

SCO Family of Services, Inc.

Financial Statements and
Uniform Guidance Schedules
Together with Independent Auditors' Reports

June 30, 2017

SCO Family of Services, Inc.

Table of Contents
June 30, 2017

TABLE OF CONTENTS	Page
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-27
UNIFORM GUIDANCE SCHEDULES AND REPORTS	
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	35

Independent Auditors' Report

Board of Directors
SCO Family of Services, Inc.

Report of the Financial Statements

We have audited the accompanying financial statements of SCO Family of Services, Inc. ("SCO"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of SCO Family of Services, Inc. as of June 30, 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated November 28, 2017 on our consideration of SCO Family of Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCO Family of Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCO Services, Inc.'s internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 28, 2017

SCO Family of Services, Inc.

Statement of Financial Position
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$ 5,004,732
Investments at fair value (Notes 2, 3 and 7)	59,219,483
Program receivables, net of allowances for doubtful accounts of \$1,195,242 (Notes 2 and 4)	40,914,169
Prepaid expenses and other current assets	1,737,703
Custodial accounts (Note 2)	<u>304,694</u>
	107,180,781

Total Current Assets

Debt service reserve (Note 6)	1,665,959
Security deposits and other assets	465,420
Property and equipment, net (Notes 2, 5, 8, 9, and 10)	34,450,626
Restricted investments (Notes 2, 3, 7 and 15)	<u>1,442,996</u>
	<u>\$ 145,205,782</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 26,301,485
Accrued pension obligation - current portion (Notes 1 and 12)	2,400,000
Custodial accounts (Note 2)	304,694
Deferred revenue, current portion (Note 2)	4,758,485
Lines of credit (Note 7)	12,688,309
Mortgages payable, current portion (Note 8)	1,073,995
Bonds payable, current portion (Note 9)	27,129
Capital lease, current portion (Note 10)	491,879
Due to government agencies, current portion (Note 11)	3,923,069
Accrued interest payable	<u>4,603</u>
Total Current Liabilities	51,973,648

Accrued pension obligation, net of current portion (Notes 1 and 12)	52,219,214
Interest rate swap liability (Notes 2, 3, and 13)	236,023
Deferred revenue, net of current portion (Note 2)	1,076,490
Mortgages payable, net of current portion (Note 8)	5,038,997
Bonds payable, net of current portion (Note 9)	12,800,114
Capital lease, net of current portion (Note 10)	552,919
Due to government agencies, net of current portion (Note 11)	<u>4,742,403</u>
Total Liabilities	<u>128,639,808</u>

Net Assets

Unrestricted - operations	54,660,993
Unrestricted - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in 2013 (Notes 1 and 12)	<u>(46,295,067)</u>
Total Unrestricted Net Assets	8,365,926
Temporarily restricted (Note 14)	6,757,052
Permanently restricted (Note 15)	<u>1,442,996</u>
Total Net Assets	<u>16,565,974</u>

\$ 145,205,782

See notes to financial statements

SCO Family of Services, Inc.

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE AND SUPPORT				
Government revenue	\$ 231,857,687	\$ 283,986	\$ -	\$ 232,141,673
Foundations and other grants	7,000,804	235,303	-	7,236,107
Prior year cost reimbursement adjustments	546,588	-	-	546,588
Contributions	142,810	337,632	-	480,442
Other income (loss)	2,779,127	(486)	-	2,778,641
Special events less costs with direct benefit to donors of \$229,897	736,002	-	-	736,002
Net assets released from restrictions (Note 14)	1,441,473	(1,441,473)	-	-
Total Operating Revenue and Support	<u>244,504,491</u>	<u>(585,038)</u>	<u>-</u>	<u>243,919,453</u>
OPERATING EXPENSES				
Program Services				
Foster Care Services	61,020,046	-	-	61,020,046
Family Support Services	13,776,650	-	-	13,776,650
Early Childhood Services	14,783,504	-	-	14,783,504
Special Needs and Behavioral Health Services	73,772,229	-	-	73,772,229
Education and Youth Development Services	30,919,479	-	-	30,919,479
Shelters and Homeless Services	29,668,784	-	-	29,668,784
Total Program Services	<u>223,940,692</u>	<u>-</u>	<u>-</u>	<u>223,940,692</u>
Supporting Services				
Management and General	19,620,153	-	-	19,620,153
Development	1,264,853	-	-	1,264,853
Total Supporting Services	<u>20,885,006</u>	<u>-</u>	<u>-</u>	<u>20,885,006</u>
Total Operating Expenses	<u>244,825,698</u>	<u>-</u>	<u>-</u>	<u>244,825,698</u>
Change in Net Assets From Operations	(321,207)	(585,038)	-	(906,245)
NONOPERATING CHANGES				
Interest and dividend income	5,576,955	-	-	5,576,955
Realized and unrealized losses on securities	(2,627,840)	-	-	(2,627,840)
Change in unfunded pension obligation (Note 12)	12,282,795	-	-	12,282,795
Gain on interest rate swap	710,928	-	-	710,928
Loss on mortgage refinancing	(144,814)	-	-	(144,814)
Other changes	(59,006)	-	-	(59,006)
Change in Net Assets	15,417,811	(585,038)	-	14,832,773
NET ASSETS				
Beginning of year (deficit)	(7,051,885)	7,342,090	1,442,996	1,733,201
End of year	<u>\$ 8,365,926</u>	<u>\$ 6,757,052</u>	<u>\$ 1,442,996</u>	<u>\$ 16,565,974</u>

See notes to financial statements

SCO Family of Services, Inc.

Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services							Supporting Services			
	Foster Care Services	Family Support Services	Early Childhood Services	Special Needs and Behavioral Health Services	Education and Youth Development Services	Shelters and Homeless Services	Total Program Services	Management and General	Development	Total Supporting Services	Total Expenses
Salaries	\$ 27,473,712	\$ 8,547,285	\$ 6,676,489	\$ 41,720,267	\$ 18,504,294	\$ 7,780,468	\$ 110,702,515	\$ 8,673,204	\$ 623,615	\$ 9,296,819	\$ 119,999,334
Employee fringe benefits	9,990,159	3,137,907	2,478,535	14,245,209	6,128,046	2,796,229	38,776,085	3,193,707	275,036	3,468,743	42,244,828
Total Salaries and Fringe Benefits	37,463,871	11,685,192	9,155,024	55,965,476	24,632,340	10,576,697	149,478,600	11,866,911	898,651	12,765,562	162,244,162
Foster care pass through	11,752,341	-	-	-	-	-	11,752,341	-	-	-	11,752,341
Professional fees	657,611	58,398	69,793	36,576	145,720	29,421	997,519	3,200,166	84,413	3,284,579	4,282,098
Contractual services	721,603	422,278	2,815,110	3,119,310	1,167,767	3,010,757	11,256,825	55,008	37,298	92,306	11,349,131
Utilities	676,566	84,270	10,735	839,008	291,842	893,963	2,796,384	136,328	4,116	140,444	2,936,828
Telephone and internet	317,182	62,746	71,513	341,281	156,908	112,756	1,062,386	195,344	6,303	201,647	1,264,033
Transportation and staff travel	729,188	147,558	51,861	802,581	164,947	64,568	1,960,703	69,169	6,815	75,984	2,036,687
Repairs and maintenance	919,028	42,003	221,423	1,222,642	441,809	1,981,031	4,827,936	114,547	2,634	117,181	4,945,117
Postage and supplies	1,560,240	162,613	244,792	1,007,160	606,945	992,230	4,573,980	734,521	64,721	799,242	5,373,222
Program activities/incidentals	1,192,241	168,578	182,278	3,361,741	743,477	181,469	5,829,784	-	19,422	19,422	5,849,206
Food	1,205,908	48,600	1,362,230	1,321,601	212,174	1,030,393	5,180,906	191	1,100	1,291	5,182,197
Rental and lease expense (Note 16)	1,324,948	525,544	272,355	1,555,116	416,904	9,537,435	13,632,302	143,514	3,104	146,618	13,778,920
Recruiting and staff development	146,400	40,067	90,823	124,875	145,993	29,202	577,360	122,450	98,676	221,126	798,486
Insurance	1,116,367	133,727	223,552	1,289,458	626,615	845,607	4,235,326	907,422	6,973	914,395	5,149,721
Fees, assessments and taxes	94,981	9,008	11,065	656,138	23,946	270,011	1,065,149	627,074	21,080	648,154	1,713,303
Interest	355,799	7,878	-	696,148	559,556	29,799	1,649,180	478,648	235	478,883	2,128,063
Depreciation and amortization (Notes 2 and 3)	785,772	178,190	950	1,433,118	582,536	83,445	3,064,011	561,248	9,312	570,560	3,634,571
Total Expenses before Bad Debt Expense	61,020,046	13,776,650	14,783,504	73,772,229	30,919,479	29,668,784	223,940,692	19,212,541	1,264,853	20,477,394	244,418,086
Bad debt expense	-	-	-	-	-	-	-	407,612	-	407,612	407,612
Total Expenses	\$ 61,020,046	\$ 13,776,650	\$ 14,783,504	\$ 73,772,229	\$ 30,919,479	\$ 29,668,784	\$ 223,940,692	\$ 19,620,153	\$ 1,264,853	\$ 20,885,006	\$ 244,825,698

SCO Family of Services, Inc.

Statement of Cash Flows
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 14,832,773
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	3,634,571
Bad debt expense	407,612
Amortization of deferred financing costs	852,019
Loss on mortgage refinancing	144,814
Amortization of bond premium / discount	3,160
Unrealized loss on securities	3,184,163
Realized gain on sale of securities	(556,323)
Change in unfunded pension obligation	(12,282,795)
Gain on interest rate swap	(710,928)
Donated stock	(22,636)
Changes in operating assets and liabilities :	
Program receivables	3,484,138
Prepaid expenses and other current assets	(685,348)
Security deposits and other assets	(10,161)
Accounts payable and accrued expenses	(3,049,481)
Deferred revenue	1,305,087
Due to government agencies	2,212,901
Accrued interest payable	(35,534)
Accrued pension obligation	4,071,001
Net Cash From Operating Activities	<u>16,779,033</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Debt service reserve	161,618
Purchase of property and equipment	(3,509,107)
Purchases of designated investments	(68,148,831)
Proceeds from sales of securities	55,844,556
Change in short term investments	6,682,048
Net Cash from Investing Activities	<u>(8,969,716)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from lines of credit	7,188,309
Principal payments on lines of credit	(8,500,000)
Mortgage assumption from redemption of bond	4,500,000
Principal payments on mortgages payable	(1,063,338)
Payments of mortgage redemption costs	(246,280)
Principal payments on bonds payable	(1,781,969)
Bond redemption	(4,500,000)
Principal payments on capital lease obligations	(433,692)
Net Cash from Financing Activities	<u>(4,836,970)</u>
Change in Cash and Cash Equivalents	2,972,347

CASH AND CASH EQUIVALENTS

Beginning of year	<u>2,032,385</u>
End of year	<u>\$ 5,004,732</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$ 1,305,057
Property and equipment acquired through capital leases	\$ 824,982

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

1. Organization

Nature of Organization

SCO Family of Services, Inc. ("SCO") is a not-for-profit corporation that provides human care services to children, young adults and families in metropolitan New York. Each year, its programs reach more than 60,000 New Yorkers in need. Its core service areas include preventive services, foster care and adoption, youth development services, homelessness services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

Financial Condition

On June 30, 2011, SCO ceased participation in the Roman Catholic Diocese of Brooklyn Pension Plan (the "Diocesan Pension Plan"), a multi-employer plan, and froze retirement benefit accruals for participating SCO employees. SCO established a mirror Defined Benefit Pension Plan (the "Plan") effective March 20, 2012 for the purpose of providing retirement benefits to those current and former employees and, as applicable, beneficiaries of such employees who had accrued retirement benefits under the Diocesan Pension Plan through June 30, 2011. The Plan, established as a single employer plan, maintained solely by SCO, will provide those benefits which had accrued under the former Diocesan Pension Plan up to the date it was frozen on June 30, 2011. Under Accounting Standards Codification ("ASC") 715-20, "Defined Benefit Plans", when an organization adopts a single employer pension plan, it is required to record the full amount of any underfunded pension liability on the statement of financial position. No such requirement exists for a multi-employer plan. Assets formerly held by the Roman Catholic Diocese of Brooklyn to fund SCO's portion of accrued pension liabilities under the Diocesan Pension Plan were transferred to SCO. The transfer of assets from the Diocesan Pension Plan was completed on October 19, 2012. Assets are actively managed and SCO has taken all prudent steps necessary to ensure the Plan is able to meet all payments to retirees or their beneficiaries in future years. Both the Diocesan Pension Plan and the Plan are non-ERISA church plans with no requirement under the Employee Retirement Income Security Act of 1974 ("ERISA") to fund the Plan. The Plan provides SCO cost certainty and better cash management and the ability to pay down pension obligations within 20 years.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of SCO have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

The classification of SCO's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities. These classes are defined as follows:

Unrestricted – operations net assets consist of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

Unrestricted – pension related charges other than net periodic pension cost as a result of the conversion from a multi-employer plan to a single employer plan in 2012 consist of net assets related to the funded status of SCO's defined benefit plan.

Temporarily restricted net assets are subject to donor-imposed stipulations, that may or will be released either by actions of SCO and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by SCO. Generally, the donors of these assets permit SCO to use all of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less at time of purchase.

Investments at Fair Value and Income Recognition

Investments in marketable securities are stated at fair value with changes in the fair value of investments recorded in the statement of activities. Realized gains and losses resulting from sales of securities are calculated on the specific identification basis. Purchases and sale of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gains or losses that result from market fluctuations are recorded as unrealized gains and losses.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Investments at Fair Value and Income Recognition (continued)

Net investment income earned on endowment funds is reflected within the unrestricted class of net assets. SCO has a "total return" policy in regards to the spending of net investment income for operations. The total return to be spent annually is equal to approximately 3% of the average fair value of the previous fiscal year as approved by the Board of Directors and reported as part of operations in other income on the accompanying statement of activities. For fiscal 2017, the approved return was \$1,238,000 and was used for certain operating expenditures.

Fair Value Measurements

Accounting Standards Codification ("ASC") 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as SCO would use in pricing SCO's asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of SCO are traded. SCO estimates the price of any asset or liability for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets or liabilities would use as determined by the money managers for each investment based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuation based on quoted market prices of similar investments or investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

Program Receivables

Program receivables are stated as unpaid balances, less an allowance for doubtful accounts. SCO provides for losses on amounts due using the allowance method. The allowance method is based on experience, contractual terms, and other circumstances, which may affect the ability of the agencies to meet their obligations. Program receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is SCO's policy to charge off uncollectible amounts when management determines they will not be collected.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Debt Issuance Costs

Debt issuance costs are comprised of expenses incurred to obtain construction loans, and legal, professional and commitment fees paid in connection with the closing of long-term debt financings.

In 2017, SCO adopted new U.S. GAAP guidance for the presentation of debt costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of the debt. Previously, such costs were shown as deferred financing costs. These costs are amortized using the effective interest method over the term of the related loans SCO reflects amortization of debt issuance costs within interest expense, in accordance with the new guidance. This change had no effect on previously reported earnings.

Custodial Accounts

Custodial accounts primarily represent supplemental Social Security funds plus accrued interest on those funds which are held by SCO on behalf of certain children in its care.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for financial reporting as follows:

Building and improvements	10 - 40 years
Furniture, equipment and vehicles	3 - 20 years
Leasehold improvements	3 - 25 years

Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

SCO follows the policy of capitalizing all acquisitions in excess of \$5,000 and a useful life of 2 years or more. Maintenance and repairs are charged to operations when incurred. When items are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in nonoperating charges.

Items of furniture and equipment, where title is held by the granting agency, are expensed when purchased.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Long-Lived Assets

In accordance with the provisions of ASC 360, SCO reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the undiscounted cash flows, quoted market values or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses recognized for the year ended June 30, 2017.

Third-Party Reimbursements and Revenue Recognition

SCO receives substantially all of its revenue for services provided from governmental agencies, including the Office for People with Developmental Disabilities ("OPWDD"), New York City Administration for Children Services ("ACS"), Office of Mental Health ("OMH"), Office of Children and Family Services ("OCFS"), New York State Department of Social Services ("NYS DSS") and New York State Department of Education ("SED") and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

Revenue is recognized as earned from third parties and when received or pledged for contributions, special events and fundraising activities.

Grant revenue is recognized in amounts equal to expenses incurred by SCO in administering the related program. Upon termination, the unexpended cash funds received under the terms of the grant provisions revert to the grantor.

Receipts under certain government-funded fee-for-services contract programs, which have not been spent due to budget modifications, are available for application to future years' renewal contracts and are therefore classified as deferred revenue.

Conditional Asset Retirement Obligations

SCO accounts for Conditional Asset Retirement Obligations ("CARO") in accordance with U.S. GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The fair value of the CARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there were no CARO liabilities that are required to be recorded.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2017 was \$6,062.

Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded as either temporarily or permanently restricted support if they are received with donor restrictions that limit the use of the donated asset. When donor restrictions expire, that is, when 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 restriction.

Contributions of property and services are recorded at the fair value of the property and services at the time of contribution.

Medical Self-Insurance

SCO maintains a self-insured medical plan for its employees. The accrued liability for the self-insured components of the plan includes an estimate of the incurred but not yet reported claims expense. This liability is included in accounts payable and accrued expenses on the statement of financial position.

Substantially all of SCO's employees and their dependents are eligible to participate in SCO's employee health insurance plan. SCO is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$200,000 per covered employee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that SCO's estimate will change by a material amount in the near term.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Medical Self-Insurance (continued)

Activity in SCO's accrued employee health claims liability during 2017 is summarized as follows:

Balance, beginning of year	\$ 1,528,682
Current year claims incurred and changes in estimates for claims incurred in prior years	24,585,264
Claims and expenses paid	<u>(24,458,146)</u>
Balance, end of year	<u>\$ 1,655,800</u>

Income Taxes

SCO was incorporated in the State of New York and is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Code. SCO has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

SCO adopted the provisions of ASC 740, "Income Taxes", on July 1, 2009. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken or expected to be taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact SCO's financial statements.

SCO does not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. SCO has filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, SCO has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2017, there were no interest or penalties recorded or included in the statement of activities. SCO is subject to routine examinations by a taxing authority. As of June 30, 2017, SCO was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examinations for the years prior to 2014.

Concentration of Credit Risk

Financial instruments which potentially subject SCO to concentration of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. At times, SCO has cash deposits at financial institutions which exceed the Federal Depository Insurance Corporation insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal. As of June 30 2017, the uninsured portion of this balance was \$4,967,511. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

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

Endowment Fund

SCO's endowment consists of investments that are permanently restricted under ASC 958, "Not-for-Profit Entities". On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The new law is designed to allow organizations to cope more easily with fluctuations in the value of their endowments and to afford them greater access to funds needed to support their programs and services in difficult financial times.

Subsequent Events

SCO's management has performed subsequent events procedures through November 28, 2017, which is the date the financial statements were available to be issued. There were no subsequent events requiring adjustment or disclosure to the financial statements.

3. Investments at Fair Value

SCO's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of SCO's policies regarding this hierarchy.

The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. SCO's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

Indexed Mutual Fund

SCO has investments in indexed mutual funds. These investments are valued at the Net Asset Value ("NAV") shares held by SCO at year-end. The indexed mutual funds are traded at quoted prices through the National Securities Clearing Corporation. Management has reviewed the fair value classifications and determined that Level 1 is the most appropriate classification.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

3. Investments at Fair Value (continued)

Fixed Income

SCO has investments in fixed income securities. These investments are priced by SCO's custodian using nationally recognized pricing services. SCO's fixed income investments include United States government obligations and corporate bonds. Since these securities do not trade on a daily basis, the pricing services prepare estimates of fair value measurements for these securities using their proprietary pricing applications, which include relevant market information, benchmark curves, benchmarking of similar securities, sector groupings and matrix pricing. These investments are classified as Level 2.

Interest Rate Swap

The fair value of the interest rate swap is estimated using Level 2 inputs, which are based on model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

At June 30, 2017, investments in marketable securities were as follows:

	<u>Cost</u>	<u>Fair Value</u>
Indexed mutual fund	\$ 29,261,276	\$ 32,056,226
Fixed Income:		
Government bonds	<u>28,297,713</u>	<u>27,979,206</u>
	<u>\$ 57,558,989</u>	60,035,432
Cash and cash equivalents		<u>627,047</u>
Total		<u>\$ 60,662,479</u>

The following table sets forth by level, within the fair value hierarchy, SCO's financial assets measured at fair value on a recurring basis. Fair value equals carrying value:

	<u>Assets at Fair Value as of June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Indexed mutual fund	\$ 32,056,226	\$ -	\$ -	\$ 32,056,226
Fixed income				
Government bonds	-	<u>27,979,206</u>	-	<u>27,979,206</u>
Total Assets	<u>\$ 32,056,226</u>	<u>\$ 27,979,206</u>	<u>\$ -</u>	<u>\$ 60,035,432</u>
Liabilities				
Interest rate swap	<u>\$ -</u>	<u>\$ 236,023</u>	<u>\$ -</u>	<u>\$ 236,023</u>

There were no transfers between levels during the year ended June 30, 2017.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

4. Program Receivables

At June 30, 2017, SCO's program receivables were comprised of the following:

Rate-based Programs	
Foster care services	\$ 14,133,496
Family support services	2,826,633
Early childhood services	2,746,102
Special needs and behavioral health services	8,148,378
Education and youth development services	9,761,628
Shelters and homeless services	4,101,906
Other	<u>391,268</u>
	42,109,411
Less: Allowance for doubtful accounts	<u>1,195,242</u>
Total	<u>\$ 40,914,169</u>

5. Property and Equipment

Property and equipment, net consist of the following at June 30, 2017:

Land	\$ 2,026,113
Building and improvements	67,191,753
Furniture, equipment and vehicles	12,837,964
Leasehold improvements	<u>3,918,160</u>
	85,973,990
Less: Accumulated depreciation and amortization	<u>51,523,364</u>
Property and equipment, net	<u>\$ 34,450,626</u>

At June 30, 2017, there were \$22,849,551 of fully depreciated assets still in use by SCO.

6. Debt Service Reserve

Under the terms of various bonds, SCO deposited with the bond trustee amounts to be held in reserve which will be withdrawn to satisfy the future installments of the bonds. Interest earned on this reserve fund will be used to reduce SCO's payment obligation under the bonds. The debt service reserve amounted to \$1,665,959 which consists of cash and cash equivalents at June 30, 2017.

7. Lines of Credit

SCO has a line of credit with an available limit of \$25,000,000 which is due on demand and expires June 27, 2019. Interest rates range from 1.68% - 3.25% and was 3.5% at June 30, 2017. As of June 30, 2017, the outstanding balance was \$11,000,000.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

7. Lines of Credit (continued)

In June 2016, SCO entered into a bridge loan line of credit agreement with an available limit of \$10,000,000 in connection with the short-term financing of certain capital projects. The line is renewable annually. The interest rate was 4.25% at June 30, 2017. As of June 30, 2017, the outstanding balance was \$1,688,309.

The borrowings are based on the market value of underlying investments pledged as collateral. Interest, which is payable on demand, is based on prime and London Interbank Offered Rates ("LIBOR") rates. The lines of credit are further secured by SCO's accounts receivable.

8. Mortgages Payable

Mortgages payable consist of the following at June 30, 2017:

Mortgage payable to Medical Care Facilities Finance Agency, due past February 15, 2018, payable in monthly installments of \$4,650, including interest at the rate of 7.34% per annum; secured by real estate located in Kew Gardens, New York.	\$ 39,300
Mortgage payable to TD Bank, due March 1, 2027, payable in monthly installments of \$46,213, including interest at the rate of 4.24% per annum; secured by real estate located in Jamaica, New York.	4,409,796
Mortgage payable to Medical Care Facilities Finance Agency, due July 1, 2018, payable in monthly installments of \$3,567, including interest at the rate of 6.12% per annum; secured by real estate located in Richmond Hill, New York.	32,100
Mortgage payable to Medical Care Facilities Finance Agency, due December 1, 2018, payable in monthly installments of \$31,315, including interest at the rate of 6.539% per annum; secured by real estate located in Jamaica, New York.	787,260
Mortgage payable to the Dormitory Authority State of New York ("DASNY"), due February 24, 2028, payable in annual installments ranging from \$50,748 to \$133,421, including interest of 4.76%, secured by real estate located in Dix Hills, New York.	<u>1,179,254</u>
Total Mortgages Payable	<u>6,447,710</u>
Less: Current maturities	<u>1,109,580</u>
	<u><u>\$ 5,338,130</u></u>

Mortgages payable consist of the following at June 30, 2017:

Mortgages payable	\$ 6,447,710
Less: debt issuance costs	<u>334,718</u>
	<u><u>\$ 6,112,992</u></u>

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

8. Mortgages Payable (continued)

Future annual principal payments of SCO's mortgages payable are as follows for the years ending June 30:

2018	\$ 1,109,580
2019	687,086
2020	500,141
2021	522,990
2022	546,544
Thereafter	<u>3,081,369</u>
	<u>\$ 6,447,710</u>

Debt issuance costs, net of accumulated amortization, total \$334,718 as of June 30, 2017, and are recorded as a reduction to mortgages payable on the accompanying statement of financial position. Debt issuance costs consist of the following:

Debt Issuance costs	\$ 2,235,694
Less: Accumulated amortization	<u>1,900,976</u>
	<u>\$ 334,718</u>

9. Bonds Payable

In June 2007, SCO obtained financing of \$1,554,500 of insured revenue bonds through DASNY for the purpose of refinancing the acquisition and construction of two facilities.

The bonds, which require annual payments, bear interest at 5% and are secured by the related properties.

<u>Series</u>	<u>Principal</u>
DASNY Series 2007A, interest rate of 5%, due December 1, 2031	\$ 1,135,400
DASNY Series 2007B, interest rate of 5%, due December 1, 2031	\$ 419,100

Unamortized premium costs relating to the issuance of the Series A and B bonds are \$33,397 and \$12,440, respectively, at June 30, 2017. The unamortized premium costs are amortized over the term of the indebtedness of the total amount issued and included in bonds payable in the statement of financial position. Debt issuance costs, net of accumulated amortization, totaled \$26,987 as of June 30, 2017, and are recorded as a reduction in bonds payable on the accompanying statement of financial position.

On June 27, 2013, SCO obtained financing of \$27,784,000 (Series 2013) of insured revenue bonds through Nassau Local Economic Assistance Corporation ("LEAC"), Build NYC Resource Corporation and the Suffolk County Economic Development Corporation ("EDC") for the purpose of refinancing the existing DASNY 2001, 2003 and 2010 bonds.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

9. Bonds Payable (continued)

On March 1, 2017, SCO redeemed \$4,500,000 of outstanding Series 2013 bonds and assumed a mortgage in the same amount collateralized by a property located in Jamaica, New York.

The bonds, which require payments as noted below, bear interest rates ranging from 2.9% to 4.7% and are secured by the related properties.

Series	Principal
TD Bank Nassau LEAC Series 2013A-A1, annual principal payment, interest rate 3.3%, due July 1, 2035	\$ 6,095,000
People's United Bank Nassau LEAC Series 2013A-A2, annual principal payment, interest rate 3.4%, due July 1, 2035	6,095,000
TD Bank Nassau LEAC Series 2013A-B1, annual principal payment, interest rate 3.2%, due July 1, 2027	385,000
People's United Bank Nassau LEAC Series 2013A-B2, annual principal payment, interest rate 3.3%, due July 1, 2027	385,000
TD Bank Nassau LEAC Series 2013A-C1, monthly principal payment, interest rate 4.5%, due June 1, 2023	877,000
People's United Bank Nassau LEAC Series 2013A-C2, monthly principal payment, interest rate 4.7%, due June 1, 2023	877,000
TD Bank Build NYC Resource Corporation Series 2013B-A1, annual principal payment, interest rate 2.9%, due July 1, 2025	3,555,000
People's United Bank Build NYC Resource Corporation Series 2013B-A2, annual principal payment, interest rate 3%, due July 1, 2025	3,555,000
TD Bank Build NYC Resource Corporation Series 2013B-B1, annual principal payment, interest rate 3.3%, due July 1, 2027	810,000
People's United Bank Build NYC Resource Corporation Series 2013B-B2, annual principal payment, interest rate 3.3%, due July 1, 2027	810,000
People's United Bank Build NYC Resource Corporation Series 2013B-C2, monthly principal payment, interest rate 3.7%, due June 1, 2018	339,000
TD Bank Suffolk County EDC Series 2013C-A1, annual principal payments, interest rate 2.9%, due July 1, 2025	1,690,000
People's United Bank Suffolk County EDC Series 2013C-A2, annual principal payments, interest rate 3%, due July 1, 2025	1,690,000
TD Bank Suffolk County EDC Series 2013C-B1, monthly principal payments, interest rate 3.4%, due June 1, 2018	141,000
People's United Bank Suffolk County EDC Series 2013C-B2, monthly principal payments, interest rate 3.7%, due June 1, 2018	141,000

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

9. Bonds Payable (continued)

Debt issuance costs, net of accumulated amortization, totaled \$1,726,242 as of June 30, 2017, and are recorded as a reduction in bond notes payable on the accompanying statement of financial position.

Debt issuance costs consist of the following at year end:

Debt issuance costs	\$ 4,250,315
Less: accumulated amortization	<u>2,524,073</u>
	<u>\$ 1,726,242</u>

On June 30, 2017, SCO made payments on bonds payable in advance of their 2018 due dates. Future principal payments are as follows:

	(a)	(b)	Total
2018	\$ 57,856	\$ 396,000	\$ 453,856
2019	60,650	1,504,920	1,565,570
2020	63,588	1,562,224	1,625,812
2021	66,676	1,556,298	1,622,974
2022	69,921	1,614,874	1,684,795
Thereafter	<u>861,577</u>	<u>6,738,900</u>	<u>7,600,477</u>
	<u>\$ 1,180,268</u>	<u>\$ 13,373,216</u>	<u>\$ 14,553,485</u>

The new financing received related to the 2010 bond is being held in escrow until the call date of the bond which is July 1, 2020.

10. Capital Leases

SCO entered into various vehicle leases with maturities through June 30, 2020 and interest rates ranging from 5.91% to 8.53%. The following is a schedule of future minimum lease payments, including interest, as of June 30, 2017.

2018	\$ 553,214
2019	440,810
2020	<u>183,624</u>
Total minimum lease payments	1,177,648
Less: Interest	<u>132,850</u>
Present value of net minimum lease payments	<u>\$ 1,044,798</u>

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

11. Due to Governmental Agencies

SCO has recorded estimated liabilities of \$8,665,472 at June 30, 2017. The estimated amounts owed to governmental agencies is for rate adjustments and reimbursement audits.

Audits have been completed by ACS through fiscal 2014. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 2014 will not have a material adverse impact on the financial position or net assets of SCO.

12. Pension Plans

Defined Benefit Pension Plan

As mentioned in Note 1, SCO established the Plan for eligible employees who are at least 25 years old and have completed at least one year of continuous service.

Pursuant to the transfer agreement with the multi-employer Diocesan Pension Plan, pension assets and liabilities relating to the SCO participants were transferred from the Diocesan Pension Plan to the Plan effective March 20, 2012. All assets and liabilities were transferred to the Plan as of October 19, 2012. This Plan is exempt from ERISA reporting requirements.

The net periodic pension cost for the year ended June 30, 2017 is comprised of the following:

Service cost	\$ 200,000
Interest cost	3,771,481
Expected return on Plan assets	(3,269,043)
Amortization of prior service cost	2,066,224
Amortization of net loss	3,040,137
Net periodic pension cost	<u>\$ 5,808,799</u>

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during 2017 and a statement of the funded status of the Plan as of June 30, 2017 is as follows:

Change in projected benefit obligation	
Projected benefit obligation at beginning of the year	\$ 110,104,485
Service cost	200,000
Interest cost	3,771,481
Actuarial gain	(4,892,731)
Benefits	(3,127,799)
Projected benefit obligation at June 30, 2017	<u>\$ 106,055,436</u>

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

12. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Change in Plan assets	
Fair value of Plan assets at beginning of the year	\$ 47,273,476
Actual return on Plan assets	5,462,783
Employer contributions	1,805,000
Benefits	<u>(3,105,037)</u>
Fair value of plan assets at the end of the year	<u>\$ 51,436,222</u>

The funded status of the Plan at June 30, 2017 is as follows:

Benefit obligation	\$ 106,055,436
Fair value of Plan assets	<u>51,436,222</u>
Accrued pension obligation at June 30, 2017	<u>\$ 54,619,214</u>

Pension related charges other than net periodic pension cost included in unrestricted net assets consist of prior service cost of \$2,066,224, net amortization of gain of \$3,107,338 and an actuarial gain of \$7,109,233.

The following benefit payments are expected to be paid:

2018	\$ 3,302,405
2019	3,608,443
2020	3,950,965
2021	4,236,589
2022	4,515,607
2023-2027	<u>26,055,338</u>
	<u>\$ 45,669,347</u>

Employer contributions expected to be paid in fiscal year ending June 30, 2018 are \$2,400,000.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

12. Pension Plans (continued)

Investment Policy

The Plan assets shall be managed with the following allocations as of June 30, 2017:

	<u>Amount</u>	<u>Percentage</u>
Money market/cash	\$ 942,633	2%
Intermediate term bond	8,668,540	17
Corporate bond	6,436,418	13
Large cap blend U.S. stock	19,410,844	37
Market neutral U.S. stock	1,956,290	4
Large cap blend foreign stock	2,583,402	5
Large cap growth foreign stock	2,098,719	4
Diversified emerging markets stock	3,095,532	6
Allocation – 50% to 70% equity	2,034,513	4
Real estate/REIT	2,039,728	4
Tactical allocation	<u>2,169,603</u>	<u>4</u>
Fair value of Plan assets	<u>\$ 51,436,222</u>	<u>100%</u>

The Plan's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Plan's policies regarding this hierarchy.

All of the Plan assets are invested in mutual funds and exchange-traded funds that are liquid and actively traded, and are therefore classified as Level 1 investments.

Investment Policy

The discount rate, expected long-term rate of return on assets and the rates of increase in future compensation levels used to determine the projected benefit obligation at June 30, 2017 were as follows:

	<u>Pension Benefits</u>	
	<u>Used for Net Pension Cost in Fiscal Year July 1, 2016 to June 30, 2017</u>	<u>Used for Pension Obligations as of June 30, 2017</u>
Discount rate	3.50%	3.75%
Rate of compensation increase	N/A	N/A
Long-term rate of return	7.00%	N/A

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

12. Pension Plans *(continued)*

The expected long-term rate of return on Plan assets assumption of 7.00% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on the investment allocation for the pension plan in effect as of the beginning of fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 2.50% was selected and added to the real rate of return range to arrive at a best estimate range for which a rate of 7.00% is near the midpoint and was selected.

(a) Rockville Diocese Plan

SCO previously participated in the Rockville Centre Diocese Pension Plan (the "Rockville Diocese Plan"), a church plan, which has been approved by the IRS and is exempt from ERISA reporting requirements and was frozen effective June 30, 2011. SCO commenced a defined contribution plan for eligible employees effective July 1, 2011. SCO is in the process of buying out their financial obligations to the Rockville Diocese Plan for pension accruals through June 30, 2011. This will be paid over a five-year period of \$142,917 per year, which began on July 1, 2012. Once these payments are made, SCO will cease to have any obligation to make payments to the Rockville Diocese Plan. In October 2016, the remaining balance was paid.

(b) Supplemental Pension Plan

In 2000, SCO adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Participants become eligible to participate on their date of hire. Funding is provided by employee withholding and an annual discretionary contribution made by SCO. Total contribution expense for the defined contribution plan for the year ended June 30, 2017 was \$2,700,000.

13. Derivative Financial Instruments

SCO entered into various interest rate swap agreements to limit the effects of increases in interest rates on the Series 2013 bonds (Note 9). The change in fair value of the interest rate swap is recognized in the statement of activities.

	<u>Amount</u>	<u>Fair Value</u>
Interest rate swap agreements with People's United and TD Bank with fixed rates ranging from 2.897% - 3.362%. The banks pay a variable rate of interest based on US Dollar LIBOR-BBA. The agreements provide for monthly settlements and mature June 27, 2023.	\$ 20,080,000	\$ (236,023)

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

14. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following for the year ended June 30, 2017:

	<u>Net Assets</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Net Assets</u> <u>Released</u>	<u>Net Assets</u> <u>June 30, 2017</u>
Center for family life	\$ 3,441,695	\$ 242,997	\$ (88,865)	\$ 3,595,827
Early childhood services	8,544	50	-	8,594
Education and youth development services	390,565	9,993	(50,181)	350,377
Family support services	38,291	14,758	(10,997)	42,052
Foster care services	322,655	54,227	(35,755)	341,127
Management and other indirect	2,005,470	365,946	(1,020,303)	1,351,113
Shelters and homeless services	114,196	16,623	(48,124)	82,695
Special needs and behavioral health services	<u>1,020,674</u>	<u>151,841</u>	<u>(187,248)</u>	<u>985,267</u>
	<u>\$ 7,342,090</u>	<u>\$ 856,435</u>	<u>\$ (1,441,473)</u>	<u>\$ 6,757,052</u>

15. Endowment Fund

SCO maintains a donor-restricted endowment fund (the "Brookwood Fund") that has been classified as permanently restricted net assets. As required by U.S. GAAP, net assets associated with permanently restricted donor funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of SCO has adopted the rules of NYPMIFA requiring 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. As a result, the Brookwood Fund is classified as permanently restricted net assets and includes the original value of gifts donated to the permanent endowment.

NYPMIFA further requires all endowment income to be classified as temporarily restricted until appropriated for use by the governing board, unless directed differently by the donor. The income on the Brookwood Fund will be used to support SCO's general programs and activities supporting children and families.

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

15. Endowment Fund (continued)

SCO has adopted investment and spending policies for endowment assets that attempt to provide sufficient income to meet various program expenses and to extend the pursuit of SCO's mission in perpetuity. The Brookwood Fund is invested in a manner that is intended to produce results that exceed the price and yield results of the Triple-A rated short-term money market instruments for the cash and cash equivalent investments and the Barclay's Intermediate Government/Corporate Bonds Index for the fixed income investments. SCO appropriates the actual interest income and dividend returns from the restricted assets and supplements non-restricted funds for other programs. In establishing this policy, SCO considered the long-term expected return on its endowment. Accordingly, over the long term, SCO expects the current spending policy to allow its endowment to grow annually.

SCO considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- the duration and preservation of the funds;
- availability of other funding sources;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation/depreciation of investments;
- purposes of donor-restricted funds; and
- the investment and spending policies of the Brookwood Fund's investment returns distribution policy, which mandates appropriations of donor-restricted assets to be deemed prudent by the Investment Committee of the Board of Directors of SCO.

For the year ended June 30, 2017, all assets included in the Brookwood Fund are as follows:

Indexed mutual funds \$1,580,827

The following table represents a reconciliation of beginning and ending balances as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment balances as of July 1, 2016	\$ 380,083	\$ -	\$ 1,442,996	\$ 1,823,079
Unrealized loss	(242,252)	(242,252)	-	(484,504)
Transfers appropriated	-	242,252	-	242,252
Endowment balances as of June 30, 2017	<u>\$ 137,831</u>	<u>\$ -</u>	<u>\$ 1,442,996</u>	<u>\$ 1,580,827</u>

SCO Family of Services, Inc.

Notes to Financial Statements
June 30, 2017

16. Commitments and Contingencies

Operating Leases

As of June 30, 2017, minimum annual rental commitments for the remaining terms of SCO's operating leases relating to buildings for programs and equipment were as follows:

2018	\$ 8,469,975
2019	3,370,574
2020	3,021,573
2021	1,410,229
2022	1,062,351
Thereafter	<u>2,183,612</u>
Total	<u>\$ 19,518,314</u>

Certain leases require additional payments based upon property tax and maintenance expense escalations.

Substantially all leases have a defunding clause, as defined, which provides that SCO's obligations under the lease would terminate if the applicable governmental funding agency were to eliminate or significantly reduce funding for the related program.

Aggregate rental expense for buildings and equipment for the year ended June 30, 2017 amounted to \$13,778,920.

Other Matters

SCO participates in various Federal, state and city programs, all of which have strict requirements for participation and, accordingly, SCO is subject to government program reviews covering compliance with laws and regulations. In addition, the expenses of programs, which have been reimbursed pursuant to Federal, state and local government contracts and grants, are subject to audit by the respective granting agencies. Until such audits are completed and final settlements reached, there exists a contingency to refund any amount in excess of allowable costs. Management is of the opinion that no material liability would result from such audits.

Legal Matters

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management intends to vigorously defend all claims against SCO. Management is unable to determine at this time the likelihood of the outcomes.

* * * * *

SCO Family of Services, Inc.

Uniform Guidance Schedules and Reports

June 30, 2017

SCO Family of Services, Inc.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture:				
Passed through New York State Department of Health:				
Child and Adult Care Food Program (CACFP)	10.558	3561	\$ -	\$ 357,302
Child and Adult Care Food Program (CACFP)	10.558	4982	-	1,094,418
			-	1,451,720
<i>Child Nutrition Cluster:</i>				
Passed through New York State Education Department:				
School Breakfast Program (SBP)	10.553	280501890176	-	246,003
National School Lunch Program (NSLP)	10.555	280501890176	-	347,108
			-	593,111
<i>Food Distribution Cluster:</i>				
Passed through Food Bank for New York City:				
Emergency Food Assistance Program (Food Commodities)	10.569	EPRO 80413	-	1,885
Total U.S. Department of Agriculture			-	2,046,716
U.S. Department of Housing and Urban Development:				
Passed through New York City Department of Youth and Community Development:				
Emergency Solutions Grant Program	14.231	20170001745	-	98,217
U.S. Department of Labor:				
Passed through New York City Department of Youth and Community Development:				
<i>WIOA Cluster</i>				
WIOA Youth Activities	17.259	20131407246	-	61,184
WIOA Youth Activities	17.259	20171405807	-	176,110
Total U.S. Department of Labor			-	237,294
U.S. Department of Education:				
Passed through New York State Education Department:				
<i>Special Education Cluster (IDEA):</i>				
Special Education Grant to States (IDEA, Part B)	84.027	IDEA611	-	81,183
U.S. Department of Health and Human Services:				
Head Start	93.600	02CH311502	-	436,763
Head Start	93.600	02CH311503	-	501,151
Passed through New York City Administration for Children's Services:				
Head Start	93.600	20171403813	-	1,398,776
			-	2,336,690
Passed through New York City Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not available	-	66,426
<i>TANF Cluster</i>				
Passed through New York City Department of Homeless Services:				
Temporary Assistance for Needy Families (TANF)	93.558	20141405317	-	485,601
Temporary Assistance for Needy Families (TANF)	93.558	20171400483	-	2,854,492
Temporary Assistance for Needy Families (TANF)	93.558	20171401472	-	3,011,235
Passed through New York State Office of Children and Family Services:				
Temporary Assistance for Needy Families (TANF)	93.558	C027641	-	12,862
			-	6,364,190
Passed through New York City Department of Youth and Community Development:				
Community Services Block Grant	93.569	20160002569	-	60,337
Passed through County of Suffolk Department of Social Services:				
Social Services Block Grant	93.667	001-6010-4980-69-00043	-	186,212
Passed through Fund for Public Health in New York:				
Healthy Start Initiative	93.926	82017	-	314,525
Healthy Start Initiative	93.926	82570	-	100,223
			-	414,748
Passed through County of Suffolk Department of Health:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	001-4310-4980-00-00031	-	722,339
Passed through New York City Administration for Children's Services:				
<i>CCDF Cluster</i>				
Child Care and Development Block Grant	93.575	20171403813	-	1,993,912
Passed through New York State Department of Health:				
Bureau of Maternal and Child Health:				
<i>Affordable Care Act - Maternal, Infant and Early Childhood Home Visiting Cluster</i>	93.505	C028856	-	236,905
Total U.S. Department of Health and Human Services			-	12,381,759
U.S. Corporation for National and Community Service:				
Passed through New York State Office of Children and Family Services:				
AmeriCorps	94.006	C027368	-	175,728
Total Expenditures of Federal Awards			\$ -	\$ 15,020,897

See independent auditors' report and notes to the Schedule of Expenditures of Federal Awards

SCO Family of Services, Inc.

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

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of SCO Family of Services, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. **Non-Cash Awards**

For the year ended June 30, 2017, the Organization distributed \$1,885 of food commodities and \$66,426 of vaccines. These amounts have been included in this Schedule under CFDA#'s 10.569 and 93.268, respectively.

4. **Indirect Cost Rate**

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

Board of Directors
SCO Family of Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SCO Family of Services, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2017 and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

New York, New York
November 28, 2017

**Report on Compliance for Each Major Federal Program; Report on
Internal Control Over Compliance; and Report on Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

Independent Auditors' Report

**Board of Directors
SCO Family of Services, Inc.**

Report on Compliance for Each Major Federal Program

We have audited SCO Family of Services, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2017, and have issued our report thereon dated November 28, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

New York, New York
March 14, 2018

SCO Family of Services, Inc.

Schedule of Findings and Questioned Costs
June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to the financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)

_____ yes X no

Identification of major federal programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.558

Child and Adult Care Food Program (CACFP)

93.558

Temporary Assistance for Needy Families (TANF)

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

X yes _____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2017.

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Prior Year Findings

There were no prior year financial statement findings.