SCO Family of Services
and Affiliate

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

Year Ended June 30, 2022

SCO Family of Services and Affiliate

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

June 30, 2022

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Board of Directors
SCO Family of Services

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of SCO Family of Services and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCO Family of Services and Affiliate as of June 30, 2022, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCO Family of Services and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of SCO Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCO Family of Services and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 SCO Family of Services and Affiliate's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCO Family of Services and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited SCO Family of Services and Affiliate's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2022 on our consideration of SCO Family of Services and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, except for the financial statements of SCO Foundation Inc. 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 and Affiliate'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 Family of Services and Affiliate's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 10, 2022

SCO Family of Services and Affiliate

Consolidated Statement of Financial Position
June 30, 2022
(with comparative amounts at June 30, 2021)

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	$ 5,063,643	$ 7,618,429
Investments (Notes 2 and 4)	65,011,863	76,810,439
Program receivables, net (Notes 2 and 5)	60,720,917	62,947,108
Prepaid expenses and other current assets	2,905,234	1,089,196
Custodial accounts (Note 2)	676,077	862,306
Total Current Assets	134,377,734	149,327,478
Debt service reserve (Note 7)	1,047,966	1,659,051
Security deposits and other assets	647,355	508,809
Assets held for sale, net (Notes 6 and 17)	1,823,079	-
Assets held for transfer, net (Notes 6 and 13)	-	2,366,559
Right of use assets (Notes 2 and 16)	26,910,904	33,192,470
Property and equipment, net (Notes 2 and 6)	49,809,616	43,515,014
Assets with limited use: restricted cash, debt service funds (Notes 2 and 10)	5,325,000	-
Interest rate swap asset (Notes 2 and 4)	1,392,465	-
Restricted investments (Notes 2, 4, and 15)	1,442,996	1,442,996
	$ 222,777,115	$ 232,012,377
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 35,174,818	$ 38,500,174
Accrued interest payable	114,332	21,169
Accrued pension obligation - current portion (Notes 2 and 12)	2,400,000	2,400,000
Custodial accounts (Note 2)	676,077	862,306
Deferred revenue, current portion (Note 2)	8,228,677	9,363,368
Lines of credit (Note 8)	11,928,219	27,699,599
Mortgages payable, net, current portion (Note 9)	514,814	512,874
Bonds payable, net, current portion (Note 10)	82,144	177,434
Lease payables, current portion (Notes 2 and 16)	8,001,745	9,738,624
Due to government agencies, current portion (Note 12)	1,271,648	840,351
Total Current Liabilities	68,392,474	90,115,899
Accrued pension obligation, net of current portion (Notes 2 and 12)	36,689,525	50,734,033
Deferred revenue, net of current portion (Note 2)	227,907	226,519
Mortgages payable, net (Note 9)	2,618,432	2,917,982
Bonds payable, net (Note 10)	47,233,021	8,487,835
Lease payables, net of current portion (Notes 2 and 16)	18,360,447	22,773,258
Paycheck Protection Program loan (Note 16)	-	10,000,000
Due to government agencies, net of current portion (Note 11)	13,295,085	10,864,641
Interest rate swap liability (Notes 2 and 4)	-	193,195
Total Liabilities	186,816,891	196,313,362
Net Assets (Deficit)		
Without donor restrictions - operations	61,495,465	73,737,510
Without donor restrictions - 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 calendar year 2012 (Note 12)	(28,701,527)	(41,282,035)
Total Net Assets (Deficit) Without Donor Restrictions	32,793,938	32,455,475
With donor restrictions- perpetual in nature (Note 15)	1,442,996	1,442,996
With donor restrictions- temporary in nature (Note 14)	1,723,290	1,800,544
Total Net Assets	35,960,224	35,699,015
	$ 222,777,115	$ 232,012,377

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Activities
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING REVENUE AND SUPPORT				
Government revenue	$ 232,180,984	$ -	$ 232,180,984	$ 237,788,975
Foundations and other grants	3,333,364	1,523,468	4,856,832	5,841,741
Prior year cost reimbursement adjustments	1,954,996	-	1,954,996	663,336
Contributions	10,303,002	125,053	10,428,055	943,030
Other income	9,330,645	-	9,330,645	3,940,246
Special events, less costs with direct benefit to donors of $330,151 and $189,809	399,822	180,535	580,357	685,270
Net assets released from restrictions (Note 14)	1,144,646	(1,144,646)	-	-
Total Operating Revenue and Support	258,647,459	684,410	259,331,869	249,862,598
OPERATING EXPENSES				
Program Services				
Foster care services	61,289,225	-	61,289,225	57,127,996
Family support services	10,335,570	-	10,335,570	14,736,354
Early childhood services	15,231,260	-	15,231,260	13,194,282
Special needs and behavioral health services	76,764,591	-	76,764,591	70,054,130
Education and youth development services	27,883,152	-	27,883,152	31,983,520
Shelters and homeless services	34,916,057	-	34,916,057	34,473,994
Total Program Services	226,419,855	-	226,419,855	221,570,276
Supporting Services				
Management and general	32,291,330	-	32,291,330	27,725,699
Development	785,764	-	785,764	998,825
Total Supporting Services	33,077,094	-	33,077,094	28,724,524
Total Operating Expenses	259,496,949	-	259,496,949	250,294,800
Change in Net Assets From Operations	(849,490)	684,410	(165,080)	(432,202)
NONOPERATING CHANGES				
Interest and dividend income	2,423,873	-	2,423,873	2,170,382
Realized and unrealized (losses) gains on securities	(13,541,494)	(761,664)	(14,303,158)	9,922,208
Change in unfunded pension obligation (Note 12)	12,580,508	-	12,580,508	20,179,896
Gain on interest rate swap	1,392,465	-	1,392,465	142,482
Other expense	(16,449)	-	(16,449)	(28,569)
Change in Net Assets Before Transfer	1,989,413	(77,254)	1,912,159	31,954,197
Transfer to Center for Family Life (Note 13)	(1,650,950)	-	(1,650,950)	(2,104,185)
Change in Net Assets	338,463	(77,254)	261,209	29,850,012
NET ASSETS				
Beginning of year	32,455,475	3,243,540	35,699,015	5,849,003
End of year	$ 32,793,938	$ 3,166,286	$ 35,960,224	$ 35,699,015

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	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	2022 Total Expenses	2021 Total Expenses
Salaries	$ 30,174,818	$ 6,738,232	$ 7,573,985	$ 45,689,199	$ 16,086,866	$ 9,503,165	$ 115,766,265	$ 9,943,746	$ 254,331	$ 10,198,077	$ 125,964,342	$ 118,525,124
Employee fringe benefits	10,586,035	2,312,910	2,734,292	13,836,229	5,574,404	3,278,033	38,321,903	3,568,977	95,709	3,664,686	41,986,589	41,888,547
Total Salaries and Fringe Benefits	40,760,853	9,051,142	10,308,277	59,525,428	21,661,270	12,781,198	154,088,168	13,512,723	350,040	13,862,763	167,950,931	160,413,671
Foster care pass through	7,061,426	-	-	-	-	-	7,061,426	-	-	-	7,061,426	7,668,934
Professional fees	381,144	74,272	13,227	208,082	244,937	15,927	937,589	4,964,958	261,266	5,226,224	6,163,813	6,900,891
Contractual services	2,215,360	33,439	2,641,027	2,894,656	1,248,416	4,737,326	13,770,224	5,101,745	14,839	5,116,584	18,886,808	15,284,290
Utilities	657,804	17,779	9,297	951,460	313,304	1,032,424	2,982,068	219,112	692	219,804	3,201,872	3,155,800
Telephone and internet	394,004	106,861	129,334	537,501	270,318	245,842	1,683,860	509,259	2,420	511,679	2,195,539	1,922,933
Transportation and staff travel	592,943	70,179	7,759	476,573	202,641	66,402	1,416,497	57,635	3,897	61,532	1,478,029	1,056,475
Repairs and maintenance	1,259,367	10,597	319,409	2,394,528	849,449	2,379,647	7,212,997	336,317	609	336,926	7,549,923	6,990,069
Postage and supplies	1,041,414	53,698	386,080	746,108	283,963	623,448	3,134,711	691,897	6,672	698,569	3,833,280	7,717,969
Program activities/incidentals	1,481,589	331,691	306,898	1,807,757	558,883	176,610	4,663,428	44,713	65,321	110,034	4,773,462	6,021,752
Food	1,394,850	16,875	530,682	1,467,168	155,162	1,008,871	4,573,608	89	11	100	4,573,708	4,495,666
Rental and lease expense (Note 17)	1,084,971	314,264	234,608	1,469,317	499,484	10,562,621	14,165,265	350,890	2,882	353,772	14,519,037	13,245,478
Recruiting and staff development	325,784	23,314	71,955	88,598	58,769	17,769	586,189	115,239	24,490	139,729	725,918	754,640
Insurance	1,597,857	217,961	259,075	2,050,507	841,846	625,919	5,593,165	545,922	17,452	563,374	6,156,539	5,454,115
Fees, assessments and taxes	110,825	394	1,353	783,022	44,758	516,374	1,456,726	638,912	33,317	672,229	2,128,955	2,834,425
Interest	49,878	755	358	165,651	23,618	10,810	251,070	1,660,361	30	1,660,391	1,911,461	1,240,437
Depreciation and amortization (Notes 2 and 6)	879,156	12,349	11,921	1,198,235	626,334	114,869	2,842,864	1,306,970	1,826	1,308,796	4,151,660	4,275,255
Total Expenses Before Bad Debt Expense	61,289,225	10,335,570	15,231,260	76,764,591	27,883,152	34,916,057	226,419,855	30,056,742	785,764	30,842,506	257,262,361	249,432,800
Bad debt expense	-	-	-	-	-	-	-	2,234,588	-	2,234,588	2,234,588	862,000
Total Expenses	$ 61,289,225	$ 10,335,570	$ 15,231,260	$ 76,764,591	$ 27,883,152	$ 34,916,057	$ 226,419,855	$ 32,291,330	$ 785,764	$ 33,077,094	$ 259,496,949	$ 250,294,800

See notes to consoldiated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Cash Flows
Year Ended June 30, 2022
(with comparative amounts for the year ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 261,209	$ 29,850,012
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	4,151,660	4,275,255
Bad debt expense	2,234,588	862,000
Amortization of deferred financing costs	314,827	162,055
Forgiveness of Paycheck Protection Program loan	(10,000,000)	
Loss on refinancing	100,561	-
Amortization of bond premium/discount	3,161	3,161
Unrealized loss (gain) on securities	16,021,748	(9,061,553)
Realized gain on sale of securities	(1,718,590)	(860,655)
Change in unfunded pension obligation	(12,580,508)	(20,179,896)
Loss on disposal of property and equipment	2,381,971	28,483
Gain on interest rate swap	(1,392,465)	(142,482)
Donated stock	(25,221)	(3,450)
Changes in operating assets and liabilities		
Program receivables	(8,397)	(3,127,152)
Prepaid expenses and other current assets	(1,816,038)	510,286
Security deposits and other assets	(138,546)	(2,400)
Lease payments	172,230	(641,450)
Accounts payable and accrued expenses	(3,325,356)	(764,639)
Deferred revenue	(1,133,303)	(1,856,966)
Due to government agencies	2,861,741	2,407,990
Accrued interest payable	93,163	2,895
Accrued pension obligation	(1,464,000)	500,000
Net Cash from Operating Activities	(5,005,565)	1,961,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11,751,627)	(7,904,800)
Purchases of securities	(14,287,761)	(4,179,142)
Proceeds from sales of securities	11,709,400	2,003,450
Change in short term securities	99,000	(44,947)
Net Cash from Investing Activities	(14,230,988)	(10,125,439)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	24,978,219	1,700,000
Principal payments on lines of credit	(40,749,599)	(2,500,000)
Mortgage assumption from redemption of bonds	3,320,000	-
Mortgage redemption	(2,749,201)	-
Principal payments on mortgages payable	(555,660)	(521,199)
Payments of deferred financing costs	(2,708,618)	-
Proceeds from bonds payable	50,050,000	-
Principal payments on bonds payable	(2,113,921)	(1,069,135)
Bond redemption	(7,502,058)	-
Proceeds from Paycheck Protection Program loan	-	10,000,000
Lease payments	(573,480)	(437,923)
Net Cash from Financing Activities	21,395,682	7,171,743
Change in Cash, Cash Equivalents and Restricted Cash	2,159,129	(992,202)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	9,277,480	10,269,682
End of year	$ 11,436,609	$ 9,277,480
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,911,461	$ 1,252,340
Property and equipment acquired through capital leases	1,360,541	115,886
Right of use asset and related lease liability recognized under ASU 2016-02	2,534,927	40,696,672

See notes to consolidated financial statements

1. Organization

Nature of Organization

SCO Family of Services 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, homeless services, schools, school-based programs, mental health programs and services and homes for people with developmental disabilities.

SCO Foundation Inc. ("SCO Foundation") is a not-for-profit corporation that is the holder of predominantly all of SCO Family of Services' investment assets.

Principles of Consolidation

The consolidated financial statements include the accounts of SCO Foundation, of which SCO Family of Services is the sole member. All intercompany accounts and transactions have been eliminated. The consolidated entity is referred to as "SCO".

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated 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 consolidated statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash, or the nearness of their maturity resulting in the use of cash, respectively.

Use of Estimates

The preparation of consolidated 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.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)", which created new accounting and reporting guidelines for leasing arrangements. The new guidance requires organizations that lease assets to recognize assets and liabilities on the consolidated statement of financial position related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

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

Recently Adopted Accounting Standards (continued)

SCO adopted the requirements of the new standard effective July 1, 2020, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. SCO adopted the following practical expedients and elected the following accounting policies related to this standard:

- Carry forward of historical lease classifications and accounting treatment;
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for certain equipment lease categories such as office printers and copiers.

SCO's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Adoption of this standard resulted in the recognition of operating lease right-of-use assets and corresponding lease liabilities of $39,573,706 on the consolidated statement of financial position as of July 1, 2020. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 16.

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. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets with donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash, Cash Equivalents and Restricted Cash

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

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

Cash, Cash Equivalents and Restricted Cash

As of June 30, cash, cash equivalents and restricted cash consisted of the following:

	2022	2021
Cash and cash equivalents	$ 5,063,643	$ 7,618,429
Restricted Cash		
Assets with limited use, debt service funds	5,325,000	-
Debt service reserve	1,047,966	1,659,051
Total Cash, Cash Equivalents and Restricted Cash	$ 11,436,609	$ 9,277,480

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 consolidated statement of activities. Realized gains and losses resulting from sales of securities are calculated on the specific identification basis. Purchases and sales 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.

Net investment income earned on investment reserve funds is reflected within net assets with donor restrictions. 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 consolidated statement of activities. For fiscal 2022 and 2021, the approved return was $2,147,800 and $1,945,900, respectively, 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 assets or liabilities 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:

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

Fair Value Measurements (continued)

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 at 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 to the allowance when management determines they will not be collected.

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.

Debt issuance costs are reported on the consolidated statement of financial position as a direct deduction from the face amount of the debt. 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 U.S. GAAP.

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.

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using 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 changes in the accompanying consolidated statement of activities.

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

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 years ended June 30, 2022 and 2021.

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's Services ("ACS"), Office of Mental Health ("OMH"), Office of Children and Family Services ("OCFS"), New York State Department of Homeless Services ("DHS"), 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.

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

Third-Party Reimbursements and Revenue Recognition (continued)

SCO follows the five-step framework under ASU 2014-09 to determine the timing and amount of revenue to recognize related to contracts with customers. Contracts that are subject to ASU 2014-09 include a single performance obligation that is satisfied either at a point in time or over time. When revenue is earned over a period that spans the year end it is recognized in the applicable period in which it is earned. SCO does not recognize revenue until collection is probable. SCO concluded that all revenue recognized is probable of collection due to the nature of the funding sources and SCO's strong collection experience with regard to those funding sources.

Grant revenue is recognized in amounts equal to expenses incurred by SCO in administering the related program. Upon termination, any 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.

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. Such allocation rates may be based on square footage for shared office space and census or expense ratios for program management costs. Agency administration costs are distributed on a ratio value basis.

Assets With Limited Use

Assets with limited use consist of restricted cash - debt service funds. Restricted cash - debt service funds are required under the bond financing agreements, plus interest earned.

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

Contributions and Promises to Give

SCO is required to determine whether contributions are conditional or unconditional. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions are accounted for as a liability or are not recognized as revenue initially. Once the barriers to entitlement are overcome, the transaction is recognized as unconditional and classified as either net assets with donor restrictions or net assets without donor restrictions. For a donor-imposed condition to exist, a right of return or release must be stated, and the agreement must include a performance-related condition or other measurement barrier. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated 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 consolidated 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.

Activity in SCO's accrued employee health claims liability during the years ended June 30, are summarized as follows:

	2022	2021
Balance, beginning of year	$ 2,783,782	$ 2,358,407
Current year claims incurred and changes in estimates for claims incurred in prior years	26,073,257	27,975,247
Claims and expenses paid	(27,045,829)	(27,549,872)
Balance, end of year	$ 1,811,210	$ 2,783,782

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

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 Internal Revenue Code (the "Code"). SCO has been determined by the Internal Revenue Service ("IRS") 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". Under ASC 740, an organization must recognize the tax liability associated with tax positions taken for tax return purposes when it is more likely than not the position will not be sustained upon examination by a taxing authority.

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 years ended June 30, 2022 and 2021, there were no interest or penalties recorded or included in the consolidated statement of activities. SCO is subject to routine examinations by a taxing authority. As of June 30, 2022, SCO was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2019.

Concentration of Credit Risk

Financial instruments which potentially subject SCO to concentration of credit risk consist primarily of cash and cash equivalents, investments and program receivables. 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. 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.

A significant portion of SCO's program receivables consist of reimbursements owed from government agencies for services performed under their program contracts. As such, collection is deemed probable.

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

Endowment Fund

SCO's endowment consists of investments that are perpetual in nature 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.

Operating Measure

The statement of activities separately reports changes in net assets from operating and non-operating activities. Operating activities consist principally of revenue and expenses related to program and supporting activities.

3. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following as of June 30:

	2022	2021
Financial Assets:		
Cash and cash equivalents	$ 5,063,643	$ 7,618,429
Investments	65,011,863	76,810,439
Program receivables, net	60,720,917	62,947,108
Total Financial Assets	130,796,423	147,375,976
Less: program receivables which management expects to be collected after fiscal 2023 and 2022, respectively	(8,472,113)	(7,046,618)
Less: amounts restricted by donor with time or purpose restriction	(1,723,290)	(1,800,544)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	$ 120,601,020	$ 138,528,814

SCO structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, SCO has committed a line of credit in the amount of $25,000,000 (see Note 8). In addition, SCO receives cash flow from contributions and grants made from donors through its fundraising efforts.

4. Investments

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.

4. Investments *(continued)*

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 Funds

SCO has investments in indexed mutual funds. The indexed mutual funds are traded at quoted prices through the National Securities Clearing Corporation. Management has reviewed the fair value classifications and has determined that Level 1 is the most appropriate classification.

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

SCO has entered into various interest rate swap agreements to minimize its risk of the possible effects of increases in interest rates on the Series 2021 bonds (see Note 10). The change in fair value of the interest rate is recognized in the consolidated statement of activities.

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.

		Fair Value	
	Notional Amount	At June 30, 2022	At June 30, 2021
Interest rate swap agreements with People's United and TD Bank with fixed rates ranging from 2.897% - 3.30%. The banks pay a variable rate of interest based on US Dollar LIBOR-BBA. The agreements provide for monthly settlements and mature June 1, 2024 and September 1, 2031	$ 26,135,000	$ 1,392,465	$ -
Interest rate swap agreements with People's United and TD Bank with fixed rates ranging from 2.897% - 3.30%. 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	$ -	$ (193,195)

4. Investments *(continued)*

At June 30, 2022, investments in marketable securities and cash and cash equivalents were as follows:

	Cost	Fair Value
Indexed mutual funds	$ 39,180,145	$ 45,252,717
Fixed Income:		
Government bonds	23,430,410	20,545,782
	62,610,555	65,798,499
Cash and cash equivalents, at cost	656,360	656,360
Total	$ 63,266,915	$ 66,454,859

At June 30, 2021, investments in marketable securities and cash and cash equivalents were as follows:

	Cost	Fair Value
Indexed mutual funds	$ 29,066,181	$ 45,874,945
Fixed Income:		
Government bonds	31,370,002	31,623,130
	60,436,183	77,498,075
Cash and cash equivalents, at cost	755,360	755,360
Total	$ 61,191,543	$ 78,253,435

The following tables set forth by level, within the fair value hierarchy, SCO's financial assets measured at fair value on a recurring basis as of June 30, 2022 and 2021. Fair value equals carrying value:

	Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Indexed mutual funds	$ 45,252,717	$ -	$ -	$ 45,252,717
Fixed income:				
Government bonds	-	20,545,782	-	20,545,782
Total	$ 45,252,717	$ 20,545,782	$ -	$ 65,798,499
Liabilities:				
Interest rate swap	$ -	$ 1,392,465	$ -	$ 1,392,465

There were no transfers between levels during the year ended June 30, 2022.

4. Investments *(continued)*

	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Indexed mutual funds	$ 45,874,945	$ -	$ -	$ 45,874,945
Fixed income:				
Government bonds	-	31,623,130	-	31,623,130
Total	$ 45,874,945	$ 31,623,130	$ -	$ 77,498,075
Liabilities:				
Interest rate swap	$ -	$ 193,195	$ -	$ 193,195

There were no transfers between levels during the year ended June 30, 2021.

5. Program Receivables

SCO's program receivables were comprised of the following as of June 30:

	2022	2021
Rate-based program:		
Foster care services	$ 16,577,934	$ 19,273,009
Family support services	2,979,444	3,587,480
Early childhood services	9,165,267	3,652,446
Special needs and behavioral health services	8,248,144	12,915,173
Education and youth development services	15,376,060	14,898,840
Shelters and homeless services	12,186,505	10,300,249
	64,533,354	64,627,197
Less: Allowance for doubtful accounts	3,812,437	1,680,089
Total	$ 60,720,917	$ 62,947,108

6. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2022	2021
Land	$ 1,980,484	$ 1,980,484
Building and improvements	86,609,265	81,221,739
Furniture, equipment and vehicles	18,558,483	17,360,952
Leasehold improvements	4,082,269	3,915,914
	111,230,501	104,479,089
Less: Accumulated depreciation and amortization	61,420,885	60,964,075
Property and Equipment, net	$ 49,809,616	$ 43,515,014

6. Property and Equipment *(continued)*

At June 30, 2022 and 2021, there were $24,357,056 and $29,932,519, respectively, of fully depreciated assets still in use by SCO.

In connection with the sale of a building located in Glen Cove, New York, SCO reclassified net property and equipment totaling $1,823,079 to assets held for sale on the accompanying consolidated statement of financial position at June 30, 2022 (see Note 17).

In connection with the separation of Center for Family Life, SCO reclassified net property and equipment totaling $2,366,559 to assets held for transfer on the accompanying consolidated statement of financial position at June 30, 2021 (see Note 13).

7. 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 $1,047,966 and $1,659,051, which consists of cash and cash equivalents at June 30, 2022 and 2021, respectively.

8. Lines of Credit

SCO Family of Services has a line of credit with an available limit of $25,000,000 which is due on demand and expires September 23, 2024. Interest, which is payable on demand, is based on the prime rate and the London Interbank Offered Rate ("LIBOR"), and was 3.25% at both June 30, 2022 and 2021. Effective January 1, 2023, LIBOR is being replaced by the Secured Overnight Financing Rate ("SOFR"), and management does not believe there will be any significant impact on interest rates. As of June 30, 2022 and 2021, the outstanding balance was $11,928,219 and $12,700,000, respectively.

On September 23, 2021, SCO converted its capital bridge line of credit to long-term debt as part of refinancing existing Series 2013 bond debt (Note 10). As of June 30, 2022 and 2021, the outstanding balance was $0 and $14,999,599, respectively.

The borrowings are based on the market value of underlying investments pledged as collateral. The lines of credit are further secured by SCO's program receivables.

9. Mortgages Payable

Mortgages payable included the following at June 30:

	2022	2021
Mortgage payable to TD Bank, due July 1, 2027, with annual principal totals ranging from $426,891 to $641,051, including interest at the rate of 2.8% per annum; secured by real estate located in Jamaica, New York.	$ 2,941,250	$ -
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	-	2,821,495
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.	702,869	807,485
Total mortgages payable	$ 3,644,119	$ 3,628,980
Less: Current maturities	696,896	546,544
	$ 2,947,223	$ 4,175,524

On September 23, 2021, SCO refinanced the mortgage payable secured by real estate located at 89-30 161st Street, Jamaica, New York.

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

2023	$ 696,896
2024	719,802
2025	743,540
2026	768,128
2027	619,673
Thereafter	96,080
	$ 3,644,119

Debt issuance costs, net of accumulated amortization, are recorded as a reduction to mortgages payable on the accompanying consolidated statement of financial position. Debt issuance costs consist of the following as of June 30:

	2022	2021
Debt issuance costs	$ 667,002	$ 368,107
Less: accumulated amortization	156,129	169,983
	$ 510,873	$ 198,124

Mortgages payable, net consist of the following as of June 30:

	2022	2021
Mortgages payable	$ 3,644,119	$ 3,628,980
Less: unamortized debt issuance costs	510,873	198,124
	$ 3,133,246	$ 3,430,856

10. Bonds Payable

In June 2007, SCO obtained financing of $1,554,500 of insured revenue bonds through the Dormitory Authority of the State of New York ("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.

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

Unamortized premium costs relating to the issuance of the Series A and B bonds were $21,880 and $8,151, respectively, at June 30, 2022 and $24,184 and $9,008, respectively, at June 30, 2021. The unamortized premium costs are amortized over the term of the indebtedness of the total amount issued and included in bonds payable in the consolidated statement of financial position. Debt issuance costs, net of accumulated amortization, totaled $17,681 and $18,071 as of June 30, 2022 and 2021, respectively, and are recorded as a reduction in bonds payable on the accompanying consolidated statement of financial position.

On September 23, 2021, SCO obtained financing of $35,660,000 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 Series 2013 bonds. Additionally, SCO converted its capital bridge line of credit to long-term debt as part of this transaction, where $14,390,000 was made available to SCO as tax-exempt financing on a delayed draw basis, to be drawn upon for future capital projects at various locations within the agency.

The Series 2021 bonds, which require payments as noted below, bear interest rates ranging from 2.5% to 3.1% as of June 30, 2022, and are secured by the related properties.

Principal	Series
$ 8,695,000	TD Bank Nassau LEAC Series 2021A-A, annual principal payment, interest rate 2.5%, due July 1, 2041
15,220,000	TD Bank Nassau LEAC Series 2021A-B, annual principal payment, interest rate 3.1%, due July 1, 2041
6,715,000	People's United Bank Build NYC Resource Corporation Series 2021B-A, annual principal payment, interest rate 2.5%, due July 1, 2041
870,000	People's United Bank Build NYC Resource Corporation Series 2021B-C, annual principal payment, interest rate 3.1%, due July 1, 2041
4,160,000	People's United Bank Suffolk County EDC Series 2021C-A, annual principal payment, interest rate 2.5%, due July 1, 2041
11,310,000	People's United Bank Build NYC Resource Corporation Series 2021B-B, delayed draw bond with annual principal payments beginning July 1, 2024, interest rate 2.5%, due July 1, 2041
3,080,000	People's United Bank Suffolk County EDC Series 2021C-B, delayed draw bond with annual principal payments beginning July 1, 2024, interest rate 2.5%, due July 1, 2041

10. Bonds Payable *(continued)*

The delayed draw bond balance outstanding for series 2021B-B and 2021C-B totaled $8,965,000 and $100,000 as of June 30, 2022 and is recorded in bond notes payable on the accompanying consolidated statement of financial position. The remaining portion of the bonds that have not been drawn down on is recorded on the consolidated statement of financial position as assets with limited use: restricted cash, debt service fund. SCO expects to draw on the remaining available funds in future fiscal years.

Debt issuance costs for the Series 2021 bonds, net of accumulated amortization, totaled $1,980,585 as of June 30, 2022, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position.

Debt issuance costs for the Series 2013 bonds, net of accumulated amortization, totaled $193,425 as of June 30, 2021, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position.

In August 2018, SCO obtained financing (Series 2018) of insured revenue bonds through the DASNY for the renovation of a facility in Farmingdale, New York.

The bonds, which require annual payments, are secured by the related property.

Principal	Series
$ 455,000	DASNY Series 2018A1, interest rate of 4.6%, due July 1, 2043
45,000	DASNY Series 2018A2, interest rate of 3.5%, due July 1, 2021

Debt issuance costs, net of accumulated amortization, totaled $16,896 and $19,542 as of June 30, 2022 and 2021, respectively, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position.

Debt issuance costs for Series A, B, 2013, 2018 and 2021 bonds consist of the following as of June 30:

	2022	2021
Debt issuance costs	$ 2,249,115	$ 2,153,217
Less: accumulated amortization	233,953	1,922,179
Balance, end of year	$ 2,015,162	$ 231,038

10. Bonds Payable *(continued)*

In June 2022, SCO made payments on bonds payable in advance of their 2023 due dates. Future principal payments are as follows as of June 30:

	Series A and B	Series 2018	Series 2021	Total
2023	$ 70,172	$ 13,750	$ -	$ 83,922
2024	73,697	15,000	1,700,000	1,788,697
2025	77,526	15,000	1,665,000	1,757,526
2026	81,488	15,000	1,700,000	1,796,488
2027	85,652	15,000	2,300,000	2,400,652
Thereafter	443,010	360,000	40,670,000	41,473,010
	$ 831,545	$ 433,750	$ 48,035,000	$ 49,300,295

11. Due to Governmental Agencies

SCO has recorded estimated liabilities of $14,566,733 and $11,704,992 at June 30, 2022 and 2021, respectively, for future settlements with funding agencies, generally related to SCO's underspending of past years' contracts.

Audits have been completed by ACS through fiscal 2016. It is management's opinion that retroactive adjustments, if any, for years subsequent to fiscal 2016 will not have a material adverse impact on the financial position or net assets of SCO.

12. Pension Plans

Defined Benefit Pension Plan

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 or will accrue under the former Diocesan Pension Plan up to the date it was frozen on June 30, 2011. Under ASC 715-20, "Defined Benefit Plans", when an organization adopts a single employer pension plan, they are required to record the full amount of any underfunded pension liability on the consolidated 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 the 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.

12. Pension Plans *(continued)*

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

	2022	2021
Service cost	$ 200,000	$ 200,000
Interest cost	3,464,342	3,504,615
Expected return on Plan assets	(4,996,681)	(3,993,819)
Amortization of prior service cost	1,055,840	2,066,224
Amortization of net loss	662,769	1,204,137
Net Periodic Pension Cost	$ 386,270	$ 2,981,157

The net periodic pension cost is reimbursed by SCO's program funding sources, subject to caps. SCO expects that the unfunded pension liability will be fully discharged over the remaining lives of the beneficiaries by these reimbursements supplemented by additional annual cash contributions from SCO to the Plan.

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during fiscal years 2022 and 2021, and a statement of the funded status of the Plan as of June 30, are as follows:

	2022	2021
Change in projected benefit obligation:		
Projected benefit obligation at beginning of the year	$125,781,876	$131,001,393
Service cost	200,000	200,000
Interest cost	3,464,342	3,504,615
Benefits	(4,394,138)	(3,970,792)
Actuarial gain	(26,752,432)	(4,953,340)
Projected benefit obligation at end of the year	$ 98,299,648	$ 125,781,876

	2022	2021
Change in Plan assets:		
Fair value of Plan assets at beginning of the year	$ 72,647,843	$ 58,187,464
Actual return on Plan assets	(10,925,871)	16,010,306
Employer contributions	1,800,000	2,400,000
Benefits	(4,311,849)	(3,949,927)
Fair value of plan assets at the end of the year	$ 59,210,123	$ 72,647,843

12. Pension Plans *(continued)*

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

	2022	2021
Benefit obligation	$ 98,299,648	$125,781,876
Fair value of Plan assets	59,210,123	72,647,843
Accrued pension obligation at end of the year	$ 39,089,525	$ 53,134,033

Pension related charges other than net periodic pension cost included in net assets without donor restrictions for the years ended June 30, 2022 and 2021 consist of prior year service cost of $1,055,840 and $2,066,224, respectively, net amortization loss of $662,769 and $1,204,137, respectively, and an actuarial gain of $10,912,169 and $16,990,692, respectively.

The following benefit payments are expected to be paid for the years ended June 30:

2023	$ 4,590,092
2024	4,820,868
2025	5,035,716
2026	5,306,617
2027	5,535,082
2028-2032	30,218,251
	$ 55,506,626

Employer contributions expected to be paid in fiscal year ending June 30, 2023 are $2,400,000.

Investment Policy

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

	June 30, 2022		June 30, 2021	
	Amount	Percentage	Amount	Percentage
Money market/cash	$ 862,853	1 %	$ 926,542	1 %
Intermediate term bond	5,261,225	9	5,871,040	8
Corporate bond	9,576,980	16	12,047,542	17
Large cap blend U.S. stock	24,366,091	41	30,804,746	42
Large cap blend foreign stock	2,896,302	5	3,573,059	5
Large cap growth foreign stock	2,385,154	4	3,149,506	4
Diversified emerging markets stock	3,459,507	6	4,754,072	7
Allocation – 50% to 70% equity	3,948,445	7	4,421,026	6
Real estate/REIT	2,692,340	5	2,927,903	4
Tactical allocation	3,761,226	6	4,172,407	6
Fair Value of Plan Assets	$ 59,210,123	100 %	$ 72,647,843	100 %

12. Pension Plans *(continued)*

Investment Policy (continued)

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 SCO'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 classified as Level 1 investments.

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, 2022 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2021 to June 30, 2022	Used for Pension Obligations as of June 30, 2022
Discount rate	2.80%	4.63%
Rate of compensation increase	N/A	N/A
Long-term rate of return	7.00%	N/A

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, 2021 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2020 to June 30, 2021	Used for Pension Obligations as of June 30, 2021
Discount rate	2.74%	2.80%
Rate of compensation increase	N/A	N/A
Long-term rate of return	7.00%	N/A

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.

12. Pension Plans *(continued)*

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 was $2,700,000 for each of the years ended June 30, 2022 and 2021.

13. Transfer to Center for Family Life

Effective May 1, 2021, SCO signed a separation and asset transfer agreement ("Agreement") with the Center for Family Life in Sunset Park, Inc. ("CFLSP") and the Center for Family Life Community Resource Center, Corp. ("CFLCFC") (collectively "Center for Family Life"). The Agreement defines the terms and details of the scheduled transfer of assets from SCO to CFLSP an CFLCRC. The transfer of assets began in 2021 and will continue into the subsequent period. Assets transferred or scheduled to be transferred include cash of $2,419,231, reserves, the payment of unfunded pension costs, contract close out costs, and various other items agreed upon by the parties in the Agreement. At June 30, 2021, SCO reported a net amount due to CFLSP and CFLCRC of $915,314, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. SCO's 2021 consolidated statement of activities reported a transfer of net assets, less contract closing costs of $2,104,185.

Also included in the Agreement, is property located at 443 39th Street, Brooklyn, New York. At June 30, 2021, SCO retained ownership of the property which was subsequently transferred to CFLSP on October 7, 2021. The net value of the property and equipment totaling $2,366,559, was reported as assets held for transfer in SCO's 2021 consolidated statement of financial position. For the fiscal year ending June 30, 2022, a net transfer of $1,650,950 associated with the building and fixed assets was recorded.

Pursuant to the Agreement, at June 30, 2022 and 2021, SCO withheld $95,000 and $200,000 to fund any additional costs in connection with the separation. Any unspent remaining balance will be transferred to CFLSP in scheduled intervals by 2023.

For the year ended June 30, 2021, the Center for Family Life's programs recognized approximately $10,000,000 of revenue and expenses, respectively, in the consolidated financial statements of SCO.

14. Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions that are temporary in nature are restricted for the following purposes as of June 30:

	2022	2021
Foster care services	$ 720,640	$ 80,203
Education and youth development services	603,158	537,682
Management and other indirect	589,948	546,918
Early childhood services	469,911	462,000
Family support services	53,370	68,370
Special needs and behavioral health services	47,458	50,583
Shelters and homeless services	469	31,076
Center for Family Life	-	23,712
Loss on assets held for endowment	(761,664)	-
	$ 1,723,290	$ 1,800,544

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose for the fiscal years ended June 30:

	2022	2021
Early childhood services	$ 411,282	$ 210,957
Education and youth development services	393,451	292,053
Management and other indirect	186,135	667,173
Foster care services	52,251	38,326
Family support services	31,250	1,500
Shelters and homeless services	30,609	21,687
Special needs and behavioral health services	14,717	160,646
Center for Family Life	24,951	226,038
	$ 1,144,646	$ 1,618,380

The remaining decrease in net assets with donor restrictions is related to the transfer of net assets to the Center for Family Life.

15. Endowment Fund

SCO maintains a donor-restricted endowment fund (the “Brookwood Fund”) that has been classified as net assets with donor 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 net assets with donor restrictions and includes the original value of gifts donated to the permanent endowment.

15. Endowment Fund *(continued)*

NYPMIFA further requires all endowment income to be classified as net assets with donor restrictions that are temporary in nature 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 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.

All assets included in the Brookwood Fund were indexed as mutual funds totaling $1,515,807 and $2,277,471 at June 30, 2022 and 2021, respectively.

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

	Without Donor Restrictions	With Donor Restrictions That Are Temporary in Nature	With Donor Restrictions That Are Perpetual in Nature	Total
Endowment balances as of June 30, 2020	$ 263,192	$ -	$ 1,442,996	$ 1,706,188
Unrealized gain	-	571,283	-	571,283
Appropriated for expenditures	571,283	(571,283)	-	-
Endowment balances as of June 30, 2021	834,475	-	1,442,996	2,277,471
Unrealized loss	-	(761,664)	-	(761,664)
Endowment balances as of June 30, 2022	$ 834,475	$ (761,664)	$ 1,442,996	$ 1,515,807

15. Endowment Fund *(continued)*

From time to time, the fair value of assets associated with donor restricted endowment fund may fall below the level that the donor or State Prudent Management of Institutional Funds Act requires SCO to retain as a fund of perpetual duration.

Deficiencies of this nature exist in SCO's donor-restricted endowment fund, which has an original gift value of $1,442,996, a current fair value of $681,332 and a deficiency of $761,664 as of June 30, 2022. This deficiency resulted from unfavorable market fluctuations.

16. Commitments and Contingencies

Leases

SCO's lease agreements consist of building leases for its operating locations and office equipment leases for printers and copiers with lease terms ranging from less than 12 months to 17 years. At inception, SCO determines if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. Certain leases contain lease and non-lease components (i.e. maintenance and property tax). SCO accounts for lease and non-lease components of a single lease component.

All of SCO's leases are operating leases and are presented as right of use lease assets and short and long-term lease liabilities on the consolidated statement of financial position as of June 30, 2022. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using SCO's incremental borrowing rate. Short-term leases, which have an initial term of 12 months or less, are not recorded on the consolidated statement of financial position.

An initial right-of-use asset of $39,573,706 was recognized as a non-cash asset addition with the adoption of the new lease accounting standard. Cash paid for amounts included in the present value of operating lease liabilities was $10,530,736 and $8,841,726 during the years ended June 30, 2022 and 2021, respectively, and is included in operating cash flows.

Aggregate rental expense for buildings and equipment for the years ended June 30, 2022 and 2021 amounted to $14,519,037 and $13,245,478, respectively.

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.

The following table presents information about the amount and timing of cash flows arising from SCO's operating leases as of June 30, 2022.

16. Commitments and Contingencies *(continued)*

Leases (continued)

Year Ending June 30,	Amount
2023	$ 8,001,745
2024	8,527,001
2025	4,185,029
2026	3,754,806
2027	2,089,029
Thereafter	2,089,613
Total undiscounted operating lease payments	28,647,223
Less: imputed interest	2,285,031
Present value of operating lease liabilities	$ 26,362,192

Other Information:	
Weighted-average remaining lease term for operating leases	5.83%
Weighted-average discount rate for operating leases	4.03%

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 believes that any claims or judgments would be covered by SCO's applicable insurance policies and the determination of any specific losses cannot be made at this time.

On February 14, 2019, Governor Andrew M. Cuomo, the Governor of the State of New York, signed into law the NYS Child Victims Act (the "CVA"). The CVA initially established a one-year period beginning six months after the CVA's signing into law, during which survivors of child abuse may file civil claims that would otherwise be barred by the applicable statute of limitations. Due to the COVID-19 public health emergency, Governor Cuomo issued an executive order on May 8, 2020 extending the look-back window until January 14, 2021, which he further extended to August 14, 2021 by signing legislation on August 3, 2020 (as so extended, the "Look-Back Period").

16. Commitments and Contingencies *(continued)*

Legal Matters (continued)

As of November 10, 2022, a number of claims had been brought against SCO under the CVA seeking compensation for alleged abuse that occurred as early as the late 1960's. These claims are in the early stages of litigation, and at this time, management and SCO's counsel are unable to estimate any potential loss resulting from these claims.

COVID-19

The coronavirus ("COVID-19") pandemic may continue to have an adverse effect on the results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of COVID-19 and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

On April 28, 2020 the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. SCO applied for and received a $10,000,000 Paycheck Protection Program loan ("PPP loan") from the US Small Business Administration ("SBA") on April 26, 2021. The PPP loan had an interest rate of 1.0% per annum and matures on April 26, 2026.

SCO has elected to account for the PPP loan using the conditional contribution model whereby SCO will recognize proceeds from the loan as contribution income as the PPP loan forgiveness requirements are substantially met and as qualifying expenses are incurred. During the year ended June 30, 2022, SCO met the PPP loan forgiveness requirements and incurred qualifying expenses of at least $10,000,000. As a result, the entire PPP loan amount has been reported as contribution income on the statement of activities.

The SBA has stated it will review the needs certification on all loans over $2,000,000. After the review, the SBA may determine that SCO did not meet the needs criteria to apply for the PPP loan. In such circumstance, SCO may be forced to return all or part of the loan proceeds plus pay the accrued and unpaid interest. SCO believes it was eligible to receive the PPP loan proceeds.

On July 28, 2022, SCO received confirmation from the SBA that the loan was forgiven in its entirety.

17. Subsequent Events

On December 20, 2021 SCO entered into an agreement to sell one of its properties. As of June 30, 2022, the property was reported on the consolidated statement of financial position as assets held for sale for $1,823,079. The sale was finalized in October 2022. Proceeds of the sale totaled approximately $3,942,500 resulting in a gain of approximately $2,119,421.

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is November 10, 2022.

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SCO Family of Services and Affiliate

Consolidating Schedule of Financial Position
Year Ended June 30, 2022
(with summarized totals at June 30, 2021)

	2022				
	SCO Family of Services	SCO Foundation Inc.	Eliminating Entries	Total	2021 Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 5,014,429	$ 49,214	$ -	$ 5,063,643	$ 7,618,429
Investments	377,609	64,634,254	-	65,011,863	76,810,439
Program receivables, net	61,822,417	-	(1,101,500)	60,720,917	62,947,108
Prepaid expenses and other current assets	2,748,790	90,346	66,098	2,905,234	1,089,196
Custodial accounts	676,077	-	-	676,077	862,306
Total Current Assets	70,639,322	64,773,814	(1,035,402)	134,377,734	149,327,478
Debt service reserve	1,047,966	-	-	1,047,966	1,659,051
Security deposits and other assets	647,355	-	-	647,355	508,809
Assets held for sale, net	1,823,079	-	-	1,823,079	-
Assets held for transfer, net	-	-	-	-	2,366,559
Right of use assets	26,910,904	-	-	26,910,904	33,192,470
Property and equipment, net	49,809,616	-	-	49,809,616	43,515,014
Assets with limited use: restricted investments, debt service funds	5,325,000	-	-	5,325,000	-
Interest rate swap asset	1,392,465	-	-	1,392,465	-
Restricted investments	1,442,996	-	-	1,442,996	1,442,996
	$ 159,038,703	$ 64,773,814	$ (1,035,402)	$ 222,777,115	$ 232,012,377
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	$ 35,174,818	$ -	$ -	$ 35,174,818	$ 38,500,174
Accrued interest payable	114,332	-	-	114,332	21,169
Accrued pension obligation - current portion	2,400,000	-	-	2,400,000	2,400,000
Custodial accounts	676,077	-	-	676,077	862,306
Deferred revenue, current portion	8,228,677	-	-	8,228,677	9,363,368
Due to SCO Family of Services	-	1,035,402	(1,035,402)	-	-
Lines of credit	9,678,219	2,250,000	-	11,928,219	27,699,599
Mortgages payable, net, current portion	514,814	-	-	514,814	512,874
Bonds payable, net, current portion	82,144	-	-	82,144	177,434
Lease payables, current portion	8,001,745	-	-	8,001,745	9,738,624
Due to government agencies, current portion	1,271,648	-	-	1,271,648	840,351
Total Current Liabilities	66,142,474	3,285,402	(1,035,402)	68,392,474	90,115,899
Accrued pension obligation, net of current portion	36,689,525	-	-	36,689,525	50,734,033
Deferred revenue, net of current portion	221,277	6,630	-	227,907	226,519
Mortgages payable, net	2,618,432	-	-	2,618,432	2,917,982
Bonds payable, net	47,233,021	-	-	47,233,021	8,487,835
Lease payables, net of current portion	18,360,447	-	-	18,360,447	22,773,258
Paycheck Protection Program loan	-	-	-	-	10,000,000
Due to government agencies, net of current portion	13,295,085	-	-	13,295,085	10,864,641
Interest rate swap liability	-	-	-	-	193,195
Total Liabilities	184,560,261	3,292,032	(1,035,402)	186,816,891	196,313,362
Net Assets (Deficit)					
Without donor restrictions - operations	141,254	61,354,211	-	61,495,465	73,737,510
Without donor restrictions - 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 calendar year 2012	(28,701,527)	-	-	(28,701,527)	(41,282,035)
Total Net Assets (Deficit) Without Donor Restrictions	(28,560,273)	61,354,211	-	32,793,938	32,455,475
With donor restrictions- perpetual in nature	1,442,996	-	-	1,442,996	1,442,996
With donor restrictions- temporary in nature	1,595,719	127,571	-	1,723,290	1,800,544
Total Net Assets (Deficit)	(25,521,558)	61,481,782	-	35,960,224	35,699,015
	$ 159,038,703	$ 64,773,814	$ (1,035,402)	$ 222,777,115	$ 232,012,377

See independent auditors' report

SCO Familly of Services and Affiliate

Consolidating Schedule of Activities
Year Ended June 30, 2022
(with summarized totals for the year ended June 30, 2021)

	SCO Family of Services			SCO Foundation Inc.						
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Total	Eliminating Entries	2022 Total	2021 Total
OPERATING REVENUE AND SUPPORT										
Government revenue	$ 232,180,984	$ -	$ 232,180,984	$ -	$ -	$ -	$ 232,180,984	$ -	$ 232,180,984	$ 237,788,975
Foundations and other grants	3,333,302	1,518,780	4,852,082	5,000	4,688	9,688	4,861,770	(4,938)	4,856,832	5,841,741
Prior year cost reimbursement adjustments	1,954,996	-	1,954,996	-	-	-	1,954,996	-	1,954,996	663,336
Contributions	10,302,502	124,545	10,427,047	500	508	1,008	10,428,055	-	10,428,055	943,030
Other income	11,331,109	-	11,331,109	2,147,800	-	2,147,800	13,478,909	(4,148,264)	9,330,645	3,940,246
Special events less costs with direct benefit to donors of $330,151 and $189,809	374,001	180,285	554,286	25,821	250	26,071	580,357	-	580,357	685,270
Net assets released from restrictions	1,139,708	(1,139,708)	-	4,938	(4,938)	-	-	-	-	-
Total Operating Revenue and Support	260,616,602	683,902	261,300,504	2,184,059	508	2,184,567	263,485,071	(4,153,202)	259,331,869	249,862,598
OPERATING EXPENSES										
Program Services										
Foster care services	61,289,225	-	61,289,225	4,688	-	4,688	61,293,913	(4,688)	61,289,225	57,127,996
Family support services	10,335,570	-	10,335,570	-	-	-	10,335,570	-	10,335,570	14,736,354
Early childhood services	15,231,260	-	15,231,260	-	-	-	15,231,260	-	15,231,260	13,194,282
Special needs and behavioral health services	76,764,591	-	76,764,591	-	-	-	76,764,591	-	76,764,591	70,054,130
Education and youth development services	27,883,152	-	27,883,152	-	-	-	27,883,152	-	27,883,152	31,983,520
Shelters and homeless services	34,916,057	-	34,916,057	-	-	-	34,916,057	-	34,916,057	34,473,994
Total Program Services	226,419,855	-	226,419,855	4,688	-	4,688	226,424,543	(4,688)	226,419,855	221,570,276
Supporting Services										
Management and general	32,244,620	-	32,244,620	4,236,232	-	4,236,232	36,480,852	(4,189,522)	32,291,330	27,725,699
Development	782,980	-	782,980	3,034	-	3,034	786,014	(250)	785,764	998,825
Total Supporting Services	33,027,600	-	33,027,600	4,239,266	-	4,239,266	37,266,866	(4,189,772)	33,077,094	28,724,524
Total Operating Expenses	259,447,455	-	259,447,455	4,243,954	-	4,243,954	263,691,409	(4,194,460)	259,496,949	250,294,800
Change in Net Assets from Operations	1,169,147	683,902	1,853,049	(2,059,895)	508	(2,059,387)	(206,338)	41,258	(165,080)	(432,202)
NONOPERATING CHANGES										
Interest and dividend income	67,773	-	67,773	2,356,100	-	2,356,100	2,423,873	-	2,423,873	2,170,382
Realized and unrealized (losses) gains on securities	437,635	(761,664)	(324,029)	(13,979,129)	-	(13,979,129)	(14,303,158)	-	(14,303,158)	9,922,208
Change in unfunded pension obligation	12,580,508	-	12,580,508	-	-	-	12,580,508	-	12,580,508	20,179,896
Management fee	41,258	-	41,258	-	-	-	41,258	(41,258)	-	-
Gain on interest rate swap	1,392,465	-	1,392,465	-	-	-	1,392,465	-	1,392,465	142,482
Other expense	(16,449)	-	(16,449)	-	-	-	(16,449)	-	(16,449)	(28,569)
Change in Net Assets Before Transfer	15,672,337	(77,762)	15,594,575	(13,682,924)	508	(13,682,416)	1,912,159	-	1,912,159	31,954,197
Transfer to Center for Family Life	(1,650,950)	-	(1,650,950)	-	-	-	(1,650,950)	-	(1,650,950)	(2,104,185)
Change in Net Assets	14,021,387	(77,762)	13,943,625	(13,682,924)	508	(13,682,416)	261,209	-	261,209	29,850,012
NET ASSETS (DEFICIT)										
Beginning of year	(42,581,660)	3,116,477	(39,465,183)	75,037,135	127,063	75,164,198	35,699,015	-	35,699,015	5,849,003
End of year	$ (28,560,273)	$ 3,038,715	$ (25,521,558)	$ 61,354,211	$ 127,571	$ 61,481,782	$ 35,960,224	$ -	$ 35,960,224	$ 35,699,015

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SCO Family of Services and Affiliate

Uniform Guidance Schedules and Reports
June 30, 2022

SCO Family of Services and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	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	$ -	$ 303,735
Child and Adult Care Food Program (CACFP)	10.558	4982	-	184,570
			-	488,305
Child Nutrition Cluster:				
Passed through New York State Education Department:				
School Breakfast Program (SBP)	10.553	280501890176	-	241,214
National School Lunch Program (NSLP)	10.555	280501890176	-	396,251
Total Child Nutrition Cluster			-	637,465
Food Distribution Cluster:				
Passed through Food Bank for New York City:				
Emergency Food Assistance Program (Food Commodities)	10.569	EFRO 80212	-	25,219
Total Food Distribution Cluster			-	25,219
Total U.S. Department of Agriculture			-	1,150,989
U.S. Department of Labor:				
WIOA Cluster				
Passed through New York City Department of Youth and Community Development:				
WIOA Youth Activities	17.259	CT12602021401163	-	16,762
WIOA Youth Activities	17.259	20171405807	-	4,349
			-	21,111
U.S. Department of Education:				
Passed through New York State Education Department:				
Special Education Cluster (IDEA):				
Special Education Grants to States (IDEA, Part B)	84.027	IDEA611	-	101,833
U.S. Department of Health and Human Services:				
Head Start	93.600		-	517,341
Head Start	93.600		-	375,752
Head Start	93.600		-	11,939
Passed through New York City Department of Education:				
Head Start	93.600	104020209050493	-	802,784
			-	1,707,816
Passed through New York City Department of Health and Mental Hygiene:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	21-750-PK25168	-	163,689
Immunization Cooperative Agreements	93.268	Not available	-	74,253
			-	237,942
Passed through New York State Office of Children and Family Services:				
Child Care and Development Block Grant	93.575	A-12062	-	13,603
Child Care and Development Block Grant	93.575	A-12795	-	15,531
Child Care and Development Block Grant	93.575	A-12148	-	7,040
Child Care and Development Block Grant	93.575	A-12069	-	3,084
			-	39,258
COVID-19 - Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution	93.498	None	-	1,381,906
TANF Cluster				
Passed through New York City Department of Homeless Services:				
Temporary Assistance for Needy Families (TANF)	93.558	20191401622	-	629,438
COVID-19 Temporary Assistance for Needy Families (TANF)	93.558	20191401622	-	20,984
Temporary Assistance for Needy Families (TANF)	93.558	20181403752	-	2,671,466
COVID-19 Temporary Assistance for Needy Families (TANF)	93.558	20181403752	-	37,099
Temporary Assistance for Needy Families (TANF)	93.558	20181403172	-	3,066,718
COVID-19 Temporary Assistance for Needy Families (TANF)	93.558	20181403172	-	33,836
			-	6,459,541
Passed through New York City Department of Youth and Community Development:				
Community Services Block Grant	93.569	CT126020211402236	-	301,595
COVID-19 Community Services Block Grant	93.569	CT126020211402236	-	538
			-	302,133
Runaway and Homeless Youth- Brooklyn Drop In Center	14.U01	CT126020191408026	-	64,010
Passed through County of Suffolk Department of Social Services:				
Social Services Block Grant	93.667	001-6010-4980-69-00043	-	156,273
Passed through Bureau of Maternal and Child Health:				
Maternal, Infant, and Early Childhood Home Visiting Grant	93.870	C36868GG	-	40,648
COVID-19 Maternal, Infant, and Early Childhood Home Visiting Grant	93.870	C36868GG	-	1,488
Maternal, Infant, and Early Childhood Home Visiting Grant	93.870	C33496GG	-	456,947
COVID-19 Maternal, Infant, and Early Childhood Home Visiting Grant	93.870	C33496GG	-	59
			-	499,142
Passed through Bureau of Maternal and Child Health:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5H79TI080325-03	-	394,753
COVID-19 Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5H79TI080325-03	-	323
			-	395,076
Total U.S. Department of Health and Human Services			-	11,243,097
Federal Supplemental Community Mental Health Services Block Grant				
Passed through New York State Office of Mental Health:				
Block Grants for Community Mental Health Services	93.958	OMH01-P021587-3650000	-	32,000
Total Expenditures of Federal Awards			$ -	$ 12,549,030

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

SCO Family of Services and Affiliate

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal award activity of SCO Family of Services and Affiliate ("SCO") under programs of the Federal government for the year ended June 30, 2022. 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 SCO, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of SCO.

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, 2022, SCO distributed $25,219 of food commodities and $74,253 of vaccines. These amounts have been included in the Schedule under Federal Assistance Listing numbers 10.569 and 93.268, respectively.

4. Indirect Cost Rate

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

5. Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

For the awards from the Department of Health and Human Services ("HHS") related to the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution ("PRF") program, HHS has indicated that the amounts on the Schedule should be reported in accordance with the reporting requirements of the Health Resources and Service Administration ("HRSA") PRF Reporting Portal. Payments from HHS for PRF are assigned to 'Payment Received Periods' (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities receiving PRF are required to report in the HRSA PRF Reporting Portal after each Period's deadline (i.e., after the end of the Period of Availability).

The Schedule includes all Period 1 PRF payments received between April 10, 2020 and June 30, 2020 and all Period 2 PRF payments received between July 1, 2020 and December 31, 2020 reported by SCO to HRSA in the PRF Reporting Portal totaling $1,381,906. SCO recognized PRF revenue for the year ended June 30, 2021 of $1,380,375 in the financial statement line item Other Income in the accompanying 2021 consolidated statement of activities. SCO recognized PRF revenue for the year ended June 30, 2020 of $1,531.

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

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 consolidated financial statements of SCO Family of Services and Affiliate ("SCO"), which comprise the consolidated statement of financial position as of June 30, 2022 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 10, 2022.

Report on Internal Control Over Financial Reporting

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

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Report on Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

November 10, 2022

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited SCO Family of Services' ("SCO") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of SCO's major federal programs for the year ended June 30, 2022. SCO's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, SCO complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance Section of our report.

We are required to be independent of SCO and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Out audit does not provide a legal determination of SCO's compliance with the compliance requirements referred to above.

Responsibilities of Management's for Compliance

Management is responsible for compliance requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to SCO's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on SCO's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Non-compliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that individually, or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about SCO's compliance with the requirements of each federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding SCO's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of SCO's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstance and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of SCO's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that were identified during the audit.

Report on 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 a 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.

Report on Internal Control Over Compliance *(continued)*

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 consolidated financial statements of SCO Family of Services and Affiliate as of and for the year ended June 30, 2022, and have issued our report thereon dated November 10, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

March 30, 2023

SCO Family of Services and Affiliate

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated 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 consolidated 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:

Federal Assistance Listing Number(s)	Name of Federal Program or Cluster
93.558	Temporary Assistance for Needy Families
93.498	COVID-19 - Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution

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 – Consolidated Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2022.

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 findings.