

Encore Community Services and Affiliates

Consolidated Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2017

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TABLE OF CONTENTS	Page
Independent Auditors' Report	
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-14
UNIFORM GUIDANCE SCHEDULES AND REPORTS	
Schedule of Expenditures of Federal Awards	15
Notes to Schedule of Expenditures of Federal Awards	16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	21-22



Independent Auditors' Report

Board of Directors Encore Community Services and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Encore Community Services and Affiliates (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 Encore Community Services and Affiliates as of June 30, 2017, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Agency's June 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, 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 November 1, 2017 on our consideration of the Agency's 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 Agency's 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 the Agency's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 1, 2017

Encore Community Services and Affiliates

Consolidated Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 406,574	\$ 397,644
Government grants receivable	208,097	253,538
Accounts receivable	619,447	330,905
Prepaid expenses	30,460	23,196
Investments	622,697	798,019
Cash, residents' funds	44,191	43,974
Cash, replacement reserve fund	532,816	476,059
Property, plant and equipment, net	11,828,191	12,417,286
Restricted investments	<u>250,000</u>	<u>250,000</u>
	<u>\$ 14,542,473</u>	<u>\$ 14,990,621</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 496,199	\$ 392,038
Government advances payable	208,097	253,538
Security deposits payable	100,695	98,602
Deferred rent	673	1,067
Residents' funds held in trust	<u>44,191</u>	<u>43,974</u>
Total Liabilities	<u>849,855</u>	<u>789,219</u>
Net Assets		
Unrestricted (Note 12)	13,442,618	13,951,402
Permanently restricted	<u>250,000</u>	<u>250,000</u>
Total Net Assets	<u>13,692,618</u>	<u>14,201,402</u>
	<u>\$ 14,542,473</u>	<u>\$ 14,990,621</u>

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	Unrestricted	Permanently Restricted	2017 Total	2016 Total
REVENUE AND SUPPORT				
Government grants	\$ 4,451,931	\$ -	\$ 4,451,931	\$ 4,241,374
Rent	1,779,170	-	1,779,170	1,670,929
Interest and dividends, net	1,438	-	1,438	1,612
Private grants, contributions and donations	552,700	-	552,700	484,798
Fundraising events, net of direct costs				
\$43,341 and \$44,490	256,826	-	256,826	225,934
Other	<u>8,932</u>	<u>-</u>	<u>8,932</u>	<u>7,789</u>
Total Revenue and Support	<u>7,050,997</u>	<u>-</u>	<u>7,050,997</u>	<u>6,632,436</u>
EXPENSES				
Program Services				
Senior Center	3,896,019	-	3,896,019	3,878,578
Encore 49 Residence	1,202,379	-	1,202,379	1,067,772
Encore West Residence	1,072,771	-	1,072,771	1,074,010
Mental Health Program	357,387	-	357,387	357,368
Homeless Program	<u>168,352</u>	<u>-</u>	<u>168,352</u>	<u>161,810</u>
Total Program Services	<u>6,696,908</u>	<u>-</u>	<u>6,696,908</u>	<u>6,539,538</u>
Support Services				
Management and general	696,072	-	696,072	663,552
Fundraising	<u>166,801</u>	<u>-</u>	<u>166,801</u>	<u>156,605</u>
Total Support Services	<u>862,873</u>	<u>-</u>	<u>862,873</u>	<u>820,157</u>
Total Expenses	<u>7,559,781</u>	<u>-</u>	<u>7,559,781</u>	<u>7,359,695</u>
Change in Net Assets	(508,784)	-	(508,784)	(727,259)
NET ASSETS				
Beginning of year	<u>13,951,402</u>	<u>250,000</u>	<u>14,201,402</u>	<u>14,928,661</u>
End of year	<u>\$ 13,442,618</u>	<u>\$ 250,000</u>	<u>\$ 13,692,618</u>	<u>\$ 14,201,402</u>

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Senior Center	Encore 49 Residence	Encore West Residence	Mental Health Program	Homeless Program	Total Program Services	Management and General	Fundraising	Total Support Services	2017 Total	2016 Total
Salaries	\$ 1,187,426	\$ 396,962	\$ 92,565	\$ 208,224	\$ 136,987	\$ 2,022,164	\$ 451,832	\$ 115,837	\$ 567,669	\$ 2,589,833	\$ 2,365,654
Payroll taxes and fringe benefits	<u>322,007</u>	<u>166,074</u>	<u>13,927</u>	<u>62,466</u>	<u>31,365</u>	<u>595,839</u>	<u>102,401</u>	<u>27,223</u>	<u>129,624</u>	<u>725,463</u>	<u>671,763</u>
Total Personnel Services Expenses	1,509,433	563,036	106,492	270,690	168,352	2,618,003	554,233	143,060	697,293	3,315,296	3,037,417
Utilities	73,798	109,488	145,355	11,000	-	339,641	3,319	-	3,319	342,960	410,612
Contract services	51,844	54,273	142,694	931	-	249,742	8,975	297	9,272	259,014	239,635
Food and food delivery services	1,751,696	4,190	-	415	-	1,756,301	878	-	878	1,757,179	1,744,802
Overhead	195,657	254	78,198	30,744	-	304,853	9,972	72	10,044	314,897	304,818
Insurance	24,620	55,968	36,996	4,500	-	122,084	799	-	799	122,883	130,030
Supplies and other	71,097	79,887	30,100	7,578	-	188,662	17,333	14,570	31,903	220,565	179,754
Professional fees	2,750	75,291	20,764	-	-	98,805	25,675	-	25,675	124,480	107,096
Vehicle expenses											
Vehicle expenses	54,245	-	50,154	-	-	104,399	3	-	3	104,402	204,320
Real estate taxes	-	27,579	93,182	-	-	120,761	-	-	-	120,761	146,835
Consultants	56,001	8,545	-	24,960	-	89,506	525	-	525	90,031	87,508
Occupancy	32,555	-	-	-	-	32,555	23,733	-	23,733	56,288	55,377
Communication	48,794	8,436	12,578	5,961	-	75,769	3,090	-	3,090	78,859	54,561
Special events	-	-	-	-	-	-	2,400	-	2,400	2,400	3,765
Fees, dues and subscriptions	6,530	10,074	-	502	-	17,106	5,659	3,061	8,720	25,826	20,747
Postage	729	88	3,159	47	-	4,023	554	5,741	6,295	10,318	4,777
Bad debt expense	-	-	7,812	-	-	7,812	-	-	-	7,812	731
Travel	<u>16,270</u>	<u>265</u>	<u>-</u>	<u>59</u>	<u>-</u>	<u>16,594</u>	<u>121</u>	<u>-</u>	<u>121</u>	<u>16,715</u>	<u>19,701</u>
Total Expenses Before Depreciation	3,896,019	997,374	727,484	357,387	168,352	6,146,616	657,269	166,801	824,070	6,970,686	6,752,486
Depreciation	<u>-</u>	<u>205,005</u>	<u>345,287</u>	<u>-</u>	<u>-</u>	<u>550,292</u>	<u>38,803</u>	<u>-</u>	<u>38,803</u>	<u>589,095</u>	<u>607,209</u>
Total Expenses	<u>\$ 3,896,019</u>	<u>\$ 1,202,379</u>	<u>\$ 1,072,771</u>	<u>\$ 357,387</u>	<u>\$ 168,352</u>	<u>\$ 6,696,908</u>	<u>\$ 696,072</u>	<u>\$ 166,801</u>	<u>\$ 862,873</u>	<u>\$ 7,559,781</u>	<u>\$ 7,359,695</u>

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Cash Flows

Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (508,784)	\$ (727,259)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	589,095	607,209
Deferred rent	(394)	(1,600)
Change in operating assets and liabilities		
Bad debt expense	7,812	731
Government grants receivable	37,629	(10,513)
Accounts receivable	(288,542)	(74,856)
Prepaid expenses	(7,264)	22,172
Accounts payable and accrued expenses	104,161	125,910
Government advances payable	(45,441)	9,782
Security deposits payable	2,093	1,038
Net Cash from Operating Activities	(109,635)	(47,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	-	(92,549)
Purchases of investments	(103,280)	(70,970)
Proceeds from sale of investments	278,602	141,718
Transfers to replacement reserve fund	(56,757)	(4,041)
Net Cash from Investing Activities	118,565	(25,842)
Net Change in Cash and Cash Equivalents	8,930	(73,228)
CASH AND CASH EQUIVALENTS		
Beginning of year	397,644	470,872
End of year	\$ 406,574	\$ 397,644

See notes to consolidated financial statements

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

1. Organization and Tax Status

Encore Community Services is a not-for-profit entity which provides programs and assistance to needy senior citizens primarily in the Clinton/Times Square community of the City of New York. Encore 49 Housing Development Fund Company, Inc., (Encore 49), an affiliate, operates a permanent residence for formerly homeless senior citizens. Encore West Residence Housing Development Fund Corporation (Encore West Residence), an affiliate, was organized to develop, construct and operate housing for very low income senior citizens. These organizations are related through common control.

The consolidated financial statements include Encore Community Services, Encore 49 and Encore West Residence (collectively, the Agency) which provide the following programs and services:

- Senior Center provides a variety of supplemental and support services to senior citizens in the community, including meals and social services, both on site and to homebound individual and other social support programs. This program also provides support to the elderly who come to the Senior Center or who are usually homebound and isolated. The Senior Center is supported by voluntary contributions and a grant from the New York City Department for the Aging and City Meals on Wheels.
- Encore 49 Residence is a single room occupancy residence that charges below market rents to senior citizens with special needs.
- Mental Health Program provides on-site rehabilitation services for residents who have been diagnosed with mental illness and who have histories of homelessness. This program is supported primarily by a grant from the New York State Department of Health and Mental Hygiene (Community Support Services).
- Homeless Program provides on site social services for residents referred from New York City shelters so as to acclimate them to community living and to prevent future homelessness. This program is supported primarily by a grant from the New York City Department of Homeless Services.
- Encore West Residence provides housing for very low income senior citizens under U.S. Department of Housing and Urban Development (“HUD”) Section 202.
- Supplemental Programs – the Agency supports, through various grant funds and private donations, a range of programs and services that are vital to maintaining an elderly person’s independence in the community. These programs include, but are not limited to: Shop and Escort; Friendly Visiting Program; Telephone Assurance and Social Service Assistance. Also provided to both on site and homebound seniors are: counseling in the area of nutrition, budgeting, health and related preventive activities and end-of-life issues that may include planning for incapacity, coping with losses, addressing decision-making as related to health care proxies, and living wills.

The Agency is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a publicly supported organization described in Section 509(a).

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies

Consolidating Policy

The accompanying consolidated financial statements include all activities of Encore Community Services, Encore 49 and Encore West Residence, which are under common control. All inter-organizational accounts and transactions have been eliminated.

Basis of Presentation and Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For financial statement purposes, the Agency considers all unrestricted highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Fair Value Measurements

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

Investments

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

Investment Income Recognition

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

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated on a straight-line basis over their estimated useful lives ranging from 3 to 40 years. The Agency follows the practice of capitalizing all expenditures for property, plant and equipment with a value \$1,500 or more, which is the amount used by New York City and other funding agencies for reimbursement purposes. When the grantor retains title or when it is probable that the title will revert to the grantor upon certain contingent events, the assets are expensed in the year the funds are received and spent.

Investment in Real Estate

The Agency reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, and any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended June 30, 2017 and 2016.

Net Asset Presentation

The consolidated financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted net assets are those currently available at the discretion of the board for use in operations. Temporarily restricted net assets are those which are stipulated by donors for specific purposes. Permanently restricted net assets are those which are established by donor restricted gifts and bequests to provide a permanent endowment. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

Revenue Recognition

Government-funded programs are generally subject to audit and, therefore, final operating reimbursement amounts may not be determinable until years after the Agency has rendered services. Governmental funding is based upon allowable costs. Excess monies received are returnable to the governmental funding agency. The Agency does not reflect an adjustment for potential disallowance of expenses since management believes that all expenses incurred for programs are allowable costs.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (continued)

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions. Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Unconditional promises to give are recognized as support in the period received at their fair value. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Accounts receivable are all deemed by management to be collectable and are expected to be received within one year. Accordingly, there is no allowance for doubtful accounts.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Accounting for Uncertainty in Income Taxes

The Agency recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition or disclosure. The Agency is no longer subject to examinations by the applicable taxing jurisdictions for fiscal years prior to 2014.

Summarized 2016 Financial Data

The consolidated statements of activities and functional expenses include certain prior year summarized comparative information in total, which does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Agency's consolidated financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is November 1, 2017.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

3. Concentration of Credit Risk

Due to the timing of the receipt of government grants, at times the Agency maintains cash balances with banking institutions that exceed the Federal Deposit Insurance Corporation's insurable limits, which potentially subjects the Agency to a concentration of credit risk. The Agency has not experienced any losses in such accounts.

4. Economic Dependency

The Agency provides program services that are covered under various third party payor agreements. Payments for such services are received through various governmental agencies. Funding from the Department for the Aging alone totaled 51% and 43% of total revenue and support for 2017 and 2016. The Agency is economically dependent on these funds to continue operations.

5. Investments

The following are major categories of investments measured at fair value. Investments valued at fair value are based on level 1 inputs in the fair value hierarchy as of June 30:

	<u>2017</u>	<u>2016</u>
Money market funds	<u>\$ 872,697</u>	<u>\$ 1,048,019</u>

6. Property, Plant and Equipment

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

	<u>2017</u>	<u>2016</u>
Encore 49 building	\$ 3,185,000	\$ 3,185,000
Encore 49 building improvements	1,693,632	1,693,632
Encore West building	13,811,463	13,811,463
Leasehold improvements	1,222,499	1,222,499
Equipment and furniture	1,140,713	1,140,713
Encore West equipment and furniture	<u>70,512</u>	<u>70,512</u>
	21,123,819	21,123,819
Accumulated depreciation	<u>(9,295,628)</u>	<u>(8,706,533)</u>
	<u>\$ 11,828,191</u>	<u>\$ 12,417,286</u>

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

7. In-Kind Donations

The Agency received a contribution of \$25,709 and \$26,968 for catering and space rental in 2017 and 2016 for a fundraising event. This amount is included in the consolidated statement of activities as fundraising events revenue and direct costs.

The Agency received approximately 30,800 and 25,300 volunteer hours during 2017 and 2016. The consolidated financial statements do not reflect the value of these contributed services because they do not meet the criteria required for such recognition.

8. Permanently Restricted Net Assets

Permanently restricted net assets representing the Portman Fund are restricted for investment in perpetuity. The income and gains from investment of these funds are available to support any and all programs of the Agency.

9. Endowment Funds

Application of Law

The New York Prudent Management of Institutional Funds Act ("NYPMIFA") requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for the spending of the original gift amounts. As a result, the board 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 Agency in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Investment Policy

The Agency utilizes a total return investment approach with its asset allocation. The long-term objective of the invested funds is to produce stable and increasing principal appreciation in excess of the rate of inflation to enhance purchasing power with a low to moderate level of risk. To achieve this objective, invested funds are maintained in money market funds.

Spending Policy

The total return objective includes the funding of both the current year spending rate amount and the amount required to be retained pursuant to the board's interpretation of State law.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

9. Endowment Funds *(continued)*

The following is a reconciliation of the donor restricted endowment fund for the years ended June 30, 2017 and 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ (19,337)	\$ 250,000	\$ 230,663
Interest and dividends	<u>360</u>	<u>-</u>	<u>360</u>
Balance, June 30, 2016	(18,977)	250,000	231,023
Interest and dividends	<u>343</u>	<u>-</u>	<u>343</u>
Balance, June 30, 2017	<u>\$ (18,634)</u>	<u>\$ 250,000</u>	<u>\$ 231,366</u>

The Agency's donor restricted endowment fund has experienced losses due to market fluctuations. U.S. GAAP requires that such excess losses be absorbed by the unrestricted net assets of the Agency and that future gains be allocated to unrestricted net assets until such losses have been restored. Aggregate cumulative losses absorbed by the unrestricted net assets at June 30, 2017 and 2016 amounted to \$18,634 and \$18,977.

10. Pension

The Agency has a defined contribution plan to which it contributes an amount equivalent to 5% of eligible employees' annual salaries, subject to IRS limitations for the years ended June 30, 2017 and 2016. Pension expense was \$88,775 and \$85,700 for the years ended June 30, 2017 and 2016.

11. Commitments and Contingencies

Encore West Residence's largest asset is its housing development project. The development is subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Housing and Urban Development (HUD). Such administrative directions, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including additional administrative burden, to comply with a change.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

11. Commitments and Contingencies (*continued*)

The Agency is obligated under an operating lease for space and related utilities which expires on December 31, 2017. The lease includes provisions for escalations. The future minimum annual lease payment under the terms of the agreement is \$16,278 for 2018.

In February 2012, Encore Community Services entered into an operating lease for additional space and related utilities expiring March 2027. Future minimum lease payments under the terms of the agreement are as follows:

2018	\$ 26,400
2019	26,400
2020	26,400
2021	26,400
2022	27,000
Thereafter	<u>136,800</u>
	<u>\$ 269,400</u>

Rent expense for all leases for the years ended June 30, 2017 and 2016 was \$56,288 and \$55,377.

12. Capital Advances

Financing for the Encore West Residence construction in the amount of \$13,262,100 at June 30, 2017, was provided through the HUD Capital Advance program. Under this program the Encore West Residence is subject to a mortgage note which is re-payable only if the Encore West Residence does not remain available for very low-income eligible individuals/families as approved by HUD for a period of no less than 40 years expiring in 2047. It is the intention of the Encore West Residence to keep this property occupied by very low-income eligible individuals. Management accounted for this as a grant because its intent is to comply with HUD regulations and the advance will not have to be repaid.

13. Replacement Reserve Fund

Under its regulatory agreement with HUD, Encore West Residence is required to maintain a reserve fund to provide cash for the replacement of property and equipment items. Monthly deposits to the Replacement Reserve Fund of \$4,671 are required. All requests by Encore West Residence for withdrawals from this account must be in writing and supported by approved invoices. At June 30, 2017 and 2016, the Replacement Reserve Fund totaled \$532,816 and \$476,059.

Encore Community Services and Affiliates

Uniform Guidance Schedules and Reports

June 30, 2017

Encore Community Services and Affiliates

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Pass-through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
Pass-through New York City Department for the Aging				
Aging Cluster				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	20171400241	93.044	\$ 17,947	\$ 36,676
Special Programs for the Aging, Title III, Part C, Nutrition Services	20171400241	93.045	37,226	76,075
	20161413427	93.045	<u>75,324</u>	<u>153,930</u>
			<u>112,550</u>	<u>230,005</u>
Nutrition Services Incentive Program	20171400241	93.053	17,023	34,787
	20161413427	93.053	<u>96,975</u>	<u>198,176</u>
			<u>113,998</u>	<u>232,963</u>
Total Aging Cluster			<u>244,495</u>	<u>499,644</u>
Social Services Block Grant	20171400241	93.667	29,964	61,234
Social Services Block Grant	20161413427	93.667	<u>158,730</u>	<u>324,378</u>
			<u>188,694</u>	<u>385,612</u>
Total U.S. Department of Health and Human Services			<u>433,189</u>	<u>885,256</u>
<u>U.S. Department of Housing and Urban Development</u>				
Supportive Housing for the Elderly - Capital Advance		14.157	-	13,262,100
Supportive Housing for the Elderly - Project Rental Assistance		14.157	<u>-</u>	<u>598,071</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>13,860,171</u>
Total Expenditures of Federal Awards			<u>\$ 433,189</u>	<u>\$ 14,745,427</u>

See independent auditors' report and notes to schedule of expenditures of federal awards

Encore Community Services and Affiliates

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Encore Community Services and Affiliates under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Encore Community Services and Affiliates, it is not intended to and does not represent the consolidated financial position, changes in net assets or cash flows of Encore Community Services 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Encore Community Services and Affiliates has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Nonmonetary Assistance

For the year ended June 30, 2017, Encore Community Services and Affiliates received no nonmonetary assistance.

5. Capital Advances

The Entity has received a HUD capital advance under Section 202 of the National Housing Act. The capital advance balance at the beginning of the year is included in the federal expenditures presented in this Schedule. The Entity received no additional loans or capital advances during the year. The balance of the capital advance outstanding at June 30, 2017 was \$13,262,100.

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*

Independent Auditors' Report

**Board of Directors
Encore Community Services and Affiliates**

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 Encore Community Services and Affiliates (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2017 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Agency's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's 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 the Agency's 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

November 1, 2017

**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

**Board of Directors
Encore Community Services and Affiliates**

Report on Compliance for Each Major Federal Program

We have audited Encore Community Services and Affiliates' (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2017. The Agency's 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 the Agency's 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* (CFR) 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 the Agency's 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 the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, Encore Community Services and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Agency 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 the Agency's 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 in 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 the Agency's 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

PKF O'Connor Davies, LLP

November 1, 2017

Encore Community Services and Affiliates

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements were audited in accordance with GAAP: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.667	Social Services Block Grant
14.157	Supportive Housing for the Elderly - Capital Advance, Supporting Housing for the Elderly – Project Rental Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

During our audit, we did not note any findings.

Encore Community Services and Affiliates

Schedule of Findings and Questioned Costs *(continued)*
Year Ended June 30, 2017

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior-Year Findings

There were no findings in the prior year.

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