



***CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2018 AND 2017***

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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, 2018 and 2017, 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, 2018 and 2017, 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 25, 2018, 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 25 2018, except for the Schedule of Expenditures of Federal Awards, which is dated December 17, 2018

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)

ASSETS

	June 30,	
	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 2,813	\$ 3,401
Investments	168,383	167,939
Government and other receivables	12,485	10,716
Prepaid and other assets	428	348
Beneficial interest in perpetual trusts	37,491	36,060
Property and equipment, net	<u>34,416</u>	<u>35,860</u>
 Total assets	 <u>\$ 256,016</u>	 <u>\$ 254,324</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 8,320	\$ 7,859
Accrued pension and post-retirement liability	15,621	14,714
Line of credit	<u>23,574</u>	<u>25,107</u>
 Total liabilities	 <u>47,515</u>	 <u>47,680</u>
Net assets:		
Unrestricted:		
Undesignated	115,097	114,779
Board designated - general reserve	<u>816</u>	<u>914</u>
 Total unrestricted	 <u>115,913</u>	 <u>115,693</u>
Temporarily restricted	26,002	25,796
Permanently restricted	<u>66,586</u>	<u>65,155</u>
 Total net assets	 <u>208,501</u>	 <u>206,644</u>
 Total liabilities and net assets	 <u>\$ 256,016</u>	 <u>\$ 254,324</u>

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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
(in thousands)

	Year ended June 30, 2018				Year ended June 30, 2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenue and support:								
Government grants	\$ 19,126	\$	\$	\$ 19,126	\$ 17,395	\$	\$	\$ 17,395
Direct contributions and federated campaigns	715	865		1,580	449	2,128		2,577
Bequests	288			288	316			316
Program fees and other revenue	117			117	143			143
Investment return used for operations, net	5,376	3,348		8,724	3,243	5,552		8,795
Special events, net expenses of \$49 in 2018 and \$38 in 2017	45			45	32			32
Net assets released from restrictions	7,133	(7,133)			10,080	(10,080)		
Total operating revenue and support	<u>32,800</u>	<u>(2,920)</u>		<u>29,880</u>	<u>31,658</u>	<u>(2,400)</u>		<u>29,258</u>
Operating expenses:								
Program services:								
Direct program services	23,540			23,540	22,680			22,680
Policy, research and advocacy	3,121			3,121	2,965			2,965
Public interest	1,311			1,311	898			898
Total program services	<u>27,972</u>			<u>27,972</u>	<u>26,543</u>			<u>26,543</u>
Supporting services:								
Management and general	5,295			5,295	5,684			5,684
Fundraising	1,087			1,087	1,160			1,160
Total supporting services	<u>6,382</u>			<u>6,382</u>	<u>6,844</u>			<u>6,844</u>
Total operating expenses	<u>34,354</u>			<u>34,354</u>	<u>33,387</u>			<u>33,387</u>
Deficit of operating revenue over operating expenses	<u>(1,554)</u>	<u>(2,920)</u>		<u>(4,474)</u>	<u>(1,729)</u>	<u>(2,400)</u>		<u>(4,129)</u>
Non-operating activities:								
Investment return in excess of amount used for operations, net	1,947	3,126	1,431	6,504	7,255	4,415	2,322	13,992
Total non-operating activities	<u>1,947</u>	<u>3,126</u>	<u>1,431</u>	<u>6,504</u>	<u>7,255</u>	<u>4,415</u>	<u>2,322</u>	<u>13,992</u>
Change in net assets before pension and post-retirement related charges	393	206	1,431	2,030	5,526	2,015	2,322	9,863
Pension and post-retirement related charges other than net periodic pension costs	<u>(173)</u>			<u>(173)</u>	<u>2,624</u>			<u>2,624</u>
Change in total net assets	220	206	1,431	1,857	8,150	2,015	2,322	12,487
Net assets, beginning of year	<u>115,693</u>	<u>25,796</u>	<u>65,155</u>	<u>206,644</u>	<u>107,543</u>	<u>23,781</u>	<u>62,833</u>	<u>194,157</u>
Net assets, end of year	<u>\$ 115,913</u>	<u>\$ 26,002</u>	<u>\$ 66,586</u>	<u>\$ 208,501</u>	<u>\$ 115,693</u>	<u>\$ 25,796</u>	<u>\$ 65,155</u>	<u>\$ 206,644</u>

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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended June 30,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,857	\$ 12,487
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,554	1,542
Net realized and unrealized gain on investments	(9,696)	(15,922)
Increase in beneficial interest in perpetual trusts	(1,431)	(2,322)
Pension and post-retirement related changes other than net periodic pension cost	173	(2,624)
Bad debt expense	1	6
Changes in operating assets and liabilities:		
Increase in:		
Government and other receivables	(1,770)	(2,517)
Prepaid and other assets	(80)	(295)
Increase in:		
Accounts payable and accrued expenses	461	493
Accrued pension and post-retirement liability	734	1,210
Net cash used by operating activities	<u>(8,197)</u>	<u>(7,942)</u>
Cash flows from investing activities:		
Purchases of investments	(31,127)	(40,807)
Proceeds from sale/maturity of investments	40,379	47,014
Purchases of property and equipment	(110)	(40)
Net cash provided by investing activities	<u>9,142</u>	<u>6,167</u>
Cash flows from financing activities:		
Principal repayments	(1,533)	(497)
Net cash used by financing activities	<u>(1,533)</u>	<u>(497)</u>
Net decrease in cash and cash equivalents	(588)	(2,272)
Cash and cash equivalents, beginning of year	<u>3,401</u>	<u>5,673</u>
Cash and cash equivalents, end of year	<u>\$ 2,813</u>	<u>\$ 3,401</u>
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 541</u>	<u>\$ 375</u>

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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

(in thousands)

Years Ended June 30, 2018 and 2017

	Program services expenses							
	Direct program services		Policy, research and advocacy		Public interest		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Salaries	\$ 6,780	\$ 6,376	\$ 1,626	\$ 1,433	\$ 445	\$ 397	\$ 8,851	\$ 8,206
Fringe benefits and payroll taxes	3,122	3,187	723	722	199	200	4,044	4,109
Total salaries and related expenses	9,902	9,563	2,349	2,155	644	597	12,895	12,315
Professional fees	11,197	10,689	383	422	414	104	11,994	11,215
Supplies	64	55	17	11	6	2	87	68
Telephone and communication	164	152	24	20	7	8	195	180
Postage and shipping	21	24	1	2			22	26
Occupancy	390	374	82	83	19	18	491	475
Insurance	8	8	12	15			20	23
Printing and other office expenses	26	28	10	4	1	1	37	33
Transportation	164	168	24	28	2	1	190	197
Conferences, conventions and meetings	76	73	48	47	20	18	144	138
Direct assistance	331	401					331	401
Support payments	97	73	3	8	98	109	198	190
Equipment rentals and expenses	73	58	14	14	64	5	151	77
Interest								
Bad debt expense		4						4
Other expenses	24	14	18	21	6	5	48	40
Depreciation	1,003	996	136	135	30	30	1,169	1,161
Total operating expenses	\$ 23,540	\$ 22,680	\$ 3,121	\$ 2,965	\$ 1,311	\$ 898	\$ 27,972	\$ 26,543

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

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(in thousands)

Years Ended June 30, 2018 and 2017

	Supporting services expenses						Total program and supporting services expenses	
	Management and general		Fundraising		Total		2018	2017
	2018	2017	2018	2017	2018	2017		
Salaries	\$ 2,138	\$ 2,013	\$ 564	\$ 580	\$ 2,702	\$ 2,593	\$ 11,553	\$ 10,799
Fringe benefits and payroll taxes	932	1,503	252	297	1,184	1,800	5,228	5,909
Total salaries and related expenses	3,070	3,516	816	877	3,886	4,393	16,781	16,708
Professional fees	451	519	75	64	526	583	12,520	11,798
Supplies	13	66	3	3	16	69	103	137
Telephone and communication	92	95	9	6	101	101	296	281
Postage and shipping	10	11	21	22	31	33	53	59
Occupancy	147	138	24	25	171	163	662	638
Insurance	126	133			126	133	146	156
Printing and other office expenses			61	72	61	72	98	105
Transportation	106	114	4	8	110	122	300	319
Conferences, conventions and meetings	160	171	8	8	168	179	312	317
Direct assistance							331	401
Support payments							198	190
Equipment rentals and expenses	212	190	12	15	224	205	375	282
Interest	541	375			541	375	541	375
Bad debt expense	1	2			1	2	1	6
Other expenses	29	20	6	13	35	33	83	73
Depreciation	337	334	48	47	385	381	1,554	1,542
Total operating expenses	\$ 5,295	\$ 5,684	\$ 1,087	\$ 1,160	\$ 6,382	\$ 6,844	\$ 34,354	\$ 33,387

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, 2018 and 2017

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 of the years ended June 30, 2018 or 2017.

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, 2018 and 2017

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 \$816 and \$914 as of June 30, 2018 and 2017, 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, which are comprised of individual and foundation grants, as well as 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, 2018 and 2017

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 of the years ended June 30, 2018 or 2017.

Investment in The United Charities

The investment in The United Charities was recorded on the equity method. 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 22nd Street. The Society received its final distributions during the year ended June 30, 2016. As of June 30, 2018, the Corporation is in the process of dissolution.

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, 2018 and 2017, 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 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, 2018 and 2017

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, 2018, 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 2014 are closed.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

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>2018</u>	<u>2017</u>
Government receivables:		
U.S. Department of Health and Human Services:		
Community Health Advocate (CHA)	\$ 2,060	\$ 1,491
Navigator Program Grant	2,877	3,095
ABD Healthcare Program Grant	<u>669</u>	<u>413</u>
	5,606	4,999
Corporation for National and Community Service:		
RSVP Program	174	195
New York State Department of Health:		
ICAN Healthcare Program Grant	3,581	3,030
New York City DOHMH:		
Harlem Healthcare Program Grant	500	508
Other government receivables	<u>1,139</u>	<u>626</u>
Total government receivables	11,000	9,358
Non-government receivables	<u>1,485</u>	<u>1,358</u>
	<u>\$ 12,485</u>	<u>\$ 10,716</u>

At both June 30, 2018 and 2017, 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, 2018 and 2017

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.

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, 2018 and 2017

4. Fair value measurements (continued)

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

	2018		2017	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 2,078	\$ 2,078	\$ 824	\$ 824
Money market funds	810	810	16,994	16,994
Fixed income:				
U.S government and agency	15,399	14,989	14,188	14,038
Corporate bonds	8,618	8,460	10,305	10,427
Mutual funds:				
Equity	19,739	27,533	24,309	29,966
Fixed income	14,702	14,288	6,065	5,984
Alternative investment	8,325	8,134	8,171	7,978
U.S. equity	46,972	54,003	41,598	44,379
Non-U.S. equity	28,662	33,063	25,504	28,434
Alternative investment				
Real estate fund	5,040	5,025	9,245	8,915
	<u>\$ 150,345</u>	<u>\$ 168,383</u>	<u>\$ 157,203</u>	<u>\$ 167,939</u>

The classification of the Society's investment securities at fair value are as follows at June 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 2,078	\$	\$	\$ 2,078
Money market funds	810			810
Fixed income:				
U.S. government and agency	14,989			14,989
Corporate bonds	8,460			8,460
Mutual funds:				
Equity	27,533			27,533
Fixed income	14,288			14,288
Alternative investment			8,134	8,134
U.S. equity	54,003			54,003
Non-U.S. equity	33,063			33,063
Alternative investment				
Real estate fund			5,025	5,025
	<u>155,224</u>		<u>13,159</u>	<u>168,383</u>
Beneficial interest in perpetual trusts			<u>37,491</u>	<u>37,491</u>
	<u>\$ 155,224</u>	<u>\$</u>	<u>\$ 50,650</u>	<u>\$ 205,874</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

4. Fair value measurements (continued)

	2017			Total
	Level 1	Level 2	Level 3	
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
	151,046		16,893	167,939
Beneficial interest in perpetual trusts			36,060	36,060
	<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, 2018 and 2017

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, 2018:

	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	\$ 4,038	\$ 1,963	\$ 1,977	\$	\$	\$ 4,449	\$ 4,466	\$ 16,893	\$ 36,060	\$ 52,953
Purchases	510							510		510
Sales			(459)			(1,815)	(2,039)	(4,313)		(4,313)
Fees										
Interest/dividend income	218	11	100			125	196	650		650
Unrealized gains/(loss)	(289)	67	(6)			18	(33)	(243)	1,431	1,188
Realized gains/(loss)			4			(146)	(196)	(338)		(338)
Net change	439	78	(361)			(1,818)	(2,072)	(3,734)	1,431	(2,303)
Balance, end of year	\$ 4,477	\$ 2,041	\$ 1,616	\$	\$	\$ 2,631	\$ 2,394	\$ 13,159	\$ 37,491	\$ 50,650

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:

	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	\$ 5,810	\$ 1,851	\$	\$ 1,325	\$ 1,280	\$	\$	\$ 10,266	\$ 33,738	\$ 44,004
Purchases			1,964			4,444	4,802	11,210		11,210
Sales	(2,123)	(21)		(1,323)	(1,307)	(111)	(375)	(5,260)		(5,260)
Fees										
Interest/dividend income	133	21		3	10	111	375	653		653
Unrealized gains/(losses)	199	112	13				(336)	(12)	2,322	2,310
Realized gains/(loss)	19			(5)	17	5		36		36
Net change	(1,772)	112	1,977	(1,325)	(1,280)	4,449	4,466	6,627	2,322	8,949
Balance, end of year	\$ 4,038	\$ 1,963	\$ 1,977	\$	\$	\$ 4,449	\$ 4,466	\$ 16,893	\$ 36,060	\$ 52,953

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

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	2018	2017
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.	\$ 4,477	\$ 4,038
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.	2,041	1,963
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.	1,616	1,977
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.	2,631	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.		
				<u>2,394</u>	<u>4,466</u>
				<u>\$ 13,159</u>	<u>\$ 16,893</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

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.

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 3,787	\$ 3,343
Net realized and unrealized gain on investments	10,433	18,244
Perpetual trust investment income	1,666	1,775
Less investment management fees	<u>(658)</u>	<u>(575)</u>
	<u>\$ 15,228</u>	<u>\$ 22,787</u>

Consistent with the Society's spending policy for the years ended June 30, 2018 and 2017, \$8,724 and \$8,795 was appropriated and spent, respectively.

5. Property and equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 5,035	\$ 5,035
Building and improvements	32,118	32,042
Computer and office equipment	<u>1,725</u>	<u>1,691</u>
	38,878	38,768
Less accumulated depreciation	<u>4,462</u>	<u>2,908</u>
	<u>\$ 34,416</u>	<u>\$ 35,860</u>

Depreciation expense was \$1,554 and \$1,542 for the years ended June 30, 2018 and 2017, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

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

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

	<u>2018</u>	<u>2017</u>
Direct service programs	\$ 23,622	\$ 22,793
Policy research and advocacy	446	642
Public interest	80	437
Program administration	543	613
Unappropriated investment income from endowments	<u>1,311</u>	<u>1,311</u>
	<u>\$ 26,002</u>	<u>\$ 25,796</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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Direct service programs	\$ 3,330	\$ 6,097
Policy research and advocacy	2,382	2,688
Public interest	1,082	901
Management and general	<u>339</u>	<u>394</u>
	<u>\$ 7,133</u>	<u>\$ 10,080</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

7. 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>2018</u>	<u>2017</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	15,885	14,854
Beneficial interest in perpetual trusts - income unrestricted	<u>21,606</u>	<u>21,206</u>
Total beneficial interest in perpetual trusts	<u>37,491</u>	<u>36,060</u>
	<u>\$ 66,586</u>	<u>\$ 65,155</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

7. 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, 2018 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Investment return:			
Interest and dividend income	\$ 652	\$	\$ 652
Realized gain	293		293
Unrealized gain	<u>1,261</u>		<u>1,261</u>
Total investment return	2,206		2,206
Appropriation of endowment assets for expenditures	<u>(2,206)</u>		<u>(2,206)</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, 2018 and 2017

7. Permanently restricted net assets (continued)

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>

8. 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, 2018 and 2017 were \$23,574 and \$25,107 respectively.

Interest expense incurred under the facility amounted to \$541 and \$375 for the years ended June 30, 2018 and 2017, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

9. Commitments and contingencies

The Society leases various equipment and automobiles under operating leases which expire through July 2022. Rent expense for these leases were \$119 and \$78 for the years ended June 30, 2018 and 2017, respectively.

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

Year ending June 30:	
2019	\$ 66
2020	74
2021	74
2022	<u>65</u>
	<u>\$ 279</u>

10. 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:

	2018		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (51,533)	\$ (706)	\$ (52,239)
Fair value of plan assets	<u>36,618</u>	<u> </u>	<u>36,618</u>
Funded status - recognized in the statement of financial position	<u>\$ (14,915)</u>	<u>\$ (706)</u>	<u>\$ (15,621)</u>
	2017		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (48,387)	\$ (721)	\$ (49,108)
Fair value of plan assets	<u>34,394</u>	<u> </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>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

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June 30, 2018 and 2017

10. Employee benefit plans (continued)

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

	Pension benefits		Other benefits	
	2018	2017	2018	2017
Weighted-average assumptions as of June 30:				
Discount rate	4.00%	3.75%	4.00%	3.75%
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:

	2018			2017		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Society's contributions	\$ 900	\$ 191	\$ 1,091	\$ 900	\$ 173	\$ 1,073
Employee's contributions	\$	\$ 1	\$ 1	\$	\$ 2	\$ 2
Benefits paid	\$ 1,680	\$ 192	\$ 1,872	\$ 1,640	\$ 175	\$ 1,815

The accumulated benefit obligation for the defined benefit pension plan was \$45,751 and \$42,738 at June 30, 2018 and 2017, respectively.

The Mortality table RP2000 with Generational Projection Scale AA used for both pension and other benefits as of June 30, 2017 was updated to RP2006 with Generational Projection Scale MP-2016 as of June 30, 2018.

For 2018 and 2017, an assumed long-term rate of return of 7.25% and 7.25% 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 7.70% and 6.9% health care cost trend rate was assumed for 2018 and 2017, respectively.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

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(in thousands)

June 30, 2018 and 2017

10. 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, 2018:

	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Beginning balance of cumulative pension related changes other than net periodic pension cost	\$ (13,670)	\$ (152)	\$ (13,822)
Changes:			
Amortization	1,031	45	1,076
Asset loss	<u>(1,103)</u>	<u>(146)</u>	<u>(1,249)</u>
Net change	<u>(72)</u>	<u>(101)</u>	<u>(173)</u>
Ending balance of cumulative pension related changes other than net periodic pension cost	<u>\$ (13,742)</u>	<u>\$ (253)</u>	<u>\$ (13,995)</u>

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 loss	<u>1,108</u>	<u>28</u>	<u>1,136</u>
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>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

10. 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:

	2018		
	Pension benefits	Other benefits	Total
Service costs	\$ 1,340	\$	\$ 1,340
Interest cost	1,810	30	1,840
Expected return on assets	(2,430)		(2,430)
Net amortization and deferral	1,031	45	1,076
Amortization of prior service cost	-	-	-
Net cost	<u>\$ 1,751</u>	<u>\$ 75</u>	<u>\$ 1,826</u>

	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>

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

	Pension benefits	Other benefits	Total
2019	\$ 1,990	\$ 116	\$ 2,106
2020	2,078	104	2,182
2021	2,164	94	2,258
2022	2,278	80	2,358
2023	2,374	69	2,443
2024 - 2028	13,170	232	13,402
	<u>\$ 24,054</u>	<u>\$ 695</u>	<u>\$ 24,749</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2018 and 2017

10. 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 \$12,000 are not matched. The Society's contributions to the plan were \$160 during the years ended June 30, 2018 and 2017.

11. 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.

12. Significant source of support

The Society received approximately 79% and 77% of its operating revenue and support, excluding investment returns, for the years ended June 30, 2018 and 2017, respectively, from New York State agencies. Amounts due the Society from these agencies were \$9,334 and \$9,358 at June 30, 2018 and 2017, respectively. Contracts with the funding agencies were renewed at comparable amounts for the upcoming fiscal year.

13. 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 were \$695 and \$666 for the years ended June 30, 2018 and 2017, respectively.

14. Subsequent events

Subsequent events have been evaluated through October 25, 2018, which is the date the consolidated financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of June 30, 2018, 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 which comprise the consolidated statement of financial position as of June 30, 2018, 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 25, 2018. 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 Adams Incis, LLC

Saddle Brook, New Jersey

October 25, 2018

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, 2018. 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, 2018.

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 did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, 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 Abrams Music, LLC

Saddle Brook, New Jersey

December 17, 2018

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

<u>Federal grantor/pass through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor number</u>	<u>Pass-through entity identifying number</u>	<u>Federal expenditures</u>	<u>Passed through to subrecipients</u>
Corporation for National and Community Service Retired and Senior Volunteer Program	94.002	*	16SRANY007	\$ 704,545	\$ _____
Total Corporation for National and Community Service				<u>704,545</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	*	C32978GG	163,523	102,757
Children's Health Insurance Program	93.767	*	C028904	<u>338,566</u>	<u>284,074</u>
				<u>502,089</u>	<u>386,831</u>
Medical Assistance Program	93.778	*	C32978GG	883,227	555,014
Medical Assistance Program	93.778	*	C028904	2,052,232	1,720,708
Medical Assistance Program	93.778	*	C029907	<u>870,359</u>	<u>525,732</u>
				3,805,818	2,801,454
Total U.S. Department of Health and Human Services				<u>4,307,907</u>	<u>3,188,285</u>
U.S. Department of Labor Passed through Center for Employment Opportunities, Inc.:					
Reentry Employment Opportunities	17.270	*	*	<u>25,000</u>	<u>_____</u>
Total U.S. Department of Labor				<u>25,000</u>	<u>_____</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>49,598</u>	<u>_____</u>
Total U.S. Department of Homeland Security				<u>49,598</u>	<u>_____</u>
				<u>\$ 5,087,050</u>	<u>\$ 3,188,285</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, 2018

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, 2018. 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, 2018

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, 2018

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, 2018

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

2018-001 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 - Fiscal year ended June 30, 2018

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. In addition, the Society should submit reports required by the awarding agencies by the due dates specified on the 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 the Society informed the subrecipients the CFDA title, number and funding allocations through an e-mail, the information only provided the funding allocations up to September 2017.

In addition, 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.

Context: During our review of 9 expenditure reports and 9 progress reports, we noted that 4 expenditure reports and 4 progress reports were not timely submitted. This is a condition identified per review of the Society's internal control over compliance with reporting.

In addition, during our review of 7 awards to subrecipients, we noted that the Society did not identify the CFDA title, award name, number and funding allocations on the agreements with its subrecipients. This is a condition identified per review of the Society's internal control over compliance with monitoring.

Effect: The late submission of information to the awarding agencies could cause a delay in payments or impact future funding. In addition, subrecipients might not be in compliance with the requirements of the Federal program.

Cause: The Society did not receive reports from several subrecipients on time. In addition, the Society does not receive the CFDA information on time to include it in the service agreements with subrecipients.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

Part 3 - Schedule of Federal Award Findings and Questioned Costs (continued)

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.

We also recommend that the Society properly identifies CFDA title and number to the subrecipients so each can ensure their own compliance with the Uniform Guidance.

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 implementing procedures to timely inform the subrecipients of any changes in the federal funding allocations as soon as it becomes available from the state agencies and is working with its subrecipients to improve their reporting procedures, as well as the timeliness and accuracy of their reports.

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, 2018

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

2017-001 Medical Assistance Program (CFDA - 93.778)

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): This finding was a significant deficiency stating that 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 recommended 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.

Current status: This item has not been remediated. The discussion of Finding 2018-001 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, 2018

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 up to September 2017 in an e-mail sent to the subrecipients. Since the CFDA allocations change quarterly, the Society needs to distribute 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 2018-001 regarding reporting also applies to this finding.

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

Steven L. Krause
Executive Vice President &
Chief Operating Officer

December 18, 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 6/30/2018 SEFA Findings 2018-001

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 implementing procedures to timely inform the subrecipients of any changes in the federal funding allocations as soon as it becomes available from the state agencies and 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