

**SCO Family of Services, Inc.
and Affiliate**

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

Year Ended June 30, 2018

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SCO Family of Services, Inc. and Affiliate ("SCO"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of SCO Foundation Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCO Family of Services, Inc. and Affiliate as of June 30, 2018, 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.

Report on Summarized Comparative Information

We have previously audited SCO Family of Services, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited 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 on pages 31 and 32 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 14, 2018 on our consideration of SCO Family of Services, Inc. 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCO Family of Services, Inc. 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, Inc. and Affiliate's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 14, 2018

SCO Family of Services, Inc. and Affiliate

Consolidated Statement of Financial Position June 30, 2018 (with comparative amounts at June 30, 2017)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,298,007	\$ 5,004,732
Investments at fair value (Notes 2, 3 and 7)	60,984,405	59,219,483
Program receivables, net (Notes 2 and 4)	44,288,574	40,914,169
Prepaid expenses and other current assets	817,942	1,737,703
Interest rate swap receivable (Notes 2 and 3)	48,213	-
Custodial accounts (Note 2)	<u>385,058</u>	<u>304,694</u>
Total Current Assets	114,822,199	107,180,781
Debt service reserve (Note 6)	1,594,559	1,665,959
Security deposits and other assets	495,471	465,420
Property and equipment, net (Notes 2, 5, 8, 9, and 10)	35,787,681	34,450,626
Restricted investments (Notes 2, 3, 7 and 14)	<u>1,442,996</u>	<u>1,442,996</u>
	<u>\$ 154,142,906</u>	<u>\$ 145,205,782</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 30,236,495	\$ 26,301,485
Accrued pension obligation - current portion (Notes 1 and 12)	2,400,000	2,400,000
Custodial accounts (Note 2)	385,058	304,694
Deferred revenue, current portion (Note 2)	7,429,616	4,758,485
Lines of credit (Note 7)	14,406,712	12,688,309
Mortgages payable, current portion (Note 8)	653,416	1,073,995
Bonds payable, current portion (Note 9)	-	27,129
Capital leases, current portion (Note 10)	547,459	491,879
Due to government agencies, current portion (Note 11)	1,817,680	3,923,069
Accrued interest payable	<u>2,195</u>	<u>4,603</u>
Total Current Liabilities	57,878,631	51,973,648
Accrued pension obligation, net of current portion (Notes 1 and 12)	48,846,692	52,219,214
Interest rate swap liability (Notes 2 and 3)	-	236,023
Deferred revenue, net of current portion (Note 2)	889,123	1,076,490
Mortgages payable, net of current portion (Note 8)	4,385,194	5,038,997
Bonds payable, net of current portion (Note 9)	11,537,323	12,800,114
Capital leases, net of current portion (Note 10)	553,659	552,919
Due to government agencies, net of current portion (Note 11)	<u>5,668,929</u>	<u>4,742,403</u>
Total Liabilities	<u>129,759,551</u>	<u>128,639,808</u>
Net Assets		
Unrestricted - operations	58,006,957	54,660,993
Unrestricted - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in calendar year 2012 (Notes 1 and 12)	<u>(42,168,241)</u>	<u>(46,295,067)</u>
Total Unrestricted Net Assets	15,838,716	8,365,926
Temporarily restricted (Note 13)	7,101,643	6,757,052
Permanently restricted (Note 14)	<u>1,442,996</u>	<u>1,442,996</u>
Total Net Assets	<u>24,383,355</u>	<u>16,565,974</u>
	<u>\$ 154,142,906</u>	<u>\$ 145,205,782</u>

See notes to consolidated financial statements

SCO Family of Services, Inc. and Affiliate

Consolidated Statement of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING REVENUE AND SUPPORT					
Government revenue	\$ 237,579,322	\$ 218,002	\$ -	\$ 237,797,324	\$ 232,141,673
Foundations and other grants	6,033,846	25,696	-	6,059,542	7,236,107
Prior year cost reimbursement adjustments	1,833,668	-	-	1,833,668	546,588
Contributions	250,861	366,818	-	617,679	480,442
Other income	3,511,233	-	-	3,511,233	2,778,641
Special events less costs with direct benefit to donors of \$229,047 and \$229,897	620,004	109,341	-	729,345	736,002
Net assets released from restrictions (Note 13)	375,266	(375,266)	-	-	-
Total Operating Revenue and Support	250,204,200	344,591	-	250,548,791	243,919,453
OPERATING EXPENSES					
Program Services					
Foster care services	58,991,483	-	-	58,991,483	61,020,046
Family support services	16,032,346	-	-	16,032,346	13,776,650
Early childhood services	14,590,773	-	-	14,590,773	14,783,504
Special needs and behavioral health services	73,472,471	-	-	73,472,471	73,772,229
Education and youth development services	33,553,624	-	-	33,553,624	30,919,479
Shelters and homeless services	31,834,526	-	-	31,834,526	29,668,784
Total Program Services	228,475,223	-	-	228,475,223	223,940,692
Supporting Services					
Management and general	19,182,009	-	-	19,182,009	19,620,153
Development	1,266,360	-	-	1,266,360	1,264,853
Total Supporting Services	20,448,369	-	-	20,448,369	20,885,006
Total Operating Expenses	248,923,592	-	-	248,923,592	244,825,698
Change in Net Assets From Operations	1,280,608	344,591	-	1,625,199	(906,245)
NONOPERATING CHANGES					
Interest and dividend income	2,043,515	-	-	2,043,515	5,576,955
Realized and unrealized losses on securities	(262,395)	-	-	(262,395)	(2,627,840)
Change in unfunded pension obligation (Note 12)	4,126,826	-	-	4,126,826	12,282,795
Gain on interest rate swap	284,236	-	-	284,236	710,928
Loss on mortgage refinancing	-	-	-	-	(144,814)
Other changes	-	-	-	-	(59,006)
Change in Net Assets	7,472,790	344,591	-	7,817,381	14,832,773
NET ASSETS					
Beginning of year	8,365,926	6,757,052	1,442,996	16,565,974	1,733,201
End of year	\$ 15,838,716	\$ 7,101,643	\$ 1,442,996	\$ 24,383,355	\$ 16,565,974

See notes to consolidated financial statements

SCO Family of Services, Inc. and Affiliate

Consolidated Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Program Services							Supporting Services			2018 Total Expenses	2017 Total Expenses
	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		
Salaries	\$ 27,222,069	\$ 9,569,407	\$ 6,536,533	\$ 41,304,286	\$ 20,188,333	\$ 8,589,602	\$ 113,410,230	\$ 8,756,468	\$ 693,233	\$ 9,449,701	\$ 122,859,931	\$ 119,999,334
Employee fringe benefits	9,876,631	3,563,343	2,433,694	14,213,808	6,670,857	3,140,399	39,898,732	3,296,572	308,478	3,605,050	43,503,782	42,244,828
Total Salaries and Fringe Benefits	37,098,700	13,132,750	8,970,227	55,518,094	26,859,190	11,730,001	153,308,962	12,053,040	1,001,711	13,054,751	166,363,713	162,244,162
Foster care pass through	10,104,957	-	-	1,390	-	-	10,106,347	-	-	-	10,106,347	11,752,341
Professional fees	680,841	34,126	82,838	84,427	137,237	34,050	1,053,519	2,888,135	45,503	2,933,638	3,987,157	4,282,098
Contractual services	569,431	338,493	2,881,696	2,681,055	1,424,372	3,785,313	11,680,360	55,053	62	55,115	11,735,475	11,349,131
Utilities	724,513	81,160	8,004	870,798	326,826	957,307	2,968,608	153,718	2,361	156,079	3,124,687	2,936,828
Telephone and internet	314,024	68,529	76,587	371,856	161,764	122,971	1,115,731	210,275	9,631	219,906	1,335,637	1,264,033
Transportation and staff travel	682,145	162,243	28,441	892,877	173,706	70,984	2,010,396	74,094	4,710	78,804	2,089,200	2,036,687
Repairs and maintenance	1,089,415	209,300	160,365	1,749,078	512,013	1,996,415	5,716,586	139,364	7,138	146,502	5,863,088	4,945,117
Postage and supplies	1,189,879	412,608	252,896	1,181,587	624,181	877,962	4,539,113	987,877	57,851	1,045,728	5,584,841	5,373,222
Program activities/incidentals	1,354,166	483,526	149,090	2,969,707	729,820	194,650	5,880,959	151	4,608	4,759	5,885,718	5,849,206
Food	1,225,539	84,856	1,390,781	1,336,027	206,529	1,064,972	5,308,704	223	225	448	5,309,152	5,182,197
Rental and lease expense (Note 15)	1,262,463	511,066	308,354	1,553,316	443,484	9,945,876	14,024,559	102,138	3,291	105,429	14,129,988	13,778,920
Recruiting and staff development	159,998	79,299	91,203	122,951	159,666	33,011	646,128	141,407	86,193	227,600	873,728	798,486
Insurance	1,293,437	246,825	182,521	1,709,427	718,421	436,787	4,587,418	322,155	20,718	342,873	4,930,291	5,149,721
Fees, assessments and taxes	146,904	1,792	4,408	753,836	28,724	493,108	1,428,772	552,209	18,525	570,734	1,999,506	1,713,303
Interest	245,541	6,116	41	449,585	461,122	13,820	1,176,225	633,686	252	633,938	1,810,163	2,128,063
Depreciation and amortization (Notes 2 and 3)	849,530	179,657	3,321	1,226,460	586,569	77,299	2,922,836	568,484	3,581	572,065	3,494,901	3,634,571
Total Expenses Before Bad Debt Expense	58,991,483	16,032,346	14,590,773	73,472,471	33,553,624	31,834,526	228,475,223	18,882,009	1,266,360	20,148,369	248,623,592	244,418,086
Bad debt expense	-	-	-	-	-	-	-	300,000	-	300,000	300,000	407,612
Total Expenses	\$ 58,991,483	\$ 16,032,346	\$ 14,590,773	\$ 73,472,471	\$ 33,553,624	\$ 31,834,526	\$ 228,475,223	\$ 19,182,009	\$ 1,266,360	\$ 20,448,369	\$ 248,923,592	\$ 244,825,698

See notes to consolidated financial statements

SCO Family of Services, Inc. and Affiliate

Consolidated Statement of Cash Flows Year Ended June 30, 2018 (with comparative amounts for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,817,381	\$ 14,832,773
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,494,901	3,634,571
Bad debt expense	300,000	407,612
Amortization of deferred financing costs	569,282	852,019
Loss on mortgage refinancing	-	144,814
Amortization of bond premium/discount	3,161	3,160
Unrealized loss on securities	534,364	3,184,163
Realized gain on sale of securities	(271,969)	(556,323)
Change in unfunded pension obligation	(4,126,826)	(12,282,795)
Gain on interest rate swap	(284,236)	(710,928)
Donated stock	(10,293)	(22,636)
Changes in operating assets and liabilities		
Program receivables	(3,674,405)	3,484,138
Prepaid expenses and other current assets	898,777	(685,348)
Security deposits and other assets	(30,051)	(10,161)
Accounts payable and accrued expenses	3,935,010	(3,049,481)
Deferred revenue	2,483,764	1,305,087
Due to government agencies	(1,178,863)	2,212,901
Accrued interest payable	(2,408)	(35,534)
Accrued pension obligation	754,304	4,071,001
Net Cash from Operating Activities	<u>11,211,893</u>	<u>16,779,033</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Debt service reserve	71,400	161,618
Purchase of property and equipment	(4,188,159)	(3,509,107)
Purchases of designated investments	(3,784,690)	(68,148,831)
Proceeds from sales of securities	1,785,293	55,844,556
Change in short term investments	(17,627)	6,682,048
Net Cash from Investing Activities	<u>(6,133,783)</u>	<u>(8,969,716)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	2,718,403	7,188,309
Principal payments on lines of credit	(1,000,000)	(8,500,000)
Mortgage assumption from redemption of bond	-	4,500,000
Principal payments on mortgages payable	(1,109,967)	(1,063,338)
Payments of mortgage redemption costs	-	(246,280)
Principal payments on bonds payable	(1,826,778)	(1,781,969)
Bond redemption	-	(4,500,000)
Principal payments on capital lease obligations	(566,493)	(433,692)
Net Cash from Financing Activities	<u>(1,784,835)</u>	<u>(4,836,970)</u>
Change in Cash and Cash Equivalents	3,293,275	2,972,347
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,004,732</u>	<u>2,032,385</u>
End of year	<u>\$ 8,298,007</u>	<u>\$ 5,004,732</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 1,841,580	\$ 1,305,057
Property and equipment acquired through capital leases	622,813	824,982

See notes to consolidated financial statements

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

1. Organization

Nature of Organization

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

SCO Foundation Inc. ("SCO Foundation") is a not-for-profit corporation that conducts the fundraising activities of SCO Family of Services, Inc. and is also the holder of predominantly all of SCO Family of Services, Inc.'s investment assets.

Principles of Consolidation

The consolidated financial statements include the accounts of SCO Foundation, of which SCO Family of Services, Inc. is its sole member. All intercompany accounts and transactions have been eliminated. The consolidated entity is collectively 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 and their maturity resulting in the use of cash, respectively.

Use of Estimates

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

Net Asset Presentation

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

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

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

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

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

Cash and Cash Equivalents

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

Investments at Fair Value and Income Recognition

Investments in marketable securities are stated at fair value with changes in the fair value of investments recorded in the 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 endowment funds is recorded within the temporarily restricted net assets until appropriated for expenditures by the Board of Directors. 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 2018 and 2017, the approved return was approximately \$1,773,000 and \$1,238,800, respectively, and was used for certain operating expenditures.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

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

Fair Value Measurements

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

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

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

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

Program Receivables

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

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.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

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

Debt Issuance Costs (continued)

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.

Property and Equipment

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

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

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

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

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

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, 2018 and 2017.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

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

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 City 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.

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

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

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

Conditional Asset Retirement Obligations

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

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.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

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

Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded as either temporarily or permanently restricted support if they are received with donor restrictions that limit the use of the donated asset. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets 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 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, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 1,655,800	\$ 1,528,682
Current year claims incurred and changes in estimates for claims incurred in prior years	25,293,158	24,585,264
Claims and expenses paid	<u>(25,131,885)</u>	<u>(24,458,146)</u>
Balance, end of year	<u>\$ 1,817,073</u>	<u>\$ 1,655,800</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

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 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 benefit associated with tax positions taken or expected to be taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on SCO's consolidated financial statements.

SCO does not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. SCO has filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, SCO has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended June 30, 2018 and 2017, 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, 2018, 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 2015.

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. As of June 30 2018, the uninsured portion of this balance was \$7,789,271. 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.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

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

Endowment Fund

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

Subsequent Events

SCO's management has performed subsequent events procedures through November 14, 2018, which is the date the financial statements were available to be issued. In August 2018, SCO obtained financing of insured revenue bonds through the Dormitory Authority of the State of New York ("DASNY") for the renovation of a facility in Farmingdale, New York.

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

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

3. Investments at Fair Value

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

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

Indexed Mutual Funds

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

3. Investments at Fair Value *(continued)*

Fixed Income

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

Interest Rate Swap

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 2013 bonds. The change in fair value of the interest rate swap 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.

	<u>Amount</u>	<u>Fair Value</u>
Interest rate swap agreements with People's United and TD Bank with fixed rates ranging from 2.897% - 3.362%. The banks pay a variable rate of interest based on US Dollar LIBOR-BBA. The agreements provide for monthly settlements and mature June 27, 2023.	\$ 20,080,000	\$ 48,213

At June 30, 2018, investments in marketable securities and cash and cash equivalents were as follows:

	<u>June 30, 2018</u>	
	<u>Cost</u>	<u>Fair Value</u>
Indexed mutual funds	\$ 28,877,010	\$ 33,680,736
Fixed Income:		
Government bonds	<u>29,190,638</u>	<u>28,101,991</u>
	58,067,648	61,782,727
Cash and cash equivalents	<u>644,674</u>	<u>644,674</u>
Total	<u>\$ 58,712,322</u>	<u>\$ 62,427,401</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

3. Investments at Fair Value *(continued)*

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

	June 30, 2017	
	Cost	Fair Value
Indexed mutual funds	\$ 29,261,276	\$ 32,056,226
Fixed Income:		
Government bonds	28,297,713	27,979,206
	57,558,989	60,035,432
Cash and cash equivalents	627,047	627,047
Total	<u>\$ 58,186,036</u>	<u>\$ 60,662,479</u>

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, 2018 and 2017. Fair value equals carrying value:

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Indexed mutual funds	\$ 33,680,736	\$ -	\$ -	\$33,680,736
Fixed income				
Government bonds	-	28,101,991	-	28,101,991
Interest rate swap	-	48,213	-	48,213
Total Assets	<u>\$ 33,680,736</u>	<u>\$ 28,150,204</u>	<u>\$ -</u>	<u>\$61,830,940</u>

There were no transfers between levels during the year ended June 30, 2018.

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

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

4. Program Receivables

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

	2018	2017
Rate-based Programs		
Foster care services	\$ 14,508,944	\$ 14,133,496
Family support services	1,837,274	2,826,633
Early childhood services	1,987,397	2,746,102
Special needs and behavioral health services	9,872,416	8,148,378
Education and youth development services	9,426,138	9,761,628
Shelters and homeless services	7,463,055	4,101,906
Other	275,000	391,268
	<u>45,370,224</u>	<u>42,109,411</u>
Less: Allowance for doubtful accounts	<u>1,081,650</u>	<u>1,195,242</u>
Total	<u>\$ 44,288,574</u>	<u>\$ 40,914,169</u>

5. Property and Equipment

Property and equipment consisted of the following:

	2018	2017
Land	\$ 2,026,113	2,026,113
Building and improvements	69,642,281	67,191,753
Furniture, equipment and vehicles	14,010,294	12,837,964
Leasehold improvements	3,898,939	3,918,160
	<u>89,577,627</u>	<u>85,973,990</u>
Less: Accumulated depreciation and amortization	<u>53,789,946</u>	<u>51,523,364</u>
Property and equipment, net	<u>\$ 35,787,681</u>	<u>\$ 34,450,626</u>

At June 30, 2018 and 2017, there were \$22,816,551 and \$22,849,551, respectively, of fully depreciated assets still in use by SCO.

6. Debt Service Reserve

Under the terms of various bonds, SCO deposited with the bond trustee amounts to be held in reserve which will be withdrawn to satisfy the future installments of the bonds. Interest earned on this reserve fund will be used to reduce SCO's payment obligation under the bonds. The debt service reserve amounted to \$1,594,559 and \$1,665,959, which consists of cash and cash equivalents at June 30, 2018 and 2017, respectively.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

7. Lines of Credit

SCO has a line of credit with an available limit of \$25,000,000 which is due on demand and expires June 27, 2019. Interest, which is payable on demand, is based on prime and London Interbank Offered Rates ("LIBOR") rates and was 5.00% at June 30, 2018. As of June 30, 2018 and 2017, the outstanding balance was \$10,000,000 and \$11,000,000, respectively.

In June 2016, SCO entered into a bridge loan line of credit agreement with an available limit of \$10,000,000 in connection with the short-term financing of certain capital projects. The line is renewable annually. Interest, which is payable on demand, is based on prime and LIBOR rates and was 4.00% at June 30, 2018. As of June 30, 2018 and 2017, the outstanding balance was \$4,406,712 and \$1,688,309, respectively. Management intends to roll over short term financing to long term financing to fund capital projects.

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.

8. Mortgages Payable

Mortgages payable consist of the following at June 30, 2018 and 2017:

	2018	2017
Mortgage payable to Medical Care Facilities Finance Agency, due August 15, 2017, payable in monthly installments of \$4,650, including interest at the rate of 7.34% per annum; secured by real estate located in Kew Gardens, New York.	\$ -	\$ 39,300
Mortgage payable to TD Bank, due March 1, 2027, payable in monthly installments of \$46,213, including interest at the rate of 4.24% per annum; secured by real estate located in Jamaica, New York.	4,037,167	4,409,796
Mortgage payable to Medical Care Facilities Finance Agency, due July 1, 2018, payable in monthly installments of \$3,567, including interest at the rate of 6.12% per annum; secured by real estate located in Richmond Hill, New York.	-	32,100
Mortgage payable to Medical Care Facilities Finance Agency, due December 1, 2018, payable in monthly installments of \$31,315, including interest at the rate of 6.539% per annum; secured by real estate located in Jamaica, New York.	208,259	787,260
Mortgage payable to the Dormitory Authority State of New York ("DASNY"), due February 24, 2028, payable in annual installments ranging from \$50,748 to \$133,421, including interest of 4.76%, secured by real estate located in Dix Hills, New York.	1,092,317	1,179,254
Total Mortgages Payable	5,337,743	6,447,710
Less: Current maturities	687,086	1,109,580
	<u>\$ 4,650,657</u>	<u>\$ 5,338,130</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

8. Mortgages Payable *(continued)*

Mortgages payable consist of the following as of June 30:

	2018	2017
Mortgages payable	\$ 5,337,743	\$ 6,447,710
Less: debt issuance costs	299,133	334,718
	<u>\$ 5,038,610</u>	<u>\$ 6,112,992</u>

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

2019	\$ 687,086
2020	500,141
2021	522,990
2022	546,544
2023	571,225
Thereafter	<u>2,509,757</u>
	<u>\$ 5,337,743</u>

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:

	2018	2017
Debt issuance costs	\$ 368,107	\$ 463,823
Less: accumulated amortization	68,974	129,105
	<u>\$ 299,133</u>	<u>\$ 334,718</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

9. Bonds Payable

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

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

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

Unamortized premium costs relating to the issuance of the Series A and B bonds were \$31,093 and \$11,582, respectively, at June 30, 2018 and \$33,397 and \$12,440, respectively, at June 30, 2017. The unamortized premium costs are amortized over the term of the indebtedness of the total amount issued and included in bonds payable in the consolidated statement of financial position. Debt issuance costs, net of accumulated amortization, totaled \$25,126 and \$26,987 as of June 30, 2018 and 2017, respectively, and are recorded as a reduction in bonds payable on the accompanying consolidated statement of financial position.

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

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

The Series 2013 bonds, which require payments as noted below, bear interest rates ranging from 2.9% to 4.7% and are secured by the related properties.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

9. Bonds Payable (continued)

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

9. Bonds Payable (*continued*)

Debt issuance costs for the Series 2013 bonds, net of accumulated amortization, totaled \$1,164,259 and \$1,699,255 as of June 30, 2018 and 2017, respectively, and are recorded as a reduction in bond notes payable in the accompanying consolidated statement of financial position.

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

	2018	2017
Debt issuance costs	\$ 4,250,315	\$ 4,250,315
Less: accumulated amortization	<u>3,060,930</u>	<u>2,524,073</u>
	<u>\$ 1,189,385</u>	<u>\$ 1,726,242</u>

On June 30, 2018, SCO made certain payments on bonds payable in advance of their 2019 due dates. Future principal payments are as follows as of June 30:

	Series A and B	Series 2013	Total
2019	\$ 57,489	\$ 132,000	\$ 189,489
2020	60,427	1,562,224	1,622,651
2021	63,515	1,556,298	1,619,813
2022	66,760	1,614,874	1,681,634
2023	70,172	1,199,432	1,269,604
Thereafter	<u>761,374</u>	<u>5,539,468</u>	<u>6,300,842</u>
	<u>\$ 1,079,737</u>	<u>\$ 11,604,296</u>	<u>\$ 12,684,033</u>

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

10. Capital Leases

SCO entered into various vehicle leases with maturities through June 1, 2022 and interest rates ranging from 4.83% to 8.95%. The following is a schedule of future minimum lease payments, including interest, as of June 30, 2018:

2019	\$ 626,726
2020	369,539
2021	177,850
2022	<u>102,947</u>
Total Minimum Lease Payments	1,277,062
Less: Interest	<u>175,944</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,101,118</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

11. Due to Governmental Agencies

SCO has recorded estimated liabilities of \$7,486,609 and \$8,665,472 at June 30, 2018 and 2017, 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 under the former Diocesan Pension Plan up to the date it was frozen on June 30, 2011 and for eligible employees who are at least 25 years old and have completed at least one year of continuous service. Under Accounting Standards Codification ("ASC") 715-20, "Defined Benefit Plans", when an organization adopts a single employer pension plan, it is required to record the full amount of any underfunded pension liability on the statement of financial position. No such requirement exists for a multi-employer plan. Assets formerly held by the Roman Catholic Diocese of Brooklyn to fund SCO's portion of accrued pension liabilities under the Diocesan Pension Plan were transferred to SCO by 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 plans 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.

The net periodic pension cost for the years ended June 30, 2018 and 2017 is comprised of the following:

	2018	2017
Service cost	\$ 200,000	\$ 200,000
Interest cost	3,895,003	3,771,481
Expected return on Plan assets	(3,557,378)	(3,269,043)
Amortization of prior service cost	2,066,224	2,066,224
Amortization of net loss	550,455	3,040,137
Net Periodic Pension Cost	<u>\$ 3,154,304</u>	<u>\$ 5,808,799</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2018

12. Pension Plans (continued)

Defined Benefit Pension Plan (continued)

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during fiscal years 2018 and 2017, and a statement of the funded status of the Plan as of June 30, 2018 and 2017, are as follows:

	2018	2017
Change in projected benefit obligation		
Projected benefit obligation at beginning of the year	\$ 106,055,436	\$ 110,104,485
Service cost	200,000	200,000
Interest cost	3,895,003	3,771,481
Actuarial gain	(1,330,175)	(4,892,731)
Benefits	(3,518,793)	(3,127,799)
Projected Benefit Obligation at the End of the Year	<u>\$ 105,301,471</u>	<u>\$ 106,055,436</u>
Change in Plan assets		
Fair value of Plan assets at beginning of the year	\$ 51,436,222	\$ 47,273,476
Actual return on Plan assets	3,704,984	5,462,783
Employer contributions	2,400,000	1,805,000
Benefits	(3,486,427)	(3,105,037)
Fair Value of Plan Assets at the End of the Year	<u>\$ 54,054,779</u>	<u>\$ 51,436,222</u>

The funded status of the Plan as of June 30, 2018 and 2017 is as follows:

	2018	2017
Benefit obligation	\$ 105,301,471	\$ 106,055,436
Fair value of Plan assets	<u>54,054,779</u>	<u>51,436,222</u>
Accrued Pension Obligation at the End of the Year	<u>\$ 51,246,692</u>	<u>\$ 54,619,214</u>

Pension related charges other than net periodic pension cost included in unrestricted net assets for the years ended June 30, 2018 and 2017 consist of prior service cost of \$2,066,224 and \$2,066,224, respectively, net amortization of loss of \$550,455 and \$3,040,137, respectively, and an actuarial gain of \$1,510,147 and \$7,109,223, respectively.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

12. Pension Plans *(continued)*

Investment Policy (continued)

The following benefit payments are expected to be paid:

2019	\$ 3,587,364
2020	3,946,141
2021	4,266,984
2022	4,559,756
2023	4,833,531
2024-2028	<u>27,510,927</u>
	<u><u>\$ 48,704,703</u></u>

Employer contributions expected to be paid in fiscal year ending June 30, 2019 are \$2,400,000.

Investment Policy

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

	June 30, 2018		June 30, 2017	
	Amount	Percentage	Amount	Percentage
Money market/cash	\$ 768,206	1%	\$ 942,633	2%
Intermediate term bond	8,682,712	16	8,668,540	17
Corporate bond	6,339,535	12	6,436,418	13
Large cap blend U.S. stock	21,722,713	40	19,410,844	37
Market neutral U.S. stock	1,958,212	4	1,956,290	4
Large cap blend foreign stock	2,766,701	5	2,583,402	5
Large cap growth foreign stock	2,324,790	4	2,098,719	4
Diversified emerging markets stock	3,044,890	6	3,095,532	6
Allocation – 50% to 70% equity	2,098,866	4	2,034,513	4
Real estate/REIT	2,086,471	4	2,039,728	4
Tactical allocation	<u>2,261,683</u>	<u>4</u>	<u>2,169,603</u>	<u>4</u>
Fair value of Plan assets	<u><u>\$54,054,779</u></u>	<u><u>100%</u></u>	<u><u>\$51,436,222</u></u>	<u><u>100%</u></u>

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

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

12. Pension Plans *(continued)*

Investment Policy (continued)

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, 2018 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2017 to June 30, 2018	Used for Pension Obligations as of June 30, 2018
Discount rate	3.75%	4.17%
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, 2017 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2016 to June 30, 2017	Used for Pension Obligations as of June 30, 2017
Discount rate	3.50%	3.75%
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.

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

12. Pension Plans *(continued)*

Defined Benefit Pension Plan (continued)

(a) Rockville Diocese Plan

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

(b) Supplemental Pension Plan

In 2000, SCO adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Participants become eligible to participate on their date of hire. Funding is provided by employee withholding and an annual discretionary contribution made by SCO. Total contribution expense for the defined contribution plan was \$2,700,000 for each of the years ended June 30, 2018 and 2017.

13. Temporarily Restricted Net Assets

Temporarily restricted net asset activity consisted of the following for the year ended June 30, 2018:

	Net Assets July 1, 2017	Additions	Net Assets Released	Net Assets June 30, 2018
Foster care services	\$ 341,127	\$ 18,858	\$ (97,583)	\$ 262,402
Family support services	42,052	30,550	-	72,602
Early childhood services	8,594	-	-	8,594
Special needs and behavioral health services	1,351,113	211,586	(148,841)	1,413,858
Education and youth development services	350,377	27,062	(22,475)	354,964
Shelters and homeless services	82,695	18,919	(7,238)	94,376
Management and other indirect	985,267	50	(7,175)	978,142
Center for family life	3,595,827	412,832	(91,954)	3,916,705
	<u>\$ 6,757,052</u>	<u>\$ 719,857</u>	<u>\$ (375,266)</u>	<u>\$ 7,101,643</u>

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

13. Temporarily Restricted Net Assets *(continued)*

Temporarily restricted net asset activity consisted of the following for the year ended June 30, 2017:

	Net Assets July 1, 2016	Additions	Net Assets Released	Net Assets June 30, 2017
Foster care services	\$ 322,655	\$ 54,227	\$ (35,755)	\$ 341,127
Family support services	38,291	14,758	(10,997)	42,052
Early childhood services	8,544	50	-	8,594
Special needs and behavioral health services	1,020,674	517,686	(187,247)	1,351,113
Education and youth development services	390,565	9,993	(50,181)	350,377
Shelters and homeless services	114,196	16,624	(48,125)	82,695
Management and other indirect	2,005,470	100	(1,020,303)	985,267
Center for family life	3,441,695	242,997	(88,865)	3,595,827
	<u>\$ 7,342,090</u>	<u>\$ 856,435</u>	<u>\$ (1,441,473)</u>	<u>\$ 6,757,052</u>

14. Endowment Fund

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

The Board of Directors of SCO has adopted the rules of NYPMIFA requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Brookwood Fund is classified as permanently restricted net assets and includes the original value of gifts donated to the permanent endowment.

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

SCO 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 Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements June 30, 2018

14. Endowment Fund *(continued)*

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 mutual funds totaling \$1,861,439 and \$1,580,827 at June 30, 2018 and 2017, respectively.

The following table represents a reconciliation of beginning and ending balances for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment balances as of July 1, 2017	\$ 137,831	\$ -	\$ 1,442,996	\$ 1,580,827
Unrealized gain	-	280,612	-	280,612
Transfers appropriated	280,612	(280,612)	-	-
Endowment balances as of June 30, 2018	<u>\$ 418,443</u>	<u>\$ -</u>	<u>\$ 1,442,996</u>	<u>\$ 1,861,439</u>

The following table represents a reconciliation of beginning and ending balances for the year ended June 30, 2017:

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

SCO Family of Services, Inc. and Affiliate

Notes to Consolidated Financial Statements
June 30, 2018

15. Commitments and Contingencies

Operating Leases

As of June 30, 2018, minimum annual rental commitments for the remaining terms of SCO's operating leases relating to buildings for programs and equipment were as follows:

2019	\$ 12,823,280
2020	11,641,338
2021	6,514,557
2022	6,097,506
2023	3,378,987
Thereafter	<u>7,609,005</u>
Total	<u>\$ 48,064,673</u>

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

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

Aggregate rental expense for buildings and equipment for the years ended June 30, 2018 and 2017 amounted to \$14,129,988 and \$13,778,920, respectively.

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.

* * * * *

Supplementary Information

SCO Family of Services, Inc. and Affiliate

Consolidating Schedule of Financial Position Year Ended June 30, 2018 (with summarized totals at June 30, 2017)

	SCO Family of Services, Inc.	SCO Foundation	Eliminating Entries	Total	2017 Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 8,293,151	\$ 4,856	\$ -	\$ 8,298,007	\$ 5,004,732
Investments at fair value	1,678,374	59,306,031	-	60,984,405	59,219,483
Program receivables, net	44,288,574	-	-	44,288,574	40,914,169
Prepaid expenses and other current assets	821,742	30,412	(34,212)	817,942	1,737,703
Interest rate swap receivable	48,213	-	-	48,213	-
Custodial accounts	385,058	-	-	385,058	304,694
Total Current Assets	55,515,112	59,341,299	(34,212)	114,822,199	107,180,781
Debt service reserve	1,594,559	-	-	1,594,559	1,665,959
Security deposits and other assets	495,471	-	-	495,471	465,420
Property and equipment, net	35,787,681	-	-	35,787,681	34,450,626
Restricted investments	1,442,996	-	-	1,442,996	1,442,996
	<u>\$ 94,835,819</u>	<u>\$ 59,341,299</u>	<u>\$ (34,212)</u>	<u>\$ 154,142,906</u>	<u>\$ 145,205,782</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	\$ 30,236,495	\$ -	\$ -	\$ 30,236,495	\$ 26,301,485
Accrued pension obligation - current portion	2,400,000	-	-	2,400,000	2,400,000
Custodial accounts	385,058	-	-	385,058	304,694
Deferred revenue, current portion	7,429,616	-	-	7,429,616	4,758,485
Due to SCO Family of Services, Inc.	-	34,212	(34,212)	-	-
Lines of credit	14,406,712	-	-	14,406,712	12,688,309
Mortgages payable, current portion	653,416	-	-	653,416	1,073,995
Bonds payable, current portion	-	-	-	-	27,129
Capital leases, current portion	547,459	-	-	547,459	491,879
Due to government agencies, current portion	1,817,680	-	-	1,817,680	3,923,069
Accrued interest payable	2,195	-	-	2,195	4,603
Total Current Liabilities	57,878,631	34,212	(34,212)	57,878,631	51,973,648
Accrued pension obligation, net of current portion	48,846,692	-	-	48,846,692	52,219,214
Interest rate swap liability	-	-	-	-	236,023
Deferred revenue, net of current portion	889,123	-	-	889,123	1,076,490
Mortgages payable, net of current portion	4,385,194	-	-	4,385,194	5,038,997
Bonds payable, net of current portion	11,537,323	-	-	11,537,323	12,800,114
Capital leases, net of current portion	553,659	-	-	553,659	552,919
Due to government agencies, net of current portion	5,668,929	-	-	5,668,929	4,742,403
Total Liabilities	129,759,551	34,212	(34,212)	129,759,551	128,639,808
Net Assets					
Unrestricted - operations	(1,300,130)	59,307,087	-	58,006,957	54,660,993
Unrestricted - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in calendar year 2012	(42,168,241)	-	-	(42,168,241)	(46,295,067)
Total Unrestricted Net Assets	(43,468,371)	59,307,087	-	15,838,716	8,365,926
Temporarily restricted	7,101,643	-	-	7,101,643	6,757,052
Permanently restricted	1,442,996	-	-	1,442,996	1,442,996
Total Net Assets	<u>(34,923,732)</u>	<u>59,307,087</u>	<u>-</u>	<u>24,383,355</u>	<u>16,565,974</u>
	<u>\$ 94,835,819</u>	<u>\$ 59,341,299</u>	<u>\$ (34,212)</u>	<u>\$ 154,142,906</u>	<u>\$ 145,205,782</u>

See independent auditors' report

SCO Family of Services, Inc. and Affiliate

Consolidating Schedule of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	SCO Family of Services, Inc.				SCO	Eliminating	2018	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Foundation	Entries	Total	Total
OPERATING REVENUE AND SUPPORT								
Government revenue	\$ 237,579,322	\$ 218,002	\$ -	\$ 237,797,324	\$ -	\$ -	\$ 237,797,324	\$ 232,141,673
Foundations and other grants	6,033,846	25,696	-	6,059,542	-	-	6,059,542	7,236,107
Prior year cost reimbursement adjustments	1,833,668	-	-	1,833,668	-	-	1,833,668	546,588
Contributions	250,861	366,818	-	617,679	-	-	617,679	480,442
Other income	3,511,233	-	-	3,511,233	-	-	3,511,233	2,778,641
Special events less costs with direct benefit to donors of \$229,047 and \$229,897	620,004	109,341	-	729,345	-	-	729,345	736,002
Net assets released from restrictions	375,266	(375,266)	-	-	-	-	-	-
Total Operating Revenue and Support	250,204,200	344,591	-	250,548,791	-	-	250,548,791	243,919,453
OPERATING EXPENSES								
Program Services								
Foster care services	58,991,483	-	-	58,991,483	-	-	58,991,483	61,020,046
Family support services	16,032,346	-	-	16,032,346	-	-	16,032,346	13,776,650
Early childhood services	14,590,773	-	-	14,590,773	-	-	14,590,773	14,783,504
Special needs and behavioral health services	73,472,471	-	-	73,472,471	-	-	73,472,471	73,772,229
Education and youth development services	33,553,624	-	-	33,553,624	-	-	33,553,624	30,919,479
Shelters and homeless services	31,834,526	-	-	31,834,526	-	-	31,834,526	29,668,784
Total Program Services	228,475,223	-	-	228,475,223	-	-	228,475,223	223,940,692
Supporting Services								
Management and general	19,182,009	-	-	19,182,009	-	-	19,182,009	19,620,153
Development	1,266,216	-	-	1,266,216	144	-	1,266,360	1,264,853
Total Supporting Services	20,448,225	-	-	20,448,225	144	-	20,448,369	20,885,006
Total Operating Expenses	248,923,448	-	-	248,923,448	144	-	248,923,592	244,825,698
Change in Net Assets from Operations	1,280,752	344,591	-	1,625,343	(144)	-	1,625,199	(906,245)
NONOPERATING CHANGES								
Interest and dividend income	2,042,315	-	-	2,042,315	1,200	-	2,043,515	5,576,955
Realized and unrealized losses on securities	(169,379)	-	-	(169,379)	(93,016)	-	(262,395)	(2,627,840)
Change in unfunded pension obligation	4,126,826	-	-	4,126,826	-	-	4,126,826	12,282,795
Gain on interest rate swap	284,236	-	-	284,236	-	-	284,236	710,928
Loss on mortgage refinancing	-	-	-	-	-	-	-	(144,814)
Other changes	-	-	-	-	-	-	-	(59,006)
Change in Net Assets Before Transfer to (from)								
SCO Family of Services, Inc.	7,564,750	344,591	-	7,909,341	(91,960)	-	7,817,381	14,832,773
Transfer to (from) SCO Family of Services, Inc.	(59,399,047)	-	-	(59,399,047)	59,399,047	-	-	-
Change in Net Assets	(51,834,297)	344,591	-	(51,489,706)	59,307,087	-	7,817,381	14,832,773
NET ASSETS								
Beginning of year	8,365,926	6,757,052	1,442,996	16,565,974	-	-	16,565,974	1,733,201
End of year	\$ (43,468,371)	\$ 7,101,643	\$ 1,442,996	\$ (34,923,732)	\$ 59,307,087	\$ -	\$ 24,383,355	\$ 16,565,974

See independent auditors' report

**SCO Family of Services, Inc.
and Affiliate**

Uniform Guidance Schedules and Reports
June 30, 2018

SCO Family of Services, Inc. and Affiliate

Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture:				
Passed through New York State Department of Health:				
Child and Adult Care Food Program (CACFP)	10.558	3561	\$ -	\$ 398,895
Child and Adult Care Food Program (CACFP)	10.558	4982	-	1,013,207
			-	1,412,102
<i>Child Nutrition Cluster:</i>				
Passed through New York State Education Department:				
School Breakfast Program (SBP)	10.553	280501890176	-	251,958
National School Lunch Program (NSLP)	10.555	280501890176	-	355,056
			-	607,014
<i>Food Distribution Cluster:</i>				
Passed through Food Bank for New York City:				
Emergency Food Assistance Program (Food Commodities)	10.569	EFRO 80413	-	2,271
Emergency Food Assistance Program (Food Commodities)	10.569	EFRO 80212	-	10,820
			-	13,091
			-	2,032,207
Total U.S. Department of Agriculture			-	
U.S. Department of Housing and Urban Development:				
Passed through New York City Department of Youth and Community Development:				
Emergency Solutions Grant Program	14.231	20181412951	-	81,148
U.S. Department of Labor:				
Passed through New York City Department of Youth and Community Development:				
<i>WIOA Cluster</i>				
WIOA Youth Activities	17.259	20131407246	-	7,636
WIOA Youth Activities	17.259	20171405807	-	215,488
			-	223,124
Total U.S. Department of Labor			-	
U.S. Department of Education:				
Passed through New York State Education Department:				
<i>Special Education Cluster (IDEA):</i>				
Special Education Grants to States (IDEA, Part B)	84.027	IDEA611	-	86,399
U.S. Department of Health and Human Services:				
Head Start	93.600		-	424,481
Head Start	93.600		-	431,984
Passed through New York City Administration for Children's Services:				
Head Start	93.600	20171403813	-	1,042,586
			-	1,899,051
Passed through New York City Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not available	-	46,294
<i>TANF Cluster</i>				
Passed through New York City Department of Homeless Services:				
Temporary Assistance for Needy Families (TANF)	93.558	20141405317	-	592,956
Temporary Assistance for Needy Families (TANF)	93.558	20181403752	-	3,066,310
Temporary Assistance for Needy Families (TANF)	93.558	20181403172	-	3,267,813
			-	6,927,079
Passed through New York City Department of Youth and Community Development:				
Community Services Block Grant	93.569	CT126020180002028	-	330,746
Community Services Block Grant	93.569	CT126020180001473	-	118,560
Community Services Block Grant	93.569	20160002569	-	53,922
			-	503,228
Passed through County of Suffolk Department of Social Services:				
Social Services Block Grant	93.667	001-6010-4980-69-00043	-	187,269
Passed through Fund for Public Health in New York:				
Healthy Start Initiative	93.926	82986	-	99,051
Healthy Start Initiative	93.926	82570	-	282,138
			-	381,189
Passed through County of Suffolk Department of Health:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	001-4310-4980-00-00031	-	539,542
<i>MIECHV Cluster</i>				
Passed through Bureau of Maternal and Child Health:				
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	C028856	-	163,154
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	C028856	-	67,557
			-	230,711
Total U.S. Department of Health and Human Services			-	10,714,363
U.S. Corporation for National and Community Service:				
Passed through New York State Office of Children and Family Services:				
AmeriCorps	94.006	C027368	-	22,357
AmeriCorps	94.006	C028127	-	214,120
			-	236,477
Total Expenditures of Federal Awards			\$ -	\$ 13,373,718

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

SCO Family of Services, Inc. and Affiliate

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal award activity of SCO Family of Services, Inc. and Affiliate ("SCO") under programs of the Federal government for the year ended June 30, 2018. 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, 2018, SCO distributed \$13,091 of food commodities and \$46,294 of vaccines. These amounts have been included in this Schedule under CFDA 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.

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

Independent Auditors' Report

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

We have audited the consolidated financial statements of SCO Family of Services, Inc. and Affiliate ("SCO"), which comprise the consolidated statement of financial position as of June 30, 2018 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 14, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of SCO Foundation Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the aforementioned entity.

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) to determine the 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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

PKF O'Connor Davies, LLP

November 14, 2018

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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited SCO Family of Services, Inc. and Affiliate's ("SCO") compliance with the types of compliance requirements described 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, 2018. SCO's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, SCO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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

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

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

We have audited the consolidated financial statements of SCO as of and for the year ended June 30, 2018, and have issued our report thereon dated November 14, 2018, which contained a unmodified opinion on those consolidated financial statements. Our audit was conducted 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 28, 2019

SCO Family of Services, Inc. and Affiliate

Schedule of Findings and Questioned Costs June 30, 2018

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:

CFDA Number(s)
10.553 and 10.555
93.600
93.569

Name of Federal Program or Cluster
Child Nutrition Cluster
Head Start
Community Services Block Grant

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, 2018.

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.