

**OSCEOLA COUNTY COUNCIL ON
AGING, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Year Ended December 31, 2016

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MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Osceola County Council on Aging, Inc.
and Subsidiaries
Kissimmee, Florida

We have audited the accompanying consolidated financial statements of Osceola County Council on Aging, Inc. and Subsidiaries (the "Council"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, 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.

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 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 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.

To the Board of Directors of
Osceola County Council on Aging, Inc.
and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Council as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Council's internal control over financial reporting and compliance.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
May 30, 2017

OSCEOLA COUNTY COUNCIL ON AGING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

| | | |
|-----------------------------------|--------------|----------------------|
| UNRESTRICTED CASH | \$ | 51,051 |
| RESTRICTED CASH | | 338,650 |
| GRANTS AND OTHER RECEIVABLES | | 711,412 |
| PREPAID EXPENSES AND OTHER ASSETS | | 54,355 |
| PROPERTY AND EQUIPMENT, net | | <u>18,763,461</u> |
| | TOTAL ASSETS | <u>\$ 19,918,929</u> |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------------|----------------------------------|----------------------|
| BANK OVERDRAFTS | \$ | 5,376 |
| NOTES PAYABLE | | 18,290 |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | | 742,497 |
| LINES OF CREDIT | | 252,431 |
| DEFERRED REVENUE | | 49,108 |
| RESIDENT SECURITY DEPOSITS | | <u>33,509</u> |
| | TOTAL LIABILITIES | 1,101,211 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS | | |
| Unrestricted | | 6,975,250 |
| Temporarily restricted | | <u>11,842,468</u> |
| | TOTAL NET ASSETS | <u>18,817,718</u> |
| | TOTAL LIABILITIES AND NET ASSETS | <u>\$ 19,918,929</u> |

The accompanying notes are an integral part of the consolidated financial statements.

OSCEOLA COUNTY COUNCIL ON AGING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2016

| | |
|---|-----------------------------|
| SUPPORT AND REVENUE | |
| Federal and state support | \$ 3,719,519 |
| Donated materials and services | 1,451,744 |
| Other contributions and support | 4,021,728 |
| Senior housing revenue | 750,687 |
| Client fees | 211,800 |
| Fundraising support | 230,871 |
| Local government support | 171,671 |
| Interest income | <u>210</u> |
| TOTAL SUPPORT AND REVENUE | 10,558,230 |
| | |
| EXPENSES | |
| Program services | 9,395,159 |
| Housing expenses | 586,438 |
| Management and general expenses | <u>878,769</u> |
| TOTAL EXPENSES | 10,860,366 |
| | |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>350,661</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | 48,525 |
| | |
| TEMPORARILY RESTRICTED NET ASSETS | |
| Net assets released from restrictions | <u>(350,661)</u> |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | <u>(350,661)</u> |
| CHANGE IN NET ASSETS | (302,136) |
| | |
| NET ASSETS AT BEGINNING OF YEAR | <u>19,119,854</u> |
| NET ASSETS AT END OF YEAR | <u><u>\$ 18,817,718</u></u> |

The accompanying notes are an integral part of the consolidated financial statements.

OSCEOLA COUNTY COUNCIL ON AGING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

| | |
|---|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ (302,136) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 697,451 |
| Donation of vehicles | 32,150 |
| Changes in: | |
| Grants and other receivables | (31,999) |
| Prepaid expenses and other assets | (6,671) |
| Accounts payable and accrued expenses | 91,374 |
| Resident security deposits | 143 |
| Deferred revenue | (58,859) |
| | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 421,453 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Acquisition of property and equipment | (252,301) |
| CASH FLOWS FROM IN FINANCING ACTIVITIES | |
| Bank overdraft | 2,331 |
| Payments on notes payable | (31,077) |
| Proceeds from lines of credit | 3,836,942 |
| Repayments on lines of credit | (3,940,030) |
| | <hr/> |
| NET CASH USED BY FINANCING ACTIVITIES | (131,834) |
| | <hr/> |
| NET INCREASE IN CASH | 37,318 |
| CASH - BEGINNING OF YEAR | <hr/> |
| | 352,383 |
| CASH - END OF YEAR | <hr/> |
| | \$ 389,701 |
| CASH IS CLASSIFIED AS FOLLOWS: | |
| Unrestricted cash | \$ 51,051 |
| Restricted cash | <hr/> |
| | 338,650 |
| | <hr/> |
| | \$ 389,701 |
| | <hr/> |

The accompanying notes are an integral part of the consolidated financial statements.

**OSCEOLA COUNTY COUNCIL ON AGING, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Osceola County Council on Aging, Inc. ("OCCOA") is a not-for-profit organization, incorporated in 1971 to promote the physical, mental, and social well-being of seniors, adults with disabilities, and their caregivers. OCCOA provides meals, adult day care, transportation, social services, case management, in-home services, health care, and a variety of other services for the elderly and disabled in Osceola County, Florida (the "County").

OCCOA also controls and operates Kissimmee Oaks Housing I, Inc. ("Oaks") and St. Cloud Villas II, Inc. ("Villas"). Oaks and Villas are separate not-for-profit corporations which provide housing and services to low-income elderly and handicapped persons through participation in U.S. Department of Housing and Urban Development ("HUD") programs. Oaks and Villas issue their own financial statements under the Uniform Guidance.

These consolidated financial statements include the accounts of OCCOA, Oaks and Villas (collectively, the "Council"). All significant intercompany transactions have been eliminated in the consolidation.

Requirements to Maintain Separate Bank Accounts

OCCOA is required by the terms of certain grant contracts to maintain separate bank accounts for cash related to the Guardianship program and reserve for replacements. The requirements do not restrict the use of the cash, and the balances in these accounts are considered unrestricted at December 31, 2016.

For OCCOA, restricted cash of approximately \$40,000 in the consolidated statement of financial position consists of tenant security deposits and unemployment liability claims. For Oaks and Villas, restricted cash of approximately \$299,000 consists of tenant security deposits, reserves for replacement, and residual receipts, as required by HUD.

Property and Equipment

Property and equipment with an acquisition value of \$5,000 or more is recorded at cost, if purchased, or at estimated fair value at the date of gift, if donated. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, or, for leasehold improvements, the lease term, if shorter.

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

The estimated useful lives for significant property and equipment categories are as follows:

| | <u>Estimated Useful Lives</u> |
|---------------------------|-----------------------------------|
| Building and improvements | 10 - 30 Years |
| Furniture and equipment | 3 - 7 Years |
| Vehicles | 3 - 5 Years |

Certain vehicles were acquired with funds received under contracts with various governmental units. OCCOA retains the use of these vehicles as long as they are used to carry out the service for which the original contract was intended. OCCOA expects to continue using the vehicles for their designated purpose and to retain the right to the continued use of these assets in the future. The vehicles acquired under the various contracts have a net book value of approximately \$160,000 at December 31, 2016.

Revenue Recognition

Support received under grants and contracts with state, local, and private sources is recorded by OCCOA as revenue based upon the terms of the grant or contract, which generally provide that revenue is earned when the related costs are incurred. Funds received in excess of expenditures are recorded as deferred revenue. Expenditures in excess of funds received are recorded as accounts receivable, to the extent that funds remain available under the applicable grant.

Revenue from apartment leasing activities for Oaks and Villas is recognized in the period occupancy rights are provided. Under HUD's Section 8 Housing Assistance Program, residents pay monthly rent based on a percentage of their income. The difference between the amount paid by residents and the contract rent is funded by HUD and is recognized as revenue when occupancy rights are provided.

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions of cash and other assets received with donor stipulations that limit the use of the donated assets are reported as restricted contributions. When a restriction ends, or the purpose of the restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions in that period. At December 31, 2016, the Council's temporarily restricted net assets consist of approximately \$7.9 million in net assets for Oaks and Villas, restricted by HUD (see Note 6), and approximately \$4 million, which is restricted by local governmental donors.

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials and Services

Certain expendable materials are contributed to the Council. The fair value of these items is reflected as support and expense in these consolidated financial statements in the period provided and used. In addition, numerous individuals volunteer their time and effort in support of the Council and its mission. When the Council would ordinarily have had to pay for these services, and there is an objectively determinable basis for measuring the cost that would have been paid, the Council records the value of the volunteered services as support and expense in the period the services were provided. For the year ended December 31, 2016, the Council recorded approximately \$1.5 million as revenue and expense for such donated materials and services.

Deferred Revenue

Funding received in advance of the services being rendered is classified as deferred revenue. These amounts were approximately \$49,000 at December 31, 2016.

Income Taxes

The entities comprising the Council are not-for-profit organizations under the laws of the state of Florida and have been granted recognition of their tax-exempt status by the Internal Revenue Service. Accordingly, income earned in furtherance of their tax-exempt purpose is exempt from federal and state income taxes and, as a result, these consolidated financial statements include no provision or liability for income taxes. As of December 31, 2016, with certain exceptions, the entities comprising the Council are no longer subject to income tax examinations by U.S. federal or state of Florida taxing authorities for any tax years prior to December 31, 2013.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated statement of financial position for financial instruments approximate fair value.

Estimates

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

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through May 30, 2017, the date the consolidated financial statements were available to be issued.

NOTE 2 - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at December 31, 2016:

| | |
|--|-------------------|
| Grants receivable from federal sources | \$ 487,862 |
| Grants receivable from state and local sources | <u>223,550</u> |
| Total grants and other receivables | <u>\$ 711,412</u> |

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at December 31, 2016:

| | |
|--|----------------------|
| Land and land improvements | \$ 4,496,637 |
| Buildings and improvements | 19,429,877 |
| Furniture and equipment | 3,112,099 |
| Vehicles | <u>1,209,960</u> |
| | 28,248,573 |
| Less accumulated depreciation and amortization | <u>(9,485,112)</u> |
| Property and equipment, net | <u>\$ 18,763,461</u> |

In July 2016, property was forfeited to the County due to the property owner failing to pay property taxes. The property consisted of land and a mobile home. The County subsequently donated the property to OCCOA through a title deed transfer. On the date of transfer, the appraised value of the land and mobile home was approximately \$20,000 and \$40,000, respectively.

In addition, OCCOA acquired four additional vehicles during the year ended December 31, 2016 for approximately \$108,000. One vehicle was provided through grant funding of approximately \$76,000 by the Florida Department of Transportation ("FDOT"). The other three vehicles were donated directly by Toho Water Authority ("Toho") with a total value of approximately \$32,000 at time of donation. These vehicles are being used in various programs provided by OCCOA.

NOTE 4 - NOTES PAYABLE

OCCOA entered into a promissory note in the amount of \$13,400 on May 1, 2012 for the purpose of purchasing a truck. The note bears interest at 3% and is payable in monthly principal and interest payments of \$300 through its maturity on May 1, 2016. The note was repaid on May 1, 2016.

OCCOA entered into a promissory note in the amount of \$84,517 with a financial institution for the purpose of paying its excess line-of-credit balance as a term loan when the line of credit was renewed on July 23, 2014 at \$200,000 (see Note 5). The note bears interest at 8.94% and is payable in monthly principal and interest payments of \$2,691, commencing on August 23, 2014 through its maturity on July 23, 2017. The balance of the note payable is approximately \$18,000 at December 31, 2016.

Cash paid for interest on the notes payable was approximately \$3,000 for the year ended December 31, 2016.

NOTE 5 - LINES OF CREDIT

OCCOA maintains an unsecured, working capital line of credit with a financial institution. Interest on outstanding borrowings is due monthly at the financial institution's prime rate plus 1.75% (5.50% at December 31, 2016), and the principal amount of outstanding borrowings is due on demand. The line-of-credit agreement was renewed on July 23, 2014 with a borrowing capacity of \$200,000 and expires on July 23, 2017. At the time of renewal, OCCOA had approximately \$85,000 in excess borrowings that was converted to a term loan (see Note 4). The line-of-credit balance was approximately \$13,000 at December 31, 2016, and OCCOA had approximately \$187,000 in unused borrowing capacity. Cash paid for interest related to the line of credit was approximately \$5,000 for the year ended December 31, 2016.

On June 24, 2013, OCCOA obtained an additional line of credit with another financial institution that is collateralized by property owned by OCCOA that provides for maximum borrowings of \$250,000. The additional line of credit was obtained to help OCCOA maintain cash flows due to recent changes in the Medicaid Waiver program. Interest on outstanding borrowings is due monthly at the financial institution's prime rate (3.75% at December 31, 2016), and the principal amount of outstanding borrowings is due on demand. The line-of-credit balance was approximately \$240,000 at December 31, 2016. Cash paid for interest related to the line of credit was approximately \$9,000 for the year ended December 31, 2016. The line of credit was renewed on July 22, 2014 and will remain in force until all principal and interest has been repaid.

NOTE 6 - MORTGAGES

During 2008, the Osceola County Board of County Commissioners (the "County Board") paid off an approximately \$5.9 million balance due under the construction loan related to OCCOA's building and assumed a first mortgage position on the building. The first mortgage has no required repayments and will be forgiven by the County Board, so long as the building is operated only for the purposes of the Council's mission. Because OCCOA intends to operate the building for these purposes, the County Board's contribution was previously recorded as an increase in temporarily restricted net assets. The contribution is being released from restriction ratably over the 20-year mortgage period.

Oaks and Villas entered into capital advance agreements under the HUD Section 202 Program to finance the construction of apartment buildings. The capital advances bear no interest and are not required to be repaid so long as the housing remains available to eligible, low-to-moderate income households for a period of 40 years. The capital advances are secured by mortgages, which are collateralized by real property and equipment. The capital advances were recorded at their original values of \$2,923,100 and \$4,797,047, respectively. Because management intends to maintain Oaks and Villas in accordance with the capital advance agreements, the capital advances are shown in the consolidated financial statements as temporarily restricted net assets. The capital advances will be released from restriction upon completion of the 40-year restriction period in April 2036 and December 2047, respectively.

NOTE 6 - MORTGAGES (Continued)

During 2010, Oaks entered into a loan agreement with the City of Kissimmee (the "City") to obtain funding under the State of Florida's Hurricane Housing Recovery Program to be used as a rehabilitation subsidy for roof repairs and related code upgrades to the apartment building. The loan bears no interest and is not required to be repaid as long as the housing remains available to eligible, low-to-moderate income households, pre-approved by the City, for a period of 15 years. The loan is secured by a mortgage, which is collateralized by the building. The loan was recorded upon receipt as a temporarily restricted contribution at its original value of \$202,335. Because management intends to maintain Oaks in accordance with the agreement, the amount is shown in the consolidated financial statements as a temporarily restricted net asset. The loan will be released from restriction upon completion of the 15-year restriction period in June 2025.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

Office Equipment Lease

OCCOA leased certain office equipment under an agreement that expires in April 2017. In August 2015, OCCOA entered into a new agreement to lease certain new office equipment. The terms of the new agreement, among other things, included the leasing company offering an incentive to buy out OCCOA's previous lease contract for approximately \$53,000 and extending the lease term to August 2020. In October 2015, OCCOA recorded the amount received in deferred revenue and is being amortized equally over the remainder of the original lease term from October 2015 through April 2017. During the year ended December 31, 2016, OCCOA recorded approximately \$33,000 in revenue. The unearned portion of approximately \$11,000 recorded in deferred revenue at December 31, 2016 has been recognized as revenue as of April 2017.

Rental expense recognized related to these leases was approximately \$78,000 during the year ended December 31, 2016.

Future minimum lease payments under the office equipment leases are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2017 | \$ 66,000 |
| 2018 | 57,000 |
| 2019 | 57,000 |
| 2020 | 38,000 |
| | <u>\$ 218,000</u> |

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments (Continued)

Vehicles Lease

In August 2016, OCCOA entered into a two-year agreement with the Central Florida Regional Transportation Authority d/b/a LYNX ("LYNX") to lease three Turtle Top vanpool vehicles for the purpose of providing additional transportation services to its disabled and elderly clients to meet their basic needs and allow them to be self-sufficient and live independently. The terms of the agreement, among other things, include that all maintenance and repair costs and insurance will be paid by LYNX and vehicles are to be used only for providing public transportation for disabled and elderly clients of OCCOA. The agreement requires monthly lease payments of approximately \$700 commencing in October 2016 and expiring in August 2018.

Rental expense recognized related to the vehicles lease was approximately \$2,200 during the year ended December 31, 2016.

Future minimum lease payments under the vehicle lease are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2017 | \$ 8,280 |
| 2018 | 5,520 |
| | <u>\$ 13,800</u> |

Employee Benefit Plan

OCCOA maintains a tax-deferred employee benefit plan for the benefit of its eligible employees. Employer contributions are determined on a discretionary basis. OCCOA made no employer contributions to the plan during 2016.

Management Services Agreements

OCCOA has management services agreements with several facilities, including Oaks and Villas, which provide housing to the elderly in the County. OCCOA is compensated through management fees, based on a percentage of each facility's total revenue. During 2016, OCCOA recognized management fee revenue of approximately \$160,000, which is recorded in Senior Housing revenue. The management services agreements are cancelable by either party with 30 days' notice; for Oaks and Villas, the management agreements are also subject to renewal by HUD. In addition, Oaks and Villas reimbursed OCCOA approximately \$337,000 during 2016 for management fees and salary and benefits paid for the on-site property manager, service coordinator, and maintenance staff, who are employees of OCCOA. Management fees and salary expense reimbursements received from Oaks and Villas were eliminated in the consolidation.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

Credit Risk, Concentrations, and Economic Dependence

Financial instruments which potentially subject the Council to concentrations of credit risk consist principally of cash, grants, and other receivables. All cash is deposited in federally insured financial institutions. The Council maintains its cash primarily in bank deposit accounts, which, at times, may exceed federally insured limits. The Council has not experienced any losses in such accounts. Management does not believe that it is exposed to any significant credit risk on cash.

The Council performs its program services with funds received from federal, state, and local sources. A significant reduction in the level of this funding, if this were to occur, could have a negative effect on the Council's programs and activities. Grants from federal, state, and local governmental sources represented approximately 37% of the Council's revenues for the year ended December 31, 2016.

Governmental funding of the Council's programs is subject to statutory and regulatory changes, administrative rulings, interpretations of policy, intermediary determinations, and governmental funding restrictions, all of which may materially affect program funding to recipient agencies. Changes in the policies of federal, state, and local funding agencies as a result of legislative and regulatory actions, could adversely affect the revenues of the Council.

Oaks' and Villas' operations are concentrated in the multi-family real estate market and operate in a heavily regulated environment. The operations of Oaks and Villas are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, 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 the additional administrative burden, to comply with the change.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

HUD Regulation and Oversight

In connection with their participation in the various HUD programs, Oaks and Villas are subject to regulation and oversight by HUD, which includes, among other things, the following restrictions on their operations and activities:

- Oaks and Villas may not make distributions of assets or income to any of their officers or directors.
- Oaks and Villas may not increase rent charged to residents without prior HUD approval.
- Oaks and Villas are required to set aside specified amounts for the replacement and repair of buildings and equipment, and other expenditures. These restricted funds are held in separate accounts, and Oaks and Villas must obtain HUD approval of their use. These funds are included in restricted cash on the consolidated statement of financial position.
- Oaks' and Villas' apartment buildings must be maintained as low-to-moderate income housing for the elderly and disabled.

Oaks and Villas are economically dependent on the continuation of the HUD housing assistance programs.