

Consolidated Financial Statements and  
Supplementary Information Together with  
Report of Independent Certified Public Accountants

**THE CHILDREN'S AID SOCIETY**

June 30, 2018 and 2017

# THE CHILDREN'S AID SOCIETY

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Trustees of  
**The Children's Aid Society:**

We have audited the accompanying consolidated financial statements of The Children's Aid Society (the "Agency" or "Children's Aid"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 of 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 Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Children's Aid Society as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary Information

Our audits was conducted for the purpose of forming an opinion on the consolidated financial statements of The Children's Aid Society as of and for the years ended June 30, 2018 and 2017, as a whole. The accompanying supplementary information on pages 36 through 38 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York  
February 1, 2019

**THE CHILDREN'S AID SOCIETY**  
**Consolidated Statements of Financial Position**  
As of June 30, 2018 and 2017  
(in thousands)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2 and 11)	\$ 13,421	\$ 12,740
Accounts and grants receivable, net (Notes 2 and 3)	26,140	18,104
Contributions receivable, net (Notes 2 and 4)	1,460	1,537
Debt service reserve (Notes 16 and 17)	219	10,157
Facilities acquisition escrow	4,525	-
Prepaid expenses and other assets	2,036	1,662
Investments (Notes 2, 5, and 13)	305,634	313,158
Split-interest agreement investments (Note 14)	4,007	3,152
Property and equipment, net (Notes 2 and 6)	67,004	59,759
Total assets	<u>\$ 424,446</u>	<u>\$ 420,269</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 2,084	\$ 3,978
Accrued expenses	12,497	12,120
Deferred revenue	2,948	2,115
Split-interest obligations (Note 14)	2,803	1,861
Loan payable, net (Note 16)	6,456	6,426
Bonds payable, net (Note 17)	39,122	39,841
Accrued pension and post-retirement liability, net (Note 9)	52,519	61,209
Other liabilities	129	446
Total liabilities	<u>118,558</u>	<u>127,996</u>
<b>NET ASSETS (Note 2)</b>		
Unrestricted (Note 7)	281,510	271,646
Temporarily restricted (Notes 7 and 8)	17,567	13,816
Permanently restricted (Note 7)	6,811	6,811
Total net assets	<u>305,888</u>	<u>292,273</u>
Total liabilities and net assets	<u>\$ 424,446</u>	<u>\$ 420,269</u>

*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, 2018 and 2017**  
**(in thousands)**

	Year Ended June 30, 2018				Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
<b>OPERATING REVENUE AND SUPPORT</b>								
Government support (Note 2)	\$ 86,567	\$ -	\$ -	\$ 86,567	\$ 80,415	\$ -	\$ -	\$ 80,415
Program services fees and dues	5,475	-	-	5,475	4,025	-	-	4,025
Contributions (Note 2)	9,204	10,958	-	20,162	8,455	7,939	250	16,644
Bequests (Note 2)	2,659	-	-	2,659	1,532	-	-	1,532
Estates and trusts	260	-	-	260	512	-	-	512
Rental income	1,168	-	-	1,168	663	-	-	663
Investment return used for operations and special initiatives (Note 5)	19,190	-	-	19,190	16,288	-	-	16,288
Other revenue	388	569	-	957	291	-	-	291
In-kind contributions	2,482	-	-	2,482	1,993	-	-	1,993
Net assets released (transferred) from board designated special purpose funds	(1,102)	-	-	(1,102)	4,157	-	-	4,157
Net assets released from the real estate net asset fund	2,296	-	-	2,296	-	-	-	-
Net assets released from restrictions for operations (Notes 2 and 8)	7,776	(7,776)	-	-	6,041	(6,041)	-	-
Total operating revenue and support	<u>136,363</u>	<u>3,751</u>	<u>-</u>	<u>140,114</u>	<u>124,372</u>	<u>1,898</u>	<u>250</u>	<u>126,520</u>
<b>OPERATING EXPENSES (Note 2)</b>								
<b>Program Services</b>								
Early Childhood	17,514	-	-	17,514	17,955	-	-	17,955
School Age	24,922	-	-	24,922	20,332	-	-	20,332
Adolescent and Carrera Pregnancy Prevention Program	8,380	-	-	8,380	10,416	-	-	10,416
Health and Wellness	16,764	-	-	16,764	16,069	-	-	16,069
Child Welfare and Family Services	42,081	-	-	42,081	39,147	-	-	39,147
National Center for Community Schools	1,359	-	-	1,359	1,424	-	-	1,424
Total program services	<u>111,020</u>	<u>-</u>	<u>-</u>	<u>111,020</u>	<u>105,343</u>	<u>-</u>	<u>-</u>	<u>105,343</u>
<b>Supporting Services</b>								
Management and general	21,960	-	-	21,960	21,565	-	-	21,565
Fundraising	3,308	-	-	3,308	3,163	-	-	3,163
Total supporting services	<u>25,268</u>	<u>-</u>	<u>-</u>	<u>25,268</u>	<u>24,728</u>	<u>-</u>	<u>-</u>	<u>24,728</u>
Total operating expenses	<u>136,288</u>	<u>-</u>	<u>-</u>	<u>136,288</u>	<u>130,071</u>	<u>-</u>	<u>-</u>	<u>130,071</u>
Change in net assets from operations	75	3,751	-	3,826	(5,699)	1,898	250	(3,551)
<b>NON-OPERATING ACTIVITIES (Note 2)</b>								
Net asset released (transferred) from board designated special purpose fund	1,102	-	-	1,102	(4,157)	-	-	(4,157)
Net asset released from real estate net asset fund	(2,296)	-	-	(2,296)	-	-	-	-
Investment return in excess of amount used for operations (Note 5)	527	-	-	527	20,605	-	-	20,605
Adjustment to obligation under split-interest agreements	(942)	-	-	(942)	(1,722)	-	-	(1,722)
Pension related changes other than net periodic pension costs (Note 9)	11,398	-	-	11,398	(5,894)	-	-	(5,894)
Change in net assets from nonoperating activities	<u>9,789</u>	<u>-</u>	<u>-</u>	<u>9,789</u>	<u>8,832</u>	<u>-</u>	<u>-</u>	<u>8,832</u>
Change in total net assets	9,864	3,751	-	13,615	3,133	1,898	250	5,281
Net assets - beginning of year	<u>271,646</u>	<u>13,816</u>	<u>6,811</u>	<u>292,273</u>	<u>268,513</u>	<u>11,918</u>	<u>6,561</u>	<u>286,992</u>
Net assets - end of year	<u>\$ 281,510</u>	<u>\$ 17,567</u>	<u>\$ 6,811</u>	<u>\$ 305,888</u>	<u>\$ 271,646</u>	<u>\$ 13,816</u>	<u>\$ 6,811</u>	<u>\$ 292,273</u>

*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, 2018 and 2017**  
**(in thousands)**

	Program Services Expenses													
	Early Childhood		School Age		Adolescent and Carrera Pregnancy Prevention Program		Health and Wellness		Child Welfare and Family Services		National Center for Community Schools		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Salaries	\$ 10,484	\$ 10,665	\$ 13,470	\$ 12,900	\$ 4,996	\$ 6,187	\$ 8,697	\$ 8,252	\$ 17,486	\$ 16,572	\$ 707	\$ 768	\$ 55,840	\$ 55,344
Employee health and retirement benefits	3,604	3,257	2,128	1,789	1,193	1,320	2,423	1,980	4,823	4,020	211	203	14,382	12,569
Payroll taxes	883	983	1,133	1,188	421	570	732	761	1,472	1,528	60	71	4,701	5,101
Total salaries and related expenses	14,971	14,905	16,731	15,877	6,610	8,077	11,852	10,993	23,781	22,120	978	1,042	74,923	73,014
Professional fees	87	79	449	256	504	440	927	1,136	1,546	1,404	88	143	3,601	3,458
Supplies	481	423	626	657	145	156	970	1,179	356	185	15	12	2,593	2,612
Telephone and communication	41	44	161	103	59	58	128	107	412	348	13	11	814	671
Postage and shipping	3	3	9	9	3	3	10	11	39	41	2	1	66	68
Occupancy	784	735	1,145	649	109	150	423	510	2,447	2,280	73	70	4,981	4,394
Outside printing and promotion	7	6	4	16	6	14	37	30	50	17	43	8	147	91
Local travel and related expenses	8	9	275	62	68	113	203	200	610	561	36	37	1,200	982
Training, conferences, conventions and partnership grants	145	167	301	468	88	553	39	35	95	71	12	13	680	1,307
Special events	-	-	11	-	-	-	-	-	-	-	-	-	11	-
Specific assistance for individuals	52	33	644	777	440	433	111	98	882	574	-	-	2,129	1,915
Foster Boarding Home	4	-	-	-	-	-	237	-	10,324	10,046	-	-	10,565	10,046
Repairs	16	5	25	34	4	2	130	102	1	3	7	5	183	151
Insurance	170	168	219	205	81	99	258	221	291	263	11	12	1,030	968
Membership dues	2	-	164	7	2	1	95	26	21	3	-	-	284	37
Food	329	452	418	436	98	79	86	70	98	109	67	58	1,096	1,204
Information technology	60	55	115	132	83	74	215	201	240	175	14	10	727	647
Depreciation and amortization	38	75	840	266	6	9	283	351	538	625	-	2	1,705	1,328
Interest	-	-	1,346	-	-	-	161	149	237	219	-	-	1,744	368
Miscellaneous	6	2	5	15	2	5	13	24	64	43	-	-	90	89
In-kind donation	310	794	1,434	363	72	150	586	626	49	60	-	-	2,451	1,993
Total expenses	\$ 17,514	\$ 17,955	\$ 24,922	\$ 20,332	\$ 8,380	\$ 10,416	\$ 16,764	\$ 16,069	\$ 42,081	\$ 39,147	\$ 1,359	\$ 1,424	\$ 111,020	\$ 105,343

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

**THE CHILDREN'S AID SOCIETY**  
**Consolidated Statements of Functional Expenses (continued)**  
For the years ended June 30, 2018 and 2017  
(in thousands)

	Management and General		Supporting Services Expenses Fundraising		Total		Total Program and Supporting Services Expenses	
	2018	2017	2018	2017	2018	2017	2018	2017
Salaries	\$ 10,151	\$ 9,591	\$ 1,682	\$ 1,612	\$ 11,833	\$ 11,203	\$ 67,673	\$ 66,547
Employee health and retirement benefits	3,148	2,528	501	422	3,649	2,950	18,031	15,519
Payroll taxes	832	855	141	149	973	1,004	5,674	6,105
Total salaries and related expenses	14,131	12,974	2,324	2,183	16,455	15,157	91,378	88,171
Professional fees	1,968	2,868	163	249	2,131	3,117	5,732	6,575
Supplies	127	117	22	19	149	136	2,742	2,748
Telephone and communication	133	116	10	14	143	130	957	801
Postage and shipping	15	26	17	35	32	61	98	129
Occupancy	2,640	2,795	61	61	2,701	2,856	7,682	7,250
Outside printing and promotion	200	93	90	82	290	175	437	266
Local travel and related expenses	123	73	7	8	130	81	1,330	1,063
Training, conferences, conventions and partnership grants	125	208	6	13	131	221	811	1,528
Special events	8	9	411	344	419	353	430	353
Specific assistance to or for individuals	39	43	-	-	39	43	2,168	1,958
Foster Boarding Home	1	1	-	-	1	1	10,566	10,047
Repairs	34	42	-	-	34	42	217	193
Insurance	162	151	28	24	190	175	1,220	1,143
Membership dues	39	41	-	-	39	41	323	78
Food	66	48	21	19	87	67	1,183	1,271
Information technology	781	915	106	107	887	1,022	1,614	1,669
Depreciation and amortization	1,321	934	2	5	1,323	939	3,028	2,267
Interest expense	-	-	-	-	-	-	1,744	368
Miscellaneous	19	111	40	-	59	111	149	200
In-kind donation	28	-	-	-	28	-	2,479	1,993
Total expenses	\$ 21,960	\$ 21,565	\$ 3,308	\$ 3,163	\$ 25,268	\$ 24,728	\$ 136,288	\$ 130,071

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



**THE CHILDREN'S AID SOCIETY**  
**Consolidated Statements of Cash Flows**  
For the years ended June 30, 2018 and 2017  
(in thousands)

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 13,615	\$ 5,281
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	3,028	2,214
Amortization of deferred financing costs	53	53
Pension related changes other than net periodic pension costs	(11,398)	5,894
Adjustment to obligation under split-interest agreements	942	1,722
Amortization of bond premium	(117)	(116)
Realized and unrealized gain on investments	<u>(19,717)</u>	<u>(37,099)</u>
Subtotal	(13,594)	(22,051)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	(8,036)	3,290
Contributions receivable	77	86
Facilities acquisition escrow	(4,525)	-
Accrued interest receivable	-	206
Prepaid expenses and other assets	(374)	(42)
(Decrease) increase in:		
Accounts payable	(1,894)	1,583
Accrued expenses	377	2,645
Accrued pension and post-retirement liability	2,708	2,809
Deferred revenue	833	(308)
Split-interest obligations	-	1
Other liabilities	<u>(317)</u>	<u>(40)</u>
Net cash used in operating activities	<u>(24,745)</u>	<u>(11,821)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(10,273)	(16,294)
Purchases of investments	(229,874)	(543,881)
Proceeds from sale/maturity of investments	<u>256,260</u>	<u>559,199</u>
Net cash provided by (used in) investing activities	<u>16,113</u>	<u>(976)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on bond payable	(625)	-
Debt service reserve	<u>9,938</u>	<u>12,175</u>
Net cash provided by financing activities	<u>9,313</u>	<u>12,175</u>
Net increase (decrease) in cash and cash equivalents	681	(622)
Cash and cash equivalents, beginning of year	<u>12,740</u>	<u>13,362</u>
Cash and cash equivalents, end of year	<u>\$ 13,421</u>	<u>\$ 12,740</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 2,124</u>	<u>\$ 368</u>

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

**THE CHILDREN’S AID SOCIETY**  
**Notes to Consolidated Statements**  
**June 30, 2018 and 2017**  
**(in thousands)**

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**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, the Children’s Aid helps children in poverty to succeed and thrive. We do this by providing comprehensive supports to children and their families in targeted high-needs New York City neighborhoods.

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 910 LLC.

On August 8, 2012, Children’s Aid acquired Milbank Housing Development Fund Corporation (“Milbank”) by becoming the sole member of Milbank. The corporation has ceased activity and is in the process of being dissolved by its Board of Trustees.

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 the sole member, Children’s Aid manages the affairs of these LLCs.

The consolidated financial statements of Children’s Aid have been prepared by consolidating the financial statements of the Children’s Aid, 910 East 172nd Street, LLC, 1218 LLC, 1232 LLC and the Milbank Housing Development Fund Corporation (collectively the “Agency” or “Children’s Aid”). All material intercompany transactions and balances have been eliminated in consolidation.

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 8<sup>th</sup> 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.

**THE CHILDREN'S AID SOCIETY**  
**Notes to Consolidated Statements**  
**June 30, 2018 and 2017**  
**(in thousands)**

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**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.

**Health and Wellness**

The Health and 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 and Family Services**

The Child Welfare and 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.

**National Center for Community Schools**

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.

**2. FINANCIAL STATEMENT PRESENTATION**

**Basis of Accounting**

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("US GAAP"), as applicable to not-for-profit organizations. All inter-company transactions are eliminated in the preparation of the accompanying consolidated financial statements.

**THE CHILDREN'S AID SOCIETY**  
**Notes to Consolidated Statements**  
**June 30, 2018 and 2017**  
**(in thousands)**

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**Net Asset Classification**

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

The classes of net assets are defined as follows:

*Unrestricted* - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations and/or net assets which the Board of Trustees (the "Board") has designated for specified purposes in carrying on the operations the Agency. Unrestricted net assets include amounts designated by the Board for specific purposes 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. On May 9, 2017, the Board passed a resolution to establish a real estate reserve fund from the proceeds of sale of various real estate from prior periods.

*Temporarily Restricted* - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. In addition, earnings on endowment assets are classified as temporarily restricted until appropriated for expenditure by the Board. When a stipulated time restriction ends or purpose restriction is accomplished or endowment earnings are appropriated for expenditure, 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* - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency. This represents net assets subject to donor-imposed restrictions on the corpus of the gifts specifying they be maintained in perpetuity, however, the earnings on which can be used for general or special purpose.

**Cash and Cash Equivalents**

Children's Aid classifies deposits in banks, money market accounts, and debt instruments with original maturities of three months or less from the date of purchase as cash equivalents, excluding cash and cash equivalents available for long-term investment, which are included within investments on the accompanying statements of financial position.

**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 on which they depend are substantially met. Contributions to be received after one year are presented at their discounted present value applying a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any. Included in contributions revenue is \$2,097 and \$2,080 of special events revenue as of June 30, 2018 and June 30, 2017, respectively.

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**Allowance for Uncollectible Receivables**

An allowance is recorded based on prior years' collection experience and management's analysis and evaluation of specific accounts, grants and contributions to be received. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. As of June 30, 2018 and 2017, the Agency determined that an allowance of approximately \$545 and \$982 for each respective year 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. This 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 collection experience.

**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.

**Investments**

Investments are stated at fair value. Investment gains and losses are included in changes in unrestricted net assets for the gains and losses that are unrestricted, and in changes in temporarily restricted net assets for the gains and losses that are restricted for the support of certain Children's Aid programs as specified by donors. Alternative investments in limited partnerships and private equity and similar investments are stated at fair value as estimated by the respective general partner or manager as of the reporting date in an unquoted market. Alternative investments are stated at a Net Asset Value ("NAV") per ownership interest which approximates fair value. 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 such 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.

**Property and Equipment**

The Agency capitalizes expenditures for buildings and building improvements, furniture and equipment having a cost of \$5 or more and with useful lives greater than five years. Depreciation is recognized using the straightline method over the estimated useful lives of the respective assets. Amortization of leasehold improvements is charged over the lesser of the life of the improvements or the term of the lease to which the betterments pertain. Depreciation is not recorded on land and construction-in-progress.

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The range of estimated useful lives follows:

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

**Impairment of Long-Lived Assets to be Disposed of**

Accounting Standards Codification (“ASC”) 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides a single accounting model for long-lived assets to be disposed of. ASC 360-10 also changes the criteria for classifying an asset as held for sale, and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations.

In accordance with ASC 360-10, *long-lived assets*, such as property, plant and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position. There were no impairment charges for the years ended June 30, 2018 and 2017.

**Facilities acquisition escrow**

On February 13, 2019, Children’s Aid entered into a contract to purchase four floors of a building under construction at 114 West 124th Street to use as a new headquarters. The property acquisition price is \$45,252 and the initial down payment of \$4,525 is reflected in the 2018 consolidated statement of financial position.

**Revenue Recognition**

Children’s Aid reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to unrestricted net assets. Unconditional promises to give with payments due in future years are presumed to be time restricted by the donor until received and are reported as part of temporarily restricted net assets.

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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 category. 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 category; the restrictions are considered to be satisfied at the time of acquisition of such long-lived assets and placed in service. Bequests are recognized when the Agency receives notification that the probate court has declared the will valid and the amounts to be received are estimatable.

Children's Aid also receives grants from foundations in exchange for the performance of various services. Children's Aid recognizes grants as temporarily restricted revenue when they are committed and releases such amounts into unrestricted net assets as related grant expenses are incurred to a maximum of the grant award.

**Donated Services**

The fair value of donated services are reported in the consolidated financial statements if those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not otherwise provided by donation.

**Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited based on time and effort reporting of the personnel involved in such functions.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with US 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 consolidated financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

**Measure of Operations**

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 endowment and capital gifts 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.

**Reclassifications**

Certain amounts in the June 30, 2017 consolidated financial statements, as previously presented, have been reclassified to conform to the June 30, 2018 presentation. Such changes had no impact on the change in net assets for the year ended June 30, 2017.

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**New Accounting Pronouncements**

Children's Aid's significant accounting policies are disclosed in Note 2. There were no accounting policy changes during fiscal 2018, except the adoption of ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* and ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that deferred bond issuance costs be presented net of related debt on the statement of financial position. The ASU is effective for fiscal years beginning after December 15, 2015. Management adopted this ASU, effective for the year ended June 30, 2017 and has applied the guidance retroactively to all periods presented. Bond issuance costs continue to be amortized over the lives of the respective bonds to which they pertain.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Children's Aid is in the process of evaluating the impact this standard will have on the financial statements.

**Income Taxes**

The Agency follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Agency is exempt from federal income tax under Internal Revenue Code ("Code") section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Agency has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Agency has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements for the years ended June 30, 2018 and 2017.



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**3. ACCOUNTS AND GRANTS RECEIVABLE, NET**

Accounts and grants receivable, net, consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Due from the City of New York	\$ 17,197	\$ 9,867
Due from the State of New York	4,935	5,375
Due from Federal government	990	1,608
Due from other sources	<u>3,563</u>	<u>2,236</u>
	26,685	19,086
Less: Allowance for uncollectible amounts	<u>(545)</u>	<u>(982)</u>
	<u>\$ 26,140</u>	<u>\$ 18,104</u>

**4. CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable consist of the following:

	<u>2018</u>	<u>2017</u>
Bequests receivable	\$ 82	\$ 140
Pledges receivable, net	<u>1,378</u>	<u>1,397</u>
Total	<u>\$ 1,460</u>	<u>\$ 1,537</u>

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 1,129	\$ 1,148
One to three years	250	250
Discount to present value	<u>(1)</u>	<u>(1)</u>
Total	<u>\$ 1,378</u>	<u>\$ 1,397</u>

Conditional promises to give and intentions to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Children's Aid has also been notified of certain intentions to give under various wills and trust agreements, the realizable amounts of which are not presently determinable. Children's Aid share of such bequests is recorded when Children's Aid has an irrevocable right to the bequest and the proceeds are measurable.

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**5. INVESTMENTS**

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

	<u>2018</u>	<u>2017</u>
Cash and money market funds	\$ 6,380	\$ 10,679
Equities	165,731	119,191
Fixed income - mutual funds	39,128	29,048
Alternative investments:		
Private capital	17,513	99,116
Hedge funds	57,644	26,586
Limited partnership interests	7,636	28,538
Emerging markets	<u>11,602</u>	<u>-</u>
Total	<u>\$ 305,634</u>	<u>\$ 313,158</u>

Private capital investments consist of global equity, long-short fixed income and absolute return funds. Hedge funds have varying investment strategies, including domestic equities, emerging markets, and relative and absolute value opportunities. Limited partnership interests include a global long-only equity fund and a multi-strategy, event driven global fund. Emerging markets consists of an absolute return strategy investing in emerging and frontier market equities.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Realized gain	\$ 8,723	\$ 23,880
Unrealized gain	9,907	13,219
Interest and dividends (net of investment fees)	<u>1,087</u>	<u>(206)</u>
Total	<u>\$ 19,717</u>	<u>\$ 36,893</u>
Designation of investment activity:		
Amount used for operations and special initiatives	\$ 19,190	\$ 16,288
Amount in excess of amount used for operations	<u>527</u>	<u>20,605</u>
Total	<u>\$ 19,717</u>	<u>\$ 36,893</u>

Investment fees amounted to approximately \$3,718 and \$2,989 for the years ended June 30, 2018 and 2017, respectively.

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**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 5,782	\$ 5,782
Buildings and improvements	70,143	25,781
Furniture and equipment	11,161	8,465
Leasehold improvements	6,820	6,743
Construction in progress	<u>752</u>	<u>37,615</u>
Total cost	94,658	84,386
Less: Accumulated depreciation and amortization	<u>(27,654)</u>	<u>(24,627)</u>
Net book value	<u>\$ 67,004</u>	<u>\$ 59,759</u>

Depreciation expense amounted to \$3,028 and \$2,214 for the years ended June 30, 2018 and 2017, respectively.

Construction in progress is primarily for the construction of the building located at 1232 Southern Blvd., Bronx, New York to house the Children's Aid College Prep Charter School and related Children's Aid programs. The estimated total project cost, as of June 30, 2017, excluding capitalized interest, was approximately \$46,019 million and the building was completed in October 2017.

Children's Aid quantified and recognized the fair value of the contributed space it receives for its programmatic purposes to total approximately \$1,276 and \$1,579 for the years ended June 30, 2018 and June 30, 2017, respectively, and recognized it as a component of both contributed services revenue and allocated the related expense amongst the functional expense categories benefitted in its consolidated statements of activities and functional expenses.

**7. ENDOWMENT NET ASSETS**

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

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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 has established investment policies. Endowment investments consist of a broad range of 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 of the Board and reviewed regularly. Effective June 24, 2016, Children’s Aid outsourced endowment discretionary investment management services to Perella Weinberg Partners Capital Management LP.

For the years ended June 30, 2018 and 2017, 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 NYPMIFA, and provides guidance for the use of the organization’s unrestricted reserves and permanent endowments. For the years ended June 30, 2018 and 2017, the primary distribution for current spending was 5.5% and 5.75%, 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 distribution for the year ended June 30, 2018 includes additionally a special draw of \$5,137 to cover a payment from Children’s Aid reserves into the pension investment accounts. The purpose of the special draw was to fund the employer minimum required pension contribution. The Board of Trustees has from time to time authorize additional distributions for specific purposes. This additional \$5,137 special draw for the pension obligation together with the spending rate from operations of \$14,053 totals the amount used in operations and special initiative of \$19,190.

Permanently restricted endowment funds are classified as “restricted as to income” or “unrestricted as to income” as follows:

	<u>2018</u>	<u>2017</u>
Investment in perpetuity, the income from which is expendable to support specific 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>4,070</u>	<u>4,070</u>
	<u>\$ 6,811</u>	<u>\$ 6,811</u>

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Changes in endowment investments for year ended June 30, 2018 follow:

	<b>Board- Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, July 1, 2017</b>	\$ 11,024	\$ 1,084	\$ 6,811	\$ 18,919
Activity:				
Additions/contributions	1,154	11,512	-	12,666
Investment income	-	-	-	-
Net gains (realized and unrealized)	-	405	-	405
Appropriated for operations	(2,416)	(137)	-	(2,553)
Total activity	(1,262)	11,780	-	10,518
<b>Endowment net assets, June 30, 2018</b>	<u>\$ 9,762</u>	<u>\$ 12,864</u>	<u>\$ 6,811</u>	<u>\$ 29,437</u>

Changes in endowment investments for year ended June 30, 2017 follow:

	<b>Board- Designated</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, July 1, 2016</b>	\$ 13,210	\$ 389	\$ 6,561	\$ 20,160
Activity:				
Additions/contributions	1,405	-	250	1,655
Investment income	-	-	-	-
Net gains (realized and unrealized)	-	832	-	832
Appropriated for operations	(3,591)	(137)	-	(3,728)
Total activity	(2,186)	695	250	(1,241)
<b>Endowment net assets, June 30, 2017</b>	<u>\$ 11,024</u>	<u>\$ 1,084</u>	<u>\$ 6,811</u>	<u>\$ 18,919</u>

Children's Aid's policy is that endowment earnings will be appropriated for expenditure in accordance with donors stipulations. In the absence of donor stipulations, endowment earnings are classified as temporarily restricted until appropriated for expenditure by the Board of Trustees. As of June 30, 2018 and 2017, all earnings without donor stipulations were appropriated by the Board of Trustees, and are classified as unrestricted. As of June 30, 2018 and 2017, endowment earnings with donor stipulations amounted to \$405 and \$832, respectively, and are classified under temporarily restricted net assets.

In accordance with US GAAP, Children's Aid is required to disclose any deterioration of the fair value of assets associated with donor restricted endowment funds that fall below the level the donor requires Children's Aid to retain in perpetuity. Deficiencies of this nature may result from unfavorable market fluctuations 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, 2018 and 2017, Children's Aid had no individual funds that had values below their original corpus values.

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Permanently restricted endowment net assets amounting to approximately \$6,811 are included with investments on the consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Time restriction/other	\$ 1,130	\$ 376
Adolescence Programs	8,109	5,727
Child Welfare and Family Services Programs	2,479	696
Early Childhood Programs	1,823	864
Health and Wellness Programs	2,087	2,172
National Center for Community Schools	158	87
School Age Programs	<u>1,781</u>	<u>3,894</u>
Total	<u>\$ 17,567</u>	<u>\$ 13,816</u>

Net assets of approximately \$7,776 and \$6,041 were released from donor restrictions by incurring expenses satisfying the restricted purposes for the years ended June 30, 2018 and 2017, respectively.

**9. DEFINED BENEFIT AND POST-RETIREMENT PLANS (“PLANS”)**

Children’s Aid has a noncontributory defined benefit pension plan covering eligible employees hired prior to January 1, 2012. 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.

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 post-retirement 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 post-retirement plan employees who are hired after July 1, 2010.

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

	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 109,771	\$ 12,023	\$ 99,343	\$ 14,633
Interest cost	4,225	465	3,867	578
Service cost	2,823	431	2,547	670
Actuarial loss (gain)	(4,114)	(1,346)	10,492	(770)
Benefits paid	(3,055)	(211)	(6,478)	(241)
Benefit obligation at end of year	<u>109,650</u>	<u>11,362</u>	<u>109,771</u>	<u>14,870</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	63,432	-	61,470	-
Actual return on plan assets	2,979	-	5,440	-
Employer contributions	5,137	-	3,000	-
Benefits paid	(3,055)	-	(6,478)	-
Fair value of plan assets at end of year	<u>68,493</u>	<u>-</u>	<u>63,432</u>	<u>-</u>
Unfunded status	<u>\$ (41,157)</u>	<u>\$ (11,362)</u>	<u>\$ (46,339)</u>	<u>\$ (14,870)</u>

Amounts recognized in unrestricted net assets for the plans consist of the following as of June 30, 2018 and 2017:

	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Net actuarial loss (gain)	\$ 39,842	\$ (4,679)	\$ 47,525	\$ (683)
Prior service credit	(112)	(726)	(137)	(808)
Transition asset	(870)	-	(1,044)	-
	<u>\$ 38,860</u>	<u>\$ (5,405)</u>	<u>\$ 46,344</u>	<u>\$ (1,491)</u>

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The components of net periodic benefit cost for the Plans for the years ended June 30, 2018 and 2017, are as follows:

	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Interest cost	\$ 4,225	\$ 465	\$ 3,867	\$ 578
Service cost	2,823	431	2,547	670
Expected return on plan assets	(4,011)	-	(4,040)	-
Amortization of net loss (gain)	4,601	(197)	2,754	(45)
Amortization of prior service cost	(25)	(82)	(25)	(82)
Amortization of net transition asset	(174)	-	(174)	-
	<u>\$ 7,439</u>	<u>\$ 617</u>	<u>\$ 4,929</u>	<u>\$ 1,121</u>

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended June 30, 2018 and 2017, are as follows:

	2018		2017	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Net loss (gain)	\$ (7,683)	\$ (3,996)	\$ 6,338	\$ (725)
Amortization of prior service cost	174	82	25	82
Amortization of transition asset	<u>25</u>	<u>-</u>	<u>174</u>	<u>-</u>
Total recognized in change in unrestricted net assets	<u>\$ (7,484)</u>	<u>\$ (3,914)</u>	<u>\$ 6,537</u>	<u>\$ (643)</u>

For the year ended June 30, 2018, Children's Aid made total contributions of \$5,137 into the defined-benefit pension plan and expects to meet the minimum required contributions for plan years 2019 and 2020.

The weighted average assumptions used to determine the benefit obligation for the defined benefit plan as of and for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Discount rate	4.20 %	3.91 %
Expected return on plan assets	6.50 %	6.75 %
Salary increase	2.50 %	2.50 %



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The weighted average assumptions used to determine the benefit obligation for the post-retirement plan as of and for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.22 %	3.99 %
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, 2018 is 3.84%. Increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation by \$1,888 as of June 30, 2018, and the aggregate of the service and interest cost components of net periodic post-retirement benefit cost for the year by \$186.

Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligation by \$1,480 as of June 30, 2018, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$142,682.

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:

	<u>Pension Benefits</u>	<u>Post-Retirement Benefits</u>
2019	\$ 3,350	\$ 352
2020	3,578	365
2021	3,901	372
2022	4,261	399
2023	4,512	405
2024-2028	26,697	2,357

The defined benefit plan assets reported at fair value at June 30, 2018, are classified as Level 1, Level 2 and Level 3, except for those reported at fair value using NAV, which are separately presented, in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Cash and money market funds	\$ 5,748	\$ -	\$ -	\$ -	\$ 5,748
Equity securities	21,263	-	-	936	22,199
Fixed income	14,253	-	-	-	14,253
Real estate/private capital	-	-	-	26,293	26,293
Total investments, at fair value	<u>\$ 41,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,229</u>	<u>\$ 68,493</u>

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The following table sets forth additional disclosures of the Children's Aid's defined benefit plan investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2018.

Type	NAV in Funds	# of Funds	\$ Amount of Unfunded Commitments	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Real Estate/Private Capital	\$ 26,293	10	\$ -	Daily to Annual	1 Year Lock (Exp. 10/1/18)	2 to 90 days
Emerging Markets Equity	936	1	-	Quarterly	None	30 days
	<u>\$ 27,229</u>	<u>11</u>	<u>\$ -</u>			

The defined benefit plan assets reported at fair value at June 30, 2017, are classified as Level 1 and Level 3 except for those reported at fair value using NAV, which are separately presented, in the table as follows:

	Level 1	Level 2	Level 3	NAV	Total
Cash and money market funds	\$ 1,587	\$ -	\$ -	\$ -	\$ 1,587
Equity securities	24,347	-	-	-	24,347
Fixed income	13,372	-	-	-	13,372
Real estate	-	-	-	24,126	24,126
Total investments, at fair value	<u>\$ 39,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,126</u>	<u>\$ 63,432</u>

The following table sets forth additional disclosures of the Children's Aid's defined benefit plan investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2017.

Type	NAV in Funds	# of Funds	\$ Amount of Unfunded Commitments	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Real Estate/Private Capital	\$ 21,515	8	\$ -	Daily to Annual	1 Year Lock to 1	2 to 90 days
Emerging Markets Equity	2,611	1	-	Quarterly	None	30 days
	<u>\$ 24,126</u>	<u>9</u>	<u>\$ -</u>			

**10. COMMITMENTS AND CONTINGENCIES**

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

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Future minimum required annual lease payments are as follows:

**Year Ending June 30:**

2019	\$	4,423
2020		3,740
2021		1,861
2022		1,488
2023		1,345
Thereafter		<u>15,775</u>
	\$	<u>28,632</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, 2018 and 2017, rent expense pertaining to these properties amounted to approximately \$50 and \$70, respectively.

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, changes in net assets or cash flows of Children's Aid.

Pursuant to Children's Aid's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of Children's Aid involving transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances.

**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 insurance limits \$250 by approximately \$13,670 and \$12,161, as of June 30, 2018 and 2017, respectively.

**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 senior members of management are board members of United Charities. There was no rent expense for the years ended June 30, 2018 and 2017. 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 a building located at 105 East 22<sup>nd</sup> Street, New York, 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 rental headquarters located at 711 Third Avenue, New York, New York, effective August 2015 (See Note 10).

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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 the Charter School ("wrap-around services") 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 Children's Aid for the administrative services it provides, which amounted to \$592 and \$454, for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the wrap-around services and other changes amounted to approximately \$835 and \$612, respectively.

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 home of the Charter School and certain other Children's Aid programs. 1232 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, 2017 because the school was under construction. The building was put into service on October 9, 2017, and rental payments from the Charter School to 1232 LLC commenced on October 15, 2017. Lease payments from the Charter School to 1232 LLC totaled \$354 in fiscal year ended June 30, 2018. In addition, 1232 Southern Blvd provided \$1,276 in donated space to Children's Aid College Prep Charter School.

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 \$16 and \$58, respectively, for the years ended June 30, 2018 and 2017. As of June 30, 2018 and 2017, Charter School owed \$863 and \$618, respectively, to Children's Aid.

**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.

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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.).

Investments in international commingled funds and alternative investments (including private capital, limited partnerships and hedge funds) are recorded at fair value in an amount equal to the NAV, as reported by the investment manager, ownership interest held by Children's Aid at year-end. These investments are presented separately in the fair value levelling hierarchy.

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 years ended June 30, 2018 and 2017, there were no transfers in or out of Levels 1, 2 or 3.

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Financial assets reported at fair value at June 30, 2018, are classified as Level 1, Level 2 and Level 3 except for those reported at fair value using NAV, which are separately presented, in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Cash and money market funds	\$ 6,417	\$ -	\$ -	\$ -	\$ 6,417
Equity securities:					
Basic industries	739	-	-	-	739
Consumer discretionary	1,489	-	-	-	1,489
Consumer staples	1,148	-	-	-	1,148
Energy	2,081	-	-	-	2,081
Financial	30,532	-	-	-	30,532
Health	5,907	-	-	-	5,907
Health Care	576	-	-	-	576
Hospitality	938	-	-	-	938
Industrials	2,658	-	-	-	2,658
Manufacturing	335	-	-	-	335
Information technology	12,190	-	-	-	12,190
Treasury bills	15,815	-	-	-	15,815
Media	2,731	-	-	-	2,731
Technology	93	-	-	-	93
Transportation	239	-	-	-	239
Total equity securities	<u>77,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,471</u>
Fixed income:					
Mutual funds	24,143	-	-	-	24,143
Total fixed income	<u>24,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,143</u>
Alternative investments:					
Emerging markets equity	-	-	-	11,602	11,602
International commingled funds	-	-	-	38,730	38,730
Global equity	-	-	-	49,530	49,530
Hedge funds	5,498	-	-	57,849	63,347
Private capital	-	-	-	17,513	17,513
Mutual funds	-	-	-	9,283	9,283
Limited partnerships	-	-	-	7,598	7,598
Total alternate investments	<u>5,498</u>	<u>-</u>	<u>-</u>	<u>192,105</u>	<u>197,603</u>
Total investments, at fair value	<u>\$ 113,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,105</u>	<u>\$ 305,634</u>

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Financial assets carried at fair value at June 30, 2017, are classified as Level 1, Level 2 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Cash and money market funds	\$ 10,679	\$ -	\$ -	\$ -	\$ 10,679
Equity securities:					
International commingled funds	-	29,267	-	-	29,267
Basic industries	1,342	-	-	-	1,342
Consumer discretionary	4,498	-	-	-	4,498
Consumer staples	3,307	-	-	-	3,307
Energy	2,662	-	-	-	2,662
Financial	51,262	-	-	-	51,262
Health	7,907	-	-	-	7,907
Health Care	853	-	-	-	853
Hospitality	532	-	-	-	532
Industrials	3,832	-	-	-	3,832
Information technology	11,388	-	-	-	11,388
Material	1,577	-	-	-	1,577
Media	547	-	-	-	547
Technology	155	-	-	-	155
Transportation	62	-	-	-	62
Total equity securities	<u>89,924</u>	<u>29,267</u>	<u>-</u>	<u>-</u>	<u>119,191</u>
Fixed income:					
Mutual funds	29,048	-	-	-	29,048
Total fixed income	<u>29,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,048</u>
Alternative investments:					
Emerging markets equity	-	-	-	10,545	10,545
Hedge funds	-	-	-	26,586	26,586
Limited partnerships	-	-	-	28,538	28,538
Private capital	-	-	-	88,571	88,571
Total alternate investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,240</u>	<u>154,240</u>
Total investments, at fair value	<u>\$ 129,651</u>	<u>\$ 29,267</u>	<u>\$ -</u>	<u>\$ 154,240</u>	<u>\$ 313,158</u>

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Children's Aid uses the NAV per share or its equivalent to determine the fair value of all the underlying investments which: (a) do not have readily determinable fair value; and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Certain hedge funds in the June 30, 2017 consolidated financial statement, as previously presented, have been reclassified from Level 2 to NAV to conform to the June 30, 2018 presentation.

The following table sets forth additional disclosures of the Children's Aid's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2018.

	NAV in Funds	# of Funds	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Private capital	\$ 17,513	1	\$ -	Daily to Annual	1 Year lock to 1 year soft (exp 10/1/18)	2 to 90 days
Limited partnerships	7,598	1	-	Quarterly	None	30 to 90 days
Global equity	49,530	4	-	Quarterly	None	30 days
International commingled funds	38,730	3	-	Daily, monthly, quarterly	None	10 to 90 days
Mutual funds	9,283	2	-	Daily, monthly	None	2 to 5 days
Hedge funds	57,849	8	-	Quarterly	5 year lock (exp. 10/1/18)	Redeemed as of 9/30/2017 to 30 days
Emerging markets equity	<u>11,602</u>	<u>1</u>	<u>-</u>	Quarterly	None	30 days
Total	<u>\$ 192,105</u>	<u>20</u>	<u>\$ -</u>			

The following table sets forth additional disclosures of the Children's Aid's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2017.

	NAV in Funds	# of Funds	Unfunded Commitment	Redemption Frequency	Redemption Restrictions	Redemption Notice Period
Private capital	\$ 88,571	12	\$ -	Daily to Annual	1 Year lock to 1 year soft (exp 10/1/18)	2 to 90 days
Limited partnerships	28,538	2	-	Quarterly	None	30 to 90 days
Hedge funds	26,586	2	-	Quarterly	5 year lock (exp. 10/1/18)	Redeemed as of 9/30/2017 to 30 days
Emerging markets equity	<u>10,545</u>	<u>2</u>	<u>-</u>	Quarterly	None	30 days
Total	<u>\$ 154,240</u>	<u>18</u>	<u>\$ -</u>			



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During the year ended June 30, 2018, the investment strategy and objective of Children's Aid's investments whose fair value is estimated using NAV 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 market 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 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.

#### **14. SPLIT-INTEREST OBLIGATIONS**

Split-interest agreements include the following:

*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 total \$1,774 and \$2,703 as of June 30, 2018 and 2017, 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, 2018 and 2017, amounted to \$1,714 and \$1,823, respectively, and have been calculated using discount rates ranging from 0% to 2% for the years ended June 30, 2018 and 2017, and the applicable mortality table. This annuity payment liability has been included in split-interest agreement obligations in the accompanying consolidated statements of financial position.

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*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 donors' 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 \$2,084 and \$300 as of June 30, 2018 and 2017, respectively, and are reported at fair value. The underlying assets are valued at Level 1 in the fair value hierarchy. The present value of the estimated future payments as of June 30, 2018 and 2017, amounted to \$1,089 and \$38, respectively, for the years ended June 30, 2018 and 2017, and the applicable mortality table. This annuity payment liability has been included in split-interest agreement obligations in the accompanying consolidated statements of financial position.

Income earned by the fund and due to the life beneficiary as of June 30, 2018 and 2017, amounted to \$14 and \$38, respectively, has been included in split-interest agreement obligations on the accompanying consolidated statements of financial position. No contributions were made to the pooled income fund during the years ended June 30, 2018 and 2017, respectively.

*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 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, 2018 and 2017, the beneficial interest in the lead trust of \$149 is included in split-interest agreement assets representing the present value of the future cash flows from the trust, which was calculated using discount rates ranging from 0.28% to 0.69%.

During the year ended June 30, 2017, Children's Aid recorded as adjustment to increase the value of its obligations to annuitants under its charitable gift annuities and pooled income funds totaling \$1,722. This amount in part represents a cumulative adjustment pertaining to the prior years to properly state the extent of the obligation payable to beneficiaries. For the years ended June 30, 2018 and 2017, donors made contributions into the annuity fund. Based on the donor's life expectancy and the applicable discount rate, contributions of approximately \$99 and \$28 for the years ended June 30, 2018 and 2017, respectively, have been recorded in the accompanying consolidated statements of activities.

**15. VOLUNTARY RETIREMENT PLAN AND SUPPLEMENTAL RETIREMENT PLAN**

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 \$584 and \$550 for the years ended June 30, 2018 and 2017, respectively.

Children's Aid offers a Supplemental Executive Retirement Plan for the Chief Executive Officer of Children's Aid. There were no accrued benefits under the plan as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, related benefit costs were \$18, respectively, per year.

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**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 in connection with the acquisition, renovation and improvement of CAS space and the other in the principal amount of \$1,696 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 was received during 2011 and the final disbursement of \$4,225 was received in September 2012.

As of June 30, 2018 and 2017, the loan payable to PCDC amounted to \$7,000, respectively, with a maturity date of March 25, 2036 and interest rate of 5.26%. Interest expense was approximately \$368 for each of the years ended June 30, 2018 and 2017, respectively.

For the first eighteen months, loan payments of \$12 per month are for interest only. After the final disbursement, interest only payments will be \$30 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 \$53 per month until maturity date.

Deferred financing costs (net of amortization) of approximately \$544 and \$574 as of June 30, 2018 and 2017, respectively, associated with the loan payable are being amortized over the life of the loan. Amortization expense was approximately \$30 for each of the years ended June 30, 2018 and 2017, respectively. 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 as of June 30, 2018 and 2017.

Children's Aid is required to maintain a Debt Service Coverage Ratio 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, 2018 and 2017, 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, 2018 and 2017, 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.

**17. BONDS 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 to finance the planning and construction of the building located at 1232 Southern Blvd., Bronx, New York 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.

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The bonds have an average coupon rate of approximately 4.8%. Capitalized interest for the life of the project totaled \$3,775 at June 30, 2018.

The bonds were issued at a premium of approximately \$3,492. The premium is being amortized over the term of the bond. For the year ended June 30, 2018, amortization amounted to approximately \$66. Deferred financing costs (net of amortization) of approximately \$601 and \$623 as of June 30, 2018 and 2017, respectively, associated with the loan payable are being amortized over the life of the loan. For the years ended June 30, 2018 and 2017, amortization expense amounted to approximately \$22.

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 \$94 and \$10,157 as of June 30, 2018 and 2017, respectively.

Future annual principal payments of the bonds are as follows for the years ending after June 30, 2018:

<b><u>Year Ending June 30:</u></b>	
2019	\$ 650
2020	675
2021	705
2022	735
2023	775
Thereafter	<u>33,040</u>
Subtotal	<u>36,580</u>
Bond premium, net	3,142
Less: Bond issuance cost, net	<u>(600)</u>
Total	<u>\$ 39,122</u>

**18. SUBSEQUENT EVENTS**

Management has evaluated, for potential accrual or disclosure, events subsequent to the date of the consolidated statements of financial position through February 1, 2019, the date the consolidated financial statements were issued, noting no items which effect the financial statements except for the item below.

On November 29, 2018, management resolved a longstanding litigation regarding an implied easement on a Children's Aid property in Staten Island. The settlement was approved by the Real Estate Committee of the Board of Trustees.

**SUPPLEMENTARY INFORMATION**

**THE CHILDREN'S AID SOCIETY**  
**Consolidating Schedule of Financial Position**  
**As of June 30, 2018 and 2017**  
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	As of June 30, 2018							As of June 30, 2017						
	The Children's Aid Society	910 East 172nd Street, LLC	Milbank Housing Development Corporation	1218 Southern Boulevard LLC	1232 Southern Boulevard LLC	Consolidating Eliminations	Consolidated Total	The Children's Aid Society	910 East 172nd Street, LLC	Milbank Housing Development Corporation	1218 Southern Boulevard LLC	1232 Southern Boulevard LLC	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>														
Cash and cash equivalents	\$ 9,954	\$ 906	\$ -	\$ 6	\$ 2,555	\$ -	\$ 13,421	\$ 8,837	\$ 747	\$ -	\$ 6	\$ 3,150	\$ -	\$ 12,740
Accounts and grants receivable, net	35,571	250	-	-	613	(10,294)	26,140	26,245	250	-	-	-	(8,391)	18,104
Contributions receivable, net	1,460	-	-	-	-	-	1,460	1,537	-	-	-	-	-	1,537
Accrued interest receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt service reserve	-	126	-	-	93	-	219	-	126	-	-	10,031	-	10,157
Prepaid expenses and other assets	1,947	62	-	-	27	-	2,036	1,506	28	-	-	128	-	1,662
Facilities acquisition escrow	4,525	-	-	-	-	-	4,525	-	-	-	-	-	-	-
Investments	305,634	-	-	-	-	-	305,634	313,158	-	-	-	-	-	313,158
Split-interest agreement investments	4,007	-	-	-	-	-	4,007	3,152	-	-	-	-	-	3,152
Investment in LLC	9,002	-	-	-	-	(9,002)	-	9,002	-	-	-	-	(9,002)	-
Property and equipment, net	7,378	11,025	-	1,737	46,864	-	67,004	8,288	11,433	-	1,737	38,301	-	59,759
<b>Total assets</b>	<b>\$ 379,478</b>	<b>\$ 12,369</b>	<b>\$ -</b>	<b>\$ 1,743</b>	<b>\$ 50,152</b>	<b>\$ (19,296)</b>	<b>\$ 424,446</b>	<b>\$ 371,725</b>	<b>\$ 12,584</b>	<b>\$ -</b>	<b>\$ 1,743</b>	<b>\$ 51,610</b>	<b>\$ (17,393)</b>	<b>\$ 420,269</b>
<b>LIABILITIES</b>														
Accounts payable	\$ 1,798	\$ 1,461	\$ -	\$ 100	\$ 9,019	\$ (10,294)	\$ 2,084	\$ 1,916	\$ 1,359	\$ -	\$ 100	\$ 8,994	\$ (8,391)	\$ 3,978
Accrued expenses	11,546	-	-	-	951	-	12,497	11,242	-	-	-	878	-	12,120
Deferred income	2,948	-	-	-	-	-	2,948	2,115	-	-	-	-	-	2,115
Split-interest agreement liabilities	2,803	-	-	-	-	-	2,803	1,861	-	-	-	-	-	1,861
Loan payable	-	6,456	-	-	-	-	6,456	-	6,426	-	-	-	-	6,426
Bonds payable	-	-	-	-	39,122	-	39,122	-	-	-	-	39,841	-	39,841
Accrued pension and post-retirement liability	52,519	-	-	-	-	-	52,519	61,209	-	-	-	-	-	61,209
Other liabilities	129	-	-	-	-	-	129	446	-	-	-	-	-	446
<b>Total liabilities</b>	<b>71,743</b>	<b>7,917</b>	<b>-</b>	<b>100</b>	<b>49,092</b>	<b>(10,294)</b>	<b>118,558</b>	<b>78,789</b>	<b>7,785</b>	<b>-</b>	<b>100</b>	<b>49,713</b>	<b>(8,391)</b>	<b>127,996</b>
<b>NET ASSETS</b>														
Unrestricted	283,357	4,452	-	1,643	1,060	(9,002)	281,510	272,309	4,799	-	1,643	1,897	(9,002)	271,646
Temporarily restricted	17,567	-	-	-	-	-	17,567	13,816	-	-	-	-	-	13,816
Permanently restricted	6,811	-	-	-	-	-	6,811	6,811	-	-	-	-	-	6,811
<b>Total net assets</b>	<b>307,735</b>	<b>4,452</b>	<b>-</b>	<b>1,643</b>	<b>1,060</b>	<b>(9,002)</b>	<b>305,888</b>	<b>292,936</b>	<b>4,799</b>	<b>-</b>	<b>1,643</b>	<b>1,897</b>	<b>(9,002)</b>	<b>292,273</b>
<b>Total liabilities and net assets</b>	<b>\$ 379,478</b>	<b>\$ 12,369</b>	<b>\$ -</b>	<b>\$ 1,743</b>	<b>\$ 50,152</b>	<b>\$ (19,296)</b>	<b>\$ 424,446</b>	<b>\$ 371,725</b>	<b>\$ 12,584</b>	<b>\$ -</b>	<b>\$ 1,743</b>	<b>\$ 51,610</b>	<b>\$ (17,393)</b>	<b>\$ 420,269</b>

*This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto and report of independent certified public accountants.*

**THE CHILDREN'S AID SOCIETY**  
**Consolidating Schedule of Activities**  
**For the year ended June 30, 2018**  
**(in thousands)**

	The Children's Aid Society			910 East 172nd Street, LLC	1218 Southern Boulevard LLC	1232 Southern Boulevard LLC	Consolidating Eliminations	Consolidated Total				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total		Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUE AND SUPPORT</b>												
Government support	\$ 86,567	\$ -	\$ -	\$ 86,567	\$ -	\$ -	\$ -	\$ -	\$ 86,567	\$ -	\$ -	\$ 86,567
Program services fees and dues	5,475	-	-	5,475	-	-	-	-	5,475	-	-	5,475
Contributions	9,204	10,958	-	20,162	-	-	-	-	9,204	10,958	-	20,162
Bequests	2,659	-	-	2,659	-	-	-	-	2,659	-	-	2,659
Estates and trusts	260	-	-	260	-	-	-	-	260	-	-	260
Rental income	60	-	-	60	1,003	-	583	(478)	1,168	-	-	1,168
Investment return used for operations and special initiatives	19,190	-	-	19,190	-	-	-	-	19,190	-	-	19,190
Other revenue	227	569	-	796	-	-	161	-	388	569	-	957
In-kind donations	1,206	-	-	1,206	-	-	1,276	-	2,482	-	-	2,482
Net assets released (transferred) from special purpose funds	(1,102)	-	-	(1,102)	-	-	-	-	(1,102)	-	-	(1,102)
Net assets released from the real estate net asset fund	2,296	-	-	2,296	-	-	-	-	2,296	-	-	2,296
Net assets released from restrictions for operations	7,776	(7,776)	-	-	-	-	-	-	7,776	(7,776)	-	-
Total operating revenue and support	<u>133,818</u>	<u>3,751</u>	<u>-</u>	<u>137,569</u>	<u>1,003</u>	<u>-</u>	<u>2,020</u>	<u>(478)</u>	<u>136,363</u>	<u>3,751</u>	<u>-</u>	<u>140,114</u>
<b>OPERATING EXPENSES</b>												
<b>Program Services</b>												
Early Childhood	17,514	-	-	17,514	-	-	-	-	17,514	-	-	17,514
School Age	20,965	-	-	20,965	-	-	3,957	-	24,922	-	-	24,922
Adolescent and Carrera Pregnancy Prevention Program	8,380	-	-	8,380	-	-	-	-	8,380	-	-	8,380
Health and Wellness	16,413	-	-	16,413	545	-	-	(194)	16,764	-	-	16,764
Child Welfare and Family Services	41,560	-	-	41,560	805	-	-	(284)	42,081	-	-	42,081
National Center for Community Schools	1,359	-	-	1,359	-	-	-	-	1,359	-	-	1,359
Total program services	<u>106,191</u>	<u>-</u>	<u>-</u>	<u>106,191</u>	<u>1,350</u>	<u>-</u>	<u>3,957</u>	<u>(478)</u>	<u>111,020</u>	<u>-</u>	<u>-</u>	<u>111,020</u>
<b>Supporting Services</b>												
Management and general	21,960	-	-	21,960	-	-	-	-	21,960	-	-	21,960
Fundraising	3,308	-	-	3,308	-	-	-	-	3,308	-	-	3,308
Total supporting services	<u>25,268</u>	<u>-</u>	<u>-</u>	<u>25,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,268</u>	<u>-</u>	<u>-</u>	<u>25,268</u>
Total operating expenses	<u>131,459</u>	<u>-</u>	<u>-</u>	<u>131,459</u>	<u>1,350</u>	<u>-</u>	<u>3,957</u>	<u>(478)</u>	<u>136,288</u>	<u>-</u>	<u>-</u>	<u>136,288</u>
Change in net assets from operations	<u>2,359</u>	<u>3,751</u>	<u>-</u>	<u>6,110</u>	<u>(347)</u>	<u>-</u>	<u>(1,937)</u>	<u>-</u>	<u>75</u>	<u>3,751</u>	<u>-</u>	<u>3,826</u>
<b>NON-OPERATING ACTIVITIES</b>												
Net assets released (transferred) from special purpose funds	1,102	-	-	1,102	-	-	-	-	1,102	-	-	1,102
Net assets released from the real estate net asset fund	(2,296)	-	-	(2,296)	-	-	-	-	(2,296)	-	-	(2,296)
Net assets transferred from the real estate net asset fund	(1,100)	-	-	(1,100)	-	-	1,100	-	-	-	-	-
Investment return in excess (deficit) of amount used for operations	527	-	-	527	-	-	-	-	527	-	-	527
Adjustment to obligation under split-interest agreements	(942)	-	-	(942)	-	-	-	-	(942)	-	-	(942)
Pension related changes other than net periodic pension costs	11,398	-	-	11,398	-	-	-	-	11,398	-	-	11,398
Change in net assets from nonoperating activities	<u>8,689</u>	<u>-</u>	<u>-</u>	<u>8,689</u>	<u>-</u>	<u>-</u>	<u>1,100</u>	<u>-</u>	<u>9,789</u>	<u>-</u>	<u>-</u>	<u>9,789</u>
Change in total net assets	<u>11,048</u>	<u>3,751</u>	<u>-</u>	<u>14,799</u>	<u>(347)</u>	<u>-</u>	<u>(837)</u>	<u>-</u>	<u>9,864</u>	<u>3,751</u>	<u>-</u>	<u>13,615</u>
Net assets - beginning of year	<u>272,309</u>	<u>13,816</u>	<u>6,811</u>	<u>292,936</u>	<u>4,799</u>	<u>1,643</u>	<u>1,897</u>	<u>(9,002)</u>	<u>271,646</u>	<u>13,816</u>	<u>6,811</u>	<u>292,273</u>
Net assets - end of year	<u>\$ 283,357</u>	<u>\$ 17,567</u>	<u>\$ 6,811</u>	<u>\$ 307,735</u>	<u>\$ 4,452</u>	<u>\$ 1,643</u>	<u>\$ 1,060</u>	<u>\$ (9,002)</u>	<u>\$ 281,510</u>	<u>\$ 17,567</u>	<u>\$ 6,811</u>	<u>\$ 305,888</u>

*This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto and report of independent certified public accountants.*

**THE CHILDREN'S AID SOCIETY**  
**Consolidating Schedule of Activities**  
**For the year ended June 30, 2017**  
**(in thousands)**

	The Children's Aid Society				910 East 172nd Street, LLC	Milbank Housing Development Fund Corporation	1218 Southern Boulevard	1232 Southern Boulevard LLC	Consolidating Eliminations	Consolidated Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total	Total	Total		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	OPERATING REVENUE AND SUPPORT												
Government support	\$ 80,415	\$ -	\$ -	\$ 80,415	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,415	\$ -	\$ -	\$ 80,415
Program services fees and dues	4,025	-	-	4,025	-	-	-	-	-	4,025	-	-	4,025
Contributions	8,455	7,939	250	16,644	-	-	-	-	-	8,455	7,939	250	16,644
Bequests	1,532	-	-	1,532	-	-	-	-	-	1,532	-	-	1,532
Estates and trusts	512	-	-	512	-	-	-	-	-	512	-	-	512
Rental income	30	-	-	30	1,111	-	-	-	(478)	663	-	-	663
Investment return used for operations and special initiatives	16,288	-	-	16,288	-	-	-	-	-	16,288	-	-	16,288
Other revenue	172	-	-	172	-	-	-	119	-	291	-	-	291
In-kind donations	1,993	-	-	1,993	-	-	-	-	-	1,993	-	-	1,993
Net assets released from board designated special purpose funds	4,157	-	-	4,157	-	-	-	-	-	4,157	-	-	4,157
Net assets released from restrictions for operations	6,041	(6,041)	-	-	-	-	-	-	-	6,041	(6,041)	-	-
Total operating revenue and support	123,620	1,898	250	125,768	1,111	-	-	119	(478)	124,372	1,898	250	126,520
OPERATING EXPENSES													
Program Services													
Early Childhood	17,955	-	-	17,955	-	-	-	-	-	17,955	-	-	17,955
School Age	20,332	-	-	20,332	-	-	-	-	-	20,332	-	-	20,332
Adolescent and Carrera Pregnancy Prevention Program	10,416	-	-	10,416	-	-	-	-	-	10,416	-	-	10,416
Health and Wellness	15,736	-	-	15,736	527	-	-	-	(194)	16,069	-	-	16,069
Child Welfare and Family Services	38,657	-	-	38,657	774	-	-	-	(284)	39,147	-	-	39,147
National Center for Community Schools	1,424	-	-	1,424	-	-	-	-	-	1,424	-	-	1,424
Total program services	104,520	-	-	104,520	1,301	-	-	-	(478)	105,343	-	-	105,343
Supporting Services													
Management and general	21,542	-	-	21,542	-	-	-	23	-	21,565	-	-	21,565
Fundraising	3,163	-	-	3,163	-	-	-	-	-	3,163	-	-	3,163
Total supporting services	24,705	-	-	24,705	-	-	-	23	-	24,728	-	-	24,728
Total operating expenses	129,225	-	-	129,225	1,301	-	-	23	(478)	130,071	-	-	130,071
Change in net assets from operations	(5,605)	1,898	250	(3,457)	(190)	-	-	96	-	(5,699)	1,898	250	(3,551)
NON-OPERATING ACTIVITIES													
Net assets released from board designated special purpose funds	(4,157)	-	-	(4,157)	-	-	-	-	-	(4,157)	-	-	(4,157)
Investment return in excess (deficit) of amount used for operations	20,605	-	-	20,605	-	-	-	-	-	20,605	-	-	20,605
Gain (loss) on investment in related party	(465)	-	-	(465)	-	465	-	-	-	-	-	-	-
Adjustment to obligation under split-interest agreements	(1,722)	-	-	(1,722)	-	-	-	-	-	(1,722)	-	-	(1,722)
Pension related changes other than net periodic pension costs	(5,894)	-	-	(5,894)	-	-	-	-	-	(5,894)	-	-	(5,894)
Change in net assets from nonoperating activities	8,367	-	-	8,367	-	465	-	-	-	8,832	-	-	8,832
Change in total net assets	2,762	1,898	250	4,910	(190)	465	-	96	-	3,133	1,898	250	5,281
Net assets - beginning of year	269,547	11,918	6,561	288,026	4,989	(465)	1,643	1,801	(9,002)	268,513	11,918	6,561	286,992
Net assets - end of year	\$ 272,309	\$ 13,816	\$ 6,811	\$ 292,936	\$ 4,799	\$ -	\$ 1,643	\$ 1,897	\$ (9,002)	\$ 271,646	\$ 13,816	\$ 6,811	\$ 292,273

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