SCO Family of Services and Affiliate

Consolidated Financial Statements
Year Ended June 30, 2021

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
SCO Family of Services

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, 2021 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

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

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

PKF O'CONNOR DAVIES, LLP
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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, 2021, 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 2020 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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.

PKF O'Connor Davies, LLP

November 24, 2021

SCO Family of Services and Affiliate

Consolidated Statement of Financial Position
June 30, 2021
(with comparative amounts at June 30, 2020)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	$ 7,618,429	$ 8,614,085
Investments at fair value (Notes 2 and 4)	76,810,439	64,664,142
Program receivables, net (Notes 2 and 5)	62,947,108	60,681,956
Prepaid expenses and other current assets	1,089,196	1,619,043
Custodial accounts (Note 2)	862,306	564,067
Total Current Assets	149,327,478	136,143,293
Debt service reserve (Note 7)	1,659,051	1,655,597
Security deposits and other assets	508,809	506,409
Assets held for transfer, net (Note 13)	2,366,559	-
Right of use assets (Notes 2 and 16)	33,192,470	-
Property and equipment, net (Notes 2 and 6)	43,515,014	42,841,139
Restricted investments (Notes 2, 4, and 15)	1,442,996	1,442,996
	$ 232,012,377	$ 182,589,434
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 38,500,174	$ 39,264,813
Accrued interest payable	21,169	18,274
Accrued pension obligation - current portion (Notes 2 and 12)	2,400,000	2,400,000
Custodial accounts (Note 2)	862,306	564,067
Deferred revenue, current portion (Note 2)	9,363,368	10,807,497
Lines of credit (Note 8)	27,699,599	28,499,599
Mortgages payable, net, current portion (Note 9)	512,874	489,320
Bonds payable, net, current portion (Note 10)	177,434	112,257
Lease payables, current portion (Notes 2 and 16)	9,738,624	414,128
Due to government agencies, current portion (Note 12)	840,351	1,594,145
Total Current Liabilities	90,115,899	84,164,100
Accrued pension obligation, net of current portion (Notes 2 and 12)	50,734,033	70,413,929
Deferred revenue, net of current portion (Note 2)	226,519	639,356
Mortgages payable, net (Note 9)	2,917,982	3,429,064
Bonds payable, net (Note 10)	8,487,835	9,490,602
Lease payables, net of current portion (Notes 2 and 16)	22,773,258	564,846
Paycheck Protection Program loan (Note 16)	10,000,000	-
Due to government agencies, net of current portion (Note 11)	10,864,641	7,702,857
Interest rate swap liability (Notes 2 and 4)	193,195	335,677
Total Liabilities	196,313,362	176,740,431
Net Assets (Deficit)		
Without donor restrictions - operations	73,737,510	61,033,399
Without donor restrictions - pension related changes other than net periodic pension cost as a result of the conversion from multi-employer plan to a single employer plan in calendar year 2012 (Note 12)	(41,282,035)	(61,461,931)
Total Net Assets (Deficit) Without Donor Restrictions	32,455,475	(428,532)
With donor restrictions- perpetual in nature (Note 15)	1,442,996	1,442,996
With donor restrictions- temporary in nature (Note 14)	1,800,544	4,834,539
Total Net Assets	35,699,015	5,849,003
	$ 232,012,377	$ 182,589,434

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Activities
Year Ended June 30, 2021
(with summarized totals for the year ended June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING REVENUE AND SUPPORT				
Government revenue	$ 237,742,330	$ 46,645	$ 237,788,975	$ 249,063,336
Foundations and other grants	5,027,844	813,897	5,841,741	6,415,054
Prior year cost reimbursement adjustments	663,336	-	663,336	618,401
Contributions	492,690	450,340	943,030	2,075,312
Other income	3,940,246	-	3,940,246	3,368,308
Special events, less costs with direct benefit to donors of $189,809 and $162,617	540,865	144,405	685,270	296,444
Net assets released from restrictions (Note 14)	1,047,097	(1,047,097)	-	-
Total Operating Revenue and Support	249,454,408	408,190	249,862,598	261,836,855
OPERATING EXPENSES				
Program Services				
Foster care services	57,127,996	-	57,127,996	57,662,325
Family support services	14,736,354	-	14,736,354	18,366,248
Early childhood services	13,194,282	-	13,194,282	14,682,876
Special needs and behavioral health services	70,054,130	-	70,054,130	75,851,435
Education and youth development services	31,983,520	-	31,983,520	36,146,985
Shelters and homeless services	34,473,994	-	34,473,994	35,983,977
Total Program Services	221,570,276	-	221,570,276	238,693,846
Supporting Services				
Management and general	27,725,699	-	27,725,699	22,820,981
Development	998,825	-	998,825	2,328,882
Total Supporting Services	28,724,524	-	28,724,524	25,149,863
Total Operating Expenses	250,294,800	-	250,294,800	263,843,709
Change in Net Assets From Operations	(840,392)	408,190	(432,202)	(2,006,854)
NONOPERATING CHANGES				
Interest and dividend income	2,170,382	-	2,170,382	2,186,195
Realized and unrealized gains (losses) on securities	9,922,208	-	9,922,208	(1,419,078)
Change in unfunded pension obligation (Note 12)	20,179,896	-	20,179,896	(12,068,149)
Gain (loss) on interest rate swap	142,482	-	142,482	(157,814)
Other (expense) revenue	(28,569)	-	(28,569)	869,657
Change in Net Assets Before Transfer	31,546,007	408,190	31,954,197	(12,596,043)
Transfer to Center for Family Life (Note 13)	1,338,000	(3,442,185)	(2,104,185)	-
Change in Net Assets	32,884,007	(3,033,995)	29,850,012	(12,596,043)
NET ASSETS				
Beginning of year	(428,532)	6,277,535	5,849,003	18,445,046
End of year	$ 32,455,475	$ 3,243,540	$ 35,699,015	$ 5,849,003

See notes to consolidated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021
(with summarized totals for the year ended June 30, 2020)

	Program Services							Supporting Services				
	Foster Care Services	Family Support Services	Early Childhood Services	Special Needs and Behavioral Health Services	Education and Youth Development Services	Shelters and Homeless Services	Total Program Services	Management and General	Development	Total Supporting Services	2021 Total Expenses	2020 Total Expenses
Salaries	$ 26,925,551	$ 8,835,702	$ 6,517,828	$ 39,336,464	$ 18,817,631	$ 9,318,744	$ 109,751,920	$ 8,428,023	$ 345,181	$ 8,773,204	$ 118,525,124	$ 130,007,067
Employee fringe benefits	9,719,706	3,133,409	2,428,448	13,390,962	6,574,243	3,389,903	38,636,671	3,126,195	125,681	3,251,876	41,888,547	45,182,211
Total Salaries and Fringe Benefits	36,645,257	11,969,111	8,946,276	52,727,426	25,391,874	12,708,647	148,388,591	11,554,218	470,862	12,025,080	160,413,671	175,189,278
Foster care pass through	7,668,684	250	-	-	-	-	7,668,934	-	-	-	7,668,934	7,865,327
Professional fees	385,160	31,093	18,092	138,462	199,594	62,018	834,419	6,002,873	63,599	6,066,472	6,900,891	5,513,261
Contractual services	1,668,532	624,306	2,604,768	3,152,554	1,378,665	5,159,913	14,588,738	695,358	194	695,552	15,284,290	14,774,187
Utilities	653,539	51,449	9,592	920,875	354,309	1,020,013	3,009,777	145,326	697	146,023	3,155,800	3,246,118
Telephone and internet	341,079	144,333	91,253	527,232	284,500	230,940	1,619,337	301,319	2,277	303,596	1,922,933	1,653,476
Transportation and staff travel	392,785	47,731	2,842	387,221	118,412	48,342	997,333	58,384	758	59,142	1,056,475	1,598,457
Repairs and maintenance	1,331,439	83,380	100,875	1,955,357	875,581	2,306,765	6,653,397	336,061	611	336,672	6,990,069	6,483,554
Postage and supplies	1,304,504	136,684	214,747	917,764	505,373	553,447	3,632,519	3,974,750	110,700	4,085,450	7,717,969	6,206,662
Program activities/incidentals	1,745,579	815,429	140,273	2,245,114	569,775	125,558	5,641,728	80,737	299,287	380,024	6,021,752	7,380,821
Food	1,144,952	44,788	583,665	1,474,744	149,905	1,097,037	4,495,091	462	113	575	4,495,666	5,388,044
Rental and lease expense (Note 17)	953,378	314,137	219,924	1,474,487	448,580	9,744,592	13,155,098	88,427	1,953	90,380	13,245,478	14,079,417
Recruiting and staff development	404,293	25,930	46,915	68,114	57,985	20,976	624,213	115,589	14,838	130,427	754,640	556,826
Insurance	1,366,929	258,285	198,006	1,745,692	821,897	646,273	5,037,082	399,816	17,217	417,033	5,454,115	5,301,202
Fees, assessments and taxes	117,325	12,186	2,676	821,607	37,740	603,867	1,595,401	1,225,313	13,711	1,239,024	2,834,425	2,320,383
Interest	129,143	4,738	793	260,489	169,980	16,050	581,193	659,169	75	659,244	1,240,437	1,991,927
Depreciation and amortization (Notes 2 and 6)	875,418	172,524	13,585	1,236,992	619,350	129,556	3,047,425	1,225,897	1,933	1,227,830	4,275,255	3,994,769
Total Expenses Before Bad Debt Expense	57,127,996	14,736,354	13,194,282	70,054,130	31,983,520	34,473,994	221,570,276	26,863,699	998,825	27,862,524	249,432,800	263,543,709
Bad debt expense	-	-	-	-	-	-	-	862,000	-	862,000	862,000	300,000
Total Expenses	$ 57,127,996	$ 14,736,354	$ 13,194,282	$ 70,054,130	$ 31,983,520	$ 34,473,994	$ 221,570,276	$ 27,725,699	$ 998,825	$ 28,724,524	$ 250,294,800	$ 263,843,709

See notes to consoldiated financial statements

SCO Family of Services and Affiliate

Consolidated Statement of Cash Flows
Year Ended June 30, 2021
(with comparative amounts for the year ended June 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 29,850,012	$ (12,596,043)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	4,275,255	3,994,769
Bad debt expense	862,000	300,000
Amortization of deferred financing costs	162,055	474,433
Amortization of bond premium/discount	3,161	3,161
Unrealized (gain) loss on securities	(9,061,553)	1,006,796
Realized (gain) loss on sale of securities	(860,655)	412,282
Change in unfunded pension obligation	(20,179,896)	12,068,149
Gain on sale of air rights	-	(885,215)
Loss on disposal of property and equipment	28,483	-
(Gain) loss on interest rate swap	(142,482)	157,814
Donated stock	(3,450)	(55,077)
Changes in operating assets and liabilities		
Program receivables	(3,127,152)	(529,588)
Prepaid expenses and other current assets	510,286	(743,880)
Security deposits and other assets	(2,400)	(11,264)
Lease payments	(641,450)	-
Accounts payable and accrued expenses	(764,639)	4,887,666
Deferred revenue	(1,856,966)	1,947,762
Due to government agencies	2,407,990	2,384,972
Accrued interest payable	2,895	15,482
Accrued pension obligation	500,000	748,000
Net Cash from Operating Activities	1,961,494	13,580,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,904,800)	(7,996,424)
Purchases of securities	(4,179,142)	(23,124,020)
Proceeds from sales of securities	2,003,450	20,954,490
Change in short term securities	(44,947)	(58,628)
Net Cash from Investing Activities	(10,125,439)	(10,224,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	1,700,000	15,149,285
Principal payments on lines of credit	(2,500,000)	(7,500,000)
Principal payments on mortgages payable	(521,199)	(1,079,639)
Principal payments on bonds payable	(1,069,135)	(1,629,713)
Proceeds from Paycheck Protection Program loan	10,000,000	-
Lease payments	(437,923)	-
Principal payments on capital lease obligations	-	(582,737)
Net Cash from Financing Activities	7,171,743	4,357,196
Change in Cash, Cash Equivalents and Restricted Cash	(992,202)	7,712,833
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	10,269,682	2,556,849
End of year	$ 9,277,480	$ 10,269,682
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,252,340	$ 2,006,728
Property and equipment acquired through capital leases	115,886	503,343
Right of use asset and related lease liability recognized upon implementation of ASU 2016-02	40,696,672	-

See notes to consolidated financial statements

1. Organization

Nature of Organization

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of SCO Foundation, of which SCO Family of Services is 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 consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently Adopted Accounting Standards

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

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

Recently Adopted Accounting Standards (continued)

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

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

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

Net Asset Presentation

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

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

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

Cash, Cash Equivalents and Restricted Cash

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

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

Cash, Cash Equivalents and Restricted Cash (continued)

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

	2021	2020
Cash and cash equivalents	$ 7,618,429	$ 8,614,085
Restricted Cash		
Debt service reserve	1,659,051	1,655,597
Total Cash, Cash Equivalents and Restricted Cash	$ 9,277,480	$ 10,269,682

Investments at Fair Value and Income Recognition

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

Net investment income earned on investment reserve funds is reflected within net assets with donor restrictions. SCO has a “total return” policy in regards to the spending of net investment income for operations. The total return to be spent annually is equal to approximately 3% of the average fair value of the previous fiscal year as approved by the Board of Directors and reported as part of operations in other income on the accompanying consolidated statement of activities. For fiscal 2021 and 2020, the approved return was $1,945,900 and $1,888,000, respectively, and was used for certain operating expenditures.

Fair Value Measurements

Accounting Standards Codification (“ASC”) 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as SCO would use in pricing SCO’s 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:

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

Fair Value Measurements (continued)

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

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

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

Program Receivables

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

Debt Issuance Costs

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

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

Custodial Accounts

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

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

Property and Equipment (continued)

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

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

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

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

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

Long-Lived Assets

In accordance with the provisions of ASC 360, SCO reviews long-lived assets for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the undiscounted cash flows, quoted market values or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses recognized for the years ended June 30, 2021 and 2020.

Third-Party Reimbursements and Revenue Recognition

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

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

Third-Party Reimbursements and Revenue Recognition (continued)

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

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

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

Conditional Asset Retirement Obligations

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

Allocation Methodology

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

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

Contributions and Promises to Give

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

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

Medical Self-Insurance

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

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

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

	2021	2020
Balance, beginning of year	$ 2,358,407	$ 1,710,536
Current year claims incurred and changes in estimates for claims incurred in prior years	27,975,247	26,714,899
Claims and expenses paid	(27,549,872)	(26,067,028)
Balance, end of year	$ 2,783,782	$ 2,358,407

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

Income Taxes

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

SCO adopted the provisions of ASC 740, "Income Taxes". Under ASC 740, an organization must recognize the tax liability associated with tax positions taken for tax return purposes when it is more likely than not the position will not be sustained upon examination by a taxing authority.

SCO does not believe they have taken any material uncertain tax positions and, accordingly, they have not recorded any liability for unrecognized tax benefits. SCO has filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, SCO has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended June 30, 2021 and 2020, there were no interest or penalties recorded or included in the consolidated statement of activities. SCO is subject to routine examinations by a taxing authority. As of June 30, 2021, SCO was not subject to any examination by a taxing authority. Management believes it is no longer subject to income tax examination for the years prior to 2018.

Concentration of Credit Risk

Financial instruments which potentially subject SCO to concentration of credit risk consist primarily of cash and cash equivalents, investments and program receivables. At times, SCO has cash deposits at financial institutions which exceed the Federal Depository Insurance Corporation insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these accounts is minimal. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

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

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

Endowment Fund

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

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:

	2021	2020
Financial Assets:		
Cash and cash equivalents	$ 7,618,429	$ 8,614,085
Investments at fair value	76,810,439	64,664,142
Program receivables, net	63,947,108	60,681,956
Total Financial Assets	148,375,976	133,960,183
Less: program receivables which management expects to be collected after fiscal 2022 and 2021, respectively	(7,046,618)	(3,252,733)
Less: amounts restricted by donor with time or purpose restriction	(1,800,544)	(4,834,539)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	$ 139,528,814	$ 125,872,911

SCO structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, SCO has committed a line of credit in the amount of $25,000,000 (see Notes 8 and 17). 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.

4. Investments at Fair Value *(continued)*

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

Indexed Mutual Funds

SCO has investments in indexed mutual funds. 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 has determined that Level 1 is the most appropriate classification.

Fixed Income

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

Interest Rate Swap

SCO has entered into various interest rate swap agreements to minimize its risk of the possible effects of increases in interest rates on the Series 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.

		Fair Value	
	Notional Amount	At June 30, 2021	At June 30, 2020
Interest rate swap agreements with People's United and TD Bank with fixed rates ranging from 2.897% - 3.30%. The banks pay a variable rate of interest based on US Dollar LIBOR-BBA. The agreements provide for monthly settlements and mature June 27, 2023.	$ 20,080,000	$ (193,195)	$ (335,677)

4. Investments at Fair Value *(continued)*

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

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

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, at cost	710,413	710,413
Total	$ 60,052,699	$ 66,107,138

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, 2021 and 2020. Fair value equals carrying value:

	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Indexed mutual funds	$ 46,874,945	$ -	$ -	$ 46,874,945
Fixed income:				
Government bonds	-	31,623,130	-	31,623,130
Total	$ 46,874,945	$ 31,623,130	$ -	$ 78,498,075
Liabilities:				
Interest rate swap	$ -	$ 193,195	$ -	$ 193,195

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

4. Investments at Fair Value *(continued)*

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

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

5. Program Receivables

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

	2021	2020
Rate-based program:		
Foster care services	$ 19,273,009	$ 14,881,281
Family support services	3,587,480	1,886,043
Early childhood services	3,652,446	2,875,439
Special needs and behavioral health services	12,915,173	15,462,653
Education and youth development services	14,898,840	15,791,973
Shelters and homeless services	10,300,249	10,993,575
	64,627,197	61,890,964
Less: Allowance for doubtful accounts	1,680,089	1,209,008
Total	$ 62,947,108	$ 60,681,956

6. Property and Equipment

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

	2021	2020
Land	$ 1,980,484	$ 1,983,115
Building and improvements	81,221,739	78,429,898
Furniture, equipment and vehicles	17,360,952	18,854,193
Leasehold improvements	3,915,914	4,252,265
	104,479,089	103,519,471
Less: Accumulated depreciation and amortization	60,964,075	60,678,332
Property and Equipment, net	$ 43,515,014	$ 42,841,139

6. Property and Equipment *(continued)*

At June 30, 2021 and 2020, there were $29,932,519 and $26,219,267, respectively, of fully depreciated assets still in use by SCO.

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

7. Debt Service Reserve

Under the terms of various bonds, SCO deposited with the bond trustee amounts to be held in reserve which will be withdrawn to satisfy the future installments of the bonds. Interest earned on this reserve fund will be used to reduce SCO's payment obligation under the bonds. The debt service reserve amounted to $1,659,051 and $1,655,597, which consists of cash and cash equivalents at June 30, 2021 and 2020, respectively.

8. Lines of Credit

SCO Family of Services has a line of credit with an available limit of $25,500,000 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% at both June 30, 2021 and 2020. As of June 30, 2021 and 2020, the outstanding balance was $12,700,000 and $13,500,000, respectively. The line of credit was adjusted subsequent to June 30, 2021 (see Note 17).

SCO has a bridge loan line of credit agreement with an available limit of $15,000,000 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% at both June 30, 2021 and 2020. As of June 30, 2021 and 2020, the outstanding balance was $14,999,599. 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 consisted of the following at June 30:

	2021	2020
Mortgage payable to TD Bank, due March 1, 2027, payable in monthly installments of $46,213, including interest at the rate of 4.24% per annum; secured by real estate located in Jamaica, New York.	$ 2,821,495	$ 3,243,069
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.	807,485	907,108
Total Mortgages Payable	3,628,980	4,150,177
Less: Current maturities	546,544	522,990
	$ 3,082,436	$ 3,627,187

Mortgages payable consist of the following as of June 30:

	2021	2020
Mortgages payable	$ 3,628,980	$ 4,150,177
Less: debt issuance costs	198,124	231,793
	$ 3,430,856	$ 3,918,384

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

2022	$ 546,544
2023	571,225
2024	596,668
2025	623,683
2026	651,753
Thereafter	639,107
	$ 3,628,980

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:

	2021	2020
Debt issuance costs	$ 368,107	$ 368,107
Less: accumulated amortization	169,983	136,314
	$ 198,124	$ 231,793

10. Bonds Payable

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

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

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

Unamortized premium costs relating to the issuance of the Series A and B bonds were $24,184 and $9,008, respectively, at June 30, 2021 and $26,487 and $9,866, respectively, at June 30, 2020. 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 $18,071 and $21,403 as of June 30, 2021 and 2020, 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 (see Note 9).

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

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 $193,425 and $302,484 as of June 30, 2021 and 2020, respectively, and are recorded as a reduction in bond notes payable on the accompanying consolidated statement of financial position. The Series 2013 bonds were refinanced in September 2021 (see Note 17).

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, net of accumulated amortization, totaled $19,542 and $35,535 as of June 30, 2021 and 2020, 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:

	2021	2020
Debt issuance costs	$ 2,153,217	$ 4,224,932
Less: accumulated amortization	1,922,179	3,865,510
Balance, end of year	$ 231,038	$ 359,422

10. Bonds Payable *(continued)*

In June 2021, SCO made payments on bonds payable in advance of their 2022 due dates. Future principal payments are as follows as of June 30:

	Series A and B	Series 2013	Series 2018	Total
2022	$ 69,921	$ 168,000	$ 13,750	$ 251,671
2023	73,333	2,102,260	15,000	2,190,593
2024	76,858	838,038	15,000	929,896
2025	80,687	458,418	15,000	554,105
2026	84,649	449,398	15,000	549,047
Thereafter	546,051	3,499,944	375,000	4,420,995
	$ 931,499	$ 7,516,058	$ 448,750	$ 8,896,307

11. Due to Governmental Agencies

SCO has recorded estimated liabilities of $11,704,992 and $9,297,002 at June 30, 2021 and 2020, respectively, for future settlements with funding agencies, generally related to SCO's underspending of past years' contracts.

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

12. Pension Plans

Defined Benefit Pension Plan

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

12. Pension Plans *(continued)*

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

	2021	2020
Service cost	$ 200,000	$ 200,000
Interest cost	3,504,615	4,017,715
Expected return on Plan assets	(3,993,819)	(3,867,973)
Amortization of prior service cost	2,066,224	2,066,224
Amortization of net loss	1,204,137	786,178
Net Periodic Pension Cost	$ 2,981,157	$ 3,202,144

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

A reconciliation of the changes in the Plan's benefit obligations and fair value of assets during fiscal years 2021 and 2020, and a statement of the funded status of the Plan as of June 30, are as follows:

	2021	2020
Change in projected benefit obligation:		
Projected benefit obligation at beginning of the year	$131,001,393	$116,277,336
Service cost	200,000	200,000
Interest cost	3,504,615	4,017,715
Benefits	(3,970,792)	(3,706,309)
Actuarial (gain) loss	(4,953,340)	14,212,651
Projected benefit obligation at end of the year	$ 130,735,216	$ 116,788,742

	2021	2020
Change in Plan assets:		
Fair value of Plan assets at beginning of the year	$ 58,187,464	$ 56,279,556
Actual return on Plan assets	16,010,306	3,178,728
Employer contributions	2,400,000	2,400,000
Benefits	(3,949,927)	(3,670,820)
Fair value of plan assets at the end of the year	$ 72,647,843	$ 58,187,464

12. Pension Plans *(continued)*

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

	2021	2020
Benefit obligation	$125,781,876	$131,001,393
Fair value of Plan assets	72,647,843	58,187,464
Accrued pension obligation at end of the year	$ 53,134,033	$ 72,813,929

Pension related charges other than net periodic pension cost included in net assets without donor restrictions for the years ended June 30, 2021 and 2020 consist of prior year service cost of $2,066,224 each year, net amortization loss of $1,204,137 and $786,178, respectively, and an actuarial gain (loss) of $16,990,692 and $(14,866,407), respectively.

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

2022	$ 4,321,174
2023	4,597,280
2024	4,818,084
2025	5,044,253
2026	5,279,684
2027-2031	29,281,783
	$ 53,342,258

Employer contributions expected to be paid in fiscal year ending June 30, 2022 are $2,400,000.

Investment Policy

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

	June 30, 2021		June 30, 2020	
	Amount	Percentage	Amount	Percentage
Money market/cash	$ 926,542	1 %	$ 924,932	2 %
Intermediate term bond	5,871,040	8	5,895,022	10
Corporate bond	12,047,542	17	11,947,392	20
Large cap blend U.S. stock	30,804,746	42	22,424,123	38
Large cap blend foreign stock	3,573,059	5	2,668,513	5
Large cap growth foreign stock	3,149,506	4	2,338,305	4
Diversified emerging markets stock	4,754,072	7	3,408,862	6
Allocation – 50% to 70% equity	4,421,026	6	3,180,628	5
Real estate/REIT	2,927,903	4	2,179,000	4
Tactical allocation	4,172,407	6	3,220,687	6
Fair Value of Plan Assets	$ 72,647,843	100 %	$ 58,187,464	100 %

12. Pension Plans *(continued)*

Investment Policy (continued)

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

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

The discount rate, expected long-term rate of return on assets and the rates of increase in future compensation levels used to determine the projected benefit obligation at June 30, 2021 were as follows:

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

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

12. Pension Plans *(continued)*

Supplemental Pension Plan

In 2000, SCO adopted a supplemental pension plan through an insurance company. The plan is tax-qualified as a defined contribution arrangement under IRS Section 403(b). Participants become eligible to participate on their date of hire. Funding is provided by employee withholding and an annual discretionary contribution made by SCO. Total contribution expense for the defined contribution plan was $2,700,000 for each of the years ended June 30, 2021 and 2020.

13. Transfer to Center for Family Life

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

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

Pursuant to the Agreement, at June 30, 2021, SCO withheld $200,000 to fund any additional costs in connection with the separation. Any unspent remaining balance will be transferred to CFLSP in scheduled intervals during the subsequent two years.

For the years ended June 30, 2021 and 2020, the Center for Family Life's programs recognized approximately $10,000,000 and $13,000,000 of revenue and expenses, respectively, in the consolidated financial statements of SCO.

14. Net Assets

Net Assets With Donor Restrictions

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

	2021	2020
Center for Family Life	$ 23,712	$ 2,726,944
Early childhood services	462,000	232,041
Education and youth development services	537,682	389,413
Family support services	68,370	86,228
Foster care services	80,203	74,235
Management and other indirect	546,918	1,062,012
Shelters and homeless services	31,076	55,440
Special needs and behavioral health services	50,583	208,226
	$ 1,800,544	$ 4,834,539

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

	2021	2020
Center for Family Life	$ 226,038	$ 118,375
Early childhood services	210,957	-
Education and youth development services	292,053	29,451
Family support services	1,500	20,000
Foster care services	38,326	18,789
Management and other indirect	667,173	1,294,396
Shelters and homeless services	21,687	2,286
Special needs and behavioral health services	160,646	1,926
	$ 1,618,380	$ 1,485,223

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

15. Endowment Fund

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

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

15. Endowment Fund *(continued)*

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

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

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

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

All assets included in the Brookwood Fund were indexed as mutual funds totaling $2,277,471 and $1,706,188 at June 30, 2021 and 2020, respectively.

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

	Without Donor Restrictions	With Donor Restrictions That Are Temporary in Nature	With Donor Restrictions That Are Perpetual in Nature	Total
Endowment balances as of June 30, 2019	$ 427,774	$ -	$ 1,442,996	$ 1,870,770
Unrealized loss	-	-	(164,582)	(164,582)
Transfers	(164,582)	-	164,582	-
Endowment balances as of June 30, 2020	263,192	-	1,442,996	1,706,188
Unrealized gain	-	-	571,283	571,283
Transfers	-	571,283	(571,283)	-
Transfers appropriated	571,283	(571,283)	-	-
Endowment balances as of June 30, 2021	$ 834,475	$ -	$ 1,442,996	$ 2,277,471

16. Commitments and Contingencies

Leases

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

All of SCO's leases are operating leases and are presented as right of use lease assets and short and long-term lease liabilities on the consolidated statement of financial position as of June 30, 2021. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using SCO's incremental borrowing rate. Short-term leases, which have an initial term of 12 months or less, are not recorded on the consolidated statement of financial position.

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

Aggregate rental expense for buildings and equipment for the years ended June 30, 2021 and 2020, amounted to $13,245,478 and $14,079,417, respectively.

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

The following table presents information about the amount and timing of cash flows arising from SCO's operating leases as of June 30, 2021.

Year Ending June 30,	Amount
2022	$ 10,981,377
2023	8,360,323
2024	7,911,477
2025	3,561,985
2026	3,145,847
Thereafter	1,643,108
Total undiscounted operating lease payments	35,604,117
Less: imputed interest	3,092,235
Present value of operating lease liabilities	$ 32,511,882

16. Commitments and Contingencies *(continued)*

Leases (continued)

Other Information:	
Weighted-average remaining lease term for operating leases	6.22%
Weighted-average discount rate for operating leases	4.24%

Other Matters

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

Legal Matters

SCO is involved with several cases in litigation as a defendant. A number of the cases are currently in pre-trial discovery. Management intends to vigorously defend all claims against SCO. Management believes that any claims or judgments would be covered by SCO's applicable insurance policies and the determination of any specific losses cannot be made at this time.

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

As of November 24, 2021, a number of claims had been brought against SCO under the CVA seeking compensation for alleged abuse that occurred as early as the late 1960's. These claims are in the early stages of litigation, and at this time, management and SCO's counsel are unable to estimate any potential loss resulting from these claims.

16. Commitments and Contingencies *(continued)*

COVID-19

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

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

SCO has elected to account for the PPP loan using the conditional contribution model whereby SCO will recognize proceeds from the loan as contribution income as the PPP loan forgiveness requirements are substantially met and as qualifying expenses are incurred. At June 30, 2021, these funds remain unspent.

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

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 24, 2021.

SCO Family of Services has refinanced its existing Series 2013 bond debt on September 23, 2021 (Note 10). Additionally, SCO Family of Services converted its capital bridge line of credit to long-term debt as part of this transaction, where $15,000,000 was made available to SCO as tax-exempt financing on a delayed draw basis, to be drawn upon for future capital projects at various locations within the agency. This debt was issued through a private placement with TD Bank and People's United Bank. In addition, these banks have provided a $15,000,000 line of credit to SCO Family of Services and a $10,000,000 line of credit to SCO Foundation (see Note 8).

* * * * *

SCO Family of Services and Affiliate

Supplementary Information
June 30, 2021

SCO Family of Services and Affiliate

Consolidating Schedule of Financial Position
Year Ended June 30, 2021
(with summarized totals at June 30, 2020)

	2021				
	SCO Family of Services	SCO Foundation Inc.	Eliminating Entries	Total	2020 Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 7,520,285	$ 98,144	$ -	$ 7,618,429	$ 8,614,085
Investments at fair value	634,851	76,175,588	-	76,810,439	64,664,142
Program receivables, net	63,293,205	-	(346,097)	62,947,108	60,681,956
Prepaid expenses and other current assets	1,841,315	93,977	(846,096)	1,089,196	1,619,043
Custodial accounts	862,306	-	-	862,306	564,067
Total Current Assets	74,151,962	76,367,709	(1,192,193)	149,327,478	136,143,293
Debt service reserve	1,659,051	-	-	1,659,051	1,655,597
Security deposits and other assets	508,809	-	-	508,809	506,409
Assets held for transfer, net	2,366,559	-	-	2,366,559	-
Right of use assets	33,192,470	-	-	33,192,470	-
Property and equipment, net	43,515,014	-	-	43,515,014	42,841,139
Restricted investments	1,442,996	-	-	1,442,996	1,442,996
	$ 156,836,861	$ 76,367,709	$ (1,192,193)	$ 232,012,377	$ 182,589,434
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	$ 38,500,174	$ -	$ -	$ 38,500,174	$ 39,264,813
Accrued interest payable	21,169	-	-	21,169	18,274
Accrued pension obligation - current portion	2,400,000	-	-	2,400,000	2,400,000
Custodial accounts	862,306	-	-	862,306	564,067
Deferred revenue, current portion	9,363,368	-	-	9,363,368	10,807,497
Due to SCO Family of Services	-	1,192,193	(1,192,193)	-	-
Lines of credit	27,699,599	-	-	27,699,599	28,499,599
Mortgages payable, net, current portion	512,874	-	-	512,874	489,320
Bonds payable, net, current portion	177,434	-	-	177,434	112,257
Lease payables, current portion	9,738,624	-	-	9,738,624	414,128
Due to government agencies, current portion	840,351	-	-	840,351	1,594,145
Total Current Liabilities	90,115,899	1,192,193	(1,192,193)	90,115,899	84,164,100
Accrued pension obligation, net of current portion	50,734,033	-	-	50,734,033	70,413,929
Deferred revenue, net of current portion	215,201	11,318	-	226,519	639,356
Mortgages payable, net	2,917,982	-	-	2,917,982	3,429,064
Bonds payable, net	8,487,835	-	-	8,487,835	9,490,602
Lease payables, net of current portion	22,773,258	-	-	22,773,258	564,846
Paycheck Protection Program loan	10,000,000	-	-	10,000,000	-
Due to government agencies, net of current portion	10,864,641	-	-	10,864,641	7,702,857
Interest rate swap liability	193,195	-	-	193,195	335,677
Total Liabilities	196,302,044	1,203,511	(1,192,193)	196,313,362	176,740,431
Net Assets (Deficit)					
Without donor restrictions - operations	(1,299,625)	75,037,135	-	73,737,510	61,033,399
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	(41,282,035)	-	-	(41,282,035)	(61,461,931)
Total Net Assets (Deficit) Without Donor Restrictions	(42,581,660)	75,037,135	-	32,455,475	(428,532)
With donor restrictions- perpetual in nature	1,442,996	-	-	1,442,996	1,442,996
With donor restrictions- temporary in nature	1,673,481	127,063	-	1,800,544	4,834,539
Total Net Assets (Deficit)	(39,465,183)	75,164,198	-	35,699,015	5,849,003
	$ 156,836,861	$ 76,367,709	$ (1,192,193)	$ 232,012,377	$ 182,589,434

See independent auditors' report

SCO Familly of Services and Affiliate

Consolidating Schedule of Activities
Year Ended June 30, 2021
(with summarized totals for the year ended June 30, 2020)

	SCO Family of Services			SCO Foundation Inc.						
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Total	Eliminating Entries	2021 Total	2020 Total
OPERATING REVENUE AND SUPPORT										
Government revenue	$ 237,742,330	$ 46,645	$ 237,788,975	$ -	$ -	$ -	$ 237,788,975	$ -	$ 237,788,975	$ 249,063,336
Foundations and other grants	5,347,914	795,215	6,143,129	-	18,682	18,682	6,161,811	(320,070)	5,841,741	6,415,054
Prior year cost reimbursement adjustments	663,336	-	663,336	-	-	-	663,336	-	663,336	618,401
Contributions	488,755	436,243	924,998	3,935	14,097	18,032	943,030	-	943,030	2,075,312
Contributions from SCO Foundation Inc.	1,945,900	-	1,945,900	-	-	-	1,945,900	(1,945,900)	-	-
Other income	1,994,346	-	1,994,346	1,945,900	-	1,945,900	3,940,246	-	3,940,246	3,368,308
Special events less costs with direct benefit to donors of $189,809 and $162,617	473,815	138,205	612,020	67,050	6,200	73,250	685,270	-	685,270	296,444
Net assets released from restrictions	727,027	(727,027)	-	320,070	(320,070)	-	-	-	-	-
Total Operating Revenue and Support	249,383,423	689,281	250,072,704	2,336,955	(281,091)	2,055,864	252,128,568	(2,265,970)	249,862,598	261,836,855
OPERATING EXPENSES										
Program Services										
Foster care services	57,127,996	-	57,127,996	13,682	-	13,682	57,141,678	(13,682)	57,127,996	57,662,325
Family support services	14,736,330	-	14,736,330	24	-	24	14,736,354	-	14,736,354	18,366,248
Early childhood services	13,194,282	-	13,194,282	-	-	-	13,194,282	-	13,194,282	14,682,876
Special needs and behavioral health services	70,054,130	-	70,054,130	196	-	196	70,054,326	(196)	70,054,130	75,851,435
Education and youth development services	31,983,520	-	31,983,520	-	-	-	31,983,520	-	31,983,520	36,146,985
Shelters and homeless services	34,473,994	-	34,473,994	-	-	-	34,473,994	-	34,473,994	35,983,977
Total Program Services	221,570,252	-	221,570,252	13,902	-	13,902	221,584,154	(13,878)	221,570,276	238,693,846
Supporting Services										
Management and general	27,693,957	-	27,693,957	2,326,977	-	2,326,977	30,020,934	(2,295,235)	27,725,699	22,820,981
Development	995,537	-	995,537	8,215	-	8,215	1,003,752	(4,927)	998,825	2,328,882
Total Supporting Services	28,689,494	-	28,689,494	2,335,192	-	2,335,192	31,024,686	(2,300,162)	28,724,524	25,149,863
Total Operating Expenses	250,259,746	-	250,259,746	2,349,094	-	2,349,094	252,608,840	(2,314,040)	250,294,800	263,843,709
Change in Net Assets from Operations	(876,323)	689,281	(187,042)	(12,139)	(281,091)	(293,230)	(480,272)	48,070	(432,202)	(2,006,854)
NONOPERATING CHANGES										
Interest and dividend income	60,964	-	60,964	2,109,419	-	2,109,419	2,170,383	-	2,170,383	2,186,195
Realized and unrealized gains (losses) on securities	310,510	-	310,510	9,611,698	-	9,611,698	9,922,208	-	9,922,208	(1,419,078)
Change in unfunded pension obligation	20,179,896	-	20,179,896	-	-	-	20,179,896	-	20,179,896	(12,068,149)
Gain (loss) on interest rate swap	142,481	-	142,481	-	-	-	142,481	-	142,481	(157,814)
Management fee	48,070	-	48,070	-	-	-	48,070	(48,070)	-	-
Other (expense) revenue	(28,569)	-	(28,569)	-	-	-	(28,569)	-	(28,569)	869,657
Change in Net Assets Before Transfer	19,837,029	689,281	20,526,310	11,708,978	(281,091)	11,427,887	31,954,197	-	31,954,197	(12,596,043)
Transfer to Center for Family Life	1,338,000	(3,442,185)	(2,104,185)	-	-	-	(2,104,185)	-	(2,104,185)	-
Change in Net Assets	21,175,029	(2,752,904)	18,422,125	11,708,978	(281,091)	11,427,887	29,850,012	-	29,850,012	(12,596,043)
NET ASSETS (DEFICIT)										
Beginning 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
End of year	$ (42,581,660)	$ 3,116,477	$ (39,465,183)	$ 75,037,135	$ 127,063	$ 75,164,198	$ 35,699,015	$ -	$ 35,699,015	$ 5,849,003

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