



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

YEARS ENDED JUNE 30, 2019 AND 2018

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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 balance sheets as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, in fiscal year 2019 the Community Service Society of New York and Affiliates adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 30, 2019, 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 30, 2019, except for the Schedule of Expenditures of Federal Awards, which is dated December 26, 2019.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

CONSOLIDATED BALANCE SHEETS

(in thousands)

ASSETS

	June 30,	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$ 4,246	\$ 2,813
Investments	144,020	168,383
Government and other receivables	8,927	12,485
Prepaid and other assets	475	428
Beneficial interest in perpetual trusts	37,813	37,491
Property and equipment, net	<u>33,315</u>	<u>34,416</u>
Total assets	<u>\$ 228,796</u>	<u>\$ 256,016</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 6,112	\$ 8,320
Accrued pension and post-retirement liability	19,708	15,621
Line of credit		<u>23,574</u>
Total liabilities	<u>25,820</u>	<u>47,515</u>
Net assets:		
Without donor restrictions:		
Board designated:		
Quasi-endowment funds	77,220	101,720
Operating reserves	5,000	5,000
Other	1,269	1,280
Bequest	7,323	7,093
Undesignated	<u>40,886</u>	<u>21,683</u>
Total net assets without donor restrictions	<u>131,698</u>	<u>136,776</u>
With donor restrictions:		
Donor restricted endowment funds	29,095	29,095
Beneficial interest in perpetual trusts	37,813	37,491
Purpose restricted	4,370	5,057
Time restricted		<u>82</u>
Total net assets with donor restrictions	<u>71,278</u>	<u>71,725</u>
Total net assets	<u>202,976</u>	<u>208,501</u>
Total liabilities and net assets	<u>\$ 228,796</u>	<u>\$ 256,016</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, 2019			Year ended June 30, 2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating revenue and support:						
Government grants	\$ 20,339	\$	\$ 20,339	\$ 19,126	\$	\$ 19,126
Direct contributions and federated campaigns	721	1,038	1,759	715	865	1,580
Bequests	230		230	288		288
Program fees and other revenue	157		157	117		117
Investment return used for operations, net	6,379	3,569	9,948	5,376	3,348	8,724
Special events, net of expenses of \$234 in 2019 and \$48 in 2018	111		111	45		45
Net assets released from restrictions	5,054	(5,054)		7,133	(7,133)	
Total operating revenue and support	32,991	(447)	32,544	32,800	(2,920)	29,880
Operating expenses:						
Program services:						
Direct program services	24,620		24,620	23,540		23,540
Policy, research and advocacy	3,430		3,430	3,121		3,121
Public interest	1,062		1,062	1,311		1,311
Total program services	29,112		29,112	27,972		27,972
Supporting services:						
Management and general	4,964		4,964	5,295		5,295
Fundraising	1,222		1,222	1,087		1,087
Total supporting services	6,186		6,186	6,382		6,382
Total operating expenses	35,298		35,298	34,354		34,354
Deficit of operating revenue over operating expenses	(2,307)	(447)	(2,754)	(1,554)	(2,920)	(4,474)
Non-operating activities:						
Investment return in excess of amount used for operations, net	771		771	1,947	4,557	6,504
Total non-operating activities	771		771	1,947	4,557	6,504
Change in net assets before pension and post-retirement related charges	(1,536)	(447)	(1,983)	393	1,637	2,030
Pension and post-retirement related charges other than net periodic pension costs	(3,542)		(3,542)	(173)		(173)
Change in total net assets	(5,078)	(447)	(5,525)	220	1,637	1,857
Net assets, beginning of year	136,776	71,725	208,501	115,693	90,951	206,644
Reclassification (note 2)				20,863	(20,863)	
Net assets, end of year	\$ 131,698	\$ 71,278	\$ 202,976	\$ 136,776	\$ 71,275	\$ 208,501

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,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (5,525)	\$ 1,857
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,373	1,554
Net realized and unrealized gain on investments	(5,980)	(9,696)
Loss on abandonment of equipment	40	
Increase in beneficial interest in perpetual trusts	(322)	(1,431)
Pension and post-retirement related changes other than net periodic pension cost	3,542	173
Bad debt expense		1
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Government and other receivables	3,558	(1,770)
Prepaid and other assets	(47)	(80)
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,208)	461
Accrued pension and post-retirement liability	545	734
Net cash used by operating activities	(5,024)	(8,197)
Cash flows from investing activities:		
Purchases of investments	(36,105)	(31,127)
Proceeds from sale/maturity of investments	66,449	40,379
Purchases of property and equipment	(313)	(110)
Net cash provided by investing activities	30,031	9,142
Cash flows from financing activities:		
Line of credit activity, net	(23,574)	(1,533)
Net cash used by financing activities	(23,574)	(1,533)
Net increase (decrease) in cash and cash equivalents	1,433	(588)
Cash and cash equivalents, beginning of year	2,813	3,401
Cash and cash equivalents, end of year	\$ 4,246	\$ 2,813

Supplemental Cash Flow Information

Cash paid for interest	\$ 235	\$ 541
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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, 2019 and 2018

	Program services expenses							
	Direct program services		Policy, research and advocacy		Public interest		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Salaries	\$ 7,446	\$ 6,780	\$ 1,809	\$ 1,626	\$ 457	\$ 445	\$ 9,712	\$ 8,851
Fringe benefits and payroll taxes	3,383	3,122	841	723	210	199	4,434	4,044
Total salaries and related expenses	10,830	9,902	2,649	2,349	667	644	14,146	12,895
Professional fees	11,688	11,197	389	383	213	414	12,290	11,994
Occupancy	389	390	81	82	19	19	489	491
Software and equipment expenses	95	73	15	14	27	64	137	151
Conferences, conventions and meetings	66	76	51	48	1	20	118	144
Direct assistance	301	331	1				302	331
Transportation	166	164	21	24		2	187	190
Telephone and communication	132	164	22	24	5	7	159	195
Interest								
Support payments	82	97	4	3	89	98	175	198
Insurance	8	8	12	12			20	20
Supplies	57	64	5	17	2	6	64	87
Printing and other office expenses	12	26	7	10	4	1	23	37
Postage and shipping	25	21	1	1			26	22
Bad debt expense								
Other expenses	20	24	22	18	3	6	45	48
Depreciation	728	1,003	145	136	31	30	904	1,169
Loss on disposal of assets	21		5		1		27	
Total operating expenses	<u>\$ 24,620</u>	<u>\$ 23,540</u>	<u>\$ 3,430</u>	<u>\$ 3,121</u>	<u>\$ 1,062</u>	<u>\$ 1,311</u>	<u>\$ 29,112</u>	<u>\$ 27,972</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, 2019 and 2018

	Supporting services expenses						Total program and supporting services expenses	
	Management and general		Fundraising		Total		2019	2018
	2019	2018	2019	2018	2019	2018		
Salaries	\$ 1,829	\$ 2,138	\$ 635	\$ 564	\$ 2,464	\$ 2,702	\$ 12,176	\$ 11,553
Fringe benefits and payroll taxes	880	932	292	252	1,172	1,184	5,606	5,228
Total salaries and related expenses	2,709	3,070	927	816	3,636	3,886	17,782	16,781
Professional fees	600	451	96	75	696	526	12,986	12,520
Occupancy	125	147	24	24	149	171	638	662
Software and equipment expenses	222	212	12	12	234	224	371	375
Conferences, conventions and meetings	219	160	12	8	231	168	349	312
Direct assistance							302	331
Transportation	105	106	4	4	109	110	296	300
Telephone and communication	76	92	5	9	81	101	240	296
Interest	235	541			235	541	235	541
Support payments							175	198
Insurance	134	126			134	126	154	146
Supplies	53	13	3	3	56	16	120	103
Printing and other office expenses			59	61	59	61	82	98
Postage and shipping	10	10	24	21	34	31	60	53
Bad debt expense		1				1		1
Other expenses	38	29	12	6	50	35	95	83
Depreciation	426	337	43	48	469	385	1,373	1,554
Loss on disposal of assets	12		1		13		40	
Total operating expenses	\$ 4,964	\$ 5,295	\$ 1,222	\$ 1,087	\$ 6,186	\$ 6,382	\$ 35,298	\$ 34,354

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, 2019 and 2018

1. Nature of the Organizations

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), 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, 2019 or 2018.

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.

2. Summary of significant accounting policies

This summary of significant accounting policies of 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.

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.

New accounting pronouncement

Effective July 1, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

New accounting pronouncement (continued)

As a result of the adoption of ASU, net assets as of June 30, 2018 were reclassified as follows:

Net asset classifications	Net asset classifications			Total net assets
	Without donor restrictions	With donor restrictions	Reclassifications	
As previously presented:				
Unrestricted	\$ 115,913	\$	\$ 20,863	\$ 136,776
Temporarily restricted		26,002	(20,863)	5,139
Permanently restricted		66,586		66,586
Reclassification	20,863	(20,863)		
Total net assets	<u>\$ 136,776</u>	<u>\$ 71,725</u>	<u>\$</u>	<u>\$ 208,501</u>

During the implementation of the ASU, the Society determined that \$20,863 of net assets previously included within temporarily restricted net assets should be reclassified to net assets without donor restrictions to conform to the new standards.

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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Society. These net assets may be used at the discretion of the Organization's management and the Board of Trustees. Included within net assets without donor restrictions are board-designated net assets of \$83,489 and \$108,000 as of June 30, 2019 and 2018, respectively.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

Support and revenue

Contributions are comprised of direct contributions from individuals, donations from federated campaigns, foundation grants and bequests. Unconditional pledges are recognized when made and recorded at fair value as net assets without donor restrictions or as net assets with donor restrictions depending on the existence and/or the nature of any donor-imposed restrictions. Conditional pledges are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are recorded with donor restricted support if they are received with donor stipulation that limits their use for specific or general purposes.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities. However, if a restriction is fulfilled in the same accounting period the contribution is received, the Society reports the support as net assets without donor restrictions.

In-kind contributions are reflected as contributions at fair value at date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The Society recognized no in-kind donations during either of the years ended June 30, 2019 and 2018.

Several volunteers have made significant contributions of their time in furtherance of the Society's mission. These services were not reflected in the accompanying consolidated statement of activities because they do not meet the necessary criteria for recognition under U.S. GAAP.

Governmental support is reported in the year earned as 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.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as time and effort and square footage.

Measure of operations

The consolidated statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Society's ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

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 consolidated statement of cash flows.

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 consolidated balance sheet. 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.

Allowance for doubtful accounts

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 both June 30, 2019 and 2018, management determined that an allowance was not necessary.

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 with donor restricted non-operating activities on the consolidated statement of activities.

Property and equipment

Property and equipment are stated at cost, if purchased, or at fair value at the date of the gift, if donated, less accumulated depreciation. The cost of property and equipment purchased in excess of \$2,500 is capitalized. Depreciation is provided in amounts sufficient to amortize the cost of the property and equipment over the estimated useful lives on a straight-line basis.

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.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

Fair value of financial instruments

The carrying amounts reported on the consolidated balance sheet of the Society approximate their fair value.

Income taxes

The Organizations' are tax-exempt organizations as defined by the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

3. Availability and liquidity

The following reflects the Society's financial assets as of June 30, 2019 and 2018, reduced by funds not available for general use due to restrictions imposed by either the governing board and/or donor-imposed restrictions within one year of the consolidated balance sheet date. However, funds already appropriated from donor-restricted endowment for general expenditure within one year of the consolidated balance sheet date are not subtracted as unavailable.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

3. Availability and liquidity (continued)

The following represents the Society's financial assets at June 30:

	<u>2019</u>	<u>2018</u>
Financial assets at June 30:		
Cash and cash equivalents	\$ 4,246	\$ 2,813
Investments	144,020	168,383
Government and other receivables	8,927	12,485
Beneficial interest in perpetual trusts	<u>37,813</u>	<u>37,491</u>
 Total financial assets	 <u>195,006</u>	 <u>221,172</u>
 Less funds unavailable for general expenditures within one year due to:		
Donor-imposed restrictions	71,728	71,725
Board designated net assets	83,489	108,000
Less: Net assets with restrictions to be met in less than a year	<u>(4,370)</u>	<u>(5,504)</u>
 Total funds unavailable for general expenditures within one year	 <u>150,847</u>	 <u>174,221</u>
 Financial assets available for general expenditures within one year	 <u>\$ 44,159</u>	 <u>\$ 46,951</u>

The Society's operations are substantially supported by restricted contributions and government grants. Because donor-imposed restrictions or contractual obligations require resources to be used in a particular manner or in a future period, the Society must maintain sufficient resources to meet these responsibilities. Thus, financial assets may not be available for general expenditure within one year. As part of the Society's liquidity management, there is a policy in place to structure financial assets to be available as obligations become due. The Society's goal is generally to maintain financial assets to meet 90 days of operating expenses approximately \$8,750. Cash in excess of daily requirements is invested in short-term investments.

In addition, the governing board has designated \$5,000 as operating reserve that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The Society also had \$6,000 available on its line of credit to meet unanticipated liquidity needs at June 30, 2019.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

4. 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 Society 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 consolidated financial statements. Concentration of credit risk with respect to receivables is limited due to the fact that they are mainly derived from governmental agencies.

5. 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.

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

	<u>2019</u>	<u>2018</u>
Government receivables:		
U.S. Department of Health and Human Services:		
Community Health Advocate (CHA)	\$ 1,251	\$ 2,060
Navigator Program Grant	1,663	2,877
ABD Healthcare Program Grant	<u>842</u>	<u>669</u>
	3,756	5,606
Corporation for National and Community Service:		
RSVP Program	172	174
New York State Department of Health:		
ICAN Healthcare Program Grant	2,294	3,581
New York City DOHMH:		
Harlem Healthcare Program Grant	560	500
Other government receivables	<u>845</u>	<u>1,139</u>
Total government receivables	7,627	11,000
Non-government receivables	<u>1,300</u>	<u>1,485</u>
	<u>\$ 8,927</u>	<u>\$ 12,485</u>

At both June 30, 2019 and 2018, all receivables were expected to be collected within one year.

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6. 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 - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and real estate funds - 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. These mutual 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.

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6. Fair value measurements (continued)

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

	2019		2018	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 6,560	\$ 6,560	\$ 2,078	\$ 2,078
Money market funds	405	405	810	810
Fixed income:				
U.S government and agency	8,316	8,364	15,399	14,989
Corporate bonds	2,943	3,030	8,618	8,460
Mutual funds:				
Equity	20,446	30,075	19,739	27,533
Fixed income	9,822	9,804	14,702	14,288
Alternative investment	3,813	3,753	8,325	8,134
U.S. equity	40,948	48,862	46,972	54,003
Non-U.S. equity	27,219	30,745	28,662	33,063
Real estate fund	2,225	2,422	5,040	5,025
	<u>\$ 122,697</u>	<u>\$ 144,020</u>	<u>\$ 150,345</u>	<u>\$ 168,383</u>

The classification of the Society's investment securities at fair value is as follows at June 30, 2019:

	2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 6,560	\$	\$	\$ 6,560
Money market funds	405			405
Fixed income:				
U.S. government and agency	8,364			8,364
Corporate bonds	3,030			3,030
Mutual funds:				
Equity	30,075			30,075
Fixed income	9,804			9,804
Alternative investment			3,753	3,753
U.S. equity	48,862			48,862
Non-U.S. equity	30,745			30,745
Real estate fund			2,422	2,422
	<u>137,845</u>		<u>6,175</u>	<u>144,020</u>
Beneficial interest in perpetual trusts			<u>37,813</u>	<u>37,813</u>
	<u>\$ 137,845</u>	<u>\$</u>	<u>\$ 43,988</u>	<u>\$ 181,833</u>

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6. Fair value measurements (continued)

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

	2018			Total
	Level 1	Level 2	Level 3	
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
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>

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6. 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, 2019:

	BlackRock Strategic Income Opprtnts PTF Inst	BlackRock Allocation Shares Series P	BlackRock Allocation Shares Series A	DFA Real Estate Securities	DFA International Real Estate Securities	Total	Beneficial Interest in Perpetual	Total
Balance, beginning of year	\$ 4,477	\$ 2,041	\$ 1,616	\$ 2,631	\$ 2,394	\$ 13,159	\$ 37,491	\$ 50,650
Purchases	931					931		931
Sales	(3,062)	(1,306)	(1,094)	(1,615)	(1,286)	(8,363)		(8,363)
Interest/dividend income	113	7	51	52	66	289		289
Unrealized gain/(loss)	173	(45)	3	103	109	343	322	665
Realized gain/(loss)	(162)	16	(6)	70	(102)	(184)		(184)
Net change	(2,007)	(1,328)	(1,046)	(1,390)	(1,213)	(6,984)	322	(6,662)
Balance, end of year	\$ 2,470	\$ 713	\$ 570	\$ 1,241	\$ 1,181	\$ 6,175	\$ 37,813	\$ 43,988

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	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)
Interest/dividend income	218	11	100	125	196	650		650
Unrealized gain/(loss)	(289)	67	(6)	18	(33)	(243)	1,431	1,188
Realized gain/(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

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6. 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	2019	2018
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.	\$ 2,470	\$ 4,477
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.	713	2,041
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.	570	1,616
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.	1,241	2,631
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.	1,181	2,394
				<u>\$ 6,175</u>	<u>\$ 13,159</u>

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June 30, 2019 and 2018

6. Fair value measurements (continued)

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 2,737	\$ 2,435
Net realized and unrealized gain on investments	6,302	11,127
Perpetual trust investment income	<u>1,680</u>	<u>1,666</u>
	<u>\$ 10,719</u>	<u>\$ 15,228</u>

Consistent with the Society's spending policy for the years ended June 30, 2019 and 2018, \$9,948 and \$8,724 was appropriated and spent, respectively.

7. Property and equipment

A summary of property and equipment is as follows at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,035	\$ 5,035
Building and improvements	32,276	32,118
Computer and office equipment	<u>1,811</u>	<u>1,725</u>
	39,122	38,878
Less accumulated depreciation	<u>5,807</u>	<u>4,462</u>
	<u>\$ 33,315</u>	<u>\$ 34,416</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$1,373 and \$1,554, respectively.

8. Line of credit

The Society has a revolving line of credit with a financial institution that currently bears interest at LIBOR plus 0.95% per annum. The loan is secured by certain investments and expires on November 10, 2020.

The outstanding balance at June 30, 2018 was \$23,574. The balance on the line was repaid in November 2018, at which time the borrowing limit was reduced from \$26,000 to \$6,000. There were no other substantial changes to the terms of the line.

Interest expense incurred under the facility amounted to \$235 and \$541 for the years ended June 30, 2019 and 2018, respectively.

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9. Net assets with donor restrictions and net assets released from donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Direct program services	\$ 3,528	\$ 4,071
Policy, research and advocacy	377	446
Public interest		80
Program administration	<u>465</u>	<u>460</u>
	<u>4,370</u>	<u>5,057</u>
Subject to passage of time		<u>82</u>
Donor imposed restricted endowment funds	<u>29,095</u>	<u>29,095</u>
Beneficial interest in perpetual trusts	<u>37,813</u>	<u>37,491</u>
Net assets with donor restrictions	<u>\$ 71,278</u>	<u>\$ 71,725</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors during fiscal years ended June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Direct service programs	\$ 2,873	\$ 3,330
Policy research and advocacy	1,857	2,382
Public interest	80	1,082
Management and general	<u>244</u>	<u>339</u>
	<u>\$ 5,054</u>	<u>\$ 7,133</u>

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10. Endowment funds

The Society's endowment fund consists of both donor-restricted endowment funds which are classified and reported based on the existence or absence of donor-imposed restrictions and board-designated endowment funds. Board-designated endowment funds are portions of net assets without donor restriction which are designated or earmarked for long-term investment and functions as an endowment (Quasi-endowment). Any donated gift instructions received for particular purpose that the Society is unable to spend in the near term may be designated by the board for long-term investment and recognized as net assets with donor restrictions until those funds are used.

The Society's Board of Trustees is responsible for the long-term investment policies of the endowment funds, unless otherwise specified by the donor.

The Society has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). As a result of this interpretation, the Society classifies endowment funds with donor-imposed restrictions as net assets with donor restrictions and income generated from those assets are time restricted until the Board of trustees appropriates them for expenditure. Most of those funds are also subject to purpose restrictions that may be met before they are released from restrictions.

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.

The Society's Board of trustees has interpreted this change of policy as not requiring the maintenance of purchasing power of the original gift value contributed to the endowment fund, unless a donor stipulated to the contrary. As a result of this interpretation, when reviewing donor-restricted endowment funds, the society considers a fund to be underwater if the fair market value of the fund is less than its original initial value of gifts donated, the original value of subsequent gifts added to the fund and or any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. NYPMIFA has permitted spending from underwater funds in accordance with prudent measures as required under the law.

In addition to NYPMIFA prudent measures, the Society consider the following factors when determining to appropriate or accumulate donor-restricted endowment funds:

- The purpose of the donor restrictions
- Anticipated income and appreciation of the assets
- Preservation and duration of the fund
- General economic conditions
- The availability of other resources
- The Investment policies of the Society

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10. Endowment funds (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 endowment fund 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.

Endowment funds consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Donor-restricted endowment funds:		
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>
	<u>29,095</u>	<u>29,095</u>
Board-designated endowment funds:		
Quasi-endowment fund	<u>77,220</u>	<u>101,720</u>
Total endowment funds	<u>\$ 106,315</u>	<u>\$ 130,815</u>

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10. Endowment funds (continued)

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Board-designated endowment funds without donor restrictions	Endowment funds with donor restrictions	Total
Endowment net assets, beginning of year:	\$ 101,720	\$ 29,095	\$ 130,815
Investment return			
Interest and dividend income	1,763	706	2,469
Realized gain	1,093	439	1,532
Unrealized gain	1,726	691	2,417
Total investment return	4,582	1,836	6,418
Contributions			
Appropriation of endowment income for expenditure	(4,582)	(1,836)	(6,418)
Other changes:			
Withdrawal to pay down line of credit	(24,500)		(24,500)
Endowment net assets, end of year	<u>\$ 77,220</u>	<u>\$ 29,095</u>	<u>\$ 106,315</u>

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10. Endowment funds (continued)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Board-designated endowment funds without donor restrictions	Endowment funds with donor restrictions	Total
Endowment net assets, beginning of year:	\$ 99,370	\$ 29,095	\$ 128,465
Investment return			
Interest and dividend income	2,622	652	3,274
Realized gain	1,179	293	1,472
Unrealized gain	5,068	1,261	6,329
Total investment return	8,869	2,206	11,075
Contributions			
Appropriation of endowment income for expenditure	(6,519)	(2,206)	(8,725)
Other changes:			
Transfers/withdrawal			
Endowment net assets, end of year	<u>\$ 101,720</u>	<u>\$ 29,095</u>	<u>\$ 130,815</u>

11. Board designated net assets

The Society's Board of Trustees has designated from net assets without donor restrictions for the following purposes as of June 30:

	2019	2018
Quasi-endowment fund	\$ 77,220	\$ 101,720
Operating reserve	5,000	5,000
Special board project or purposes	1,269	1,280
	<u>\$ 83,489</u>	<u>\$ 108,000</u>

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12. 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:

	2019		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (57,073)	\$ (281)	\$ (57,354)
Fair value of plan assets	37,646		37,646
Funded status - recognized in the consolidated balance sheet	<u>\$ (19,427)</u>	<u>\$ (281)</u>	<u>\$ (19,708)</u>
	2018		
	Pension benefits	Other benefits	Total
Projected benefit obligation	\$ (51,533)	\$ (706)	\$ (52,239)
Fair value of plan assets	36,618		36,618
Funded status - recognized in the consolidated balance sheet	<u>\$ (14,915)</u>	<u>\$ (706)</u>	<u>\$ (15,621)</u>

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12. Employee benefit plans (continued)

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

	Pension benefits		Other benefits	
	2019	2018	2019	2018
Weighted-average assumptions as of June 30:				
Discount rate	3.50%	4.00%	3.50%	4.00%
Expected return on plan assets	7.00%	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:

	2019			2018		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Society's contributions	\$ 1,200	\$ 90	\$ 1,290	\$ 900	\$ 191	\$ 1,091
Employee's contributions	\$	\$ 0.2	\$	\$	\$ 1	\$ 1
Benefits paid	\$ 1,837	\$ 90	\$ 1,927	\$ 1,680	\$ 192	\$ 1,872

The accumulated benefit obligation for the defined benefit pension plan was \$50,628 and \$45,751 at June 30, 2019 and 2018, respectively.

The Mortality table RP2000 with Generational Projection Scale AA used for both pension and other benefits as of June 30, 2018 was updated to RP2006 with Generational Projection Scale MP-2016 as of June 30, 2019.

For 2019 and 2018, an assumed long-term rate of return of 7.00% and 7.25%, respectively, 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 6.80% and 7.70% health care cost trend rate was assumed for 2019 and 2018, respectively.

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12. Employee benefit plans (continued)

Amounts recognized as changes in net assets, but not yet included in net periodic benefit cost, consist of following at June 30, 2019:

	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total</u>
Beginning balance of cumulative pension related changes other than net periodic pension cost	\$ (13,742)	\$ (253)	\$ (13,995)
Changes:			
Amortization	933		933
Asset loss (gain)	<u>(4,828)</u>	<u>353</u>	<u>(4,475)</u>
Net change	<u>(3,895)</u>	<u>353</u>	<u>(3,542)</u>
Ending balance of cumulative pension related changes other than net periodic pension cost	<u>\$ (17,637)</u>	<u>\$ 100</u>	<u>\$ (17,537)</u>

Amounts recognized as changes in 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>

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12. 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:

	2019		
	Pension benefits	Other benefits	Total
Service costs	\$ 1,367	\$	\$ 1,367
Interest cost	2,025	18	2,043
Expected return on assets	(2,505)		(2,505)
Net amortization and deferral	933		933
Net cost	<u>\$ 1,820</u>	<u>\$ 18</u>	<u>\$ 1,838</u>

	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
Net cost	<u>\$ 1,751</u>	<u>\$ 75</u>	<u>\$ 1,826</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
2020	\$ 2,063	\$ 42	\$ 2,105
2021	2,195	36	2,231
2022	2,321	33	2,354
2023	2,445	30	2,475
2024	2,606	26	2,632
2025 - 2029	14,227	94	14,321
	<u>\$ 25,857</u>	<u>\$ 261</u>	<u>\$ 26,118</u>

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

June 30, 2019 and 2018

12. 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 \$175 and \$160 during the years ended June 30, 2019 and 2018, respectively.

13. Commitments and contingencies

The Society leases various equipment and automobiles under operating leases which expire through October 2023. Rent expense for these leases were \$121 and \$119 for the years ended June 30, 2019 and 2018, respectively.

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

Year ending June 30:	
2020	\$ 114
2021	114
2022	105
2023	40
2024	14
	<hr/>
	\$ 387

14. Significant source of support

The Society received approximately 81% and 79% of its operating revenue and support, excluding investment returns, for the years ended June 30, 2019 and 2018, respectively, from New York State agencies. Amounts due the Society from these agencies were \$6,255 and \$9,334 at June 30, 2019 and 2018, respectively. Contracts with the funding agencies were renewed at comparable amounts for the upcoming fiscal year.

15. 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 \$710 and \$695 for the years ended June 30, 2019 and 2018, respectively.

16. Subsequent events

Subsequent events have been evaluated through October 30, 2019, which is the date the consolidated financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of June 30, 2019, have been incorporated into these consolidated financial statements. The Organization is not aware of any material subsequent events.

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 balance sheets as of June 30, 2019, 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 30, 2019. 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 consolidated 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.

Dayman Abrams Incis, LLC

Saddle Brook, New Jersey

October 30, 2019

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, 2019. 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; 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, 2019.

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 2019-001, 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 26, 2019

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

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	\$ 554,794	\$
Retired and Senior Volunteer Program	94.002	*	19SRANY002	172,140	
Total Corporation for National and Community Service				<u>726,934</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	224,962	142,376
Children's Health Insurance Program	93.767	*	C028904	324,465	266,445
				<u>549,427</u>	<u>408,821</u>
Medical Assistance Program	93.778	*	C32978GG	1,327,065	840,677
Medical Assistance Program	93.778	*	C028904	1,912,461	1,570,994
Medical Assistance Program	93.778	*	C029907	1,084,577	614,855
				<u>4,324,103</u>	<u>3,026,526</u>
Total U.S. Department of Health and Human Services				<u>4,873,530</u>	<u>3,435,347</u>
U.S. Department of Labor					
Passed through Center for Employment Opportunities, Inc.:					
Reentry Employment Opportunities	17.270	*	*	75,000	
Total U.S. Department of Labor				<u>75,000</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	*	36-6314-00-303	49,992	
Total U.S. Department of Homeland Security				<u>49,992</u>	
				<u>\$ 5,725,456</u>	<u>\$ 3,435,347</u>

* Pass-through grantor number not provided by grantor

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

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, 2019. 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, 2019

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, 2019

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, 2019

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

2019-001 Grant No. C028904 - Grant period August 1, 2013 to July 31, 2019; and Grant No. C029907 - Grant period April 1, 2015 to June 30, 2020 - Fiscal year ended June 30, 2019

Significant Deficiency

Criteria: Procedures should be in place to ensure that the Society submits 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 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 3 expenditure reports and 5 progress reports were not timely submitted. This is a condition identified per review of the Society's internal control over compliance with reporting.

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.

COMMUNITY SERVICE SOCIETY OF NEW YORK AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

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.

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, 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.

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, 2019

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

2018-001 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. In addition, the Society should submit reports required by the awarding agencies 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, it was noted that service agreements with the subrecipients did 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 was 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 was 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 did not receive the CFDA information on time to include it in the service agreements with subrecipients.

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.

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.

Current status: This item has been partially remediated. The discussion of Finding 2019-001 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, 2019

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 2019-001 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 26, 2019

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

Dear Ms. Diaz,

Re: Single Audit for the Year Ended 6/30/2019 SEFA Findings 2019-001

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 black ink that reads "Charles Taramina". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Charles Taramina

Controller