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ENCORE COMMUNITY SERVICES AND AFFILIATES

Consolidated Audited Financial Statements

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Encore Community Services

Report on the Consolidated 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, 2021, 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 Consolidated 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.

Auditor's Responsibility

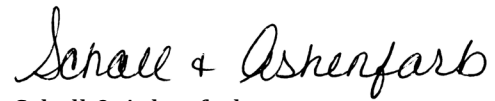
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 auditor's 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 financial position of Encore Community Services and Affiliates as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Schall & Ashenfarb
Certified Public Accountants, LLC

December 14, 2021

**ENCORE COMMUNITY SERVICES AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021**

Assets

Cash and cash equivalents	\$536,320
Investments (Note 3)	940,233
Government grants receivable	501,958
Contributions receivable	177,014
Tenant rent receivables	243,511
Prepaid expenses and other accounts receivable	21,920
Cash - residents' funds	58,884
Cash - reserve funds (Note 4)	104,848
Tenants' security deposits	140,947
Fixed assets, net (Note 5)	10,447,491
Restricted investments (Note 3 and 6)	244,590
	<u>244,590</u>
Total assets	<u>\$13,417,716</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$659,107
Government grants advances	41,644
Tenants' security deposits payable	134,088
Residents' funds held in trust	33,380
	<u>33,380</u>
Total liabilities	<u>868,219</u>

Net assets:

Without donor restrictions (Note 7)	11,892,936
With donor restrictions (Note 8)	656,561
	<u>656,561</u>
Total net assets	<u>12,549,497</u>
Total liabilities and net assets	<u>\$13,417,716</u>

The attached notes and auditor's report are an integral part of these consolidated financial statements.

ENCORE COMMUNITY SERVICES AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Government grants	\$5,312,067		\$5,312,067
Rental income	1,471,196		1,471,196
Contributions	547,946	\$370,637	918,583
Fundraising events	213,403		213,403
Paycheck Protection Program loan forgiveness (Note 9)	670,900		670,900
Interest and dividends, net	1,830	1,062	2,892
Unrealized gain on investments	4,712		4,712
Other income	8,375		8,375
Net assets released from restriction (Note 8)	394,580	(394,580)	0
Total revenue and support	<u>8,625,009</u>	<u>(22,881)</u>	<u>8,602,128</u>
Expenses:			
Program services:			
Home-Delivered Meals	3,733,725		3,733,725
Senior Wellness	964,697		964,697
Encore 49 Residence	994,530		994,530
Encore West Residence	1,202,642		1,202,642
Mental Health Program	513,829		513,829
Homeless Program	135,451		135,451
Total program services	<u>7,544,874</u>	<u>0</u>	<u>7,544,874</u>
Supporting services:			
Management and general	1,035,143		1,035,143
Fundraising	217,841		217,841
Total supporting services	<u>1,252,984</u>	<u>0</u>	<u>1,252,984</u>
Total expenses	<u>8,797,858</u>	<u>0</u>	<u>8,797,858</u>
Change in net assets	(172,849)	(22,881)	(195,730)
Net assets - beginning of year	<u>12,065,785</u>	<u>679,442</u>	<u>12,745,227</u>
Net assets - end of year	<u>\$11,892,936</u>	<u>\$656,561</u>	<u>\$12,549,497</u>

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ENCORE COMMUNITY SERVICES AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services						Supporting Services				Total Expenses
	Home-Delivered Meals	Senior Wellness	Encore 49 Residence	Encore West Residence	Mental Health Program	Homeless Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$1,322,253	\$589,535	\$392,549	\$114,560	\$189,671	\$97,480	\$2,706,048	\$569,572	\$136,653	\$706,225	\$3,412,273
Payroll taxes and fringe benefits	256,103	141,521	122,078	23,507	50,916	31,999	626,124	119,837	32,840	152,677	778,801
Total personnel services	1,578,356	731,056	514,627	138,067	240,587	129,479	3,332,172	689,409	169,493	858,902	4,191,074
Utilities	42,085	35,576	51,668	142,547	44,605		316,481	3,088		3,088	319,569
Contract services	20,440	13,298	35,296	198,785	23,257		291,076	1,661	469	2,130	293,206
Food and food delivery expenses	1,715,401	811	22				1,716,234		93	93	1,716,327
Management fees and related expenses				51,678			51,678			0	51,678
Insurance	73,674	8,487	17,102	27,501	2,527	1,895	131,186	15,492	1,264	16,756	147,942
Supplies	58,828	51,580	24,135	16,652	37,506	4,077	192,778	21,475	21,057	42,532	235,310
Equipment	13,430	3,047	8,842		15,572		40,891	4,498		4,498	45,389
Professional fees			18,637	15,277			33,914	177,937		177,937	211,851
Repairs and maintenance	84,556	32,904	75,327	95,940	11,203		299,930	267		267	300,197
Real estate taxes			36,816	97,545			134,361			0	134,361
Consultants	70,265	36,348	1,716		31,749		140,078	27,684	3,430	31,114	171,192
Occupancy	25,888	19,112		9,375			54,375	26,400		26,400	80,775
Communications	19,734	17,092	25,692	23,612	22,802		108,932	20,753	144	20,897	129,829
Events and conferences	829	575	54		327		1,785	1,549	14,301	15,850	17,635
Fees, dues and subscriptions	10,945	5,038	3,559	1,000	26,320		46,862	19,617	5,440	25,057	71,919
Travel	10,536	433	1,320		3,673		15,962	6,000	1,275	7,275	23,237
Other	3,230	840	9,613	30,121	2,658		46,462	3,336	875	4,211	50,673
Depreciation	5,528		170,104	354,542			530,174	15,977		15,977	546,151
COVID-19 emergency response		8,500			51,043		59,543			0	59,543
Total expenses	\$3,733,725	\$964,697	\$994,530	\$1,202,642	\$513,829	\$135,451	\$7,544,874	\$1,035,143	\$217,841	\$1,252,984	\$8,797,858

The attached notes and auditor's report are an integral part of these consolidated financial statements.

**ENCORE COMMUNITY SERVICES AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

Cash flows from operating activities:	
Change in net assets	(\$195,730)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	546,151
Unrealized gain on investments	(4,712)
Changes in assets and liabilities:	
Government grants receivable	465,452
Contributions receivable	(31,889)
Tenant rent receivables	(133,613)
Prepaid expenses and other accounts receivable	2,706
Accounts payable and accrued expenses	74,199
Government grants advances	(832,750)
Tenants' security deposits	717
Tenants' security deposits payable	(904)
Residents' funds held in trust	25,299
Total adjustments	<u>110,656</u>
Net cash flows used for operating activities	<u>(85,074)</u>
Cash flows from investing activities:	
Purchases of property, plant, and equipment	(231,825)
Purchases of investments	(1,766)
Net cash flows used for investing activities	<u>(233,591)</u>
Net decrease in cash, cash equivalents and restricted cash	(318,665)
Cash, cash equivalents and restricted cash - beginning of year	<u>1,018,717</u>
Cash, cash equivalents and restricted cash - end of year	<u><u>\$700,052</u></u>
Reconciliation to statement of financial position:	
Cash and cash equivalents	\$536,320
Cash - residents' funds	58,884
Cash - replacement reserve fund	104,848
Total cash, cash equivalents and restricted cash	<u><u>\$700,052</u></u>
Supplemental disclosures:	
Interest and taxes paid	<u><u>\$0</u></u>

The attached notes and auditor's report are an integral part of these consolidated financial statements.

ENCORE COMMUNITY SERVICES AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021

Note 1 - Organization

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).

Note 2 - Significant Accounting Policies

a. 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.

b. Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting, which is the process of recording revenue and expenses when earned or incurred rather than when received or paid.

c. Basis of Presentation

The Agency reports information regarding its financial position and activities according to the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions.
- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets' restrictions, either due to a program nature or by the passage of time.

d. Revenue Recognition

The Agency follows the requirements of the Financial Accounting Standards Board's ("FASB") ASC 958-605 for recording contributions, which are recorded at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in one of the classes of net assets described above, depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they are received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return of payments, or release from obligations, and are recognized as income once the conditions have been substantially met.

Government grants have been evaluated and are considered to be conditional non-reciprocal transactions that fall under the scope of FASB ASC 958-605. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Cash received in advance of the conditions being met is treated as a liability. Conditional grants that have been awarded but that have not been recognized amounted to \$715,000 at June 30, 2021. Since these grants are conditioned upon incurring qualifying expenditures, they are not recorded as government grant revenue until the grantor's conditions are met.

Contributions and grants expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques.

The Agency follows the requirements of FASB's ASC 840 for recording rental income for apartments which is recorded over the period of a lease agreement. 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 operating leases with terms no longer than one year.

Receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2021. Write-offs will be made in the period the receivable is deemed to be uncollectable. At June 30, 2021, all receivables are due within one year.

e. Cash and Cash Equivalents

For consolidated 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.

Restricted cash is included as cash and cash equivalents on the consolidated statement of cash flow.

f. Significant Concentrations

Financial instruments, which potentially subject the Agency to concentration of credit risk consist of cash and money market accounts, which are placed at financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end and at various times throughout the year, balances were in excess of insured amounts. However, the Agency has not experienced any losses due to bank failure.

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 totaled 53% of total revenue and support for the year ended June 30, 2021. The Agency is economically dependent on these funds to continue operations.

g. Investments

Investments are carried at fair value. 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.

h. Fixed Assets

Capital items purchased, such as buildings, improvements, equipment, and furniture, which have a useful life of more than one year and exceed \$1,500 are capitalized at cost or at fair value at the date of gift, if donated. 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. Fixed assets are depreciated on a straight-line basis over the estimated useful life of the respective assets as follows:

Buildings – 40 years

Building improvements – 3 to 40 years

Equipment and furniture – 3 to 10 years

Leasehold improvements – Life of lease

i. 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 year ended June 30, 2021.

j. In-kind Contributions

Contributions of non-cash assets are recognized as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of services that assist the Agency. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

The Agency received approximately 17,700 volunteer hours during the year ended June 30, 2021. The consolidated financial statements do not reflect the value of these contributed services because they do not meet the criteria outlined above.

k. 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.

Expense	Method of Allocation
Salaries	Meals delivered/served; Full-Time Equivalents (“FTE”) of employees supervised
Payroll taxes and fringe benefits	Salary allocation
Utilities	Clients served at location
Food and food delivery expenses	Meals delivered/served
Insurance	Meals delivered/served
Repairs and maintenance	Clients served at location
Consultants	Meals delivered/served
Occupancy	Clients served at location
Communication	Clients served at location

l. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

m. Accounting for Uncertainty of 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 material, uncertain tax positions that would require consolidated financial statement recognition or disclosure. Tax filings for the periods ending June 30, 2018 and later are subject to examination by applicable taxing authorities.

n. New Accounting Pronouncements

FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the consolidated statement of activities and additional disclosures.

FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the June 30, 2023 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding “right to use asset” on the consolidated statement of financial position.

Management is in the process of evaluating the impact these standards will have on future consolidated financial statements.

Note 3 - Investments and 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 giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

The fair value hierarchy is categorized into the three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A significant portion of the investment assets are classified within Level 1 because they comprise exchange traded products with readily determinable fair values based on daily redemption values.

Investments consist of the following:

	<u>Level 1</u>
Exchange Traded Products:	
US Fund Large Blend	\$447,685
US Fund Short-term Bond	676,756
US Fund Real Estate	<u>60,382</u>
Total	<u>\$1,184,823</u>
Investments	\$940,233
Restricted investments	<u>244,590</u>
Total	<u>\$1,184,823</u>

Note 4 - Reserve Funds

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, 2021, the Replacement Reserve Fund totaled \$76,251, which is held in a Federal Deposit Insurance Company (“FDIC”) insured savings account.

In addition, the Agency is required to deposit into the residual receipts reserve account, any residual receipts, as defined by HUD, realized from the operation of the mortgaged property within 90 days after the end of each fiscal year. There were no required residual receipt reserve deposits for the year ended June 30, 2021. The residual receipt fund totaled \$28,597 at June 30, 2021.

Note 5 - Fixed Assets

Fixed assets consist of the following at June 30, 2021:

Encore 49 building	\$3,185,000
Encore 49 building improvements	1,864,265
Encore West building	14,305,632
Encore West equipment and furniture	116,671
Leasehold improvements	1,222,499
Equipment and furniture	<u>1,231,706</u>
	21,925,773
Less: accumulated depreciation	<u>(11,478,282)</u>
Total fixed assets, net	<u>\$10,447,491</u>

Note 6 - 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.

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 year ended June 30, 2021:

	Endowment Earnings/ Borrowings	Endowment Corpus	Total
Endowment net assets, beginning of year	(\$6,472)	\$250,000	\$243,528
Investment return	<u>1,062</u>	<u>0</u>	<u>1,062</u>
Endowment net assets, end of year	<u>(\$5,410)</u>	<u>\$250,000</u>	<u>\$244,590</u>

Underwater Endowment Fund

The Agency’s donor restricted endowment fund has experienced losses due to market fluctuations. At June 30, 2021, these aggregated losses amounted to \$5,410.

Note 7 - Capital Advances

Financing for the Encore West Residence construction in the amount of \$13,262,100 at June 30, 2021, 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, 2021 consist of the following:

Operations (deficit)	(\$1,369,164)
HUD Capital Advance	<u>13,262,100</u>
Total	<u>\$11,892,936</u>

Note 8 - Net Assets With Donor Restrictions

The following summarizes net assets released from restrictions:

Social services expansion	\$344,300
COVID-19 response	<u>50,280</u>
Total net assets released from restrictions	<u>\$394,580</u>

The following summarizes the nature of net assets with donor restrictions:

Endowment funds	\$244,590
Social services expansion	296,971
Special campaigns	<u>115,000</u>
Total net assets with donor restrictions	<u>\$656,561</u>

Note 9 - Paycheck Protection Program Loan Forgiveness

During the year ended June 30, 2020, the Agency obtained a loan from the Small Business Administration (“SBA”) in the amount of \$670,900 through the Paycheck Protection Program (“PPP”). Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that were greater than pre-determined historical periods, that the loan, or a portion thereof, would be forgiven. Portions that are not forgiven are payable over a five-year period, with a ten-month deferral of payments and interest will accrue at 1%.

During the year, the Agency submitted its forgiveness application and was granted full forgiveness.

Note 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 Internal Revenue Service (“IRS”) limitations. Pension expense was \$88,028 for the year ended June 30, 2021.

Note 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, 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.

Government contracts are subject to audit by the grantor. Management does not anticipate any material disallowances to result from those audits and has not established any reserves. Any disallowances will be expensed when a liability becomes probable of requiring a payout.

Subsequent to the year end, Encore 49 Residence made a settlement with a former tenant to resolve an ongoing legal matter. The settlement will result in Encore 49 Residence receiving approximately \$170,000 in payments, which will be recognized as a gain during the year ended June 30, 2022, when realized.

The Agency is obligated under an operating lease for space and related utilities, which expires on December 31, 2030. Future minimum lease payments under the terms of the agreement are as follows:

Year ending:	June 30, 2022	\$84,750
	June 30, 2023	99,000
	June 30, 2024	99,000
	June 30, 2025	100,500
	June 30, 2026	102,000
	Thereafter	<u>663,000</u>
Total		<u>\$1,148,250</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:

Year ending:	June 30, 2022	\$27,000
	June 30, 2023	28,800
	June 30, 2024	28,800
	June 30, 2025	28,800
	June 30, 2026	28,800
	Thereafter	<u>21,600</u>
Total		<u>\$163,800</u>

Rent expense for all leases for the year ended June 30, 2021 was \$80,775.

Note 12 - Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2021 are as follows:

Cash and cash equivalents	\$536,320
Investments	940,233
Government grants receivable	501,958
Contributions receivable	177,014
Tenant rent receivables	<u>243,511</u>
Total financial assets	\$2,399,036
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(411,971)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,987,065</u>

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.

Note 13 - Subsequent Events

Subsequent events have been evaluated through December 14, 2021 the date the financial statements were available to be issued. Adjustments and disclosures have been made for all subsequent events that have occurred.

Note 14 - Other Matters

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an impact on the economies and financial markets of many countries, including the geographical area in which the Agency operates. As of the date of these consolidated financial statements, many of the travel restrictions and stay at home orders have been lifted, however, supply chains remain impacted. Management continues to monitor the outbreak, however, as of the date of these consolidated financial statements, the potential impact cannot be quantified.