017	\$ 78
2018	78
2019	<u>33</u>
	<u>\$ 189</u>

11. Employee benefit plans

Pension plan and other post-retirement benefits

The Society has a noncontributory defined benefit pension plan (DB plan) covering substantially all employees. The Society also maintains life insurance benefits and contributory group medical benefits for full-time employees (i.e., those who worked 30 hours or more per week) employed prior to July 1, 1978 who retired at or after age 55 and were not covered by the terms of the collective bargaining agreement providing health benefits through the 1199 National Benefit Fund. The Society is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Society pays the cost of post-retirement benefits as incurred.

The following tables summarize each plan's funded status at June 30:

	2016		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (46,869)	\$ (894)	\$ (47,763)
Fair value of plan assets	<u>31,635</u>		<u>31,635</u>
Funded status - recognized in the statement of financial position	<u>\$ (15,234)</u>	<u>\$ (894)</u>	<u>\$ (16,128)</u>
	2015		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (39,995)	\$ (899)	\$ (40,894)
Fair value of plan assets	<u>32,368</u>		<u>32,368</u>
Funded status - recognized in the statement of financial position	<u>\$ (7,627)</u>	<u>\$ (899)</u>	<u>\$ (8,526)</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

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(in thousands)

June 30, 2016 and 2015

11. Employee benefit plans (continued)

The following table provides information about the weighted average assumptions during the years ended June 30:

	Pension benefits		Other benefits	
	2016	2015	2016	2015
Weighted-average assumptions as of June 30:				
Discount rate	3.50%	4.25%	3.50%	4.25%
Expected return on plan assets	7.25%	4.25%	N/A	N/A
Rate of compensation increase	4.50%	4.50%	N/A	N/A

The following table provides information about the contributions to the Plans and benefits paid for the years ended June 30:

	2016			2015		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Society's contributions	\$ 900	\$ 161	\$ 1,061	\$ 900	\$ 135	\$ 1,035
Employee's contributions	\$	\$ 2	\$ 2	\$	\$ 2	\$ 2
Benefits paid	\$ 1,231	\$ 163	\$ 1,394	\$ 961	\$ 137	\$ 1,098

The accumulated benefit obligation for the defined benefit pension plan was \$41,691 and \$35,865 at June 30, 2016 and 2015, respectively.

Mortality table: Combined RP2000 Annuitant and Non-Annuitant table updated for 2015 used for pension benefits. 1994 Group Annuity Mortality Table for 2015 used for other benefits.

For 2016 and 2015, an assumed long-term rate of return of 7.8% and 8.0% was used for the pension plan. In developing this rate, the Society evaluated input from its actuaries on asset class return expectations and long-term inflation.

For measurement purposes, a 7.8% and 6.7% health care cost trend rate was assumed for 2016 and 2015, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

11. Employee benefit plans (continued)

Amounts recognized as changes in unrestricted net assets, but not yet included in net periodic benefit cost, consist of following at June 30, 2016:

	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Beginning balance of cumulative pension related changes other than net periodic pension cost	\$ (8,883)	\$ (44)	\$ (8,927)
Changes:			
Amortization	584	(19)	466
Asset loss	<u>(7,966)</u>	<u>(118)</u>	<u>(7,985)</u>
Net change	<u>(7,382)</u>	<u>(137)</u>	<u>(7,519)</u>
Ending balance of cumulative pension related changes other than net periodic pension cost	<u>\$ (16,265)</u>	<u>\$ (181)</u>	<u>\$ (16,446)</u>

Amounts recognized as changes in unrestricted net assets, but not yet included in net periodic benefit cost, consist of following at June 30, 2015:

	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Beginning balance of cumulative pension related changes other than net periodic pension cost	\$ (9,157)	\$ (155)	\$ (9,312)
Changes:			
Amortization	403	(27)	376
Asset gain (loss)	<u>(129)</u>	<u>138</u>	<u>9</u>
Net change	<u>274</u>	<u>111</u>	<u>385</u>
Ending balance of cumulative pension related changes other than net periodic pension cost	<u>\$ (8,883)</u>	<u>\$ (44)</u>	<u>\$ (8,927)</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2016 and 2015

11. Employee benefit plans (continued)

The components of net pension cost and net post-retirement benefit cost are as follows for the years June 30:

	2016		
	Pension benefits	Other benefits	Total
Service costs	\$ 1,167	\$	\$ 1,167
Interest cost	1,680	40	1,720
Expected return on assets	(2,305)		(2,305)
Net amortization and deferral	581	13	594
Amortization of prior service cost	3	(33)	(30)
Net cost	<u>\$ 1,126</u>	<u>\$ 20</u>	<u>\$ 1,146</u>

	2015		
	Pension benefits	Other benefits	Total
Service costs	\$ 1,259	\$	\$ 1,259
Interest cost	1,575	40	1,615
Expected return on assets	(2,478)		(2,478)
Net amortization and deferral	401	5	406
Amortization of prior service cost	3	(32)	(29)
Net cost	<u>\$ 760</u>	<u>\$ 13</u>	<u>\$ 773</u>

The future expected benefits to be paid for the plans are as follows for the years ended June 30:

	Pension benefits	Other benefits	Total
2017	\$ 1,582	\$ 138	\$ 1,720
2018	1,709	129	1,838
2019	1,941	117	2,058
2020	2,079	101	2,180
2021	2,155	87	2,242
2022 - 2026	12,169	290	12,459
	<u>\$ 21,635</u>	<u>\$ 862</u>	<u>\$ 22,497</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)

June 30, 2016 and 2015

11. Employee benefit plans (continued)

403(b) Plan

In addition, the Society has established a 403(b) plan for all employees; however, only non-union employees are eligible to participate for purposes of matching contributions. The Society matches employee contributions to the plan at a rate of 50% up to the first 6% of each employee's salary. Salary deferrals in excess of \$10,000 are not matched. The Society's contributions to the plan were \$137 and \$129, respectively, during the year ended June 30, 2016 and 2015.

12. Government grants and contracts

The Society operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewals. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon the amount of program income received. Any costs disallowed by the grantor would be absorbed by the Society and any adjustments by grantors would be recorded when amounts are known, however, it is the opinion of management that disallowances, if any, would be immaterial and adjustments, if any, would not have a material adverse effect on the financial position of the Society.

13. Significant source of support

The Society received approximately 73% and 68% of its operating revenue and support, excluding investment returns, for the years ended June 30, 2016 and 2015, respectively, from New York State agencies. Amounts due the Society from these agencies were \$4,369 and \$7,379 at June 30, 2016 and 2015, respectively. Contracts with the funding agencies were renewed at comparable amounts for the upcoming fiscal year.

14. Collective bargaining agreement

Certain employees are covered by a collective bargaining agreement. The agreement with 1199 SEIU United Healthcare Workers East is effective through December 31, 2019. Payments made to the National Benefits fund for the years ended June 30, 2016 and 2015 were \$530 and \$465, respectively.

15. Subsequent events

Subsequent events have been evaluated through October 27, 2016, which is the date the consolidated financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of June 30, 2016, have been incorporated into these consolidated financial statements.

SINGLE AUDIT SECTION

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

To The Board of Trustees
Community Service Society of New York and Affiliates
New York, New York

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 of Community Service Society of New York and Affiliates as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2016. The financial statements of Institute for Community Empowerment; and Friends of R.S.V.P., Inc. were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Institute for Community Empowerment and Friends of R.S.V.P., Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Service Society of New York and Affiliates' 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Service Society of New York and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Community Service Society of New York and Affiliates' 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 audit 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 Community Service Society of New York and Affiliates' 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 audit, 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 result of that testing, and not to provide an opinion on the effectiveness of the Society'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 Society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dorfman Abrams Incis, LLC

Saddle Brook, New Jersey

October 27, 2016

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

To The Board of Trustees
Community Service Society of New York and Affiliates
New York, New York

Report on Compliance for Each Major Federal Program

We have audited Community Service Society of New York and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Service Society of New York and Affiliates' major federal programs for the year ended June 30, 2016. Community Service Society of New York and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Community Service Society of New York and Affiliates' 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 Community Service Society of New York and Affiliates' 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 Community Service Society of New York and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Community Service Society of New York and Affiliates 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, 2016.

Report on Internal Control over Compliance

Management of Community Service Society of New York and Affiliates 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 Community Service Society of New York and Affiliates' 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 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 Community Service Society of New York and Affiliates' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be significant deficiencies.

Community Service Society of New York and Affiliates' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Community Service Society of New York and Affiliates' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Dorfman Abrams Inusic, LLC

Saddle Brook, New Jersey

December 7, 2016

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal grantor/pass through grantor/program title	Federal CFDA number	Pass-through grantor number	Pass-through entity identifying number	Federal expenditures	Passed through to subrecipients
Corporation for National and Community Service					
Retired and Senior Volunteer Program	94.002	*	13SRANY015	\$ 623,964	\$
Retired and Senior Volunteer Program	94.002	*	16SRANY007	190,702	
Passed through Equal Justice Works:					
AmeriCorps	94.006	*	14NDHDC001	24,572	
Passed through AARP Experience Corps New York City:					
AmeriCorps	94.006	*	14NDHDC002	59,201	
Total Corporation for National and Community Service				<u>898,439</u>	
U.S. Department of Health and Human Services					
Passed through the New York State Department of Health:					
State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	93.525	*	C028088	53,544	38,342
Children's Health Insurance Program	93.767	*	C028088	165,352	110,189
	93.767	*	C028904	307,607	261,278
Medical Assistance Program	93.778	*	C028088	1,086,400	725,489
	93.778	*	C028904	1,877,751	1,581,206
	93.778	*	C029907	666,727	395,893
Affordable Care Act (ACA) - Consumer Assistance Program	93.519	*	C028088	109,008	
Total U.S. Department of Health and Human Services				<u>4,266,389</u>	<u>3,112,397</u>
U.S. Department of Homeland Security					
Passed through New York City Local Board of Federal Emergency Management Assistance:					
Emergency Food and Shelter Program National Board Program	97.024	*	30-6314-00-303	47,880	
Total U.S. Department of Homeland Security				<u>47,880</u>	
				<u>\$ 5,212,708</u>	<u>\$ 3,112,397</u>

* Pass-through grantor number not provided by grantor

See accompanying notes to the schedule of expenditures of federal awards.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

1. Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Community Service Society of New York and Affiliates under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Community Service Society of New York and Affiliates, it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Service Society of New York and Affiliates.

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 Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect costs

Community Service Society of New York and Affiliates elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Part 1 - Summary of Auditors' Results

Financial Statement Section

- A) Type of auditors' report issued: Unmodified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? yes x no
- 2) Significant deficiencies identified? yes x no
- C) Noncompliance material to general-purpose financial statements noted? yes x no

Federal Awards Section

- D) Dollar threshold used to determine Type A programs: \$750,000
- E) Auditee qualified as low-risk auditee? x yes no n/a
- F) Type of auditors' report on compliance for major programs: Unmodified
- G) Internal control over compliance:
- 1) Material weakness(es) identified? yes x no
- 2) Significant deficiencies identified? x yes no
- H) Any audit findings disclosed that are required to be reported in accordance with *Government Auditing Standards*? x yes no
- I) Identification of major programs:

<u>CFDA numbers</u>	<u>Name of Federal programs</u>
93.778	Medical Assistance Program
94.002	Retired and Senior Volunteer Program

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Part 2 - Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Uniform Guidance.

None

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Part 3 - Schedule of Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the Uniform Guidance (significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs) as well as any abuse findings involving federal awards that are material to a major federal program.

U.S. Department of Health and Human Services

Medical Assistance Program CFDA - 93.778

2016-001 Grant No. C028088 - Grant period August 1, 2012 to March 31, 2017; Grant No. C028904 - Grant period August 1, 2013 to September 30, 2019; and Grant No. C029907 - Grant period April 1, 2015 to March 31, 2020 - Year ended June 30, 2016

Significant Deficiency

Criteria: Procedures should be in place to ensure that at the time of the sub-award, the Society identifies to its subrecipients, the Federal award information (i.e., CFDA title and number; award name, and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. Also, the Society should monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipients administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Condition(s): During the course of our audit procedures, it was noted that service agreements with the subrecipients do not identify CFDA title and number.

While site visits are not specifically required by federal guidelines, the service agreements with the subrecipients specify that the Society may conduct at least one site visit at a location where subrecipients provide services. Site visits were not deemed necessary by the Society for the fiscal year 2016. The Society evaluated the subrecipients' performance using daily monitoring and review of subrecipients' reports. Monthly meetings and training sessions were also performed to monitor subrecipient activity.

In addition, the Society did not always receive subrecipients' reports on time.

Effect: The Society was not always able to submit its fiscal and progress reports timely and might not be able to ensure subrecipient compliance with laws, regulations and the provisions of contracts and service agreements on a timely basis.

Cause: No site visits were deemed necessary during fiscal year 2016. In addition, the Society does not receive the CFDA information on time to include it in the service agreements with subrecipients.

Recommendation: We recommend that the Society revise its service agreements to properly identify CFDA title and number to the subrecipients so each can ensure their own compliance with the Uniform Guidance.

We also recommend that the Society change the verbiage in the service agreements to reflect that site visits may be conducted and make that determination on an annual, site by site, basis.

Views of Responsible Officials and Planned Corrective Actions: Management agrees to revise service agreements to properly identify the Catalog of Federal Domestic Assistance (CFDA) title and number. All new contracts will include language stating CFDA numbers will be distributed as soon as the Society receives the information from the state agencies.

Subrecipient monitoring site visits are not required. Language will be removed from subsequent contracts. The Society currently monitors all subrecipients and keeps track of deliverables as well as financial reports to ensure that the administration of these Federal awards is in compliance with the laws, regulations and provisions of the contracts. This process will be formalized and administered accordingly for all future periods.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2016

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, the Uniform Guidance.

U.S. Department of Health and Human Services

2015-001 State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchange (CFDA 93.525)

Criteria: Procedures should be in place to ensure that at the time of the sub-award, the Society identifies to its subrecipients, the Federal award information (i.e., CFDA title and number; award name, and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. Also, the Society should monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipients administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Condition(s): This finding was a significant deficiency stating that during the course of our audit procedures, it was noted that service agreements with the subrecipients did not identify CFDA title and number.

While site visits were not specifically required by federal guidelines, the service agreements with the subrecipients specified that the Society may conduct at least one site visit at a location where subrecipients provide services. Site visits were not deemed necessary by the Society for the fiscal year 2015. The Society evaluated the subrecipients' performance using daily monitoring and review of subrecipients' reports. Monthly meetings and training sessions were also performed to monitor subrecipient activity.

In addition, the Society did not always receive subrecipients' reports on time or obtain their latest audit reports.

Effect: The Society was not always able to submit its fiscal and progress reports timely and might not be able to ensure subrecipient compliance with laws, regulations and the provisions of contracts and service agreements on a timely basis.

Cause: No site visits were deemed necessary during fiscal year 2015 and the Society reviews subrecipients' financial statements as they become available. The Society, while monitoring their subrecipients, does not have a documented process for monitoring that enumerates that process.

Recommendation: We recommended that the Society revise its service agreements to properly identify CFDA title and number to the subrecipients so each can ensure their own compliance with OMB A-133 guidelines.

We also recommended that the Society change the verbiage in the service agreements to reflect that site visits may be conducted and make that determination on an annual, site by site, basis. In addition, audited subrecipients' financial statements should be reviewed as they are issued and the Society should ensure that all subrecipients' adhere to reporting due dates established.

Current status: Subrecipient audited financial statements are requested on an ongoing basis and reviewed by the finance staff to ensure compliance. Management will revise service agreements to properly identify the Catalog of Federal Domestic Assistance (CFDA) title and number. All new contracts will include language stating CFDA numbers will be distributed as soon as the Society receives the information from the state agencies.

Subrecipient monitoring site visits are not required. Language will be removed from subsequent contracts. The Society currently monitors all subrecipients and keeps track of deliverables as well as financial reports to ensure that the administration of these Federal awards is in compliance with the laws, regulations and provisions of the contracts. This process will be formalized and administered accordingly for all future periods. The discussion of Finding 2016-001 also applies to this finding.