

**COMMUNITY SERVICE SOCIETY OF NEW
YORK AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2014

**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

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Independent Auditor's Report

Board of Trustees Community Service Society of New York and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Community Service Society of New York and Affiliates (the "Society"), which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities 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 Community Service Society of New York and Affiliates as of June 30, 2014 and the 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.

Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information for the year ended June 30, 2014 included in Schedule 1 - consolidated schedule of functional expenses 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 for the year ended June 30, 2014 is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Report on Summarized Comparative Information

We have previously audited Community Service Society of New York and Affiliates' June 30, 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 24, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

We had also expressed an unmodified opinion on the supplementary information included in Schedule 1 for the year ended June 30, 2013 in relation to those financial statements as a whole. In our opinion, the supplementary information for the year ended June 30, 2013 in Schedule 1 is consistent, in all material respects, with the audited supplementary information from which it has been derived.

Loeb & Troper LLP

October 29, 2014

**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Summarized Financial Information for June 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 2,083,900	\$ 3,472,981
Investments (Note 2)	130,486,315	120,769,922
Accounts receivable		
Government agencies (Note 4)	4,621,344	3,063,253
Other - net (Note 4)	392,135	211,116
Securities sold receivable	167,885	1,400,000
Accrued interest and dividend receivable	145,478	
Prepaid expenses and other assets	82,645	65,834
Beneficial interest in perpetual trusts (Note 2)	34,639,095	31,335,966
Investment in The United Charities (Note 5)	2,122,144	2,090,057
Fixed assets - net (Note 6)	<u>1,803,787</u>	<u>2,031,422</u>
Total assets	<u>\$ 176,544,728</u>	<u>\$ 164,440,551</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 4,351,727	\$ 1,538,624
Accrued vacations payable	841,680	785,809
Securities purchased payable	70,025	1,400,000
Liability for postemployment and postretirement benefits (Note 9)	<u>9,173,311</u>	<u>7,720,018</u>
Total liabilities	<u>14,436,743</u>	<u>11,444,451</u>
Net assets (Exhibit B)		
Unrestricted	71,636,586	66,691,463
Temporarily restricted (Note 7)	26,737,769	25,874,136
Permanently restricted (Note 8)	<u>63,733,630</u>	<u>60,430,501</u>
Total net assets	<u>162,107,985</u>	<u>152,996,100</u>
Total liabilities and net assets	<u>\$ 176,544,728</u>	<u>\$ 164,440,551</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2014	2014	2014	2013
Public support and revenues				
Public support				
Contributions	\$ 355,024	\$ 90,885		\$ 618,885
Foundations	253,802	2,283,423		3,663,598
Bequests	47,309			70,921
Greater New York Fund/United Way	294	30,015		30,332
New York Times Neediest Cases Fund		1,070,454		1,246,951
Government grants		8,461,439		8,187,042
Subscription and advertisement income	94,109			94,109
Total public support	750,538	11,936,216		13,923,642
Revenues				
Investment income - net (Note 3)	14,087,516	4,464,082		18,551,598
Change in fair value of beneficial interest in perpetual trusts			\$ 3,303,129	1,665,149
Change in investment in The United Charities (Note 5)	32,087			184,029
Net revenue from special events				263,931
Program service fees	188,169			157,705
Total revenues	14,307,772	4,464,082	3,303,129	15,254,747
Net assets released from restrictions (Note 7)	15,536,665	(15,536,665)		
Total public support and revenues	30,594,975	863,633	3,303,129	29,178,389

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COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES

EXHIBIT B
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CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	2014	2014	2014	2013
Expenses				
Program services				
Direct service program	\$ 13,324,616			\$ 13,188,297
Policy research and advocacy	4,429,475			4,084,754
Public interest	1,013,356			1,087,142
Total program services	<u>18,767,447</u>			<u>18,360,193</u>
Supporting services				
Management and general	4,579,105			4,913,726
Fund raising	960,965			950,208
Total supporting services	<u>5,540,070</u>			<u>5,863,934</u>
Total expenses	<u>24,307,517</u>			<u>24,224,127</u>
Change in net assets before other changes	6,287,458	\$ 863,633	\$ 3,303,129	4,954,262
Pension and other postretirement benefits adjustment (Note 9)	(1,342,335)			5,434,954
Impairment loss - City Limits				(220,000)
Change in net assets (Exhibit C)	4,945,123	863,633	3,303,129	10,169,216
Net assets - beginning of year	66,691,463	25,874,136	60,430,501	142,826,884
Net assets - end of year (Exhibit A)	<u>\$ 71,636,586</u>	<u>\$ 26,737,769</u>	<u>\$ 63,733,630</u>	<u>\$ 152,996,100</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 9,111,885	\$ 10,169,216
Adjustments to reconcile change in net assets to net cash used by operating activities		
Net unrealized and realized gain on investments	(15,323,316)	(9,590,315)
Depreciation and amortization	283,426	256,026
Increase in beneficial interest in perpetual trusts	(3,303,129)	(1,665,149)
Change in investment in The United Charities	(32,087)	(184,029)
Impairment loss		220,000
Decrease (increase) in assets		
Accounts receivable - government agencies	(1,558,091)	(861,974)
Accounts receivable - other	(181,019)	(24,780)
Accrued interest and dividend receivable	(145,478)	
Prepaid expenses and other assets	(16,811)	18,442
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	2,813,103	(1,277,453)
Accrued vacation payable	55,871	(58,006)
Liability for postretirement and postemployment benefits	1,453,293	(4,621,624)
Net cash used by operating activities	<u>(6,842,353)</u>	<u>(7,619,646)</u>
Cash flows from investing activities		
Purchase of investments	(183,468,171)	(21,483,155)
Proceeds from maturity and sales of investments	188,977,234	28,016,147
Fixed asset acquisitions	<u>(55,791)</u>	<u>(178,609)</u>
Net cash provided by investing activities	<u>5,453,272</u>	<u>6,354,383</u>
Net change in cash and cash equivalents	(1,389,081)	(1,265,263)
Cash and cash equivalents - beginning of year	<u>3,472,981</u>	<u>4,738,244</u>
Cash and cash equivalents - end of year	<u>\$ 2,083,900</u>	<u>\$ 3,472,981</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - ORGANIZATION SUMMARY

The consolidated financial statements include Community Service Society of New York (“CSS”) and its affiliated organizations: City Limits Magazine and CityLimits.Org (collectively referred to as City Limits); Institute for Community Empowerment (“Institute”); and Friends of R.S.V.P., Inc. (CSS and its affiliates are collectively referred to as the “Society”). CSS is a 501(c)(3) not-for-profit corporation operating under a Certificate of Consolidation granted by the State of New York in 1939, merging the New York Association for Improving the Condition of the Poor and The Charity Organization Society of the City of New York. It is a private, nonsectarian, voluntary social agency. The mission of Community Service Society of New York is to identify problems which create a permanent poverty class in New York City, and to advocate the systemic changes required to eliminate such problems. CSS’s primary goals are to advocate for better job opportunities to break the cycle of intergenerational poverty that particularly affects communities of color; promote policies and programs that advance the economic security of the poor and working poor; and promote health care reform as an essential strategy for alleviating barriers to employment and economic stability. City Limits is a high-quality publication covering urban issues in New York City. City Limits was acquired by CSS with the authorization of the Board with the goal of transitioning City Limits to an independent 501(c)(3) entity which occurred on July 1, 2014 and is no longer affiliated with the Society. The Institute is a 501(c)(4) not-for-profit corporation which was established in November 1988 to perform certain electoral advocacy, research, and lobbying activities with other community-based organizations. Friends of R.S.V.P., Inc. is a 501(c)(3) not-for-profit corporation created in 1986 as a fund-raising vehicle for the Retired and Senior Volunteer Program administered by CSS.

The primary sources of revenues are contributions, investment income and government grants.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Basis of consolidation - All material intercompany balances and transactions have been eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Actual results could differ from those estimates.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents - The Society considers all highly liquid financial instruments with maturities of three months or less when acquired to be cash equivalents.

Investments - Investments are recorded at fair value. The Society invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Society's financial statements.

Accounts receivable - Accounts receivable are recorded when billed.

Allowance for doubtful accounts - Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of client balances by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest is not accrued or recorded on outstanding accounts receivable. As of June 30, 2014, there was no allowance for doubtful accounts recorded.

Investment in The United Charities - Investment in The United Charities is recorded on the equity method.

Beneficial interest in perpetual trusts - The Society has beneficial interests in various perpetual trusts. The Society's interest in these trusts is reported as a contribution in the year received at their fair value. Changes in the fair value of the underlying assets are recorded as revenue adjusting permanently restricted net assets.

Fixed assets - Fixed assets are stated at cost. Items costing in excess of \$2,500 and having an estimated useful life of at least one year are subject to capitalization. Expenditures for equipment and leasehold improvements are capitalized in the property fund as part of unrestricted net assets. Depreciation and amortization are provided on equipment and improvements using the straight-line method over the shorter of their estimated useful lives or the terms of the leases:

Computer equipment	3 years
Office equipment	7 years
Leasehold improvements	15 years

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets - Unrestricted net assets are those whose use by the Society has not been restricted by donors. Included in unrestricted net assets are board-designated funds of \$2,399,392 as of June 30, 2014. Temporarily restricted net assets are those whose use by the Society has been limited by donors or grantors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Society in perpetuity.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government grants - Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. Revenues from government contracts are subject to audit and negotiations between the Society and the government agencies. All government grants received are restricted for specific purposes.

Donated services - The Society does not record as contributions the donated services of volunteers, since such services primarily supplement the efforts of the Society's professional staff in providing its essential services. The activities of such volunteers include working with and providing assistance to the elderly and children of minority group families, providing legal and financial assistance to low-income families, serving on advisory committees, and assisting in fund-raising activities.

Functional expenses - The costs of providing the Society's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating leases - Rent expense is recognized on the first day of each month for the current month. Operating leases have been recorded on the straight-line basis over the life of each lease.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014, as compared to those used at June 30, 2013.

Money market funds, fixed-income, equity, and future contracts - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

Commingled funds, structured debt fund, and real estate fund - Valued at the NAV of shares held at year end as determined by the managers of the underlying funds.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Alternative investment - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The funds are valued by the managers of the underlying funds at the NAV of shares held by CSS at year end or other pricing methodologies.

Beneficial interest in perpetual trusts - The beneficial interest in perpetual trusts is valued at fair value of the Society's beneficial interest in the fair value of underlying assets.

Unallocated insurance contract - The Community Service Society of New York Retirement Plan's investment contract with Metropolitan Life Insurance Company is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations, considering the creditworthiness of the issuer. Funds under the investment contract that have been allocated and applied to purchase annuities (that is, Metropolitan is obligated to pay the related pension benefits) are excluded from the Society's assets.

Pooled separate accounts - The pooled separate accounts are valued at the NAV of shares held by The Community Service Society of New York Retirement Plan at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2014 and 2013:

	2014			2013
	Level 1	Level 3	Total	Level 3
Cash equivalents	\$ 350,786		\$ 350,786	
Money market funds	582,060		582,060	
Fixed income				
U.S. Government and agency	13,388,852		13,388,852	
Corporate bonds	7,910,225		7,910,225	
Mutual funds				
Equity	36,269,537		36,269,537	
Fixed income	11,658,517		11,658,517	
Equity - U.S.	30,877,303		30,877,303	
Equity - Non U.S.	23,814,310		23,814,310	
Alternative investment		\$ 5,060,528	5,060,528	
Structured Debt Fund		574,197	574,197	\$ 1,371,391
Commingled funds				113,553,102
Real estate fund				5,845,429
	124,851,590	5,634,725	130,486,315	120,769,922
Beneficial interest in perpetual trusts		34,639,095	34,639,095	31,335,966
	<u>\$ 124,851,590</u>	<u>\$ 40,273,820</u>	<u>\$ 165,125,410</u>	<u>\$ 152,105,888</u>

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Gains and Losses

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the year ended June 30, 2014:

	<u>Commingled Funds</u>	<u>Structured Debt Fund</u>	<u>Real Estate Fund</u>	<u>Alternative Investment</u>	<u>Beneficial Interest in Perpetual Trusts</u>	<u>Total</u>
Balance, beginning of year	\$ 113,553,102	\$ 1,371,391	\$ 5,845,429		\$ 31,335,966	\$ 152,105,888
Purchases				\$ 5,000,000		5,000,000
Sales	(141,907,599)	(1,557,488)	(7,494,639)			(150,959,726)
Fees	(218,699)					(218,699)
Interest income	1,428,892	156,806	128,220			1,713,918
Unrealized gains*		275,062		60,528	3,303,129	3,638,719
Realized gain	<u>27,144,304</u>	<u>328,426</u>	<u>1,520,990</u>			<u>28,993,720</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 574,197</u>	<u>\$ -</u>	<u>\$ 5,060,528</u>	<u>\$ 34,639,095</u>	<u>\$ 40,273,820</u>

* The amount of net gain for the period attributable to the change in unrealized gain relating to assets still held at the report date.

\$ 3,638,719

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Level 3 Investments

<u>Fund Name</u>	<u>Redemption Period</u>	<u>Notice Period</u>	<u>Description of Fund</u>	<u>Amount</u>
JPM Structured Debt Fund	Fund is winding down and distributing remaining assets as they are liquidated	None	The Fund consists of various co-op and commercial mortgages.	\$ 574,197
Goldman Sachs Tactical TILT Portfolio	Bimonthly	One week	The Portfolio seeks to provide capital growth over the longer term. The Portfolio may invest in shares, fixed-income securities of any type of issuer, structured financial instruments (a security that provides a return that is either backed by assets or linked to the performance of underlying assets through a derivative instrument), derivatives (contracts between two or more parties whose value depends on the rise and fall of the underlying asset) and other funds.	5,060,528

Uncertainty in income taxes - The Society has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 29, 2014, which is the date the financial statements were available to be issued.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3 - INVESTMENT INCOME

Investment income for the years ended June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 2,306,900	\$ 2,350,923
Net unrealized and realized gain	15,323,316	9,590,315
Perpetual trust investment income	1,294,160	1,359,250
Less investment management fees	<u>(372,778)</u>	<u>(316,555)</u>
	<u>\$ 18,551,598</u>	<u>\$ 12,983,933</u>

Consistent with the Society's spending policy for the year ended June 30, 2014, \$7,383,000 was appropriated, of which \$7,383,000 was spent. For the year ended June 30, 2013, \$7,714,000 was appropriated, of which \$7,714,000 was spent.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables from government agencies primarily represent amounts owed by the U.S. Department of Health and Human Services for the New York State Establishment Exchange Grant, Consumer Assistance Program and Children's Health Insurance Program Reauthorization Act, from Corporation for National and Community Service for the RSVP Program, and from the NYC Department of Education for the Experience Corps Program.

Other receivables primarily represents amounts owed by private foundations for Healthcare Campaign Programs.

NOTE 5 - RELATED PARTY TRANSACTIONS

The United Charities, a charitable corporation which was organized to provide a center in which certain benevolent organizations would maintain their headquarters, leases office space to the Society, which has a 50% undivided interest in the ownership of the building located at 105 East 22nd Street, New York City. At December 31, 2013 and 2012, the assets of The United Charities aggregated \$4,244,288 and \$4,180,114, respectively. The Society's investment in The United Charities is carried at \$2,122,144 and \$2,090,057 at June 30, 2014 and 2013, respectively.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 - RELATED PARTY TRANSACTIONS (continued)

The United Charities is obligated under various lease agreements to provide office space for the Society and other tenants. Rent expenses paid by the Society for the fiscal year ended June 30, 2014 totaled \$1,018,410. Management fees received from The United Charities were \$90,000 and \$84,000 in 2014 and 2013, respectively. The lease expired June 30, 2014 and, thereafter, an agreement was entered into to renew the lease on a month to month basis commencing July 1, 2014.

By resolution at its June 10, 2014 meeting, the Board of Trustees of the Society authorized the representatives of CSS to the Board of The United Charities to vote in favor of the sale of 105 East 22nd Street at a sale price at or above \$120,000,000. The sale was consummated on August 26, 2014 with CSS receiving an initial distribution of \$54,800,000 as its portion of the proceeds of the sale with additional distributions to be made when all outstanding obligations have been met.

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Computer and office equipment	\$ 854,960	\$ 808,764
Leasehold improvements	<u>2,926,172</u>	<u>2,916,577</u>
	3,781,132	3,725,341
Less accumulated depreciation and amortization	<u>(1,977,345)</u>	<u>(1,693,919)</u>
	<u>\$ 1,803,787</u>	<u>\$ 2,031,422</u>

The accumulated amortization was \$1,406,022 and \$1,214,668 as of June 30, 2014 and 2013, respectively.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 and 2013 include the following amounts that are restricted for the following program or activities by donor specifications:

	<u>2014</u>	<u>2013</u>
Direct service program	\$ 23,910,029	\$ 21,815,219
Policy research and advocacy	355,533	1,393,102
Program administration	414,763	357,062
Unappropriated investment income from endowments	<u>2,057,444</u>	<u>2,308,753</u>
	<u>\$ 26,737,769</u>	<u>\$ 25,874,136</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Direct service program	\$ 12,354,746
Policy research and advocacy	2,350,324
Public interest	101,724
Program administration	<u>729,871</u>
	<u>\$ 15,536,665</u>

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Community Service Society of New York and Affiliates' endowment consists of individual donor-restricted endowment funds established for Direct Service Programs.

Permanently restricted net assets consist of the following:

	<u>2014</u>	<u>2013</u>
Endowment		
Income restricted for specific purposes	\$ 4,741,097	\$ 4,741,097
Income restricted for program administration	454,414	454,414
Income available for general purposes	<u>23,899,024</u>	<u>23,899,024</u>
Total endowment	<u>29,094,535</u>	<u>29,094,535</u>
Beneficial interest in perpetual trusts - income restricted	12,257,177	11,509,999
Beneficial interest in perpetual trusts - income unrestricted	<u>22,381,918</u>	<u>19,825,967</u>
Total beneficial interest in perpetual trusts	<u>34,639,095</u>	<u>31,335,966</u>
	<u>\$ 63,733,630</u>	<u>\$ 60,430,501</u>

Interpretation of Relevant Law

The Board of Directors of Community Service Society of New York and Affiliates has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Society is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The overall financial objective of the endowment is to provide the operations of the Society with a relatively stable stream of spendable revenue that increases over time and matches the general rate of inflation, as measured by the Consumer Price Index.

The long-term investment objective for the total endowment is to attain a total return (net of investment management fees) of at least 6% per year in excess of inflation. This objective assumes that withdrawals from the Fund will average, long term, no more than 6% of the Fund's value over time.

Funds with Deficiencies

The Society does not have any funds with deficiencies.

Changes in Endowment Net Assets for the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 3,033,289	\$ 29,094,535	\$ 32,127,824
Interest and dividend income	429,315	83,579		512,894
Realized gain	5,499,584	1,070,652		6,570,236
Unrealized loss	(2,628,780)	(511,768)		(3,140,548)
Appropriation for expenditures	<u>(3,300,119)</u>	<u>(1,154,231)</u>	<u> </u>	<u>(4,454,350)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,521,521</u>	<u>\$ 29,094,535</u>	<u>\$ 31,616,056</u>

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS

The Society has a noncontributory defined benefit pension plan covering substantially all employees. The Society also maintains life insurance benefits and contributory group medical benefits for full-time employees (i.e., those who worked 30 hours or more per week) employed prior to July 1, 1978 who retired at or after age 55 and were not covered by the terms of the collective bargaining agreement providing health benefits through the 1199 National Benefit Fund. The Society is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Society pays the cost of postretirement benefits as incurred.

The tables below set forth each plan's funded status and amounts recognized in the Society's financial statements at June 30, 2014 and 2013 as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Projected benefit obligation	\$ (39,498,090)	\$ (34,019,053)	\$ (1,132,510)	\$ (1,179,717)
Fair value of plan assets	<u>31,457,289</u>	<u>27,478,752</u>	<u> </u>	<u> </u>
Funded status	<u>\$ (8,040,801)</u>	<u>\$ (6,540,301)</u>	<u>\$ (1,132,510)</u>	<u>\$ (1,179,717)</u>
Society's contributions	\$ 900,000	\$ 900,000	\$ 157,297	\$ 181,056
Employees' contributions			2,024	2,789
Benefits paid	782,873	828,090	159,321	183,845
Accrued benefit cost recognized in the statement of financial position	(8,040,801)	(6,540,301)	(1,132,510)	(1,179,717)
Net periodic pension cost	1,123,469	1,852,903		
Other postemployment benefit cost			44,786	41,483

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS (continued)

The future expected benefits to be paid for the postretirement plans are as follows:

<u>Years Beginning July 1</u>	
2015	\$ 1,375,216
2016	1,611,261
2017	1,768,108
2018	1,818,227
2019	1,993,339
2020-2024	11,333,710

The accumulated benefit obligation for the defined benefit pension plan was \$35,409,798 and \$30,809,004 at June 30, 2014 and 2013, respectively.

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Weighted-average assumptions as of June 30:				
Discount rate	4.25%	4.75%	4.25%	4.75%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.50	4.50	N/A	4.50

Mortality table: Combined RP2000 Annuitant and Non-Annuitant table updated for 2013 used for pension benefits. 1994 Group Annuity Mortality Table for 2012 used for other benefits.

For 2014 and 2013, an assumed long-term rate of return of 8.0% was used for the pension plan. In developing this rate, the Society evaluated input from its actuaries on asset class return expectations and long-term inflation.

For measurement purposes, a 7.6% health care cost trend rate was assumed for 2014 and 2013. The rate is expected to decrease to 5.9% after 2024-2034.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS (continued)

The components of net pension cost and net postretirement benefit cost for the years ended June 30, 2014 and 2013 are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service costs	\$ 1,089,863	\$ 1,228,695		
Interest cost	1,629,284	1,445,525	\$ 54,149	\$ 53,531
Expected return on assets	(2,171,350)	(1,894,054)		
Net amortization and deferral	572,049	1,000,784	22,617	19,932
Amortization of prior service cost	<u>3,623</u>	<u>71,953</u>	<u>(31,980)</u>	<u>(31,980)</u>
Net cost	<u>\$ 1,123,469</u>	<u>\$ 1,852,903</u>	<u>\$ 44,786</u>	<u>\$ 41,483</u>

The following table sets forth components of the investments of the pension plan for the years ended June 30, 2014 and 2013.

	<u>2014</u>			<u>2013</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Unallocated insurance contract	\$ -	\$12,336,456	\$12,336,456	\$ -	\$11,133,007	\$11,133,007
Pooled separate accounts						
Metropolitan Life Insurance Company						
Index Fund II	14,750,783	-	14,750,783	13,398,500	-	13,398,500
Metropolitan Life Insurance Company Small Cap Fund	3,462,268	-	3,462,268	2,947,245	-	2,947,245
Future contracts	<u>907,782</u>	<u>-</u>	<u>907,782</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$19,120,833</u>	<u>\$12,336,456</u>	<u>\$31,457,289</u>	<u>\$16,345,745</u>	<u>\$11,133,007</u>	<u>\$27,478,752</u>

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS (continued)

The Society's pension investment policy recognizes the long-term nature of pension liabilities, the benefits of diversification across asset classes and the effects of inflation. The diversified portfolio is designed to maximize returns consistent with levels of liquidity and investment risk that are prudent and reasonable. All assets are managed externally according to guidelines established individually with investment managers. Portfolio risk is controlled by having managers comply with guidelines, establishing the maximum size of any single holding in their portfolios and by using managers with different investment styles. The target asset allocation of the pension fund is approximately 50% S&P 500 equities, 10% small-cap managers, and 40% fixed income.

The Society expects to contribute at least \$900,000 to its pension plan during fiscal year 2015.

NOTE 10 - LEASES

Community Service Society leases office space under operating leases which expire at various dates through December 31, 2014, and is obligated to pay monthly rentals plus an additional amount based upon increases in real estate taxes, maintenance, and utility costs. Rental expense was \$1,047,216 in 2014 and \$1,034,340 in 2013.

NOTE 11 - CONCENTRATIONS

Financial instruments which potentially subject the Society to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

NOTE 12 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported on the consolidated statement of financial position of the Society approximate their fair value.

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**COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - EXPENSES

	<u>2014</u>	<u>2013</u>
Program services	\$ 18,767,447	\$ 18,360,193
Management and general	4,951,883	5,230,281
Fund raising	960,965	950,208
Direct cost of special event	<u> </u>	<u>214,419</u>
Total	<u>\$ 24,680,295</u>	<u>\$ 24,755,101</u>

NOTE 14 - SUBSEQUENT EVENT

By resolution the Board of Trustees at its September 23, 2014 meeting authorized the purchase of space for operations in the commercial condominium located at 633 Third Avenue, New York City at a purchase price not to exceed \$30,000,000. The Board further authorized that \$15,000,000 of the proceeds of the sale of 105 East 22nd Street be expended for the purchase with additional funding to be obtained through a security based loan from Bank of America which would provide a revolving line of credit of up to \$26,000,000 at an interest rate of LIBOR plus 0.70%. The price of the space purchased on October 14, 2014 from MSMC Realty Corporation was \$27,415,479. As of October 29, 2014, CSS drew down \$15,000,000 on the loan.

COMMUNITY SERVICE SOCIETY OF NEW YORK
AND AFFILIATES

SCHEDULE 1

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Program Services				Supporting Services			Total	
	Direct Service Program	Policy Research and Advocacy	Public Interest	Total	Management and General	Fund Raising	Total	2014	2013
Salaries	\$ 4,346,763	\$ 1,786,954	\$ 553,663	\$ 6,687,380	\$ 2,057,402	\$ 482,799	\$ 2,540,201	\$ 9,227,581	\$ 8,585,286
Fringe benefits and payroll taxes	1,713,915	705,615	208,705	2,628,235	1,270,251	193,848	1,464,099	4,092,334	4,793,307
Total salaries and related expenses	6,060,678	2,492,569	762,368	9,315,615	3,327,653	676,647	4,004,300	13,319,915	13,378,593
Professional fees	5,535,512	1,532,008	114,305	7,181,825	414,259	69,944	484,203	7,666,028	7,338,984
Supplies	82,868	19,274	4,597	106,739	37,427	2,880	40,307	147,046	272,866
Telephone	78,696	22,303	8,565	109,564	78,725	2,879	81,604	191,168	176,249
Postage and shipping	18,809	2,576	735	22,120	8,354	75,135	83,489	105,609	45,045
Occupancy	535,866	203,667	75,211	814,744	201,587	58,506	260,093	1,074,837	1,058,817
Insurance	6,934	13,672	5,871	26,477	110,874		110,874	137,351	141,874
Printing	4,112	332	386	4,830	195	29,432	29,627	34,457	48,973
Transportation	183,024	29,423	1,055	213,502	112,899	5,174	118,073	331,575	321,025
Conferences, conventions and meetings	258,418	34,165	21,188	313,771	88,509	6,808	95,317	409,088	480,093
Subscriptions and reference publications	7,855	10,883	6,923	25,661	8,556	1,904	10,460	36,121	50,244
Catering and entertainment									214,419
Direct assistance	292,963	414		293,377				293,377	361,226
Support payments	76,570	2,920	5	79,495				79,495	61,273
Equipment rentals and expenses	27,226	14,478	527	42,231	133,285	8,637	141,922	184,153	226,262
Bad debt	1,871			1,871		12,000	12,000	13,871	6,577
Investment management fees					372,778		372,778	372,778	316,555
Total other than personnel costs	7,110,724	1,886,115	239,368	9,236,207	1,567,448	273,299	1,840,747	11,076,954	11,120,482
Total expenses before depreciation and amortization	13,171,402	4,378,684	1,001,736	18,551,822	4,895,101	949,946	5,845,047	24,396,869	24,499,075
Depreciation and amortization	153,214	50,791	11,620	215,625	56,782	11,019	67,801	283,426	256,026
Total expenses	13,324,616	4,429,475	1,013,356	18,767,447	4,951,883	960,965	5,912,848	24,680,295	24,755,101
Less direct cost of special event									(214,419)
Less investment management fees deducted from investment income on the statement of activities					(372,778)		(372,778)	(372,778)	(316,555)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 13,324,616	\$ 4,429,475	\$ 1,013,356	\$ 18,767,447	\$ 4,579,105	\$ 960,965	\$ 5,540,070	\$ 24,307,517	\$ 24,224,127

See independent auditor's report.