

THE CHILDREN'S AID SOCIETY



Consolidated Financial Statements
(Together with Independent Auditors' Report)
For The Years Ended June 30, 2016 and 2015

and

Single Audit Reports and Schedule
For The Year Ended June 30, 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

THE CHILDREN'S AID SOCIETY
CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
AND
SINGLE AUDIT REPORTS AND SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
of The Children's Aid Society

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Aid Society (the "Agency"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards ("SEFA") for the year ended June 30, 2016 (shown on pages 27-28), as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is 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 December 6, 2016, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the Agency's internal control over financial reporting and compliance.



New York, NY

December 6, 2016, except for the SEFA as to which date is March 27, 2017

THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
ASSETS:		
Cash and cash equivalents (Notes 2C and 11)	\$ 13,362	\$ 3,311
Accounts and grants receivable, net (Notes 2E and 3)	21,394	20,076
Contributions receivable, net (Notes 2D, 2F and 4)	1,623	2,688
Accrued interest receivable	206	286
Debt service reserve (Notes 16 and 17)	22,332	126
Deferred financing costs (Note 16)	1,250	635
Prepaid expenses and other assets	1,620	2,123
Investments (Note 2G, 5, and 13)	291,394	304,594
Split interest agreement investments (Note 14)	3,135	3,567
Property and equipment, net (Note 2H and 6)	45,679	31,107
 TOTAL ASSETS	 \$ 401,995	 \$ 368,513
 LIABILITIES:		
Accounts payable (Note 14)	\$ 2,395	\$ 4,172
Accrued expenses	9,475	6,059
Accrued pension and post-retirement liability (Note 9)	52,506	39,539
Deferred income	2,423	843
Split interest liabilities (Note 14)	138	193
Loan payable (Note 16)	7,000	7,000
Bonds payable (Note 17)	40,580	-
Other liabilities	486	486
 TOTAL LIABILITIES	 115,003	 58,292
 COMMITMENTS AND CONTINGENCIES (Note 10)		
 NET ASSETS: (Note 2B)		
Unrestricted:		
Board designated special purpose funds (Note 7)	13,210	17,618
Net investment in property and equipment	21,681	24,868
Undesignated	233,622	255,385
	268,513	297,871
Temporarily restricted (Notes 7 and 8)	11,918	6,539
Permanently restricted (Note 7)	6,561	5,811
 TOTAL NET ASSETS	 286,992	 310,221
 TOTAL LIABILITIES AND NET ASSETS	 \$ 401,995	 \$ 368,513

The accompanying notes are an integral part of these consolidated financial statements.

THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	Year Ended June 30, 2016			Year Ended June 30, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
OPERATING REVENUE AND SUPPORT:								
Government support (Note 2F)	\$ 80,315	\$ -	\$ -	\$ 80,315	\$ 79,938	\$ -	\$ -	\$ 79,938
Program services fees and dues	5,648	-	-	5,648	6,374	-	-	6,374
Contributions (Note 2D)	3,539	12,805	750	17,094	4,212	13,788	-	18,000
Bequests (Note 2D)	1,535	-	-	1,535	190	-	-	190
Estates and trusts	742	-	-	742	231	-	-	231
Rental income	779	-	-	779	643	-	-	643
Investment return used for operations and special initiatives (Note 5)	17,407	-	-	17,407	15,840	-	-	15,840
Gain on sale of property and equipment (Note 6)	19,771	-	-	19,771	39,176	-	-	39,176
Other revenue	120	-	-	120	-	-	-	-
Net assets released from restrictions for operations (Notes 2B and 8)	7,245	(7,245)	-	-	17,456	(17,456)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	137,101	5,560	750	143,411	164,060	(3,668)	-	160,392
OPERATING EXPENSES (Note 2J):								
Program Services:								
Early Childhood	16,223	-	-	16,223	15,160	-	-	15,160
School Age	21,117	-	-	21,117	19,115	-	-	19,115
Adolescent and Carrera Pregnancy Prevention Program	12,891	-	-	12,891	14,261	-	-	14,261
Health and Wellness	15,682	-	-	15,682	14,570	-	-	14,570
Child Welfare and Family Services	40,254	-	-	40,254	43,265	-	-	43,265
National Center for Community Schools	1,384	-	-	1,384	1,262	-	-	1,262
Total Program Services	107,551	-	-	107,551	107,633	-	-	107,633
Supporting Services:								
Management and General	18,859	-	-	18,859	16,441	-	-	16,441
Fundraising	3,200	-	-	3,200	3,123	-	-	3,123
Total Supporting Services	22,059	-	-	22,059	19,564	-	-	19,564
TOTAL OPERATING EXPENSES	129,610	-	-	129,610	127,197	-	-	127,197
CHANGE IN NET ASSETS FROM OPERATIONS	7,491	5,560	750	13,801	36,863	(3,668)	-	33,195
NON-OPERATING ACTIVITIES (Note 2J):								
Investment return in excess (deficit) of amount used for operations (Note 5)	(26,028)	(181)	-	(26,209)	(8,800)	-	-	(8,800)
Pension related changes other than net periodic pension costs (Note 9)	(10,821)	-	-	(10,821)	(7,932)	-	-	(7,932)
CHANGE IN NET ASSETS FROM NONOPERATING ACTIVITIES	(36,849)	(181)	-	(37,030)	(16,732)	-	-	(16,732)
CHANGE IN TOTAL NET ASSETS	(29,358)	5,379	750	(23,229)	20,131	(3,668)	-	16,463
Net assets - beginning of year	297,871	6,539	5,811	310,221	277,740	10,207	5,811	293,758
NET ASSETS - END OF YEAR	\$ 268,513	\$ 11,918	\$ 6,561	\$ 286,992	\$ 297,871	\$ 6,539	\$ 5,811	\$ 310,221

The accompanying notes are an integral part of these consolidated financial statements.

THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Program Services Expenses							
	Early Childhood		School Age		Adolescent and Carrera Pregnancy Prevention Program		Health and Wellness	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaries	\$ 10,331	\$ 9,837	\$ 12,739	\$ 11,909	\$ 7,421	\$ 7,919	\$ 7,773	\$ 7,436
Employee health and retirement benefits	2,350	1,985	1,767	1,556	1,644	1,588	1,816	1,700
Payroll taxes	976	910	1,203	1,103	701	740	734	692
Total salaries and related expenses	13,657	12,732	15,709	14,568	9,766	10,247	10,323	9,828
Professional fees	70	69	434	258	1,261	2,420	1,069	921
Supplies	338	447	666	671	158	146	1,741	1,658
Telephone and communication	55	71	163	163	101	81	126	149
Postage and shipping	2	2	8	7	9	6	9	8
Occupancy	827	740	1,265	900	416	177	822	610
Outside printing and promotion	5	2	23	19	13	28	31	31
Local travel and related expenses	11	15	97	107	99	126	118	112
Training, conferences, conventions and partnership grants	164	137	648	432	73	162	50	36
Special events	-	-	-	-	-	-	-	-
Specific assistance to or for individuals	30	22	712	633	541	556	87	71
Foster Boarding Home	-	-	-	-	-	-	-	-
Repairs	25	8	51	41	3	5	55	94
Insurance	146	108	180	141	105	88	248	194
Membership dues	6	9	15	27	3	-	61	13
Food	607	582	506	431	113	125	45	23
Information Technology	78	133	129	283	96	59	255	272
Depreciation and amortization	202	82	504	428	117	28	477	387
Interest expense	-	-	-	-	-	-	149	149
Miscellaneous	-	1	7	6	17	7	16	14
Total expenses	\$ 16,223	\$ 15,160	\$ 21,117	\$ 19,115	\$ 12,891	\$ 14,261	\$ 15,682	\$ 14,570

The accompanying notes are an integral part of these consolidated financial statements.

THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Program Services Expenses					
	Child Welfare and Family Services		National Center for Community Schools		Total	
	2016	2015	2016	2015	2016	2015
Salaries	\$ 17,419	\$ 18,029	\$ 743	\$ 739	\$ 56,426	\$ 55,869
Employee health and retirement benefits	4,504	4,353	197	182	12,278	11,364
Payroll taxes	1,645	1,680	70	69	5,329	5,194
Total salaries and related expenses	23,568	24,062	1,010	990	74,033	72,427
Professional fees	1,612	1,625	63	58	4,509	5,351
Supplies	210	231	8	7	3,121	3,160
Telephone and communication	402	443	16	17	863	924
Postage and shipping	52	56	3	3	83	82
Occupancy	2,267	2,286	69	66	5,666	4,778
Outside printing and promotion	17	48	13	12	102	140
Local travel and related expenses	571	626	70	51	966	1,037
Training, conferences, conventions and partnership grants	99	490	9	1	1,043	1,258
Special events	-	-	-	-	-	-
Specific assistance to or for individuals	789	2,621	-	2	2,159	3,905
Foster Boarding Home	9,116	9,251	-	-	9,116	9,251
Repairs	5	13	8	-	147	161
Insurance	270	220	10	8	959	759
Membership dues	37	29	-	-	122	78
Food	109	137	90	40	1,470	1,338
Information Technology	203	186	11	3	772	937
Depreciation and amortization	653	671	4	4	1,957	1,600
Interest expense	219	219	-	-	368	368
Miscellaneous	55	51	-	-	95	79
Total expenses	\$ 40,254	\$ 43,265	\$ 1,384	\$ 1,262	\$ 107,551	\$ 107,633

The accompanying notes are an integral part of these consolidated financial statements.

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THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Supporting Services Expenses						Total Program and Supporting Services Expenses	
	Management and General		Fundraising		Total		2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015
Salaries	\$ 9,316	\$ 8,426	\$ 1,799	\$ 1,557	\$ 11,115	\$ 9,983	\$ 67,541	\$ 65,852
Employee health and retirement benefits	2,289	2,066	458	378	2,747	2,444	15,025	13,808
Payroll taxes	890	790	170	145	1,060	935	6,389	6,129
Total salaries and related expenses	12,495	11,282	2,427	2,080	14,922	13,362	88,955	85,789
Professional fees	2,432	2,313	100	227	2,532	2,540	7,041	7,891
Supplies	149	89	30	35	179	124	3,300	3,284
Telephone and communication	155	85	14	14	169	99	1,032	1,023
Postage and shipping	27	20	67	47	94	67	177	149
Occupancy	1,215	888	72	108	1,287	996	6,953	5,774
Outside printing and promotion	166	97	27	106	193	203	295	343
Local travel and related expenses	137	119	5	7	142	126	1,108	1,163
Training, conferences, conventions and partnership grants	255	93	7	17	262	110	1,305	1,368
Special events	9	10	350	352	359	362	359	362
Specific assistance to or for individuals	71	47	-	-	71	47	2,230	3,952
Foster Boarding Home	-	-	-	-	-	-	9,116	9,251
Repairs	38	40	-	-	38	40	185	201
Insurance	122	105	25	17	147	122	1,106	881
Membership dues	29	40	-	-	29	40	151	118
Food	51	105	16	12	67	117	1,537	1,455
Information Technology	1,124	824	39	80	1,163	904	1,935	1,841
Depreciation and amortization	262	246	11	12	273	258	2,230	1,858
Interest expense	-	-	-	-	-	-	368	368
Miscellaneous	122	38	10	9	132	47	227	126
Total expenses	\$ 18,859	\$ 16,441	\$ 3,200	\$ 3,123	\$ 22,059	\$ 19,564	\$ 129,610	\$ 127,197

THE CHILDREN'S AID SOCIETY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (23,229)	\$ 16,463
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,200	1,827
Amortization of deferred financing costs	30	31
Pension related changes other than net periodic pension costs	10,821	7,932
Bad debt	116	916
Change in discount on contributions receivable	-	(1)
Realized and unrealized loss (gain) on investments	11,652	(1,247)
Gain on disposal of property and equipment	(19,771)	(39,176)
Subtotal	(18,181)	(13,255)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	(1,434)	(3,179)
Contributions receivable	1,065	184
Accrued interest receivable	80	8
Prepaid expenses and other assets	503	(1,074)
Increase (decrease) in:		
Accounts payable	(1,777)	(244)
Accrued expenses	3,416	(105)
Accrued pension and postretirement liability	2,146	957
Deferred income	1,580	462
Split interest liabilities	(55)	-
Net Cash Used in Operating Activities	(12,657)	(16,246)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(18,625)	(6,851)
Proceeds from sale of property and equipment (net)	21,624	39,176
Purchases of investments	(199,920)	(456,329)
Proceeds from sale/maturity of investments	201,900	434,111
Net Cash Provided by Investing Activities	4,979	10,107
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bond payable	40,580	-
Funding of debt service reserve	(22,206)	-
Deferred financing costs	(645)	-
Net Cash Provided by Financing Activities	17,729	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,051	(6,139)
Cash and cash equivalents, beginning of year	3,311	9,450
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 13,362	\$ 3,311
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 388	\$ 368

The accompanying notes are an integral part of these consolidated financial statements.

**THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Children's Aid Society ("Children's Aid"), founded in 1853, is a New York not-for-profit organization, as defined by Section 501(c)(3) of the Internal Revenue Code. Through award-winning and time-proven strategies, Children's Aid has transformed social services in New York City and across the nation, helping children achieve healthier and more fulfilling lives and families become more stable and successful.

On December 14, 2009, Children's Aid formed 910 East 172nd Street, LLC ("910 LLC"), a limited liability company, pursuant to and in accordance with the Limited Liability Company Law of the State of New York. As the sole member, Children's Aid manages the affairs of the LLC.

On August 8, 2012, Children's Aid acquired Milbank Housing Development Fund Corporation ("Milbank") by becoming the sole member of Milbank.

On March 11, 2014, Children's Aid formed 1218 Southern Blvd, LLC ("1218 LLC") and 1232 Southern Blvd, LLC ("1232 LLC"), limited liability companies, pursuant to and in accordance with the Limited Liability Company Law of the State of New York. As sole member, Children's Aid manages the affairs of the LLCs.

The consolidated financial statements of Children's Aid have been prepared by consolidating the financial statements of The Children's Aid Society, 910 East 172nd Street, LLC, 1218 Southern Blvd, LLC, 1232 Southern Blvd, LLC and the Milbank Housing Development Fund Corporation ("collectively "the Agency"). All material intercompany transactions and balances have been eliminated in the consolidation. The consolidated financial statements have been prepared on the accrual basis of accounting. The Agency adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP").

The programs that form the pillars of Children's Aid's approach are:

Early Childhood

The Early Childhood division prepares young children for school success through physical, social, emotional, and cognitive development. Core services include Early Head Start (ages 0-3) and Head Start and Early Learn day care (ages 3-5).

School Age

The School Age division focuses on ages 5-13 (kindergarten through 8th grade), and promotes physical, social and emotional well-being as key factors for high school graduation and college success. School Age programs operate in Children's Aid locations and in full-service community school partnerships, and engage children, families, schools and communities through an integrated focus on academics, services, supports, and opportunities. Core services include Out-of-School Time Programs in Children's Aid community centers and schools; summer camps; athletic programming; and the National Center for Community Schools, which provides technical assistance to develop the community school model nationally and internationally.

Adolescence

The Adolescence division works with adolescents and young adults to enhance young people's physical, social, and emotional competencies, improve their academic performance, and prepare them for successful careers and financial independence. Core services include the Carrera-Adolescent Pregnancy Prevention Program, which meets the top tier evidence of effectiveness standards by The Coalition for Evidence-Based Policy; the EXCEL college support program providing assistance to help young people enter and complete college; the Hope Leadership Academy, which provides wrap-around supports and develops leadership through a peer education model; and teen employment services such as AmeriCorps internships, Summer Youth Employment Program, and the New York Times Employment Program.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES (Continued)

Health & Wellness

The Health & Wellness division provides high-quality services that reduce health disparities among children and families living in poverty. This includes comprehensive medical, mental health and dental services delivered by pediatricians, nurse practitioners, social workers, psychiatrists, dentists, health educators, medical assistants, and other support staff. Specialized programs also aim to reduce childhood obesity, and educate children and families about the benefits of healthy living through diet, nutrition and exercise.

Child Welfare & Family Services

The Child Welfare & Family Services ("CWFS") division promotes child and family stability through legal and housing advocacy; home-based services for children at risk of foster care placement; and supports for young adults at risk of disconnection from society, many of whom have been involved with the criminal justice system. CWFS also finds high-quality, loving homes for children placed in foster care and supports parents seeking to reunify with their children. Additional programs include: the Family Wellness Program, which offers comprehensive services to families impacted by domestic violence; the Next Generation Center where teens and young adults, particularly those aging out of foster care, are supported in their transition to adulthood; the Office of Client Advocacy, which stabilizes low-income families through legal advocacy and material assistance; and College Savers, which establishes savings accounts and provides incentives towards saving for college.

The National Center for Community Schools

The National Center for Community Schools builds the capacity of schools, districts, community partners and government agencies to organize their human and financial resources around student success.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting*** – The Agency adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP") and prepares its consolidated financial statements using the accrual method of accounting. All inter-company transactions are eliminated.

B. ***Net Asset Classification*** - The Agency maintains its net assets under the following three classes:

Unrestricted – This represents net assets not subject to donor-imposed stipulations and that have no time restrictions. Unrestricted net assets include amounts designated by the Board of Trustees (the "Board") for specific purpose and net assets for operations. In addition, Children's Aid maintains a balance of unrestricted reserves which it spends against in a fashion similar to endowment reserves.

Temporarily Restricted – This represents net assets subject to donor-imposed stipulations that will be met by actions of the Agency or by the passage of time. In addition, earnings on endowment assets are classified as temporarily restricted until appropriated for operations by the Board of Trustees. When a stipulated time restriction ends or purpose restriction is accomplished or endowment earnings are appropriated for operations, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted – This represents net assets subject to donor-imposed restrictions on the corpus of the gifts specifying they be maintained in perpetuity.

C. ***Cash and Cash Equivalents*** - The Agency classifies all highly liquid investments purchased with maturities of three months or less when acquired, as cash and cash equivalents, except that any such investments purchased with funds held by investment managers or bond trustees are classified with the applicable assets.

D. ***Contributions/Pledges Receivable*** - Contributions received, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are recognized when they become unconditional, that is, when the conditions are substantially met. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of the acquisition of such long-lived assets. Bequests are recognized when the Agency receives notification that the probate court has declared the will is valid.

- E. **Allowance for Uncollectible Receivables** – The Agency determines whether an allowance for uncollectible receivables should be provided for accounts and grants receivable and contributions receivable. Such estimate is based on management's assessment of the aged basis of its government funding sources, current economic conditions, creditworthiness of its donors and historical experience. As of June 30, 2016 and 2015, the Agency determined an allowance of approximately \$982,000 and \$1,049,000, respectively, for accounts and grants receivable was necessary. The difference between the contribution amounts pledged and collected has historically been insignificant. Accordingly, no provision has been made for uncollectible contributions receivable.
- F. **Government Support** - Government grants and contracts are reported as revenue when expenses are incurred in accordance with the terms of the agreement. The Agency records certain governmental support based upon per diem rates paid by agencies of the City of New York and State of New York governments. These rates are subject to audit by the respective agencies.
- G. **Investments** - Investments are stated at their fair values. Investment gains and losses are included in the changes in unrestricted net assets for the gains and losses that are unrestricted, and in the changes in temporarily restricted net assets for the gains and losses that are restricted for the support of certain Children's Aid programs. Alternative investments in limited partnerships and private equity are stated at fair value as estimated in an unquoted market. The fair values of limited partnerships are determined by the investment managers or general partners. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Other alternative investments are stated at Net Asset Value ("NAV") which approximates fair value. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. Because of the inherent uncertainty of valuations of alternative investments, values for these investments may differ significantly from values that would have been used had a ready market for the investments existed.

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 13.

- H. **Property and Equipment** - The Agency follows the practice of capitalizing expenditures for buildings and building improvements, furniture and equipment having a cost of \$5,000 or more and useful life of 5 years or more. Depreciation is recognized using the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements is charged at the lesser of the life of the improvements or the lease. Depreciation is not recorded on land and construction-in-progress.

The range of estimated useful lives follows:

Buildings and improvements	15 - 40 years
Furniture and equipment	5 -10 years
Leasehold improvements	Life of lease

- I. **Use of Estimates** – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- J. **Operating and Non-Operating Activities** – The Agency includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including all contributions except for endowments that have been permanently restricted by donors. Investment income, including realized and unrealized gains and losses, earned in excess of (or less than) the Agency's aggregate spending amount (see Note 5), and pension related changes other than periodic pension costs are recognized as non-operating activities.
- K. **Reclassifications:** Certain line items in the June 30, 2015 consolidated financial statements have been reclassified to conform to the June 30, 2016 presentation. These changes are reflected in the consolidated statements of financial position and had no impact on the change in net assets for the year ended June 30, 2015.

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following (*in thousands*):

	2016	2015
Due from the City of New York	\$ 14,908	\$ 12,855
Due from the State of New York	5,045	5,635
Due from Federal government	1,623	1,643
Due from other sources	800	992
	22,376	21,125
Less: Allowance for uncollectible amounts	(982)	(1,049)
	\$ 21,394	\$ 20,076

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following (*in thousands*):

	2016	2015
Bequests receivable	\$ 407	\$ 610
Pledges receivable	1,216	2,078
	\$ 1,623	\$ 2,688

Bequests receivable are expected to be collected in less than one year. Pledges are expected to be collected as follows (*in thousands*):

	2016	2015
Less than one year	\$ 1,123	\$ 1,953
One to five years	94	127
Discount for the time value of money	(1)	(2)
	\$ 1,216	\$ 2,078

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – INVESTMENTS

Investments consist of the following as of June 30, 2016 and 2015 (*in thousands*):

	<u>2016</u>	<u>2015</u>
Cash and money market funds	\$ 6,076	\$ 21,024
Common stocks	144,710	152,179
Fixed income	75,491	63,638
Alternative investments:		
Private equity	40	40
Other investments	<u>65,077</u>	<u>67,713</u>
 Total	 <u>\$ 291,394</u>	 <u>\$ 304,594</u>

Private equity investments consist of donated interests in two limited partnerships. The underlying investments are a real estate property and an interest in entertainment properties. Other investments consist of Children's Aid's investments in hedge funds and limited partnerships. The hedge funds have varying investment strategies, including domestic equities, emerging markets, and relative and absolute value opportunities.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could be material.

Investment activity (net of fees) consists of the following for the years ended June 30, 2016 and 2015 (*in thousands*):

	<u>2016</u>	<u>2015</u>
Realized (loss) gain	\$ (842)	\$ 15,208
Unrealized loss	(10,810)	(13,961)
Interest and dividends (net of investment fees)	<u>2,850</u>	<u>5,793</u>
	<u>\$ (8,802)</u>	<u>\$ 7,040</u>
 Designation of investment activity:		
Amount used for operations and special initiatives	\$ 17,407	\$ 15,840
Amount less than used for operations	<u>(26,209)</u>	<u>(8,800)</u>
	<u>\$ (8,802)</u>	<u>\$ 7,040</u>

Investment fees amounted to approximately \$1,476,000 and \$1,762,000 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2016 and 2015 (*in thousands*):

	<u>2016</u>	<u>2015</u>
Land	\$ 5,782	\$ 5,811
Buildings and improvements	25,602	28,598
Furniture and equipment	7,978	7,856
Leasehold improvements	6,742	8,201
Construction in progress (See below)	<u>21,988</u>	<u>7,400</u>
 Total cost	 68,092	 57,866
 Less: accumulated depreciation and amortization	 <u>(22,413)</u>	 <u>(26,759)</u>
 Net book value	 <u>\$ 45,679</u>	 <u>\$ 31,107</u>

**THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 – PROPERTY AND EQUIPMENT (Continued)

Depreciation expense amounted to \$2,200,000 and \$1,827,000 for the years ended June 30, 2016 and 2015, respectively. During the year ended June 30, 2016, Children's Aid sold property and equipment for net proceeds of approximately \$21,624,000, which resulted in a gain of approximately \$19,771,000. During the year ended June 30, 2015, Children's Aid sold property and equipment for net proceeds of approximately \$39,176,000, which resulted in a gain of approximately \$39,176,000.

Construction in progress is primarily for the construction of the building located at 1232 Southern Blvd., Bronx, NY to house the Children's Aid College Prep Charter School and related Children's Aid programs. The estimated total project cost is \$45 million with expected completion in Spring 2017.

NOTE 7 – ENDOWMENT NET ASSETS

Endowment net assets consist of donor-restricted endowment funds and board designated special purpose funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. See Note 2B for how Children's Aid maintains its net assets.

Children's Aid recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated.

Children's Aid's Board has interpreted NYPMIFA as allowing Children's Aid to appropriate for expenditure or accumulate so much of an endowment fund as Children's Aid determines is prudent for the uses, benefits, purposes and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument.

For donor-restricted endowment funds and other unrestricted reserves, the Board of Trustees of Children's Aid makes investment policies. Investments consist of equity and fixed income securities to provide a balance that will enhance total return while avoiding undue risk through excessive concentration in any single asset class or individual security. Asset allocation is determined by the Investment Committee and reviewed regularly. The equity investment managers selected will provide a balance of investment styles, both growth and value, large and small cap, and the fixed income managers will invest in investment grade bonds and notes.

For the years ended June 30, 2016 and 2015, the distribution for current spending was based on the organization's investment and spending policy, as adopted by the Board of Trustees. This policy is compliant in all material respects with the standards established under the New York Prudent Management of Institutional Funds Act (NYPMIFA), and provides guidance for the use of the organization's unrestricted reserves and permanent endowments. For the years ended June 30, 2016 and 2015, the primary distribution for current spending was 5.75% and 6.25%, respectively, of the average fair value of the endowment and reserve funds on the last business day of each of the prior 20 calendar quarters. The spending rate excludes the proceeds of any real estate sales or other significant one-time additions to the endowment if those funds are intended for use in a designated project but includes the projected minimum required pension contribution for the coming year. The Board of Trustees may from time to time authorize additional distributions for specific purposes.

Permanently restricted endowment funds are classified as "restricted as to income" or "unrestricted as to income" as follows (*in thousands*):

	<u>2016</u>	<u>2015</u>
Investment in perpetuity, the income from which is expendable to support designated activities of Children's Aid	\$ 2,741	\$ 2,741
Investment in perpetuity, the income from which is expendable to support any activities of Children's Aid	<u>3,820</u>	<u>3,070</u>
	<u>\$ 6,561</u>	<u>\$ 5,811</u>

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 – ENDOWMENT NET ASSETS (Continued)

Changes in endowment investments for year ended June 30, 2016 (*in thousands*):

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Investments</u>
Endowment net assets, July 1, 2015	\$ 17,618	\$ 602	\$ 5,811	\$ 24,031
<u>Activity:</u>				
Additions	921	-	750	1,671
Investment income	32	60	-	92
Net depreciation (realized and unrealized)	(128)	(241)	-	(369)
Appropriated for operations	<u>(5,233)</u>	<u>(32)</u>	<u>-</u>	<u>(5,265)</u>
Total activity	<u>(4,408)</u>	<u>(213)</u>	<u>-</u>	<u>(3,871)</u>
Endowment net assets, June 30, 2016	<u>\$ 13,210</u>	<u>\$ 389</u>	<u>\$ 6,561</u>	<u>\$ 20,160</u>

Changes in endowment investments for year ended June 30, 2015 (*in thousands*):

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Investments</u>
Endowment net assets, July 1, 2014	\$ 17,443	\$ 673	\$ 5,811	\$ 23,927
<u>Activity:</u>				
Additions	2,587	-	-	2,587
Investment income	92	65	-	157
Net appreciation (realized and unrealized)	105	74	-	179
Appropriated for operations	<u>(2,609)</u>	<u>(210)</u>	<u>-</u>	<u>(2,819)</u>
Total activity	<u>175</u>	<u>(71)</u>	<u>-</u>	<u>104</u>
Endowment net assets, June 30, 2015	<u>\$ 17,618</u>	<u>\$ 602</u>	<u>\$ 5,811</u>	<u>\$ 24,031</u>

Children's Aid's policy is that endowment earnings will be appropriated for expenditures in accordance with the donor's stipulations. In the absence of donor stipulations, endowment earnings are classified as temporarily restricted until appropriated for operations by the Board of Trustees. As of June 30, 2016 and 2015, all earnings without donor stipulations were appropriated by the Board of Trustees, and are classified as unrestricted. As of June 30, 2016 and 2015, endowment earnings with donor stipulations amounted to \$389,000 and \$602,000, respectively, and are classified under temporarily restricted net assets.

In accordance with U.S. GAAP, Children's Aid is required to disclose any deterioration of the fair value of assets associated with donor restricted funds that fall below the level the donor requires Children's Aid to retain in perpetuity. The deficiencies may result from unfavorable market fluctuations that occurred in the economy as a whole that may have affected the donor restricted fund where the fair value of the donor restricted fund fell below the amount that is required to be retained permanently. As of June 30, 2016 and 2015, Children's Aid had not incurred a deficiency in its donor-restricted endowment funds.

Permanently restricted endowment net assets amounting to approximately \$6,561,000 and \$5,811,000 are included with investments on the consolidated statements of financial position as of June 30, 2016 and 2015, respectively.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2016 and 2015 (*in thousands*):

	2016	2015
Administration	\$ 493	\$ 186
Adolescence Programs	2,952	586
Child Welfare & Family Services Programs	1,287	155
Early Childhood Programs	566	430
Health and Wellness Programs	3,182	3,480
National Center for Community Schools	223	96
School Age Programs	3,215	1,606
	<u>\$ 11,918</u>	<u>\$ 6,539</u>

Net assets of approximately \$7,245,000 and \$17,456,000 were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the years ended June 30, 2016 and 2015, respectively. During the year ended June 30, 2016, the Agency decreased net assets released from restriction by approximately \$5.9 million for expenses that had been released in prior fiscal years.

NOTE 9 - DEFINED BENEFIT AND POST RETIREMENT PLANS ("Plans")

Children's Aid has a noncontributory defined benefit pension plan covering many of its full-time employees. The benefits are based on years of service and an employee's compensation. The pension benefit formula was revised effective July 1, 2011 resulting in a reduction in the benefits earned after July 1, 2011. Children's Aid makes annual contributions that meet the requirements of minimum funding and maximum contribution limitations. The defined benefit pension plan was amended and restated effective January 1, 2011. Based on the amendment, no employee who first completes an hour of service for the employer on or after January 1, 2012 shall become a participant in the defined benefit plan.

In addition to providing pension benefits, Children's Aid provides certain health care and life insurance benefits for retired employees subject to predefined limits and eligibility requirements. The postretirement plan is currently noncontributory, however, Children's Aid reserves the right to request contributions into the plan. An amendment to the plan has been made excluding from the postretirement plan employees who are hired after July 1, 2010.

The funded status of the Plans as of June 30, 2016 and 2015 is as follows (*in thousands*):

	Pension benefits	Post retirement benefits	Pension benefits	Post retirement benefits
Change in benefit obligation:	2016		2015	
Benefit obligation at beginning of year	\$ 89,735	\$ 12,863	\$ 81,661	\$ 11,178
Interest cost	3,916	584	3,587	507
Service cost	2,593	637	1,981	611
Actuarial loss	5,706	860	4,526	902
Benefits paid	(2,607)	(311)	(2,020)	(335)
Benefit obligation at end of year	99,343	14,633	89,735	12,863
Fair value of plan assets	61,470	-	63,059	-
Unfunded status	<u>\$ (37,873)</u>	<u>\$ (14,633)</u>	<u>\$ (26,676)</u>	<u>\$ (12,863)</u>

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - DEFINED BENEFIT AND POST RETIREMENT PLANS (Continued)

Amounts recognized in unrestricted net assets for the Plans consist of the following as of June 30, 2016 and 2015 (*in thousands*):

	Pension benefits		Post retirement benefits	
	2016		2015	
Net actuarial loss (gain)	\$ 41,187	\$ 42	\$ 31,572	\$ (884)
Prior service credit	(162)	(890)	(186)	(972)
Transition asset	(1,392)	-	(1,392)	-
	<u>\$ 39,807</u>	<u>\$ (848)</u>	<u>\$ 29,994</u>	<u>\$ (1,856)</u>

As of June 30, 2016 and 2015, the accumulated benefit obligation for the Defined Benefit Plan was approximately \$97,634,000 and \$88,273,000, respectively.

The components of net periodic benefit cost for the Plans for the years ended June 30, 2016 and 2015, are as follows (*in thousands*):

	Pension benefits		Post retirement benefits	
	2016		2015	
Interest cost	\$ 3,916	\$ 584	\$ 3,587	\$ 507
Service cost	2,593	637	1,981	611
Expected return on plan assets	(4,154)	-	(4,151)	-
Amortization of net loss (gain)	1,978	(65)	1,509	(51)
Amortization of prior service cost	(25)	(82)	(25)	(82)
Amortization of net transition asset	(174)	-	(174)	-
	<u>\$ 4,134</u>	<u>\$ 1,074</u>	<u>\$ 2,727</u>	<u>\$ 985</u>

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2016 and 2015, are as follows (*in thousands*):

	Pension benefits		Post retirement benefits	
	2016		2015	
Net loss (gain)	\$ 9,614	\$ 926	\$ 6,697	\$ 954
Amortization of prior service cost	25	82	25	82
Amortization of transition asset	174	-	174	-
Total recognized in change in unrestricted net assets	<u>\$ 9,813</u>	<u>\$ 1,008</u>	<u>\$ 6,896</u>	<u>\$ 1,036</u>

For the year ending June 30, 2016, Children's Aid made total contributions of \$2,750,000 into the defined-benefit pension plan, and expects to meet the minimum required contributions for Plan years 2016 and 2017.

The weighted average assumptions used to determine the benefit obligation for the defined benefit plan as of and for the years ended June 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.50%	4.50%
Expected return on plan assets	6.75%	6.75%
Salary increase	3.00%	3.00%

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 - DEFINED BENEFIT AND POST RETIREMENT PLANS (Continued)

The weighted average assumptions used to determine the benefit obligation for the post-retirement plan as of and for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	4.00%	4.60%
Expected return on plan assets	N/A	N/A
Salary increase	3.00%	3.00%

The assumed health care cost trend rate at June 30, 2016 is 3.84%. Increasing the assumed medical care cost trend rates by one percent in each year would increase the accumulated postretirement benefit obligation by \$3,024,205 as of June 30, 2016, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year by \$300,065.

Decreasing the assumed health care cost trend rates by one percent would decrease the accumulated postretirement benefit obligation by \$2,288,304 as of June 30, 2016, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$222,976.

The following schedule of benefit payments, which reflects expected future services, as appropriate, are expected to be paid in each of the next five years and in the aggregate for the five years thereafter (*in thousands*):

	<u>Pension benefits</u>	<u>Post retirement benefits</u>
2017	\$ 4,927	\$ 341
2018	3,513	355
2019	3,578	379
2020	3,624	403
2021	3,385	411
2022-2026	22,163	2,538

The defined benefit pension plan was amended to revise the formula of accruing pension benefits effective July 1, 2011. In addition, the defined benefit pension plan was amended to provide that any individuals hired on or after January 1, 2012, shall not be eligible to participate in the plan.

The defined benefit pension plan's asset allocation as of June 30, 2016 and 2015, by asset category is as follows (*in thousands*):

	<u>2016</u>	<u>2015</u>
Cash	\$ 3,323	\$ 2,416
Common stock	27,320	37,299
Preferred stock	522	693
Mutual funds	20,328	14,491
Fixed income	<u>9,977</u>	<u>8,160</u>
	<u>\$ 61,470</u>	<u>\$ 63,059</u>

The expected long-term rate of return reflects an expected real rate of return and an underlying inflation component per year. As of June 30, 2016 and 2015, the defined benefit pension plan assets are carried at fair value. All defined benefit pension plan assets are classified under Level 1 of the fair value hierarchy (see Note 13 for the definitions of fair value hierarchy) except fixed income, which is classified under Level 2.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – COMMITMENTS AND CONTINGENCIES

- A. In February 2015, Children's Aid signed a 5 year lease agreement for space located at 711 Third Avenue, New York, that will serve as the Agency's administrative offices. In addition, Children's Aid leases several other premises under operating lease agreements.

Minimum required annual lease payments are as follows (*in thousands*):

Year ending June 30:	
2017	\$ 3,984
2018	3,482
2019	3,486
2020	3,162
2021	1,604
Subsequent to 2021	<u>13,054</u>
	<u>\$ 28,772</u>

There are also a number of other rentals of premises utilized for programs. Charges for these premises are calculated on a specific use basis rather than on a periodic rental basis. For the years ended June 30, 2016 and 2015 rent expense amounted to approximately \$4,300,000 and \$2,893,000, respectively.

- B. Children's Aid is a defendant with respect to various claims as a result of incidents alleged to have occurred during the normal course of business, in connection with activities sponsored by Children's Aid. Management and legal counsel believe the ultimate resolution of these claims will not have a material impact on the consolidated financial position and changes in net assets of Children's Aid.
- C. Children's Aid believes it has no uncertain tax positions as of June 30, 2016 and 2015, in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 11 – CONCENTRATION

Cash and cash equivalents that potentially subject the Agency to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits (\$250,000) by approximately \$7,865,000 and \$2,730,000, as of June 30, 2016 and 2015, respectively.

NOTE 12 – RELATED-PARTY TRANSACTIONS

Children's Aid has a 25% membership interest in United Charities, a New York not-for-profit organization. Children's Aid rented premises under a lease with United Charities. Certain top management employees are board members of United Charities. For the years ended June 30, 2016 and 2015, rent expense was \$84,774 and \$508,644, respectively. United Charities has submitted an application for dissolution with the New York State Office of the Attorney General.

In August 2014, the Agency along with its fellow United Charities member organizations (Community Services Society and New York Mission Society), sold the above mentioned building located at 105 East 22nd Street, New York which was the Agency's headquarters, at an agreed-upon price of approximately \$128 million. As a result of the sale, Children's Aid received gross proceeds amounting to approximately \$31 million. The Agency moved to new headquarters located at 711 Third Avenue, New York, effective August 2015 (See Note 10).

In fiscal year 2012, Children's Aid started the Children's Aid College Prep Charter School ("Charter School"). The Charter School is a related party through certain Board commonality. Children's Aid provides administrative support services and other enrichment programs and services to the students of Charter School ("wrap-around services") to the Charter School under an agreement between the two entities. The Charter School pays an administrative fee equal to 10.6% of total operating expenses, excluding rent and depreciation to CAS for the administrative services, which amounted to \$461,017 and \$485,152, respectively, for the years ended June 30, 2016 and 2015. For the years ended June 30, 2016 and 2015, the wrap-around services and other changes amounted to \$475,084 and \$447,474, respectively.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – RELATED-PARTY TRANSACTIONS (Continued)

1232 Southern Boulevard, LLC, which is a consolidated entity of Children's Aid, is the borrower of record for tax-exempt bonds issued to finance the development of property for the future home of the Charter School and certain other Children's Aid programs. 1232 Southern Boulevard, LLC has also signed a lease with the Charter School. The Charter School did not make a lease payment to Children's Aid during the year ended June 30, 2016 because the school was under construction. Completion of the school building is expected in time for the 2017-2018 school year, at which time rental payment from the Charter School to 1232 Southern Boulevard, LLC will commence.

Children's Aid routinely receives contributions from private donors to benefit the Charter School program. These contributions are passed through by Children's Aid to the Charter School. Such funds amounted to \$377,947 and \$272,750, respectively, for the years ended June 30, 2016 and 2015. As of June 30, 2016 and 2015, Charter School owed \$208,814 and \$339,865, respectively to Children's Aid.

NOTE 13 - FAIR VALUE MEASUREMENTS

In determining fair value, Children's Aid utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Investments in equity securities (except International Commingled Funds) are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. U.S. Government and corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc.)

Equity Securities – International Commingled Funds, Alternative Investments – Hedge funds, Emerging Market are recorded at fair value in an amount equal to the Net Asset Value (“NAV”), as reported by the investment manager, or shares or units held by Children's Aid at year end. These investments are categorized under Level 2 fair value measurements.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the year ended June 30, 2016 and 2015, there were no transfers in or out of levels 1, 2 or 3.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at June 30, 2016, are classified as Level 1, Level 2 and Level 3 in the table as follows (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 6,076	\$ -	\$ -	\$ 6,076
Equity Securities:				
International commingled funds	-	23,618	-	23,618
Consumer discretionary/staples	27,106	-	-	27,106
Information technology	24,343	-	-	24,343
Industrials	21,440	-	-	21,440
Energy	6,692	-	-	6,692
Financial	15,599	454	-	16,052
Other	25,252	207	-	25,459
Total Equity Securities	<u>120,431</u>	<u>24,279</u>	<u>-</u>	<u>144,710</u>
Fixed income:				
Treasury bills	8,154	-	-	8,154
U.S. Government bonds	-	1,335	-	1,335
Corporate bonds	-	15,391	-	15,391
Government related	-	65	-	65
Mututal funds	50,546	-	-	50,546
Total Fixed Income	<u>58,700</u>	<u>16,791</u>	<u>-</u>	<u>75,491</u>
Alternate Investments:				
Hedge funds	-	21,491	19,552	41,043
Limited partnership interests	-	-	24,034	24,034
Private equity	-	-	40	40
Total Alternate Investments	<u>-</u>	<u>21,491</u>	<u>43,626</u>	<u>65,117</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 185,207</u>	<u>\$ 62,561</u>	<u>\$ 43,626</u>	<u>\$ 291,394</u>

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at June 30, 2015, are classified as Level 1, Level 2 and Level 3 in the table as follows (*in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market funds	\$ 21,024	\$ -	\$ -	\$ 21,024
Equity Securities:				
International commingled funds	-	25,762	-	25,762
Consumer discretionary/staples	31,066	-	-	31,066
Information technology	28,908	-	-	28,908
Industrials	18,971	-	-	18,971
Energy	6,849	-	-	6,849
Financial	15,042	-	-	15,042
Other	25,581	-	-	25,581
Total Equity Securities	<u>126,417</u>	<u>25,762</u>	<u>-</u>	<u>152,179</u>
Fixed income:				
Treasury bills	5,590	-	-	5,590
U.S. Government bonds	-	2,716	-	2,716
Corporate bonds	-	4,502	-	4,502
Government related	-	66	-	66
Mutual funds	50,764	-	-	50,764
Total Fixed Income	<u>56,354</u>	<u>7,284</u>	<u>-</u>	<u>63,638</u>
Alternate Investments:				
Hedge funds	-	21,628	26,191	47,819
Limited partnership interests	-	-	19,894	19,894
Private equity	-	-	40	40
Total Alternate Investments	<u>-</u>	<u>21,628</u>	<u>46,125</u>	<u>67,753</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 203,795</u>	<u>\$ 54,674</u>	<u>\$ 46,125</u>	<u>\$ 304,594</u>

Investments in alternative investments are designated as Level 3 since the valuations for such investments are based on unobservable inputs. It is not meant to be indicative of the classification of the investments in the underlying portfolio of the investment in alternative investments into the fair value hierarchy.

The reconciliation for the years ended June 30, 2016 and 2015 of Level 3 investments measured at estimated fair value is as follows (*in thousands*):

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 46,125	\$ 40,227
Purchases	3,781	4,893
Sales/Redemptions	(3,972)	-
Unrealized and realized (loss) gain, net	<u>(2,308)</u>	<u>1,005</u>
Balance at June 30	<u>\$ 43,626</u>	<u>\$ 46,125</u>

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 13 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth additional disclosures of the Children's Aid's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2016.

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Restrictions</u>	<u>Redemption Notice Period</u>
International commingled funds	\$ 23,618,286	\$ -	Monthly to semi-annual	None	None to 6 days
Limited partnership interests	24,033,998	-	Quarterly	None	30 to 60 days
Hedge funds	34,732,515	-	Periodic to annual	None to 3 yrs	None to 90 days
Hedge fund – international	<u>6,310,317</u>	<u>-</u>	Quarterly	Yes	60 days
Total	<u>\$ 88,695,116</u>	<u>\$ -</u>			

The following table sets forth additional disclosures of the Children's Aid's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2015.

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Restrictions</u>	<u>Redemption Notice Period</u>
International commingled funds	\$ 25,761,568	\$ -	Monthly to semi-annual	None	None to 6 days
Limited partnership interests	19,894,080	-	Quarterly	None	30 to 60 days
Hedge funds	41,798,724	-	Periodic to annual	None to 3 yrs	None to 90 days
Hedge fund – international	<u>6,020,707</u>	<u>-</u>	Quarterly	Yes	60 days
Total	<u>\$ 93,475,079</u>	<u>\$ -</u>			

The investment strategy and objective of Children's Aid's investments whose fair value is estimated using net asset value per share are as follows:

- **International Commingled Funds** - includes investments in a diversified portfolio of equity securities of companies located in any country other than the United States of America as well as funds that engage in options, swaps and exchange traded funds in U.S. Markets. The funds objective is to utilize markets inefficiencies to realize returns.
- **Hedge Funds** – Hedge funds include investments through a "Master Fund" as well as a global special-situations fund that invests, long and short, across the capital structure. The investment objective of the Master Fund is to provide compound annual long-term returns that are superior to the broad market average while having less risk than the overall stock market. The Funds invest primarily in highly liquid equity and equity related securities of public issuers in the United States of America and non-U.S. issuers with minimum average daily trading volumes of approximately \$20 million or greater at the time of initial investment.

The global special-situations fund uses hedging and directional investment strategies, as deemed appropriate, to capitalize on relative and absolute value opportunities among reorganized/value equities, distressed debt, private financings, stressed debt, high yield debt and leveraged bank debt. The fund seeks to benefit from higher risk-return opportunities during times of asset class or sector dislocations and in normal times to invest in limited-risk investments.

- **Hedge Fund – International** – Hedge fund – International employs a multi-strategy trading approach which includes hedge, diversification and active equity positions. The fund maintains a wide range of arbitrage positions to further protect against risk and maximize returns in any market condition. The fund seeks out various opportunities for potential revenue creation in order to realize high returns in favorable market conditions while minimizing losses in adverse periods.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 - SPLIT INTEREST AGREEMENTS

Split interest agreements include the following:

- A. **Charitable Gift Annuities** - Children's Aid administers various charitable gift annuities. Under terms of agreements for such charitable gift annuities, assets are transferred to Children's Aid and are available for unrestricted use. Children's Aid agrees to pay the grantor or other designated beneficiary a stipulated amount over the beneficiary's lifetime. Investment assets for the charitable gift annuities totaled \$2,685,000 and \$3,117,000 as of June 30, 2016 and 2015, respectively, and are reported at fair value under split interest agreement investments in the accompanying consolidated statements of financial position. The underlying assets are valued at Level 1 in the fair value hierarchy.

On an annual basis, Children's Aid revalues the annuity payment liability based on actuarial assumptions. The present value of the estimated future payments as of June 30, 2016 and 2015, amounted to \$101,000 and \$156,000, respectively, and was calculated using discount rates ranging from 2% to 5% for the years ended June 30, 2016 and 2015, and the applicable mortality table. This annuity payment liability has been included in split interest agreement liabilities in the accompanying consolidated statements of financial position.

Children's Aid also recorded a decrease in value for charitable gift annuities of \$466,118 and \$323,393 for the years ended June 30, 2016 and 2015, respectively, which were included as decreases in unrestricted contributions on the accompanying consolidated statements of activities. For the years ended June 30, 2016 and 2015, donors made contributions into the annuity fund. Based on the donor's life expectancy and the applicable discount rate, contributions of approximately \$10,000 and \$29,000 for the years ended June 30, 2016 and 2015, respectively, were recorded as unrestricted contributions in the accompanying consolidated statements of activities.

- B. **Pooled Income Fund** - Children's Aid also administers a pooled income fund. The fund is divided into units, and contributions from various donors are pooled. Donors are assigned a specific number of units and receive the actual income earned on those units until death. The portion of the donor's contribution attributable to the present value of the future benefits to be received by Children's Aid is recorded as a temporarily restricted contribution in the period the donor's contribution is made. The assets contributed must be invested in the fund until the donor's death. At that time, the value of the units assigned to the donor will revert to Children's Aid, and those assets will be released from restriction. Pooled income assets included with split interest agreement assets amounted to \$300,000 as of June 30, 2016 and 2015, and are reported at fair value. The underlying assets are valued at Level 1 in the fair value hierarchy.

Income earned by the fund and due to the life beneficiary as of June 30, 2016 and 2015, amounted to \$37,000 and has been included in split interest agreement liabilities on the accompanying consolidated statements of financial position. No contributions were made to the pooled income fund during the years ended June 30, 2016 and 2015, respectively.

- C. **Charitable Lead Trusts** - Children's Aid is a beneficiary of a charitable lead trust. The trust is a Charitable Lead Annuity Trust, from which Children's Aid receives \$50,000 annually, which is equal to 5% of initial net fair value of the property placed in this trust as finally determined for federal tax purposes. As of June 30, 2016 and 2015, the beneficial interest in the lead trust of \$149,000, is included in split interest agreement assets representing the present value of the future cash flow from the trust, which was calculated using discount rates ranging from .28% to .69%.

NOTE 15 – VOLUNTARY RETIREMENT PLAN AND SUPPLEMENTAL RETIREMENT PLAN

- A. Children's Aid offers a 403(b) retirement plan covering all employees who are not covered by a collective bargaining agreement. All employees can make salary reduction contributions. For full-time employees hired on or after January 1, 2012, Children's Aid makes contributions to the plan. Such contributions amounted to approximately \$413,000 and \$346,000 for the years ended June 30, 2016 and 2015, respectively.
- B. Children's Aid offers a Supplemental Executive Retirement Plan ("SERP") for the Chief Executive Officer of Children's Aid. There were no accrued benefits under the plan as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, related benefit costs were \$18,000 per year.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 16 – LOAN PAYABLE

During 2011, 910 East 172nd Street LLC (the "LLC"), an affiliate of Children's Aid obtained a *Qualified Low Income Community Investment* loan from Primary Care Development Corporation Empire State Health Opportunities Fund I, LLC ("PCDC"). The loan is secured by building and improvements. Children's Aid is the guarantor for the loan. The loan was obtained in connection with the property obtained and owned by the LLC at 910 East 172nd Street, Bronx, New York. A portion of the property is leased to Children's Aid ("CAS space") and the remaining space is leased to another non-profit ("Tenant space"). The loan was \$7 million funded in two tranches – one tranche in the principal amount of up to \$5,303,418 in connection with the acquisition, renovation and improvement of CAS space and the other in the principal amount of \$1,696,582 in connection with the acquisition, renovation and improvement of the Tenant space. Each tranche was funded in two disbursements. The first disbursement of \$2,775,000 was received during 2011 and the final disbursement of \$4,225,000 was received in September 2012.

As of June 30, 2016 and 2015, the loan payable to PCDC amounted to \$7,000,000, respectively, with a maturity date of March 25, 2036 and interest rate of 5.26%. Interest expense was approximately \$368,000 for the years ended June 30, 2016 and 2015, respectively.

For the first eighteen months, loan payments of \$12,164 per month are for interest only. After the final disbursement, interest only payments will be \$30,684 per month for the next eighty-four (84) months. Payments of principal and interest will begin thereafter, calculated based on the outstanding principal balance at that time. Repayment will be made over one hundred ninety-nine (199) equal installments of principal and interest in the approximate amount of \$52,792 per month until maturity date.

Deferred financing costs (net of amortization) of approximately \$605,000 and \$635,000, respectively, as of June 30, 2016 and 2015, respectively, associated with the loan payable are being amortized over the life of the loan. Amortization expense was approximately \$30,000 for each of the years ended June 30, 2016 and 2015. Children's Aid is required to maintain a debt service reserve with PCDC equal to six months principal and interest, which amounted to approximately \$126,000 as of June 30, 2016 and 2015.

Children's Aid is required to maintain a Debt Service Coverage Ratio ("DSCR") for the twelve month period beginning July 1, 2012 and on an annual basis thereafter, of at least 1.20 to 1. As of June 30, 2016 and 2015, Children's Aid is in compliance. In addition, Children's Aid is required to maintain a ratio of (i) total net assets to total assets of not less than 10%, (ii) current assets to current liabilities of not less than 1.1 to 1.0. As of June 30, 2016 and 2015, Children's Aid is in compliance with these ratios. Children's Aid is also required to comply with certain representations, warranties and covenants under the new markets tax credit structure.

NOTE 17 – BOND PAYABLE

On July 1, 2015, 1232 Southern Blvd, LLC issued 30-year tax-exempt bonds through the Build NYC Resource Corporation in the amount of \$37,205,000 to finance the planning and construction of the building located at 1232 Southern Blvd., Bronx, NY to house the Children's Aid College Prep Charter School and related Children's Aid programs. Children's Aid is the guarantor of the bonds. The bonds are structured as a bank direct purchase loan.

The bonds have an average coupon rate of approximately 4.8%. During the year ended June 30, 2016, capitalized interest related to the bonds amounted to approximately \$1,584,000.

The bonds were issued at a premium of approximately \$3,492,000. The premium is being amortized over the term of the bond. For the year ended June 30, 2016, amortization amounted to approximately \$116,000. Financing costs of approximately \$715,000 were deferred and are being amortized over the term of the bond. For the year ended June 30, 2016, amortization expense amounted to approximately \$24,000.

THE CHILDREN'S AID SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 17 – BOND PAYABLE (Continued)

The bond indenture requires that proceeds are held in a separate account held by the bond trustee until they are used for construction. Such funds amounted to approximately \$22,206,000 as of June 30, 2016.

Future annual principal payments of the bonds are as follows for the years ending after June 30, 2016 (*in thousands*):

Year ending June 30:	
2017	\$ -
2018	625
2019	650
2020	675
2021	705
Subsequent to 2021	<u>34,550</u>
	<u>\$ 37,205</u>

NOTE 18 – SUBSEQUENT EVENTS

Management has evaluated, for potential accrual or disclosure, events subsequent to the date of the consolidated statements of financial position through December 6, 2016, the date the consolidated financial statements were issued.

**THE CHILDREN'S AID SOCIETY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Sub-recipients</u>
Department of Agriculture:				
Passed through the New York State Department of Health Child and Adult Care Food Program (CACFP)	10.558	3040	\$ 810,804	\$ -
Total Department of Agriculture:			<u>810,804</u>	<u>-</u>
Department of Justice:				
Passed through the New York State Office of Victim Services Crime Victim Assistance	16.575	C100021	556	-
Passed through the Boys and Girls Clubs of America Juvenile Mentoring Program	16.726	32278, 32279, 32280, 32281	<u>116,171</u>	<u>-</u>
Total Department of Justice			<u>116,727</u>	<u>-</u>
Department of Labor:				
Passed through the New York City Department of Youth and Child Development (DYCD) Workforce Investment Act Youth Activities	17.259	90918	<u>202,628</u>	<u>-</u>
Total Department of Labor:			<u>202,628</u>	<u>-</u>
Department of Education:				
Passed through the New York State Office of Alcoholism and Substance Abuse Services (OASAS) Chemical Dependency and Problem Gambling Treatment, Prevention Support Services	84.184	C-004150	417,202	-
Passed through the New York State Education Department 21st Century Community Learning Centers	84.287	C-402215	81,280	-
Passed through the New York State Higher Education Corp. College Access Challenge - NY (CACFG) College Access Challenge	84.378A	T112253	35,415	-
Investing in Innovation Fund	84.411	U411C130085	<u>675,605</u>	<u>-</u>
Total Department of Education			<u>1,209,502</u>	<u>-</u>
Department of Health and Human Services:				
Passed through the New York State Department of Health Family Planning - Services	93.217	C-027059, C-019909	<u>189,425</u>	<u>-</u>
Passed through the New York State Department of Health Affordable Care Act Abstinence Education Program	93.235	C028570	<u>157,883</u>	<u>-</u>
Passed through the New York City Department of Health and Mental Hygiene Immunization Cooperative Agreements	93.268	GP003	<u>445,894</u>	<u>-</u>
Center for Disease Control and Prevention Teen Pregnancy Prevention Program	93.297	80548	<u>13,440</u>	<u>-</u>
Passed through the New York City Department of Youth and Child Development (DYCD) Community Services Block Grant DYCD - Adult Literacy Program - CS211 DYCD - Adult Literacy Program - IS218 DYCD - NDA Family Wellness Bronx DYCD - NDA Family Wellness Dunlevy-Milbank DYCD - NDA High School Aged Youth DYCD - NDA Family Wellness East Harlem DYCD - NDA Family Wellness IS218	93.569 93.569 93.569 93.569 93.569 93.569 93.569	766623 766624 810305 831005 831104 831105 831206	87,302 105,317 1,762 10,834 76,288 100,510 94,054	- - - - - - -
Total 93.569			<u>476,067</u>	<u>-</u>

See independent auditors' report.

**THE CHILDREN'S AID SOCIETY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Sub-recipients</u>
Passed through the New York City Administration for Children's Services (ACS)				
Head Start				
ACS - Head Start (Early Learn)	93.600	20131406889	\$ 4,315,794	\$ -
ACS - Head Start (Early Learn) - Health and Safety	93.600	20131406889	30,102	-
Direct Federal Award				
Federal Head Start	93.600	02CH0291/18	2,477,041	-
Federal Head Start	93.600	02CH3028/01, 02CH3028/02	967,074	-
Total 93.600			<u>7,790,011</u>	<u>-</u>
Passed through the New York City Administration for Children's Services				
Chafee Foster Independence Program	93.674	20120000004	60,176	-
Passed through the New York City Administration of Children's Services				
Temporary Assistance for Needy Families (TANF)	93.714	20140003707	1,430,794	-
Passed through the New York State Department of Health				
Children's Health Insurance Program ("CHIP")	93.767	C027822	1,367	-
Passed through the New York State Department of Health				
Medical Assistance Program	93.778	C027006	128,919	-
Passed through the New York State Department of Health				
Maternal and Child Health Services Block Grant to the States Comprehensive Adolescent Pregnancy Prevention Program	93.994	C027006	35,857	-
Passed through the New York State Department of Health				
Maternal and Child Health Services Block Grant to the States School Based Health Centers	93.994	C-022447	32,944	-
Total 93.994			<u>68,801</u>	<u>-</u>
Total Department of Health and Human Services			<u>10,762,777</u>	<u>-</u>
Corporation for National and Community Service				
Passed through the NYC Mayor's Office Center of Economic Opportunity				
Social Innovation Fund	94.019	None	112,633	-
Passed through the Edna McConnell Clark Foundation				
Social Innovation Fund	94.019	11023	55	-
Social Innovation Fund	94.019	13055	85,459	-
Total Corporation for National and Community Service			<u>198,147</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 13,300,585</u>	<u>\$ -</u>

**THE CHILDREN'S AID SOCIETY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule" or "SEFA") includes the federal grant activity of The Children's Aid Society ("the "Agency") under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Agency.

NOTE 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 or other applicable cost principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - SUBRECIPIENTS

These were no payments made to sub-recipients from federal awards expended during the year ended June 30, 2016.

NOTE 4 – INDIRECT COST RATE

The Agency has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' 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**

The Board of Trustees
of The Children's Aid Society

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 The Children's Aid Society (the "Agency") which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



New York, NY
December 6, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

The Board of Trustees
of The Children's Aid Society

Report on Compliance for Each Major Federal Program

We have audited The Children's Aid Society's (the "Agency") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2016. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Agency'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 ("GAS"), and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency'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 the major federal programs. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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.



New York, NY
March 27, 2017

**THE CHILDREN'S AID SOCIETY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I—Summary of Auditors' Results

Financial Statements

Type of Auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	_____ Yes <u> X </u> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes <u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	_____ Yes <u> X </u> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes <u> X </u> None reported
Type of auditors' report issued on compliance for major programs	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	_____ Yes <u> X </u> No

Identification of major programs:

U.S. Department of Health and Human Services

- Child and Adult Care Food Program (CACFP) (10.558)
- Head Start Grant (93.600)
- Temporary Assistance for Needy Families (TANF) (93.714)

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

**THE CHILDREN'S AID SOCIETY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Prior Year Findings:

No matters were reported.