

Encore Community Services and Affiliates

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

June 30, 2020

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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, 2020, 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, 2020, 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, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 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 March 23, 2021 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

March 23, 2021

Encore Community Services and Affiliates

Consolidated Statement of Financial Position
June 30, 2020
(with comparative amounts at June 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 818,278	\$ 494,444
Government grants receivable	967,410	175,898
Accounts receivable, net	255,023	295,896
Prepaid expenses	24,626	25,746
Investments	928,345	505,343
Cash, residents' funds	41,662	46,527
Cash, replacement reserve fund	300,441	437,425
Property, plant and equipment, net	10,761,817	11,167,780
Restricted investments	<u>250,000</u>	<u>250,000</u>
	<u>\$ 14,347,602</u>	<u>\$ 13,399,059</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 579,785	\$ 407,222
Loan payable	670,900	-
Government advances payable	203,494	208,843
Security deposits payable	104,671	103,577
Deferred rent	1,863	1,500
Residents' funds held in trust	<u>41,662</u>	<u>46,527</u>
Total Liabilities	<u>1,602,375</u>	<u>767,669</u>
Net Assets		
Without donor restrictions (Note 14)	12,065,785	12,393,867
With donor restrictions	<u>679,442</u>	<u>237,523</u>
Total Net Assets	<u>12,745,227</u>	<u>12,631,390</u>
	<u>\$ 14,347,602</u>	<u>\$ 13,399,059</u>

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Activities Year Ended June 30, 2020 (with summarized totals for the year ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE AND SUPPORT				
Government grants	\$ 5,167,986	\$ -	\$ 5,167,986	\$ 4,598,848
Rent	1,735,786	-	1,735,786	1,685,485
Interest and dividends, net	12,594	6,005	18,599	17,976
Realized and unrealized (loss) gain on investments	(45,946)	-	(45,946)	2,704
Private grants, contributions and donations	980,226	564,400	1,544,626	432,221
Fundraising events, net of costs with direct benefit to donors of \$30,075 and \$22,079	121,552	-	121,552	244,294
Other	7,236	-	7,236	8,558
Net assets released from restriction	128,486	(128,486)	-	-
Total Revenue and Support	8,107,920	441,919	8,549,839	6,990,086
EXPENSES				
Program Services				
Home-Delivered Meals	3,170,448	-	3,170,448	2,770,022
Senior Wellness	1,041,573	-	1,041,573	1,035,061
Encore 49 Residence	1,049,289	-	1,049,289	986,556
Encore West Residence	1,179,434	-	1,179,434	1,123,210
Mental Health Program	465,767	-	465,767	493,883
Homeless Program	226,826	-	226,826	174,618
Total Program Services	7,133,337	-	7,133,337	6,583,350
Support Services				
Management and general	1,035,103	-	1,035,103	819,441
Fundraising	267,562	-	267,562	190,583
Total Support Services	1,302,665	-	1,302,665	1,010,024
Total Expenses	8,436,002	-	8,436,002	7,593,374
Change in Net Assets	(328,082)	441,919	113,837	(603,288)
NET ASSETS				
Beginning of year	12,393,867	237,523	12,631,390	13,234,678
End of year	\$ 12,065,785	\$ 679,442	\$ 12,745,227	\$ 12,631,390

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Functional Expenses Year Ended June 30, 2020 (with summarized totals for the year ended June 30, 2019)

	Program Services						Support Services			2020 Total	2019 Total	
	Home-Delivered Meals	Senior Wellness	Encore 49 Residence	Encore West Residence	Mental Health Program	Homeless Program	Total Program Services	Management and General	Fundraising			Total Support Services
Salaries	\$ 871,112	\$ 483,124	\$ 414,888	\$ 89,509	\$207,439	\$132,895	\$2,198,967	\$ 543,617	\$ 186,171	\$ 729,788	\$2,928,755	\$2,824,253
Payroll taxes and fringe benefits	181,354	124,439	117,470	10,110	72,904	44,984	551,261	82,182	41,902	124,084	675,345	751,898
Total Personnel Services Expenses	1,052,466	607,563	532,358	99,619	280,343	177,879	2,750,228	625,799	228,073	853,872	3,604,100	3,576,151
Utilities	49,861	23,706	83,372	160,705	71,601	-	389,245	5,457	-	5,457	394,702	376,847
Contract services	18,376	9,946	40,829	217,359	18,247	45,207	349,964	8,142	781	8,923	358,887	273,813
Food and food delivery services	1,714,419	151,956	-	-	-	-	1,866,375	-	-	-	1,866,375	1,786,478
Management fees and related expense	-	-	-	95,186	-	-	95,186	-	-	-	95,186	79,034
Insurance	24,797	9,778	15,458	24,446	2,197	3,740	80,416	15,672	1,603	17,275	97,691	111,915
Supplies and other	76,173	97,569	33,409	24,285	25,440	-	256,876	64,958	29,901	94,859	351,735	159,070
Professional fees	12,000	2,770	20,647	15,092	-	-	50,509	136,065	-	136,065	186,574	105,087
Vehicle and building expenses	141,681	60,481	45,515	71,682	-	-	319,359	11,058	-	11,058	330,417	76,106
Real estate taxes	-	-	32,518	93,259	2,830	-	128,607	-	-	-	128,607	123,374
Consultants	11,154	44,306	39,195	-	22,078	-	116,733	34,761	3,988	38,749	155,482	112,038
Occupancy	29,796	20,704	-	-	-	-	50,500	26,400	-	26,400	76,900	71,400
Communication	32,939	8,519	25,340	20,685	20,282	-	107,765	23,460	1,379	24,839	132,604	110,396
Special events	-	-	-	-	-	-	-	-	20,150	20,150	20,150	32,544
Fees, dues and subscriptions	4,517	1,038	13,042	-	21,392	-	39,989	9,537	9,862	19,399	59,388	56,204
Postage	26	308	-	-	-	-	334	303	1,156	1,459	1,793	9,568
Bad debt expense	-	-	-	-	-	-	-	45,000	-	45,000	45,000	2,596
Travel	2,243	2,929	1,802	-	1,357	-	8,331	5,222	744	5,966	14,297	39,803
Depreciation	-	-	165,804	357,116	-	-	522,920	23,269	-	23,269	546,189	513,029
Total Expenses	3,170,448	1,041,573	1,049,289	1,179,434	465,767	226,826	7,133,337	1,035,103	297,637	1,332,740	8,466,077	7,615,453
Less costs with direct benefit to donors	-	-	-	-	-	-	-	-	(30,075)	(30,075)	(30,075)	(22,079)
Total Expenses Reported by on the Consolidated Statement of Activities	<u>\$ 3,170,448</u>	<u>\$1,041,573</u>	<u>\$1,049,289</u>	<u>\$ 1,179,434</u>	<u>\$465,767</u>	<u>\$226,826</u>	<u>\$7,133,337</u>	<u>\$ 1,035,103</u>	<u>\$ 267,562</u>	<u>\$1,302,665</u>	<u>\$8,436,002</u>	<u>\$7,593,374</u>

See notes to consolidated financial statements

Encore Community Services and Affiliates

Consolidated Statement of Cash Flows Year Ended June 30, 2020 (with comparative amounts for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 113,837	\$ (603,288)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	546,189	513,029
Realized and unrealized loss (gain) on investments	45,946	(2,704)
Deferred rent	363	(1,476)
Bad debt expense	45,000	2,596
Change in operating assets and liabilities		
Government grants receivable	(791,512)	101,084
Accounts receivable	(4,127)	51,783
Prepaid expenses	1,120	(9,496)
Accounts payable and accrued expenses	277,423	47,407
Government advances payable	(5,349)	(70,735)
Security deposits payable	1,094	1,422
Net Cash from Operating Activities	229,984	29,622
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(245,086)	(280,564)
Purchases of investments	(1,614,415)	(28,940)
Proceeds from sale of investments	1,145,467	130,000
Net Cash from Investing Activities	(714,034)	(179,504)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	670,900	-
Net Change in Cash, Restricted Cash and Cash Equivalents	186,850	(149,882)
CASH, RESTRICTED CASH AND CASH EQUIVALENTS		
Beginning of year	931,869	1,081,751
End of year	\$ 1,118,719	\$ 931,869
SUPPLEMENTAL CASH FLOW INFORMATION		
Equipment additions in accounts payable	\$ -	\$ 104,860

See notes to consolidated financial statements

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

1. Organization and Tax Status

Encore Community Services is a not-for-profit entity that aims to improve the quality of life of older New Yorkers. Encore's programs are designed to provide for the basic human needs for food and shelter; and, to meet the physical, psychological, emotional and social needs of seniors. Encore 49 Housing Development Fund Company, Inc., (Encore 49 Residence), a subsidiary, operates a permanent residence for formerly homeless seniors. Encore West Residence Housing Development Fund Corporation (Encore West Residence), also a subsidiary, is a permanent residence for low-income elderly individuals. 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 Wellness* programs provide a variety of supplemental and support services to older New Yorkers that are vital to maintaining an elderly person's independence in the community. These programs include Arts, educational and recreational activities, Shop and Escort; Friendly Visiting Program; Telephone Assurance and case management assistance. Also provided to both on site and homebound seniors are: counseling in the areas 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.
- *Home Delivered Meals* programs provides homebound seniors in Community Districts 4,5 and 7 with a daily meal, seven days a week.
- *Encore 49 Residence* is a single room occupancy residence that provides supportive housing to formerly homeless seniors.
- *Mental Health Program* provides on-site counseling and an integrated system of supportive care for Encore 49 residents that are diagnosed with a mental illness in order to live successfully in the community. This program is supported primarily by a grant from the New York City Department of Health and Mental Hygiene.
- *Homeless Program* provides onsite case management assistance for Encore 49 residents referred from New York City shelters in order 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 low-income seniors under U.S. Department of Housing and Urban Development ("HUD") Section 202. Senior residents receive telephone assurance and case management assistance

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, 2020

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.

New Accounting Pronouncements

Recognition of Contributions

Effective July 1, 2019, the Agency adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions, or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Agency recognizes contributions, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. Adoption of ASU 2018-08 had no impact on the Agency's consolidated financial statements.

Revenue from Contracts with Customers

Effective July 1, 2019, the Agency adopted ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. Analysis of various provisions of this standard resulted in no significant changes in the way the Agency recognizes revenue, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. Adoption of ASU 2014-09 had no impact on the Agency's consolidated financial statements.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

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

New Accounting Pronouncements (continued)

Restricted Cash

Effective July 1, 2019, the Agency adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. This guidance requires the Agency to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalent balance on the statement of cash flows, 2) provide a reconciliation between the statement of financial position and the statement of cash flows when more than one line item for cash, cash equivalents, restricted cash and restricted cash equivalents is presented on the statement of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statement of cash flows.

Cash Equivalents

For financial statement purposes, the Agency considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and restricted cash consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and Restricted Cash		
Cash and cash equivalents	\$ 818,278	\$ 494,444
Restricted Cash		
Replacement reserve fund	<u>300,441</u>	<u>437,425</u>
Total Cash and Restricted Cash	<u>\$1,118,719</u>	<u>\$ 931,869</u>

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.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are carried at fair value.

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.

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 of \$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, 2020 and 2019.

Net Asset Presentation

The consolidated financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Net assets without donor restrictions are those currently available at the discretion of the board for use in operations. Net assets with donor restrictions that are temporary in nature are those which are stipulated by donors for specific purposes or time restrictions. Net assets with donor restrictions that are perpetual in nature are those which are established by donor restricted gifts and bequests to provide an endowment held in perpetuity. All contributions are considered without donor restrictions, unless specifically restricted by the donor or subject to other legal restrictions.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Government grants are reimbursement contracts and revenue is recorded when expenses are incurred. 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.

Contributions

All contributions are considered without donor restrictions, 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. During the year ended June 30, 2020, management estimated a \$45,000 allowance for doubtful accounts which was included in accounts receivable on the consolidated statement of financial position. For June 30, 2019, all accounts receivable were deemed by management to be collectible and were expected to be received within one year. Accordingly, there was no allowance for doubtful accounts for June 30, 2019.

Rent

Rental income is recognized for apartment rentals as it accrues and advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Agency and the tenants of the property are considered to be operating leases and no longer than one year in duration.

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 on a time and effort basis. 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.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

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

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 2017.

Summarized 2019 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, 2019, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Certain prior year amounts have been reclassified to conform to the 2020 financial statement presentation. The reclassifications had no effect on 2019 total assets, total liabilities, total net assets or change in net assets.

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 March 23, 2021.

3. Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Total Financial Assets at Year End		
Cash	\$ 818,278	\$ 494,444
Government grants receivable	967,410	175,898
Accounts receivable, net	255,023	295,896
Investments	<u>1,178,345</u>	<u>755,343</u>
Total Financial Assets	3,219,056	1,721,581
Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>679,442</u>	<u>237,523</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,539,614</u>	<u>\$ 1,484,058</u>

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

3. Liquidity and Availability *(continued)*

The Agency's goal is to generally maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, the Agency invests excess cash in short-term investments, including certificates of deposit. It also actively monitors accounts receivable, rental income and other revenue sources to maintain this level of liquidity. In addition, as part of its liquidity management, the Agency monitors the status of its cash needs on a quarterly basis and liquidates any assets as necessary in order to provide funds for the operations of its programs.

4. 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 ("FDIC") insurable limits, which potentially subjects the Agency to a concentration of credit risk. The Agency has not experienced any losses in such accounts.

5. 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 New York City Department for the Aging alone totaled 40% and 43% of total revenue and support for 2020 and 2019. The Agency is economically dependent on these funds to continue operations.

6. Investments

The following are major categories of investments measured at cost as of June 30:

	<u>2020</u>	<u>2019</u>
Certificates of Deposit	\$ -	\$ 755,343
Money market funds	<u>1,178,345</u>	<u>-</u>
	<u>\$1,178,345</u>	<u>\$ 755,343</u>

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

7. Property, Plant and Equipment

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

	<u>2020</u>	<u>2019</u>
Encore 49 building	\$ 3,185,000	\$ 3,185,000
Encore 49 building improvements	1,839,180	1,796,891
Encore West building	13,811,463	13,811,463
Encore West equipment and furniture	116,671	70,512
Encore West construction in progress	376,213	336,935
Leasehold improvements	1,222,499	1,222,499
Equipment and furniture	<u>1,153,213</u>	<u>1,140,713</u>
	21,704,239	21,564,013
Accumulated depreciation	<u>(10,942,422)</u>	<u>(10,396,233)</u>
	<u>\$ 10,761,817</u>	<u>\$ 11,167,780</u>

8. Loan Payable

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and business affected by the coronavirus pandemic. The Agency applied for and received a \$670,900 Paycheck Protection Program loan (the "PPP Loan") from the Small Business Administration. The PPP Loan has an interest rate of 1.0% per annum, due in two years, and the principal amount outstanding may be eligible for forgiveness if the Agency meets certain requirements of the CARES Act.

9. In-Kind Donations

The Agency received a contribution of \$27,198 for catering and space rental in 2019 for a fundraising event. This amount is included in the consolidated statement of activities as fundraising events revenue and direct costs. There were no in-kind donations in 2020.

The Agency received approximately 26,990 and 25,300 volunteer hours during 2020 and 2019. The consolidated financial statements do not reflect the value of these contributed services because they do not meet the criteria required for such recognition.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Endowment funds	\$ 243,528	\$ 237,523
Social services expansion	285,634	-
Special campaigns	100,000	-
COVID-19 response	50,280	-
	<u>\$ 679,442</u>	<u>\$ 237,523</u>

Net assets with donor restrictions were released during the year ended June 30, 2020 for the following purposes:

Social services expansion	\$ 87,365	\$ -
COVID-19 response	41,121	-
	<u>\$ 128,486</u>	<u>\$ -</u>

There were no releases of net assets with donor restrictions during the year ended June 30, 2019.

11. 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 net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions that are perpetual in nature is classified as net assets with donor restrictions that are temporary in nature 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.

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

11. Endowment Funds *(continued)*

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.

The following is a reconciliation of the donor restricted endowment fund for the years ended June 30, 2020 and 2019:

	With Donor Restriction		
	Cumulative	Original Gift	Total
	Earnings	Amount	
Balance, June 30, 2018	\$ (17,518)	\$ 250,000	\$ 232,482
Interest and dividends	5,041	-	5,041
Balance, June 30, 2019	(12,477)	250,000	237,523
Interest and dividends	6,005	-	6,005
Balance, June 30, 2020	<u>\$ (6,472)</u>	<u>\$ 250,000</u>	<u>\$ 243,528</u>

The Agency's donor restricted endowment fund has experienced losses due to market fluctuations. At June 30, 2020 and 2019, these aggregated losses amounted to \$7,462 and \$12,477.

12. 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. Pension expense was \$74,594 and \$81,673 for the years ended June 30, 2020 and 2019.

13. 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, 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, 2020

13. Commitments and Contingencies *(continued)*

The Agency is obligated under an operating lease for space and related utilities which expires on December 31, 2022. Future minimum lease payments under the terms of the agreement are as follows:

2021	\$ 45,000
2022	45,000
2023	<u>22,500</u>
	<u>\$ 112,500</u>

In February 2012, the Agency 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:

2021	\$ 26,400
2022	27,000
2023	28,800
2024	28,800
2025	28,800
Thereafter	<u>50,400</u>
	<u>\$ 190,200</u>

Rent expense for all leases for the years ended June 30, 2020 and 2019 was \$76,900 and \$71,400.

14. Capital Advances

Financing for the Encore West Residence construction in the amount of \$13,262,100 at June 30, 2020, 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.

Net assets without donor restrictions at June 30 consist of the following:

	2020	2019
Without donor restriction - Operations (deficit)	\$ (1,196,315)	\$ (868,233)
Without donor restriction - HUD Capital Advance	<u>13,262,100</u>	<u>13,262,100</u>
	<u>\$ 12,065,785</u>	<u>\$ 12,393,867</u>

Encore Community Services and Affiliates

Notes to Consolidated Financial Statements
June 30, 2020

15. 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, 2020 and 2019, the Replacement Reserve Fund totaled \$300,441 and \$437,425 held in a FDIC insured savings account.

16. Coronavirus (“COVID-19”)

The COVID-19 outbreak may have an adverse effect on the results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of COVID-19 and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition. Additionally, the COVID-19 pandemic has resulted in substantial volatility in global financial markets. Management cannot reasonable estimate the impact it will have on the Agency’s investment portfolio.

* * * * *

Encore Community Services and Affiliates

Uniform Guidance Schedules and Reports

June 30, 2020

Encore Community Services and Affiliates

Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Provided to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
<u>Pass-through New York City Department for the Aging</u>				
<u>Aging Cluster</u>				
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	20171400241	93.044	\$ 10,761	\$ 25,244
Special Programs for the Aging, Title III, Part C, Nutrition Services	20171400241	93.045	47,055	110,388
Special Programs for the Aging, Title III, Part C, Nutrition Services	20190002241	93.045	88,327	207,207
			<u>135,382</u>	<u>317,595</u>
Nutrition Services Incentive Program	20171400241	93.053	24,596	57,701
Nutrition Services Incentive Program	20190002241	93.053	24,870	58,344
			<u>49,466</u>	<u>116,045</u>
Total Aging Cluster			<u>195,609</u>	<u>458,884</u>
Social Services Block Grant	20190002241	93.667	-	118,129
Total U.S. Department of Health and Human Services			<u>195,609</u>	<u>577,013</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	-	601,574
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>13,863,674</u>
Total Expenditures of Federal Awards			<u>\$ 195,609</u>	<u>\$14,440,687</u>

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

Encore Community Services and Affiliates

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

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 (the "Agency") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not represent the consolidated financial position, changes in net assets, or cash flows of the Agency.

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

The Agency 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, 2020, the Agency received no nonmonetary assistance.

5. Capital Advances

The Agency 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 Agency received no additional loans or capital advances during the year. The balance of the capital advance outstanding at June 30, 2020 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 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, 2020 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 March 23, 2021.

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) as a basis for designing 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 financial statements. 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

March 23, 2021

**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, 2020. 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* 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, 2020.

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

March 23, 2021

Encore Community Services and Affiliates

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared 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>
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, 2020

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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