

**SCO Family of Services
and Affiliate**

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

Year Ended June 30, 2020

SCO Family of Services and Affiliate
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Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2020

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Independent Auditors' Report

Board of Directors
SCO Family of Services

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SCO Family of Services and Affiliate ("SCO"), which comprise the consolidated statement of financial position as of June 30, 2020 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 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 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 auditing contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCO Family of Services and Affiliate as of June 30, 2020, 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 and Affiliate's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020 on our consideration of SCO Family of Services and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, except for the financial statements of SCO Foundation Inc. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCO Family of Services and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCO Family of Services and Affiliate's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 30, 2020

SCO Family of Services and Affiliate

Consolidated Statement of Financial Position
June 30, 2020
(with comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,614,085	\$ 906,863
Investments at fair value (Notes 2 and 4)	64,664,142	62,914,770
Program receivables, net (Notes 2 and 5)	60,681,956	60,452,368
Prepaid expenses and other current assets	1,619,043	875,163
Custodial accounts (Note 2)	<u>564,067</u>	<u>303,387</u>
Total Current Assets	136,143,293	125,452,551
Debt service reserve (Note 7)	1,655,597	1,649,986
Security deposits and other assets	506,409	495,145
Property and equipment, net (Notes 2 and 6)	42,841,139	38,336,141
Restricted investments (Notes 2, 4, and 15)	<u>1,442,996</u>	<u>1,442,996</u>
	<u>\$ 182,589,434</u>	<u>\$ 167,376,819</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 39,264,813	\$ 34,377,147
Accrued interest payable	18,274	2,792
Accrued pension obligation - current portion (Notes 2 and 13)	2,400,000	2,400,000
Custodial accounts (Note 2)	564,067	303,387
Deferred revenue, current portion (Note 2)	10,807,497	8,790,565
Lines of credit (Note 8)	28,499,599	20,850,314
Mortgages payable, current portion (Note 9)	489,320	1,024,655
Bonds payable, current portion (Note 10)	112,257	-
Capital leases, current portion (Note 11)	414,128	462,769
Due to government agencies, current portion (Note 12)	<u>1,594,145</u>	<u>1,706,714</u>
Total Current Liabilities	84,164,100	69,918,343
Accrued pension obligation, net of current portion (Notes 2 and 13)	70,413,929	57,597,780
Deferred revenue, net of current portion (Note 2)	639,356	708,526
Mortgages payable, net of current portion (Note 9)	3,429,064	3,939,697
Bonds payable (Note 10)	9,490,602	10,788,651
Capital leases, net of current portion (Note 11)	564,846	595,597
Due to government agencies, net of current portion (Note 12)	7,702,857	5,205,316
Interest rate swap liability (Notes 2 and 4)	<u>335,677</u>	<u>177,863</u>
Total Liabilities	<u>176,740,431</u>	<u>148,931,773</u>
Net Assets		
Without donor restrictions - operations	61,033,399	62,130,755
Without donor restrictions - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in calendar year 2012 (Note 13)	<u>(61,461,931)</u>	<u>(49,393,782)</u>
Total Net Assets Without Donor Restrictions	(428,532)	12,736,973
With donor restrictions- perpetual in nature (Note 15)	1,442,996	1,442,996
With donor restrictions- temporary in nature (Note 14)	<u>4,834,539</u>	<u>4,265,077</u>
Total Net Assets	<u>5,849,003</u>	<u>18,445,046</u>
	<u>\$ 182,589,434</u>	<u>\$ 167,376,819</u>

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Activities
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING REVENUE AND SUPPORT				
Government revenue	\$ 248,997,385	\$ 65,951	\$ 249,063,336	\$ 247,483,695
Foundations and other grants	6,045,976	369,078	6,415,054	5,662,817
Prior year cost reimbursement adjustments	618,401	-	618,401	301,619
Contributions	474,781	1,600,531	2,075,312	438,271
Other income	3,368,308	-	3,368,308	3,366,970
Special events, less costs with direct benefit to donors of \$162,617 and \$359,899	277,319	19,125	296,444	701,434
Net assets released from restrictions (Note 14)	<u>1,485,223</u>	<u>(1,485,223)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	<u>261,267,393</u>	<u>569,462</u>	<u>261,836,855</u>	<u>257,954,806</u>
OPERATING EXPENSES				
Program Services				
Foster care services	57,662,325	-	57,662,325	58,244,065
Family support services	18,366,248	-	18,366,248	17,646,814
Early childhood services	14,682,876	-	14,682,876	14,501,522
Special needs and behavioral health services	75,851,435	-	75,851,435	76,264,680
Education and youth development services	36,146,985	-	36,146,985	35,725,612
Shelters and homeless services	<u>35,983,977</u>	<u>-</u>	<u>35,983,977</u>	<u>34,763,570</u>
Total Program Services	<u>238,693,846</u>	<u>-</u>	<u>238,693,846</u>	<u>237,146,263</u>
Supporting Services				
Management and general	22,820,981	-	22,820,981	20,140,591
Development	<u>2,328,882</u>	<u>-</u>	<u>2,328,882</u>	<u>1,102,548</u>
Total Supporting Services	<u>25,149,863</u>	<u>-</u>	<u>25,149,863</u>	<u>21,243,139</u>
Total Operating Expenses	<u>263,843,709</u>	<u>-</u>	<u>263,843,709</u>	<u>258,389,402</u>
Change in Net Assets From Operations	(2,576,316)	569,462	(2,006,854)	(434,596)
NONOPERATING CHANGES				
Interest and dividend income	2,186,195	-	2,186,195	2,323,948
Realized and unrealized losses on securities	(1,419,078)	-	(1,419,078)	(376,044)
Change in unfunded pension obligation (Note 13)	(12,068,149)	-	(12,068,149)	(7,225,541)
Loss on interest rate swap	(157,814)	-	(157,814)	(226,076)
Other revenue	<u>869,657</u>	<u>-</u>	<u>869,657</u>	<u>-</u>
Change in Net Assets	(13,165,505)	569,462	(12,596,043)	(5,938,309)
NET ASSETS				
Beginning of year	<u>12,736,973</u>	<u>5,708,073</u>	<u>18,445,046</u>	<u>24,383,355</u>
End of year	<u>\$ (428,532)</u>	<u>\$ 6,277,535</u>	<u>\$ 5,849,003</u>	<u>\$ 18,445,046</u>

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

	Program Services							Supporting Services			2020 Total Expenses	2019 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	\$ 27,856,158	\$ 10,965,136	\$ 6,902,760	\$ 42,973,133	\$ 21,990,439	\$ 10,332,761	\$ 121,020,387	\$ 8,574,505	\$ 412,175	\$ 8,986,680	\$ 130,007,067	\$ 127,236,877
Employee fringe benefits	9,850,716	4,133,718	2,589,458	14,289,665	7,306,519	3,640,428	41,810,504	3,194,960	176,747	3,371,707	45,182,211	45,352,997
Total Salaries and Fringe Benefits	37,706,874	15,098,854	9,492,218	57,262,798	29,296,958	13,973,189	162,830,891	11,769,465	588,922	12,358,387	175,189,278	172,589,874
Foster care pass through	7,865,327	-	-	-	-	-	7,865,327	-	-	-	7,865,327	9,014,750
Professional fees	517,405	62,165	23,005	211,187	301,918	70,726	1,186,406	4,275,008	51,847	4,326,855	5,513,261	4,173,585
Contractual services	814,951	540,014	3,159,293	3,627,785	1,199,347	4,637,683	13,979,073	785,737	9,377	795,114	14,774,187	13,418,963
Utilities	703,252	72,664	13,737	947,116	342,339	1,026,260	3,105,368	140,176	574	140,750	3,246,118	3,257,270
Telephone and internet	316,921	115,271	70,692	434,394	200,318	161,622	1,299,218	351,280	2,978	354,258	1,653,476	1,361,139
Transportation and staff travel	532,195	123,726	14,787	633,689	172,344	61,580	1,538,321	57,298	2,838	60,136	1,598,457	2,081,688
Repairs and maintenance	1,004,433	128,189	78,559	1,787,886	739,572	2,557,580	6,296,219	186,646	689	187,335	6,483,554	6,955,783
Postage and supplies	1,644,224	173,757	204,581	1,033,588	539,727	761,204	4,357,081	1,789,019	60,562	1,849,581	6,206,662	6,312,176
Program activities/incidentals	1,667,260	751,368	139,132	2,378,170	686,419	221,683	5,844,032	35,277	1,501,512	1,536,789	7,380,821	5,731,707
Food	1,347,298	170,063	900,368	1,554,078	207,179	1,195,271	5,374,257	207	13,580	13,787	5,388,044	5,469,617
Rental and lease expense (Note 16)	1,013,997	536,448	310,532	1,613,546	465,347	10,063,771	14,003,641	73,376	2,400	75,776	14,079,417	14,072,407
Recruiting and staff development	88,640	66,011	49,615	112,735	82,722	32,325	432,048	67,065	57,713	124,778	556,826	1,008,565
Insurance	1,315,728	309,575	213,837	1,756,017	843,936	506,283	4,945,376	338,777	17,049	355,826	5,301,202	4,729,213
Fees, assessments and taxes	82,303	10,809	1,815	870,217	51,080	586,354	1,602,578	700,736	17,069	717,805	2,320,383	2,201,955
Interest	187,354	6,906	487	358,851	404,819	15,656	974,073	1,017,809	45	1,017,854	1,991,927	2,003,169
Depreciation and amortization (Notes 2 and 6)	854,163	200,428	10,218	1,269,378	612,960	112,790	3,059,937	933,105	1,727	934,832	3,994,769	3,707,541
Total Expenses Before Bad Debt Expense	57,662,325	18,366,248	14,682,876	75,851,435	36,146,985	35,983,977	238,693,846	22,520,981	2,328,882	24,849,863	263,543,709	258,089,402
Bad debt expense	-	-	-	-	-	-	-	300,000	-	300,000	300,000	300,000
Total Expenses	\$ 57,662,325	\$ 18,366,248	\$ 14,682,876	\$ 75,851,435	\$ 36,146,985	\$ 35,983,977	\$ 238,693,846	\$ 22,820,981	\$ 2,328,882	\$ 25,149,863	\$ 263,843,709	\$ 258,389,402

SCO Family of Services and Affiliate

Consolidated Statement of Cash Flows
Year Ended June 30, 2020
(with comparative amounts for the year ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (12,596,043)	\$ (5,938,309)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,994,769	3,707,541
Bad debt expense	300,000	300,000
Amortization of deferred financing costs	474,433	486,942
Amortization of bond premium/discount	3,161	3,161
Unrealized loss on securities	1,006,796	419,744
Realized loss (gain) on sale of securities	412,282	(43,700)
Change in unfunded pension obligation	12,068,149	7,225,541
Gain on sale of air rights	(885,215)	-
Loss on disposal of property and equipment	-	42,998
Loss on interest rate swap	157,814	226,076
Donated stock	(55,077)	(4,962)
Changes in operating assets and liabilities		
Program receivables	(529,588)	(16,463,794)
Prepaid expenses and other current assets	(743,880)	(57,221)
Security deposits and other assets	(11,264)	326
Accounts payable and accrued expenses	4,887,666	4,140,652
Deferred revenue	1,947,762	1,180,352
Due to government agencies	2,384,972	(574,579)
Accrued interest payable	15,482	597
Accrued pension obligation	748,000	1,525,547
Net Cash from Operating Activities	<u>13,580,219</u>	<u>(3,823,088)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,996,424)	(5,715,235)
Purchases of designated securities	(23,124,020)	(4,167,258)
Proceeds from sales of securities	20,954,490	1,872,922
Change in short term securities	(58,628)	(7,111)
Net Cash from Investing Activities	<u>(10,224,582)</u>	<u>(8,016,682)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	15,149,285	18,440,792
Principal payments on lines of credit	(7,500,000)	(11,997,190)
Principal payments on mortgages payable	(1,079,639)	(107,927)
Payments of deferred financing costs	-	(67,232)
Principal payments on bonds payable	(1,629,713)	(1,637,874)
Proceeds from bonds payable	-	500,000
Principal payments on capital lease obligations	(582,737)	(626,516)
Net Cash from Financing Activities	<u>4,357,196</u>	<u>4,504,053</u>
Change in Cash, Cash Equivalents and Restricted Cash	7,712,833	(7,335,717)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	<u>2,556,849</u>	<u>9,892,566</u>
End of year	<u>\$ 10,269,682</u>	<u>\$ 2,556,849</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 2,006,728	\$ 2,004,302
Property and equipment acquired through capital leases	503,343	583,764

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

1. Organization

Nature of Organization

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

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

Principles of Consolidation

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Use of Estimates

The preparation of 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.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

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

Change in Accounting Principle

During November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". The ASU requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, SCO adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires SCO 1) to include restricted cash and restricted cash equivalents in its cash and cash equivalent balances on the statement of cash flows 2) provide a reconciliation between the statement of financial position and the statement of cash flows when more than one line item for cash, cash equivalents, restricted cash and restricted cash equivalents is presented on the statement of financial position 3) transfers between restricted cash and cash are no longer presented and 4) if restricted balances are material, disclosures must include information about the nature of the restrictions. The ASU required a retrospective application to all periods presented. Prior-period amounts have been reclassified to conform to the current-period presentation.

As of June 30, 2020 and 2019, cash, cash equivalents and restricted cash consisted of the following:

	2020	2019
Cash and cash equivalents	\$ 8,614,085	\$ 906,863
Restricted Cash		
Debt service reserve	1,655,597	1,649,986
Total Cash, Cash Equivalents and Restricted Cash	<u>\$ 10,269,682</u>	<u>\$ 2,556,849</u>

Net Asset Presentation

The classification of SCO's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

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

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 sale of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gains or losses that result from market fluctuations are recorded as unrealized gains and losses.

Net investment income earned on endowment funds is recorded within net assets with donor restrictions that are temporary in nature until appropriated for expenditure by the Board of Directors. SCO has a “total return” policy with respect 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 investments held as endowment in the previous fiscal year, measured on a quarterly basis, 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 2020 and 2019, the approved return was \$1,888,000 and \$1,877,900, respectively, and was used for certain operating expenditures.

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.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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

Debt Issuance Costs

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

Debt issuance costs are reported on the consolidated statement of financial position as a direct deduction from the face amount of the debt. These costs are amortized using the effective interest method over the term of the related loans. SCO reflects amortization of debt issuance costs within interest expense, in accordance with U.S. GAAP.

Custodial Accounts

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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

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

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

Long-Lived Assets

In accordance with the provisions of ASC 360, SCO reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the undiscounted cash flows, quoted market values or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses recognized for the years ended June 30, 2020 and 2019.

Third-Party Reimbursements and Revenue Recognition

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

2. Summary of Significant Accounting Policies (continued)

Third-Party Reimbursements and Revenue Recognition (continued)

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

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

Conditional Asset Retirement Obligations

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

Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management. Such allocation rates may be based on square footage for shared office space and census or expense ratios for program management costs. Agency administration costs are distributed on a ratio value basis.

Contributions and Promises to Give

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

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

Medical Self-Insurance

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

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

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

	2020	2019
Balance, beginning of year	\$ 1,710,536	\$ 1,817,073
Current year claims incurred and changes in estimates for claims incurred in prior years	26,714,899	26,189,196
Claims and expenses paid	<u>(26,067,028)</u>	<u>(26,295,733)</u>
Balance, end of year	<u>\$ 2,358,407</u>	<u>\$ 1,710,536</u>

Income Taxes

SCO was incorporated in the State of New York and is exempt from Federal, state and local income taxes under Section 501(c)(3) of the 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 follows 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 not be sustained upon examination by a taxing authority.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

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

Income Taxes (continued)

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 files IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended June 30, 2020 and 2019, no interest or penalties were recorded or included in the consolidated statement of activities. SCO is subject to routine examinations by a taxing authority. Management believes it is no longer subject to income tax examinations for fiscal years prior to 2017. There are no examinations in progress.

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, 2020, the uninsured portion of this balance was \$7,969,316. 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.

Endowment Fund

SCO's endowment consists of net assets with donor restrictions that are perpetual in nature under ASC 958, "Not-for-Profit Entities" and held primarily as investments. 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.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

3. Liquidity and Availability of Financial Assets

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

	2020	2019
Financial Assets:		
Cash and cash equivalents	\$ 8,614,085	\$ 906,863
Investments at fair value	64,664,142	62,914,770
Program receivables, net	60,681,956	60,452,368
Total Financial Assets	133,960,183	124,274,001
Less: program receivables which management expects to be collected after fiscal 2021 and 2020, respectively	(3,252,733)	(2,772,432)
Less: amounts restricted by donor with time or purpose restriction	(4,512,311)	(4,265,077)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	\$ 126,195,139	\$ 117,236,492

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

4. 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") of 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 agrees that Level 1 is the most appropriate classification.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

4. 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 (see note 10). The change in fair value of the interest rate is recognized in the consolidated statement of activities.

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

	Amount	Fair Value	
		At June 30, 2020	At June 30, 2019
Interest rate swap agreement with People's United and TD Bank with fixed rates ranging from 2.897% - 3.30%. The banks pay a variable rate of interest based on US Dollar LIBOR-BBA. The agreements provide for monthly settlements and mature June 27, 2023.	\$ 20,080,000	\$ (335,677)	\$ (177,863)

At June 30, 2020, investments in marketable securities and cash and cash equivalents were as follows:

	Cost	Fair Value
Indexed mutual funds	\$ 29,122,112	\$ 34,433,765
Fixed Income:		
Government bonds	30,220,174	30,962,960
	59,342,286	65,396,725
Cash and cash equivalents	710,413	710,413
Total	<u>\$ 60,052,699</u>	<u>\$ 66,107,138</u>

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

4. Investments at Fair Value (*continued*)

At June 30, 2019, investments in marketable securities and cash and cash equivalents were as follows:

	Cost	Fair Value
Indexed mutual funds	\$ 29,115,101	\$ 34,431,386
Fixed Income:		
Government bonds	29,417,645	29,274,595
	58,532,746	63,705,981
Cash and cash equivalents	651,785	651,785
Total	<u>\$ 59,184,531</u>	<u>\$ 64,357,766</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, 2020 and 2019. Fair value equals carrying value:

	Assets at Fair Value as of June 30, 2020			Total
	Level 1	Level 2	Level 3	
Assets:				
Indexed mutual funds	\$ 34,433,765	\$ -	\$ -	\$ 34,433,765
Fixed income:				
Government bonds	-	30,962,960	-	30,962,960
Total	<u>\$ 34,433,765</u>	<u>\$ 30,962,960</u>	<u>\$ -</u>	<u>\$ 65,396,725</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 335,677</u>	<u>\$ -</u>	<u>\$ 335,677</u>

There were no transfers between levels during the year ended June 30, 2020.

	Assets at Fair Value as of June 30, 2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Indexed mutual funds	\$ 34,431,386	\$ -	\$ -	\$ 34,431,386
Fixed income:				
Government bonds	-	29,274,595	-	29,274,595
Total	<u>\$ 34,431,386</u>	<u>\$ 29,274,595</u>	<u>\$ -</u>	<u>\$ 63,705,981</u>
Liabilities:				
Interest rate swap	<u>\$ -</u>	<u>\$ 177,863</u>	<u>\$ -</u>	<u>\$ 177,863</u>

There were no transfers between levels during the year ended June 30, 2019.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

5. Program Receivables

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

	2020	2019
Rate-based program:		
Foster care services	\$ 14,881,281	\$ 15,326,142
Family support services	1,886,043	3,486,116
Early childhood services	2,875,439	3,653,161
Special needs and behavioral health services	15,462,653	13,181,987
Education and youth development services	15,791,973	14,392,835
Shelters and homeless services	10,993,575	11,528,025
	<u>61,890,964</u>	<u>61,568,266</u>
Less: Allowance for doubtful accounts	1,209,008	1,115,898
Total	<u>\$ 60,681,956</u>	<u>\$ 60,452,368</u>

6. Property and Equipment

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

	2020	2019
Land	\$ 1,983,115	\$ 1,983,115
Building and improvements	78,429,898	73,084,282
Furniture, equipment and vehicles	18,854,193	15,957,450
Leasehold improvements	4,252,265	4,087,127
	<u>103,519,471</u>	<u>95,111,974</u>
Less: Accumulated depreciation and amortization	60,678,332	56,775,833
Property and Equipment, net	<u>\$ 42,841,139</u>	<u>\$ 38,336,141</u>

At June 30, 2020 and 2019, capital leases with total cost of \$2,494,374 and \$2,006,811, respectively, and accumulated depreciation of \$1,485,683 and \$942,930, respectively, were included in furniture, equipment and vehicles.

For the year ended June 30, 2020, SCO disposed of fully depreciated assets totaling \$92,270. At June 30, 2020 and 2019, there were \$26,219,267 and \$25,077,174 of fully depreciated assets still in use.

7. Debt Service Reserve

Under the terms of various bonds, SCO deposited with the bond trustee amounts to be held in reserve which will be withdrawn to satisfy the future installments of the bonds. Interest earned on this reserve fund will be used to reduce SCO's payment obligation under the bonds. The debt service reserve amounted to \$1,655,597 and \$1,649,986, which consists of cash and cash equivalents, at June 30, 2020 and 2019, respectively.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

8. 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, 2022. Interest, which is payable on demand, is based on the prime rate and the London Interbank Offered Rate ("LIBOR"), and was 3.25% and 5.50% at June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the outstanding balance was \$13,500,000 and \$12,000,000, respectively.

SCO has 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 was renewed during June 2020 and is renewable annually. Interest, which is payable on demand, is based on prime and LIBOR rates and was 3.25% and 5.50% at June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the outstanding balance was \$14,999,599 and \$8,850,314, respectively. Management intends to roll over short 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.

9. Mortgages Payable

Mortgages payable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
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.	\$ 3,243,069	\$ 3,648,267
Mortgage payable to Medical Care Facilities Finance Agency, matured May 31, 2020, 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.	-	579,497
Mortgage payable to the Dormitory Authority State of New York ("DASNY"), due February 24, 2028, payable in annual installments ranging from \$50,748 to \$133,421, including interest of 4.76%, secured by real estate located in Dix Hills, New York.	<u>907,108</u>	<u>1,002,052</u>
Total Mortgages Payable	4,150,177	5,229,816
Less: Current maturities	<u>522,990</u>	<u>1,058,324</u>
	<u>\$ 3,627,187</u>	<u>\$ 4,171,491</u>

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

9. Mortgages Payable (*continued*)

Mortgages payable consist of the following as of June 30:

	2020	2019
Mortgages payable	\$ 4,150,177	\$ 5,229,816
Less: debt issuance costs	<u>231,793</u>	<u>265,464</u>
	<u>\$ 3,918,384</u>	<u>\$ 4,964,352</u>

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

2021	\$ 522,990
2022	546,544
2023	571,225
2024	596,668
2025	623,683
Thereafter	<u>1,289,067</u>
	<u>\$ 4,150,177</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:

	2020	2019
Debt issuance costs	\$ 368,107	\$ 368,107
Less: accumulated amortization	<u>136,314</u>	<u>102,643</u>
	<u>\$ 231,793</u>	<u>\$ 265,464</u>

10. Bonds Payable

In June 2007, SCO obtained financing of \$1,554,500 of insured revenue bonds through the Dormitory Authority of the State of New York ("DASNY") for the purpose of refinancing the acquisition and construction of two facilities.

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

10. Bonds Payable (*continued*)

Unamortized premium costs relating to the issuance of the Series A and B bonds were \$26,487 and \$9,866, respectively, at June 30, 2020 and \$28,790 and \$10,724, respectively, at June 30, 2019. 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 \$21,403 and \$23,264 as of June 30, 2020 and 2019, 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.

Principal	Series
\$ 6,095,000	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
385,000	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
877,000	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
3,555,000	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

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Notes to Consolidated Financial Statements June 30, 2020

10. Bonds Payable (*continued*)

Principal	Series
\$ 810,000	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
1,690,000	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

Debt issuance costs for the Series 2013 bonds, net of accumulated amortization, totaled \$302,484 and \$723,957 as of June 30, 2020 and 2019, respectively, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position.

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

The Series 2018 bonds, which require annual payments, are secured by the related property.

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

Debt issuance costs for the Series 2018 bonds, net of accumulated amortization, totaled \$35,535 and \$52,963 as of June 30, 2020 and 2019, respectively, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position.

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

	2020	2019
Debt issuance costs	\$ 4,224,932	\$ 4,224,932
Less: accumulated amortization	3,865,510	3,424,748
Balance, end of year	<u>\$ 359,422</u>	<u>\$ 800,184</u>

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

10. Bonds Payable (*continued*)

In June 2020, SCO made payments on bonds payable in advance of their 2021 due dates. Future principal payments are as follows as of June 30:

	Series A and B	Series 2013	Series 2018	Total
2021	\$ 66,676	\$ 156,000	\$ 18,750	\$ 241,426
2022	69,921	1,602,875	5,000	1,677,796
2023	73,333	1,197,432	15,000	1,285,765
2024	76,858	959,803	15,000	1,051,661
2025	80,687	544,370	15,000	640,057
Thereafter	630,699	4,035,294	399,583	5,065,576
	<u>\$ 998,174</u>	<u>\$ 8,495,774</u>	<u>\$ 468,333</u>	<u>\$ 9,962,281</u>

11. Capital Leases

SCO entered into various vehicle leases with maturities through March 21, 2024 and interest rates ranging from 6.3% to 9.1%. The following is a schedule of future minimum lease payments, including interest, as of June 30:

2021	\$ 494,048
2022	417,595
2023	229,318
2024	28,114
Total minimum lease payments	1,169,075
Less: Interest	190,101
Present value of net minimum lease payments	<u>\$ 978,974</u>

12. Due to Governmental Agencies

SCO has recorded estimated liabilities of \$9,297,002 and \$6,912,030 at June 30, 2020 and 2019, 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.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

13. Pension Plans

Defined Benefit Pension Plan

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

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

	2020	2019
Service cost	\$ 200,000	\$ 200,000
Interest cost	4,017,715	4,307,489
Expected return on Plan assets	(3,867,973)	(3,727,947)
Amortization of prior service cost	2,066,224	2,066,224
Amortization of net loss	786,178	479,808
Net Periodic Pension Cost	<u>\$ 3,202,144</u>	<u>\$ 3,325,574</u>

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

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Notes to Consolidated Financial Statements June 30, 2020

13. Pension Plans (*continued*)

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during fiscal years 2020 and 2019, and a statement of the funded status of the Plan as of June 30, are as follows:

	2020	2019
Change in projected benefit obligation:		
Projected benefit obligation at beginning of the year	\$116,277,336	\$105,301,471
Service cost	200,000	200,000
Interest cost	4,017,715	4,307,489
Actuarial loss	14,212,651	10,024,871
Benefits	(3,706,309)	(3,556,495)
Projected benefit obligation at end of the year	<u>\$ 131,001,393</u>	<u>\$ 116,277,336</u>
	2020	2019
Change in Plan assets:		
Fair value of Plan assets at beginning of the year	\$ 56,279,556	\$ 54,054,779
Actual return on Plan assets	3,178,728	3,937,882
Employer contributions	2,400,000	1,800,000
Benefits	(3,670,820)	(3,513,105)
Fair value of plan assets at the end of the year	<u>\$ 58,187,464</u>	<u>\$ 56,279,556</u>

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

	2020	2019
Benefit obligation	\$131,001,393	\$116,277,336
Fair value of Plan assets	<u>58,187,464</u>	<u>56,279,556</u>
Accrued pension obligation at end of the year	<u>\$ 72,813,929</u>	<u>\$ 59,997,780</u>

Pension related charges other than net periodic pension cost included in net assets without donor restrictions for the years ended June 30, 2020 and 2019 consist of prior service cost of \$2,066,224 and \$2,066,224, respectively, net amortization of loss of \$786,178 and \$479,808, respectively, and an actuarial loss of \$14,866,407 and \$9,771,573, respectively.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

13. Pension Plans *(continued)*

The following benefit payments are expected to be paid:

2021	\$ 4,199,498
2022	4,519,025
2023	4,829,222
2024	5,066,600
2025	5,302,863
2026-2030	<u>29,505,756</u>
	<u>\$ 53,422,964</u>

Employer contributions expected to be paid in fiscal year ending June 30, 2021 are \$2,400,000.

Investment Policy

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

	June 30, 2020		June 30, 2019	
	Amount	Percentage	Amount	Percentage
Money market/cash	\$ 924,932	2 %	\$ 1,055,752	2 %
Intermediate term bond	5,895,022	10	9,311,914	17
Corporate bond	11,947,392	20	7,275,685	13
Large cap blend U.S. stock	22,424,123	38	21,501,727	38
Market neutral U.S. stock	-	-	1,751,184	3
Large cap blend foreign stock	2,668,513	5	2,782,449	5
Large cap growth foreign stock	2,338,305	4	2,384,130	4
Diversified emerging markets stock	3,408,862	6	3,249,355	6
Allocation – 50% to 70% equity	3,180,628	5	2,250,578	4
Real estate/REIT	2,179,000	4	2,341,278	4
Tactical allocation	<u>3,220,687</u>	<u>6</u>	<u>2,375,504</u>	<u>4</u>
Fair Value of Plan Assets	<u>\$ 58,187,464</u>	<u>100 %</u>	<u>\$ 56,279,556</u>	<u>100 %</u>

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

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

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

13. 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, 2020 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2019 to June 30, 2020	Used for Pension Obligations as of June 30, 2020
Discount rate	3.51%	2.74%
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, 2019 were as follows:

	Pension Benefits	
	Used for Net Pension Cost in Fiscal Year July 1, 2018 to June 30, 2019	Used for Pension Obligations as of June 30, 2019
Discount rate	4.17%	3.51%
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 and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

13. Pension Plans *(continued)*

Supplemental Pension Plan

In 2000, SCO adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Participants become eligible to participate on their date of hire. Funding is provided by employee withholding and an annual discretionary contribution made by SCO. Total contribution expense for the defined contribution plan was \$2,700,000 for each of the years ended June 30, 2020 and 2019.

14. Net Assets

Net Assets With Donor Restrictions

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

	2020	2019
Center for family life	\$ 2,726,944	\$ 2,505,537
Early childhood services	232,041	39,908
Education and youth development services	389,413	273,130
Family support services	86,228	85,903
Foster care services	74,235	93,937
Management and other indirect	1,062,012	1,010,456
Shelters and homeless services	55,440	47,054
Special needs and behavioral health services	208,226	209,152
	<u>\$ 4,834,539</u>	<u>\$ 4,265,077</u>

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

	2020	2019
Center for family life	\$ 118,375	\$ 52,400
Early childhood services	-	4,823
Education and youth development services	29,451	59,242
Family support services	20,000	1,936
Foster care services	18,789	166,817
Management and other indirect	1,294,396	40,215
Shelters and homeless services	2,286	19,712
Special needs and behavioral health services	1,926	962,683
	<u>\$ 1,485,223</u>	<u>\$ 1,307,828</u>

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

15. Endowment Fund

SCO maintains a donor-restricted endowment fund (the “Brookwood Fund”) that has been classified as net assets with donor restrictions.

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

NYPMIFA further requires all endowment income to be classified as net assets with donor restrictions that are temporary in nature until appropriated for use by the governing board, unless directed differently by the donor. The income on the Brookwood Fund will be used to support SCO’s general programs and activities supporting children and families.

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

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

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

All assets included in the Brookwood Fund were indexed as mutual funds totaling \$1,706,188 and \$1,870,770 at June 30, 2020 and 2019.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements June 30, 2020

15. Endowment Fund *(continued)*

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

	With Donor Restrictions That Are Temporary in Nature	With Donor Restrictions That Are Perpetual in Nature	Total
Endowment balances as of June 30, 2018	\$ -	\$ 1,442,996	\$ 1,442,996
Unrealized gain	9,331	-	9,331
Transfers appropriated	(9,331)	-	(9,331)
Endowment balances as of June 30, 2019	-	1,442,996	1,442,996
Unrealized gain	(164,582)	-	(164,582)
Transfers appropriated	164,582	-	164,582
Endowment balances as of June 30, 2020	<u>\$ -</u>	<u>\$ 1,442,996</u>	<u>\$ 1,442,996</u>

16. Commitments and Contingencies

Operating Leases

As of June 30, 2020, minimum annual rental commitments for the remaining terms of SCO's operating leases relating to buildings for programs and equipment were as follows:

Year Ending June 30,	Amount
2021	\$ 9,158,268
2022	6,996,907
2023	4,180,352
2024	3,599,622
2025	2,705,442
Thereafter	3,118,401
	<u>\$ 29,758,992</u>

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

16. Commitments and Contingencies (*continued*)

Operating Leases (continued)

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, 2020 and 2019, amounted to \$14,079,417 and \$14,072,407, 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.

COVID-19

SCO's operations and financial performance have been affected by the recent COVID-19 pandemic. As a result of the outbreak, SCO has incurred additional costs in the form of payroll incentives for staff as well as supplies (personal protective equipment). Such costs were necessary in order to continue the safe operations of its programs. SCO anticipates reimbursement of a portion of these costs from City, State and local funders. SCO's cash flow was preserved by advances that were provided by several of its governmental funders early on. In the future, SCO expects to be financially able to continue to provide services as it has thus far.

SCO Family of Services and Affiliate

Notes to Consolidated Financial Statements

June 30, 2020

16. Commitments and Contingencies (*continued*)

COVID-19 (continued)

The COVID-19 outbreak has resulted in substantial volatility in the global financial markets. As a result, SCO's investment portfolio has incurred a significant decline in its fair value at June 30, 2020. Because the value of SCO's individual investments has and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods cannot be determined. During the period July 1, 2020 through September 30, 2020, the fair value of SCO's investment portfolio has recovered by approximately \$3,000,000.

The value of the Defined Benefit Pension Plan's investments has a direct impact on its funded status. The actual impact on the Plan's funded status and future required contributions cannot be determined at this time.

17. Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is November 30, 2020.

SCO Family of Services is in the process of refinancing its existing Series 2013 bond debt (Note 10). Additionally, SCO Family of Services intends to convert its capital bridge line of credit to long-term debt as part of this transaction, where \$15,000,000 will be made available to SCO as tax-exempt financing on a delayed draw basis, to be drawn down upon for future capital projects at various locations within the agency. This debt will be issued through a private placement with TD Bank and People's United Bank. SCO anticipates that these banks will renew SCO's \$25,000,000 line of credit at the time of refinancing as well (Note 8).

* * * * *

SCO Family of Services and Affiliate

Consolidating Schedule of Financial Position
Year Ended June 30, 2020
(with summarized totals at June 30, 2019)

	2020				2019
	SCO Family of Services	SCO Foundation Inc.	Eliminating Entries	Total	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 7,718,886	\$ 895,199	\$ -	\$ 8,614,085	\$ 906,863
Investments at fair value	262,855	64,401,287	-	64,664,142	62,914,770
Program receivables, net	60,707,984	-	(26,028)	60,681,956	60,452,368
Prepaid expenses and other current assets	3,079,965	109,779	(1,570,701)	1,619,043	875,163
Custodial accounts	564,067	-	-	564,067	303,387
Total Current Assets	72,333,757	65,406,265	(1,596,729)	136,143,293	125,452,551
Debt service reserve	1,655,597	-	-	1,655,597	1,649,986
Security deposits and other assets	506,409	-	-	506,409	495,145
Property and equipment, net	42,841,139	-	-	42,841,139	38,336,141
Restricted investments	1,442,996	-	-	1,442,996	1,442,996
	<u>\$ 118,779,898</u>	<u>\$ 65,406,265</u>	<u>\$ (1,596,729)</u>	<u>\$ 182,589,434</u>	<u>\$ 167,376,819</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	\$ 39,264,813	\$ -	\$ -	\$ 39,264,813	\$ 34,377,147
Accrued interest payable	18,274	-	-	18,274	2,792
Accrued pension obligation - current portion	2,400,000	-	-	2,400,000	2,400,000
Custodial accounts	564,067	-	-	564,067	303,387
Deferred revenue, current portion	10,807,497	-	-	10,807,497	8,790,565
Due to SCO Family of Services	-	1,596,729	(1,596,729)	-	-
Lines of credit	28,499,599	-	-	28,499,599	20,850,314
Mortgages payable, current portion	489,320	-	-	489,320	1,024,655
Bonds payable, current portion	112,257	-	-	112,257	-
Capital leases, current portion	414,128	-	-	414,128	462,769
Due to government agencies, current portion	1,594,145	-	-	1,594,145	1,706,714
Total Current Liabilities	84,164,100	1,596,729	(1,596,729)	84,164,100	69,918,343
Accrued pension obligation, net of current portion	70,413,929	-	-	70,413,929	57,597,780
Deferred revenue, net of current portion	566,131	73,225	-	639,356	708,526
Mortgages payable, net of current portion	3,429,064	-	-	3,429,064	3,939,697
Bonds payable, net of current portion	9,490,602	-	-	9,490,602	10,788,651
Capital leases, net of current portion	564,846	-	-	564,846	595,597
Due to government agencies, net of current portion	7,702,857	-	-	7,702,857	5,205,316
Interest rate swap liability	335,677	-	-	335,677	177,863
Total Liabilities	176,667,206	1,669,954	(1,596,729)	176,740,431	148,931,773
Net Assets					
Without donor restrictions - operations	(2,294,758)	63,328,157	-	61,033,399	62,130,755
Without donor restrictions - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in calendar year 2012	(61,461,931)	-	-	(61,461,931)	(49,393,782)
Total Net Assets Without Donor Restrictions	(63,756,689)	63,328,157	-	(428,532)	12,736,973
With donor restrictions- perpetual in nature	1,442,996	-	-	1,442,996	1,442,996
With donor restrictions- temporary in nature	4,426,385	408,154	-	4,834,539	4,265,077
Total Net Assets	<u>(57,887,308)</u>	<u>63,736,311</u>	<u>-</u>	<u>5,849,003</u>	<u>18,445,046</u>
	<u>\$ 118,779,898</u>	<u>\$ 65,406,265</u>	<u>\$ (1,596,729)</u>	<u>\$ 182,589,434</u>	<u>\$ 167,376,819</u>

SCO Family of Services and Affiliate

Consolidating Schedule of Activities
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

	SCO Family of Services			SCO Foundation Inc.						
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Total	Eliminating Entries	2020 Total	2019 Total
OPERATING REVENUE AND SUPPORT										
Government revenue	\$ 248,997,385	\$ 65,951	\$ 249,063,336	\$ -	\$ -	\$ -	\$ 249,063,336	\$ -	\$ 249,063,336	\$ 247,483,695
Foundations and other grants	6,066,904	369,078	6,435,982	5,000	-	5,000	6,440,982	(25,928)	6,415,054	5,662,817
Prior year cost reimbursement adjustments	618,401	-	618,401	-	-	-	618,401	-	618,401	301,619
Contributions	164,362	177,543	341,905	310,418	1,422,989	1,733,407	2,075,312	-	2,075,312	438,271
Contributions from SCO Foundation Inc.	1,888,000	-	1,888,000	-	-	-	1,888,000	(1,888,000)	-	-
Other income	1,480,308	-	1,480,308	1,888,000	-	1,888,000	3,368,308	-	3,368,308	3,366,970
Special events less costs with direct benefit to donors of \$162,617 and \$359,899	199,296	350	199,646	78,023	18,775	96,798	296,444	-	296,444	701,434
Net assets released from restrictions	259,661	(259,661)	-	1,225,563	(1,225,563)	-	-	-	-	-
Total Operating Revenue and Support	259,674,317	353,261	260,027,578	3,507,004	216,201	3,723,205	263,750,783	(1,913,928)	261,836,855	257,954,806
OPERATING EXPENSES										
Program Services										
Foster care services	57,662,325	-	57,662,325	14,877	-	14,877	57,677,202	(14,877)	57,662,325	58,244,065
Family support services	18,366,248	-	18,366,248	-	-	-	18,366,248	-	18,366,248	17,646,814
Early childhood services	14,682,876	-	14,682,876	-	-	-	14,682,876	-	14,682,876	14,501,522
Special needs and behavioral health services	75,851,435	-	75,851,435	11,051	-	11,051	75,862,486	(11,051)	75,851,435	76,264,680
Education and youth development services	36,146,985	-	36,146,985	-	-	-	36,146,985	-	36,146,985	35,725,612
Shelters and homeless services	35,983,977	-	35,983,977	-	-	-	35,983,977	-	35,983,977	34,763,570
Total Program Services	238,693,846	-	238,693,846	25,928	-	25,928	238,719,774	(25,928)	238,693,846	237,146,263
Supporting Services										
Management and general	22,803,912	-	22,803,912	2,508,379	-	2,508,379	25,312,291	(2,491,310)	22,820,981	20,140,591
Development	763,283	-	763,283	1,565,599	-	1,565,599	2,328,882	-	2,328,882	1,102,548
Total Supporting Services	23,567,195	-	23,567,195	4,073,978	-	4,073,978	27,641,173	(2,491,310)	25,149,863	21,243,139
Total Operating Expenses	262,261,041	-	262,261,041	4,099,906	-	4,099,906	266,360,947	(2,517,238)	263,843,709	258,389,402
Change in Net Assets from Operations	(2,586,724)	353,261	(2,233,463)	(592,902)	216,201	(376,701)	(2,610,164)	603,310	(2,006,854)	(434,596)
NONOPERATING CHANGES										
Interest and dividend income	76,142	-	76,142	2,110,053	-	2,110,053	2,186,195	-	2,186,195	2,323,948
Realized and unrealized losses on securities	12,233	-	12,233	(1,431,311)	-	(1,431,311)	(1,419,078)	-	(1,419,078)	(376,044)
Change in unfunded pension obligation	(12,068,149)	-	(12,068,149)	-	-	-	(12,068,149)	-	(12,068,149)	(7,225,541)
Loss on interest rate swap	(157,814)	-	(157,814)	-	-	-	(157,814)	-	(157,814)	(226,076)
Management fee	603,310	-	603,310	-	-	-	603,310	(603,310)	-	-
Other revenue (expenses)	(15,559)	-	(15,559)	885,216	-	885,216	869,657	-	869,657	-
Change in Net Assets	(14,136,561)	353,261	(13,783,300)	971,056	216,201	1,187,257	(12,596,043)	-	(12,596,043)	(5,938,309)
NET ASSETS										
Beginning of year	(49,620,128)	5,516,120	(44,104,008)	62,357,101	191,953	62,549,054	18,445,046	-	18,445,046	24,383,355
End of year	\$ (63,756,689)	\$ 5,869,381	\$ (57,887,308)	\$ 63,328,157	\$ 408,154	\$ 63,736,311	\$ 5,849,003	\$ -	\$ 5,849,003	\$ 18,445,046

See independent auditors' report

SCO Family of Services and Affiliate

Uniform Guidance Schedules and Reports
June 30, 2020

SCO Family of Services and Affiliate

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

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	\$ -	\$ 291,632
Child and Adult Care Food Program (CACFP)	10.558	4982	-	593,988
			-	885,620
<i>Child Nutrition Cluster:</i>				
Passed through New York State Education Department:				
School Breakfast Program (SBP)	10.553	280501890176	-	286,357
National School Lunch Program (NSLP)	10.555	280501890176	-	422,831
Total Child Nutrition Cluster			-	709,188
<i>Food Distribution Cluster:</i>				
Passed through Food Bank for New York City:				
Emergency Food Assistance Program (Food Commodities)	10.569	EFRO 80413	-	32,281
Emergency Food Assistance Program (Food Commodities)	10.569	EFRO 80212	-	24,814
Total Food Distribution Cluster			-	57,095
Total U.S. Department of Agriculture			-	1,651,903
U.S. Department of Labor:				
<i>WIOA Cluster</i>				
Passed through New York City Department of Youth and Community Development:				
WIOA Youth Activities	17.259	20171405807	-	225,534
U.S. Department of Education:				
Passed through New York State Education Department:				
Special Education Cluster (IDEA):				
Special Education Grants to States (IDEA, Part B)	84.027	IDEA611	-	178,584
U.S. Department of Health and Human Services:				
Head Start	93.600		-	396,680
Head Start	93.600		-	404,325
Passed through New York City Department of Education:				
Head Start	93.600	104020209050493	-	1,270,524
			-	2,071,529
Passed through New York City Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	93.268	Not available	-	67,573
<i>TANF Cluster</i>				
Passed through New York City Department of Homeless Services:				
Temporary Assistance for Needy Families (TANF)	93.558	20191401622	-	697,964
COVID-19 - Temporary Assistance for Needy Families (TANF)	93.558	20191401622	-	12,397
Temporary Assistance for Needy Families (TANF)	93.558	20181403752	-	2,878,164
COVID-19 - Temporary Assistance for Needy Families (TANF)	93.558	20181403752	-	25,333
Temporary Assistance for Needy Families (TANF)	93.558	20181403172	-	3,207,901
COVID-19 - Temporary Assistance for Needy Families (TANF)	93.558	20181403172	-	28,199
Passed through New York State Office of Children and Family Services:				
Advantage After School	93.558	C028670	-	230,476
Total TANF Cluster			-	7,080,434
Passed through New York City Department of Youth and Community Development:				
Community Services Block Grant	93.569	CT126020180002028	-	354,198
Community Services Block Grant	93.569	CT126020180001473	-	118,555
Community Services Block Grant	93.569	20160002569	-	61,406
			-	534,159
Passed through County of Suffolk Department of Social Services:				
Social Services Block Grant	93.667	001-6010-4980-69-00043	-	173,714
<i>Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster:</i>				
Passed through Bureau of Maternal and Child Health:				
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	C028856	-	176,251
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	C33496GG	-	65,289
Total MIECHV Cluster			-	241,540
Passed through Bureau of Maternal and Child Health:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	3H79T1080325-01S1	-	361,949
COVID-19 - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	3H79T1080325-01S1	-	7,447
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance			-	369,396
Total U.S. Department of Health and Human Services			-	10,538,345
U.S. Corporation for National and Community Service:				
Passed through New York State Office of Children and Family Services:				
AmeriCorps	94.006	C028127	-	171,635
Total Expenditures of Federal Awards			\$ -	\$ 12,766,001

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

SCO Family of Services and Affiliate

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal award activity of SCO Family of Services and Affiliate ("SCO") under programs of the Federal government for the year ended June 30, 2020. 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, 2020, SCO distributed \$57,095 of food commodities and \$67,573 of vaccines. These amounts have been included in the 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**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of SCO Family of Services and Affiliate ("SCO"), which comprise the consolidated statement of financial position as of June 30, 2020 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 30, 2020. 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCO's internal control. Accordingly, we do not express an opinion on the effectiveness of SCO's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

November 30, 2020

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

Independent Auditors' Report

**Board of Directors
SCO Family of Services**

Report on Compliance for Each Major Federal Program

We have audited SCO Family of Services' ("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, 2020. 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, 2020.

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, 2020, and have issued our report thereon dated November 30, 2020, which contained an 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 29, 2021

SCO Family of Services and Affiliate

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

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)

Name of Federal Program or Cluster

93.600

Headstart

10.558

Child and Adult Care Food Program

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, 2020.

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.