



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

***YEARS ENDED JUNE 30, 2017 AND 2016***

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5 - 6
Notes to Financial Statements	7 - 27
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 <i>Government Auditing Standards</i>	28 - 29
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by <i>the Uniform Guidance</i>	30 - 31
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs:	
Part 1 - Summary of Auditors' Results	34
Part 2 - Schedule of Financial Statement Findings	35
Part 3 - Schedule of Federal Award Findings and Questioned Costs	36
Summary Schedule of Prior Year Audit Findings and Questioned Costs as Prepared by Management	37 - 38

## 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, 2017 and 2016, 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters:**

#### **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 Part 200, Uniform Administrative Requirements, Cost Principles, and 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 October 31, 2017, 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 solely 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 effectiveness of the Community Service Society of New York and Affiliates' 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 31, 2017, except for the Schedule of Expenditures of Federal Awards, which is dated January 15, 2018

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands)

ASSETS

	June 30,	
	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 3,401	\$ 5,673
Investments	167,939	158,224
Government and other receivables	10,158	7,647
Prepaid and other assets	906	611
Beneficial interest in perpetual trusts	36,060	33,738
Property and equipment, net	<u>35,860</u>	<u>37,362</u>
 Total assets	 <u>\$ 254,324</u>	 <u>\$ 243,255</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 7,859	\$ 7,366
Accrued pension and post-retirement liability	14,714	16,128
Line of credit	<u>25,107</u>	<u>25,604</u>
 Total liabilities	 <u>47,680</u>	 <u>49,098</u>
Net assets:		
Unrestricted:		
Undesignated	114,779	106,520
Board designated - general reserve	<u>914</u>	<u>1,023</u>
 Total unrestricted	 <u>115,693</u>	 <u>107,543</u>
Temporarily restricted	25,796	23,781
Permanently restricted	<u>65,155</u>	<u>62,833</u>
 Total net assets	 <u>206,644</u>	 <u>194,157</u>
 Total liabilities and net assets	 <u>\$ 254,324</u>	 <u>\$ 243,255</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, 2017				Year ended June 30, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue and support:								
Government grants	\$ 17,395	\$	\$	\$ 17,395	\$ 16,726	\$	\$	\$ 16,726
Direct contributions and federated campaigns	519	2,128		2,647	759	1,838		2,597
Bequests	316			316	987			987
Program fees and other revenue	143			143	167			167
Investment return used for operations, net	3,243	5,552		8,795	3,526	5,114		8,640
Net assets released from restrictions	10,080	(10,080)			11,584	(11,584)		
<b>Total operating revenue and support</b>	<b>31,696</b>	<b>(2,400)</b>		<b>29,296</b>	<b>33,749</b>	<b>(4,632)</b>		<b>29,117</b>
Operating expenses:								
Program services:								
Direct program services	22,680			22,680	22,429			22,429
Policy, research and advocacy	2,965			2,965	3,250			3,250
Public interest	898			898	925			925
<b>Total program services</b>	<b>26,543</b>			<b>26,543</b>	<b>26,604</b>			<b>26,604</b>
Supporting services:								
Management and general	5,684			5,684	4,893			4,893
Fundraising	1,198			1,198	1,161			1,161
<b>Total supporting services</b>	<b>6,882</b>			<b>6,882</b>	<b>6,054</b>			<b>6,054</b>
<b>Total operating expenses</b>	<b>33,425</b>			<b>33,425</b>	<b>32,658</b>			<b>32,658</b>
Income (deficit) of operating revenue over operating expenses	(1,729)	(2,400)		(4,129)	1,091	(4,632)		(3,541)
Non-operating activities:								
Investment return in excess (deficiency) of amount used for operations, net	7,255	4,415	2,322	13,992	(11,385)	632	(244)	(10,997)
<b>Total non-operating activities</b>	<b>7,255</b>	<b>4,415</b>	<b>2,322</b>	<b>13,992</b>	<b>(11,385)</b>	<b>632</b>	<b>(244)</b>	<b>(10,997)</b>
Change in net assets before pension and post-retirement related charges	5,526	2,015	2,322	9,863	(10,294)	(4,000)	(244)	(14,538)
Pension and post-retirement related charges other than net periodic pension costs	2,624			2,624	(7,519)			(7,519)
<b>Change in total net assets</b>	<b>8,150</b>	<b>2,015</b>	<b>2,322</b>	<b>12,487</b>	<b>(17,813)</b>	<b>(4,000)</b>	<b>(244)</b>	<b>(22,057)</b>
Net assets, beginning of year	107,543	23,781	62,833	194,157	125,356	27,781	63,077	216,214
<b>Net assets, end of year</b>	<b>\$ 115,693</b>	<b>\$ 25,796</b>	<b>\$ 65,155</b>	<b>\$ 206,644</b>	<b>\$ 107,543</b>	<b>\$ 23,781</b>	<b>\$ 62,833</b>	<b>\$ 194,157</b>

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,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 12,487	\$ (22,057)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,542	1,366
Net realized and unrealized (gain) loss on investments	(15,922)	6,055
(Increase) decrease in beneficial interest in perpetual trusts	(2,322)	244
Pension and post-retirement related changes other than net periodic pension cost	(2,624)	7,519
Bad debt expense	6	9
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Government and other receivables	(2,517)	1,354
Prepaid and other assets	(295)	
Increase in:		
Accounts payable and accrued expenses	493	400
Accrued pension and post-retirement liability	1,210	83
Net cash used by operating activities	<u>(7,942)</u>	<u>(5,027)</u>
Cash flows from investing activities:		
Purchases of investments	(40,807)	(57,261)
Proceeds from sale/maturity of investments	47,014	59,832
Distributions from The United Charities		8,012
Purchases of property and equipment	<u>(40)</u>	<u>(6,250)</u>
Net cash provided by investing activities	<u>6,167</u>	<u>4,333</u>
Cash flows from financing activities:		
New borrowings - line of credit		4,300
Principal repayments	<u>(497)</u>	<u>(396)</u>
Net cash provided (used) by financing activities	<u>(497)</u>	<u>3,904</u>
Net increase (decrease) in cash and cash equivalents	(2,272)	3,210
Cash and cash equivalents, beginning of year	<u>5,673</u>	<u>2,463</u>
Cash and cash equivalents, end of year	<u>\$ 3,401</u>	<u>\$ 5,673</u>

Supplemental Cash Flow Information

Cash paid for interest	<u>\$ 375</u>	<u>\$ 268</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, 2017 and 2016

	Program services expenses							
	Direct program services		Policy, research and advocacy		Public interest		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Salaries	\$ 6,376	\$ 6,534	\$ 1,433	\$ 1,449	\$ 397	\$ 390	\$ 8,206	\$ 8,373
Fringe benefits and payroll taxes	3,187	2,669	722	579	200	158	4,109	3,406
Total salaries and related expenses	9,563	9,203	2,155	2,028	597	548	12,315	11,779
Professional fees	10,689	10,688	422	811	104	160	11,215	11,659
Supplies	55	140	11	15	2	2	68	157
Telephone and communication	152	137	20	21	8	7	180	165
Postage and shipping	24	33	2	2			26	35
Occupancy	374	401	83	115	18	24	475	540
Insurance	8	8	15	14			23	22
Printing and other office expenses	42	47	25	28	6	11	73	86
Transportation	168	180	28	33	1		197	213
Conferences, conventions and meetings	73	128	47	35	18	13	138	176
Direct assistance	401	402					401	402
Support payments	73	86	8	3	109	122	190	211
Equipment rentals and expenses	58	52	14	11	5		77	63
Interest								
Bad debt expense	4	5					4	5
Depreciation	996	919	135	134	30	38	1,161	1,091
Total operating expenses	<u>\$ 22,680</u>	<u>\$ 22,429</u>	<u>\$ 2,965</u>	<u>\$ 3,250</u>	<u>\$ 898</u>	<u>\$ 925</u>	<u>\$ 26,543</u>	<u>\$ 26,604</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, 2017 and 2016

	Supporting services expenses						Total program and supporting services expenses	
	Management and general		Fundraising		Total		2017	2016
	2017	2016	2017	2016	2017	2016		
Salaries	\$ 2,013	\$ 1,966	\$ 580	\$ 583	\$ 2,593	\$ 2,549	\$ 10,799	\$ 10,922
Fringe benefits and payroll taxes	1,503	930	297	236	1,800	1,166	5,909	4,572
Total salaries and related expenses	3,516	2,896	877	819	4,393	3,715	16,708	15,494
Professional fees	519	576	102	111	621	687	11,836	12,346
Supplies	66	79	3	4	69	83	137	240
Telephone and communication	95	95	6	5	101	100	281	265
Postage and shipping	11	12	22	31	33	43	59	78
Occupancy	138	123	25	34	163	157	638	697
Insurance	133	136			133	136	156	158
Printing and other office expenses	20	19	85	90	105	109	178	195
Transportation	114	137	8	7	122	144	319	357
Conferences, conventions and meetings	171	188	8	3	179	191	317	367
Direct assistance							401	402
Support payments							190	211
Equipment rentals and expenses	190	132	15	10	205	142	282	205
Interest	375	268			375	268	375	268
Bad debt expense	2	4			2	4	6	9
Depreciation	334	228	47	47	381	275	1,542	1,366
Total operating expenses	<u>\$ 5,684</u>	<u>\$ 4,893</u>	<u>\$ 1,198</u>	<u>\$ 1,161</u>	<u>\$ 6,882</u>	<u>\$ 6,054</u>	<u>\$ 33,425</u>	<u>\$ 32,658</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, 2017 and 2016

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, 2017 or 2016.

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, government grants and investment income.

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, 2017 and 2016

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 \$914 and \$1,023 as of June 30, 2017 and 2016, 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. Cash equivalents 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, 2017 and 2016

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, 2017 or 2016.

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, 2017 and 2016, management determined that an allowance was not necessary.

Investments

Investments are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements 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, 2017 and 2016

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, 2017, 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 2013 are closed.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

1. Summary of significant accounting policies (continued)

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 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>2017</u>	<u>2016</u>
Government receivables:		
U.S. Department of Health and Human Services:		
New York State Establishment Exchange Grant	\$ 1,491	\$ 800
Navigator Program Grant	3,095	1,637
ABD Healthcare Program Grant	<u>413</u>	<u>385</u>
	4,999	2,822
Corporation for National and Community Service:		
RSVP Program	195	191
New York State Department of Health:		
ICAN Healthcare Program Grant	3,030	1,412
New York City DOHMH:		
Harlem Healthcare Program Grant	508	468
Other government receivables	<u>626</u>	<u>          </u>
Total government receivables	9,358	4,893
Non-government receivables	<u>800</u>	<u>2,754</u>
	<u>\$ 10,158</u>	<u>\$ 7,647</u>

At both June 30, 2017 and 2016, all receivables were expected to be collected within one year.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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, 2017 and 2016

4. Fair value measurements (continued)

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

	2017		2016	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 824	\$ 824	\$ 1,010	\$ 1,010
Money market funds	16,994	16,994	1,359	1,359
Fixed income:				
U.S. government and agency	14,188	14,038	15,356	15,581
Corporate bonds	10,305	10,427	10,651	10,897
Mutual funds:				
Equity	24,309	29,966	37,991	39,159
Fixed income	6,065	5,984	4,296	4,313
Alternative investment	8,171	7,978	15,647	13,911
U.S. equity	41,598	44,379	35,100	36,166
Non U.S. equity	25,504	28,434	30,661	29,065
Alternative investment			6,611	6,361
Structured debt fund			190	402
Real estate fund	9,245	8,915		
	<u>\$ 157,203</u>	<u>\$ 167,939</u>	<u>\$ 158,872</u>	<u>\$ 158,224</u>

The classification of the Society's investment securities at fair value are as follows at June 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 824	\$	\$	\$ 824
Money market funds	16,994			16,994
Fixed income:				
U.S. government and agency	14,038			14,038
Corporate bonds	10,427			10,427
Mutual funds:				
Equity	29,966			29,966
Fixed income	5,984			5,984
Alternative investment			7,978	7,978
U.S. equity	44,379			44,379
Non U.S. equity	28,434			28,434
Alternative investment				0
Structured debt fund				0
Real estate fund			8,915	8,915
	<u>151,046</u>		<u>16,893</u>	<u>167,939</u>
Beneficial interest in perpetual trusts			<u>36,060</u>	<u>36,060</u>
	<u>\$ 151,046</u>	<u>\$</u>	<u>\$ 52,953</u>	<u>\$ 203,999</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

4. Fair value measurements (continued)

	2016			Total
	Level 1	Level 2	Level 3	
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
Real estate fund				0
	<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

(in thousands)

June 30, 2017 and 2016

4 Fair value investments (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, 2017:

	JPM Structured Debt Fund	Goldman Sachs Tactical TILT Overlay Mutual Fund	Marketfield Fund	BlackRock Strategic Income Opprtnts PTF Inst	BlackRock Allocation Shares Series P	BlackRock Allocation Shares Series A	Legg Mason BW Absolute	Wells Fargo Absolute	DFA Real Estate Securities	DFA International Real Estate Securities	Total	Beneficial Interest in Perpetual	Total
Balance, beginning of year	\$ 402	\$ 6,361	\$ 3,645	\$ 5,810	\$ 1,851	\$	\$ 1,325	\$ 1,280	\$	\$	\$ 20,674	\$ 33,738	\$ 54,412
Purchases						1,964			4,444	4,802	11,210		11,210
Sales	(601)	(6,413)	(3,257)	(2,123)	(21)		(1,323)	(1,307)	(111)	(375)	(15,531)		(15,531)
Fees													
Interest/dividend income	15	121		133	21		3	10	111	375	789		789
Unrealized gains/(losses)				199	112	13				(336)	(12)	2,322	2,310
Realized gains/(loss)	184	(69)	(388)	19			(5)	17	5		(237)		(237)
Net change	(402)	(6,361)	(3,645)	(1,772)	112	1,977	(1,325)	(1,280)	4,449	4,466	(3,781)	2,322	(1,459)
Balance, end of year	\$	\$	\$	\$ 4,038	\$ 1,963	\$ 1,977	\$	\$	\$ 4,449	\$ 4,466	\$ 16,893	\$ 36,060	\$ 52,953

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:

	JPM Structured Debt Fund	Goldman Sachs Tactical TILT Overlay Mutual Fund	Marketfield Fund	BlackRock Strategic Income Opprtnts PTF Inst	BlackRock Allocation Shares Series P	BlackRock Allocation Shares Series A	Legg Mason BW Absolute	Wells Fargo Absolute	DFA Real Estate Securities	DFA International Real Estate Securities	Total	Beneficial Interest in Perpetual	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)
Fees													
Interest/dividend income		287					46	17			350		350
Unrealized gains/(losses)	(50)	(577)	(166)	(185)	(144)		(74)	(90)			(1,286)	(244)	(1,530)
Realized gains	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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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	2017	2016
<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
<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
<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
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.	4,038	5,810
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.	1,963	1,851
BlackRock Allocation Shares Series A			The Fund seeks to provide its unitholders with a balance of long-term capital growth and income by investing in a diversified and balanced portfolio that is comprised of Canadian and global equity securities and, to a lesser extent, Canadian fixed income securities. The Fund will invest primarily in iShares ETFs (or other mutual funds) that are managed by BlackRock Canada or an affiliate (the "underlying funds"), but may also invest directly in fixed income securities, equity securities, and cash or cash equivalents.	1,977	

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

4. Fair value measurements (continued)

Fund name	Redemption period	Notice period	Description of fund	2017	2016
<u>Mutual Funds - Alternative Investments:</u> (continued)					
Legg Mason BW			The Fund seeks to provide absolute return in any market environment. The Fund invests 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
Wells Fargo 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
DFA Real Estate Securities			The investment objective of the DFA Real Estate Securities Portfolio is to achieve long-term capital appreciation. The DFA Real Estate Securities Portfolio will concentrate investments in readily marketable equity securities of companies whose principal activities include ownership, management, development, construction, or sale of residential, commercial or industrial real estate.	4,449	
DFA Real Estate International Securities			The investment objective of the DFA International Real Estate Securities Portfolio is to achieve long-term capital appreciation. The Portfolio will concentrate its investments in a broad and diverse set of securities of non-U.S. companies principally engaged in the real estate industry with a particular focus on non-U.S. REITs and companies the Advisor considers to be REIT-like entities.	4,466	
Total mutual funds - alternative investments				<u>16,893</u>	<u>13,911</u>
				<u>\$ 16,893</u>	<u>\$ 20,674</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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.

	2017	2016
Interest and dividend income	\$ 3,343	\$ 3,044
Net realized and unrealized gain (loss) on investments	18,244	(6,299)
Perpetual trust investment income	1,775	1,537
Less investment management fees	(575)	(639)
	\$ 22,787	\$ (2,357)

Consistent with the Society's spending policy for the years ended June 30, 2017 and 2016, \$8,795 and \$8,640 was appropriated and spent, respectively.

5. Related party transactions

The Society has a 50% undivided interest in the ownership The United Charities (the Corporation), a charitable corporation which was organized to provide a center in which certain benevolent organizations, including the Society, would maintain their headquarters.

During the year ended June 30, 2015, the Corporation sold its building at 105 East 22<sup>nd</sup> Street. The Society received its final distributions during the year ended June 30, 2016. As of June 30, 2017, the Corporation is in the process of dissolution.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

6. Property and equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 5,035	\$ 5,035
Building and improvements	32,042	32,019
Computer and office equipment	<u>1,691</u>	<u>1,674</u>
	38,768	38,728
Less accumulated depreciation	<u>2,908</u>	<u>1,366</u>
	<u>\$ 35,860</u>	<u>\$ 37,362</u>

Depreciation expense was \$1,542 and \$1,366 for the years ended June 30, 2017 and 2016, respectively.

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>2017</u>	<u>2016</u>
Direct service programs	\$ 22,793	\$ 21,523
Policy research and advocacy	642	271
Public interest	437	
Program administration	613	676
Unappropriated investment income from endowments	<u>1,311</u>	<u>1,311</u>
	<u>\$ 25,796</u>	<u>\$ 23,781</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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Direct service programs	\$ 6,097	\$ 6,237
Policy research and advocacy	2,688	3,142
Public interest	901	886
Management and general	<u>394</u>	<u>1,319</u>
	<u>\$ 10,080</u>	<u>\$ 11,584</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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>2017</u>	<u>2016</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	14,854	13,966
Beneficial interest in perpetual trusts - income unrestricted	<u>21,206</u>	<u>19,772</u>
Total beneficial interest in perpetual trusts	<u>36,060</u>	<u>33,738</u>
	<u>\$ 65,155</u>	<u>\$ 62,833</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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, 2017 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:			
Interest and dividend income	\$ 672	\$	\$ 672
Realized gain	702		702
Unrealized gain	<u>1,961</u>		<u>1,961</u>
Total investment return	3,335		3,335
Appropriation of endowment assets for expenditures	<u>(3,335)</u>		<u>(3,335)</u>
Net change			
Endowment net assets, beginning of year	<u>1,311</u>	<u>29,095</u>	<u>30,406</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, 2017 and 2016

8. Permanently restricted net assets (continued)

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

	Temporarily restricted	Permanently restricted	Total
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	2,521	29,095	31,616
Endowment net assets, end of year	<u>\$ 1,311</u>	<u>\$ 29,095</u>	<u>\$ 30,406</u>

9. Line of credit

The Society has a \$26,000 revolving line of credit with a financial institution that bears interest at LIBOR plus 0.70% per annum. The loan is secured by certain investments and expires on November 10, 2018. Amounts outstanding at June 30, 2017 and 2016 were \$25,107 and \$25,604, respectively.

Interest expense incurred under the facility amounted to \$375 and \$268 for the years ended June 30, 2017 and 2016, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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 \$78 and \$61 for the years ended June 30, 2017 and 2016, respectively.

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

Year ending June 30:		
2018	\$	78
2019		<u>26</u>
	\$	<u>104</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:

	2017		
	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Projected benefit obligation	\$ (48,387)	\$ (721)	\$ (49,108)
Fair value of plan assets	<u>34,394</u>		<u>34,394</u>
Funded status - recognized in the statement of financial position	<u>\$ (13,993)</u>	<u>\$ (721)</u>	<u>\$ (14,714)</u>
	2016		
	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
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>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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	
	2017	2016	2017	2016
Weighted-average assumptions as of June 30:				
Discount rate	3.75%	3.50%	3.75%	3.50%
Expected return on plan assets	7.25%	7.25%	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:

	2017			2016		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Society's contributions	\$ 900	\$ 173	\$ 1,073	\$ 900	\$ 161	\$ 1,061
Employee's contributions	\$	\$ 2	\$ 2	\$	\$ 2	\$ 2
Benefits paid	\$ 1,640	\$ 175	\$ 1,815	\$ 1,231	\$ 163	\$ 1,394

The accumulated benefit obligation for the defined benefit pension plan was \$42,738 and \$41,691 at June 30, 2017 and 2016, respectively.

Mortality table: RP2000 Annuitant and Non-Annuitant table used for both pension and other benefits.

For 2017 and 2016, an assumed long-term rate of return of 7.25% and 7.8% 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 with respect to other benefits, a 6.9% and 7.8% health care cost trend rate was assumed for 2017 and 2016, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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, 2017:

	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Beginning balance of cumulative pension related changes other than net periodic pension cost	\$ (16,265)	\$ (181)	\$ (16,446)
Changes:			
Amortization	1,487	1	1,488
Asset gain	1,108	28	1,136
Net change	<u>2,595</u>	<u>29</u>	<u>2,624</u>
Ending balance of cumulative pension related changes other than net periodic pension cost	<u>\$ (13,670)</u>	<u>\$ (152)</u>	<u>\$ (13,822)</u>

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	(7,966)	(118)	(7,985)
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>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

11. Employee benefit plans (continued)

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

	2017		
	Pension benefits	Other benefits	Total
Service costs	\$ 1,338	\$	\$ 1,338
Interest cost	1,673	27	1,700
Expected return on assets	(2,245)		(2,245)
Net amortization and deferral	1,485	(9)	1,476
Amortization of prior service cost	2	10	12
Net cost	<u>\$ 2,253</u>	<u>\$ 28</u>	<u>\$ 2,281</u>

	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>

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

	Pension benefits	Other benefits	Total
2018	\$ 1,657	\$ 117	\$ 1,774
2019	1,916	101	2,017
2020	2,061	93	2,154
2021	2,122	84	2,206
2022	2,235	72	2,307
2023 - 2027	12,658	240	12,898
	<u>\$ 22,649</u>	<u>\$ 707</u>	<u>\$ 23,356</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands)

June 30, 2017 and 2016

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 \$160 and \$167 respectively, during the year ended June 30, 2017 and 2016.

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 77% and 73% of its operating revenue and support, excluding investment returns, for the years ended June 30, 2017 and 2016, respectively, from New York State agencies. Amounts due the Society from these agencies were \$9,358 and \$4,369 at June 30, 2017 and 2016, 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, 2017 and 2016 were \$666 and \$530, respectively.

15. Subsequent events

Subsequent events have been evaluated through October 31, 2017, which is the date the consolidated financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of June 30, 2017, 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 June 30, 2017, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2017. 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 31, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of 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, 2017.

## ***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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

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 Adams Incis, LLC*

Saddle Brook, New Jersey

January 15, 2018

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

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	*	16SRANY007	\$ 732,195	\$
Passed through Equal Justice Works: AmeriCorps	94.006	*	14NDHDC001	<u>5,212</u>	<u>                    </u>
Total Corporation for National and Community Service				<u>737,407</u>	<u>                    </u>
U.S. Department of Health and Human Services Passed through the New York State Department of Health: Children's Health Insurance Program	93.767	*	C028088	152,202	99,286
	93.767	*	C32978GG	38,320	25,421
	93.767	*	C028904	350,282	292,504
Medical Assistance Program	93.778	*	C028088	837,185	547,249
	93.778	*	C32978GG	213,284	141,490
	93.778	*	C028904	1,937,860	1,617,517
	93.778	*	C029907	<u>797,912</u>	<u>488,543</u>
Total U.S. Department of Health and Human Services				<u>4,327,045</u>	<u>3,212,010</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	<u>47,880</u>	<u>                    </u>
Total U.S. Department of Homeland Security				<u>47,880</u>	<u>                    </u>
				<u>\$ 5,112,332</u>	<u>\$ 3,212,010</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, 2017

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, 2017. 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, 2017

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 financial statements noted?            yes   x   no

**Federal Awards Section**

- D) Internal control over compliance:
- 1) Material weakness(es) identified?            yes   x   no
- 2) Significant deficiencies identified?   x   yes            no
- E) Type of auditors' report on compliance for major programs: Unmodified
- F) Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?   x   yes            no

G) Identification of major programs:

<u>CFDA numbers</u>	<u>Name of Federal programs</u>
93.778	Medical Assistance Program

- H) Dollar threshold used to determine Type A programs: \$750,000
- I) Auditee qualified as low-risk auditee?   x   yes            no        n/a

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

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, 2017

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

**2017-001 Grant No. C028088 - Grant period August 1, 2012 to March 31, 2017; Grant No. DOH01-C32978GG-3450000 - Grant period April 1, 2017 to March 31, 2022; Grant No. C028904 - Grant period August 1, 2013 to September 30, 2018; and Grant No. C029907 - Grant period April 1, 2015 to March 31, 2020 - Year ended June 30, 2017**

Significant Deficiency

Criteria: Procedures should be in place to ensure that reports required by the awarding agencies include all activity of the reporting period, are supported by applicable accounting or performance records, are fairly presented in accordance with governing requirements, and are submitted by the due dates specified on the agreements.

Condition(s): During the course of our audit procedures on reporting, it was noted that while reports were accurate, several expenditure and progress reports were not submitted by the due date to the NY State Department of Health.

Effect: The late submission of information to the awarding agencies could cause a delay in payments or impact future funding.

Cause: The Society did not receive reports from several subrecipients on time. In addition, there was a delay in the approval of one of the contracts with the state agency.

Recommendation: We recommend that the Society ensure that all subrecipients adhere to reporting due dates established so the Society can submit the reports to the awarding agencies on time.

Views of Responsible Officials and Planned Corrective Actions: The Society requires its subrecipients to submit their financial and progress program reports five days after the end of the reporting period. This is done so that the Society can review the underlying documentation in those reports to ensure that proper payments are made to the subrecipients and, in turn, proper and timely reports are filed by the Society with the State of New York. There are instances when, because of delays in receipt of information from the subrecipients, or information from the subrecipients needs to be revised, that reports are submitted late to the State of New York. The Society notifies the State of New York when reports will be submitted late. In addition, the Society is working with its subrecipients to improve their reporting procedures, as well as the timeliness and accuracy of their reports. This will result in the Society improving the timeliness of its reporting to the State of New York.

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, 2017

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

U.S. Department of Health and Human Services

**2016-001 Medical Assistance Program (CFDA – 93.778)**

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 administer 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 do not identify CFDA title and number.

While site visits are 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 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 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 the Uniform Guidance.

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.

Current status: The Society identified the Catalog of Federal Domestic Assistance (CFDA) title and number in various communications sent to the subrecipients. Since the CFDA allocations change quarterly, the Society distributes this information to its subrecipients as soon as the information is available from the state agencies.

Subrecipient monitoring site visits are not required. Language relating to subrecipient monitoring was removed from service agreements with the subrecipients. The Society currently monitors all subrecipients and keeps track of required deliverables as well as financial reports including underlying supporting documentation to ensure that the administration of these Federal awards is in compliance with the laws, regulations and provisions of the contracts.

The discussion of Finding 2017-001 regarding reporting also applies to this finding.

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, 2017

This section identifies the status of prior year findings related to the financial statements and federal awards that are required to be reported in accordance with Government Auditing Standards and 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. The Society identified the Catalog of Federal Domestic Assistance (CFDA) title and number in various communications sent to the subrecipients. Since the CFDA allocations change quarterly, the Society distributes this information to its subrecipients as soon as the information is available from the state agencies.

Subrecipient monitoring site visits are not required. Language relating to subrecipient monitoring was removed from service agreements with the subrecipients. The Society currently monitors all subrecipients and keeps track of required deliverables as well as financial reports including underlying supporting documentation to ensure that the administration of these Federal awards is in compliance with the laws, regulations and provisions of the contracts.

The discussion of Finding 2017-001 regarding reporting also applies to this finding.

633 Third Ave, 10th FL  
New York, NY 10017  
PH 212.254.8900  
FAX 212.260.6218  
www.cssny.org



**David R. Jones, Esq.**  
President & Chief Executive Officer

**Steven L. Krause**  
Executive Vice President &  
Chief Operating Officer

January 17, 2018

Patricia Diaz, CPA  
Manager  
Dorfman Abrams Music LLC  
250 Pehle Avenue, Suite 702  
Saddle Brook, New Jersey 07663

Dear Ms. Diaz,

Re: Single Audit for the Year Ended 6/30/2017 SEFA Findings 2017-001

Planned Corrective Action:

CSS requires its subrecipients to submit their financial and progress program reports five days after the end of the reporting period. This is done so that CSS can review the underlying documentation in those reports to ensure that proper payments are made to the subrecipients and, in turn, proper and timely reports are filed by CSS with the State of New York. There are instances when, because of delays in receipt of information from the subrecipients, or information from the subrecipients needs to be revised, that reports are submitted late to the State of New York. CSS notifies the State of New York when reports will be submitted late. In addition, CSS is working with its subrecipients to improve their reporting procedures, as well as the timeliness and accuracy of their reports. This will result in CSS improving the timeliness of its reporting to the State of New York.

Thank you,

A handwritten signature in blue ink that reads "Charles Taramina".

Charles Taramina

Controller