

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2015

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

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**Independent Auditor's Report on Consolidated Financial Statements
and Supplementary Information**

**Board of Directors
Leake and Watts Services, Inc.
and Affiliate**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Leake and Watts Services, Inc. and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of The Emergency Shelter, Inc., a related entity, which statements reflect total assets constituting 3.7% percent of consolidated total assets and total revenues constituting 0.13% of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Emergency Shelter, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position Leake and Watts Services, Inc. and Affiliate as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information as of and for the year ended June 30, 2015 included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditors, the information as of and for the year ended June 30, 2015 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Leake and Watts Services, Inc. and Affiliate's June 30, 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

We had also expressed an unmodified opinion on the supplementary information included in Schedules 1 through 3 for the year ended June 30, 2014 in relation to those consolidated financial statements as a whole. In our opinion, the 2014 supplementary information in Schedules 1 through 3 is consistent, in all material respects, with the audited supplementary information from which it has been derived.

Loeb + Troper LLP

November 25, 2015

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,324,191 | \$ 2,387,848 |
| Investments (Note 3) | 12,106,477 | 12,497,046 |
| Investments - certificates of deposit | 25,000 | 25,000 |
| Accounts receivable (net of allowance of \$367,000) | 10,657,638 | 8,113,439 |
| Other receivables | 298,122 | 336,107 |
| Prepaid expenses | 663,836 | 528,933 |
| Accrued investment interest receivable | 40,729 | 40,007 |
| | <u>26,115,993</u> | <u>23,928,380</u> |
| Total current assets | | |
| Assets limited as to use - investments (Notes 3 and 8) | <u>1,389,032</u> | <u>1,459,277</u> |
| Other assets | | |
| Investments (Note 3) | 861,096 | 861,096 |
| Beneficial interest in perpetual trusts (Notes 3 and 14) | 1,525,574 | 1,501,601 |
| Deferred financing costs (Note 8) | 1,072,698 | 1,110,257 |
| Fixed assets - net (Note 4) | 34,153,210 | 30,327,806 |
| | <u>37,612,578</u> | <u>33,800,760</u> |
| Total other assets | | |
| Total assets | <u>\$ 65,117,603</u> | <u>\$ 59,188,417</u> |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 3,381,699 | \$ 3,535,302 |
| Accounts payable - construction | 623,244 | |
| Accrued payroll and employee benefits (Notes 9 and 10) | 2,869,078 | 2,768,091 |
| Accrued expenses and other liabilities (Note 10) | 3,141,466 | 2,657,314 |
| Advances from government agencies | 4,775,822 | |
| Accrued interest payable | 45,544 | 47,838 |
| Line of credit and notes payable (Note 6) | 2,713,790 | 575,838 |
| Capital leases payable (Note 7) | 46,737 | 42,687 |
| Bonds payable - net (Note 8) | 1,689,000 | 1,478,000 |
| | <u>19,286,380</u> | <u>11,105,070</u> |
| Total current liabilities | | |
| Long-term liabilities | | |
| Accrued payroll and employee benefits (Notes 9 and 10) | 515,113 | 730,922 |
| Line of credit and notes payable (Note 6) | 8,127,690 | 8,689,811 |
| Capital leases payable (Note 7) | 33,596 | 80,333 |
| Bonds payable - net (Note 8) | 21,984,522 | 23,670,331 |
| | <u>30,660,921</u> | <u>33,171,397</u> |
| Total long-term liabilities | | |
| | <u>49,947,301</u> | <u>44,276,467</u> |
| Total liabilities | | |
| Net assets (Exhibit B) | | |
| Unrestricted | 10,980,803 | 10,953,166 |
| Temporarily restricted (Note 11) | 302,829 | 96,087 |
| Permanently restricted (Note 14) | 3,886,670 | 3,862,697 |
| | <u>15,170,302</u> | <u>14,911,950</u> |
| Total net assets | | |
| | <u>\$ 65,117,603</u> | <u>\$ 59,188,417</u> |
| Total liabilities and net assets | | |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

**YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|-------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| Operating revenues | | | | | |
| Program revenue (Note 5) | \$ 81,468,802 | | | \$ 81,468,802 | \$ 74,796,319 |
| Other | <u>308,513</u> | | | <u>308,513</u> | <u>10,232</u> |
| Total operating revenues | <u>81,777,315</u> | | | <u>81,777,315</u> | <u>74,806,551</u> |
| Operating expenses (Schedule 3) | | | | | |
| Program services | | | | | |
| Child Welfare | 28,048,759 | | | 28,048,759 | 24,678,639 |
| Special Education | 18,073,954 | | | 18,073,954 | 18,638,102 |
| Developmental Disabilities | 11,610,484 | | | 11,610,484 | 11,214,301 |
| Early Childhood | 12,101,127 | | | 12,101,127 | 10,089,973 |
| Juvenile Justice | <u>6,905,741</u> | | | <u>6,905,741</u> | <u>4,463,409</u> |
| Total program services | <u>76,740,065</u> | | | <u>76,740,065</u> | <u>69,084,424</u> |
| Supporting services | | | | | |
| Management and general | 6,396,899 | | | 6,396,899 | 5,926,701 |
| Development | <u>223,644</u> | | | <u>223,644</u> | <u>178,823</u> |
| Total supporting services | <u>6,620,543</u> | | | <u>6,620,543</u> | <u>6,105,524</u> |
| Total operating expenses (includes interest expense of \$1,200,522) | <u>83,360,608</u> | | | <u>83,360,608</u> | <u>75,189,948</u> |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

EXHIBIT B

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CONSOLIDATED STATEMENT OF ACTIVITIES

**YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|----------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| Decrease in net assets from operations | \$ (1,583,293) | | | \$ (1,583,293) | \$ (383,397) |
| Nonoperating revenues and expenses | | | | | |
| Investment income (Note 3) | 333,926 | | | 333,926 | 168,695 |
| Contributions | 674,938 | \$ 296,709 | | 971,647 | 572,114 |
| Special events | 621,668 | | | 621,668 | 553,509 |
| Direct costs of special events | (109,702) | | | (109,702) | (76,350) |
| Change in value of beneficial interest in perpetual trusts | | | \$ 23,973 | 23,973 | 162,463 |
| Bond issuance cost write-off | | | | | (781,006) |
| Miscellaneous income | 133 | | | 133 | 132 |
| Net assets released from restrictions (Note 11) | <u>89,967</u> | <u>(89,967)</u> | | | |
| Change in net assets (Exhibit C) | 27,637 | 206,742 | 23,973 | 258,352 | 216,160 |
| Net assets - beginning of year | <u>10,953,166</u> | <u>96,087</u> | <u>3,862,697</u> | <u>14,911,950</u> | <u>14,695,790</u> |
| Net assets - end of year (Exhibit A) | <u>\$ 10,980,803</u> | <u>\$ 302,829</u> | <u>\$ 3,886,670</u> | <u>\$ 15,170,302</u> | <u>\$ 14,911,950</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|--|--------------------|------------------|
| Reconciliation of change in net assets to net cash provided by operating activities | | |
| Change in net assets (Exhibit B) | \$ 258,352 | \$ 216,160 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 2,135,860 | 2,120,678 |
| Bond issuance costs write-off | | 781,006 |
| Amortization of bond issuance costs | 98,071 | 31,465 |
| Amortization of bond discount | (3,191) | (14,900) |
| Realized (gains) losses on investments | (33,363) | 286,231 |
| Unrealized gains on investments | (87,624) | (287,745) |
| Change in value of beneficial interest in perpetual trusts | (23,973) | (162,463) |
| Donated securities | (8,001) | (22,133) |
| Decrease (increase) in assets | | |
| Accounts receivable | (2,480,199) | (373,745) |
| Other receivables | 37,985 | (229,340) |
| Prepaid expenses | (134,903) | (167,710) |
| Accrued investment interest receivable | (722) | 24,280 |
| Increase (decrease) in liabilities | | |
| Accounts payable | (153,603) | 459,327 |
| Accrued payroll and employee benefits | (114,822) | 99,504 |
| Accrued expenses and other liabilities | 484,152 | 241,975 |
| Advances from government agencies | 4,775,822 | |
| Accrued interest payable | (2,294) | (496,856) |
| | 4,747,547 | 2,505,734 |
| Cash flows from investing activities | | |
| Purchase of investments | (13,896,153) | (11,306,407) |
| Proceeds from sale of investments | 14,415,710 | 12,996,394 |
| Loan to post employment benefit trust | (64,000) | |
| Decrease in investments limited as to use | 70,245 | 5,274,718 |
| Fixed asset acquisitions | (5,338,020) | (806,552) |
| | (4,812,218) | 6,158,153 |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Cash flows from financing activities | | |
| Payments of line of credit and notes payable | \$ (6,184,681) | \$ (10,608,306) |
| Proceeds from line of credit and notes payable | 7,700,000 | 6,288,000 |
| Proceeds from bonds payable | | 21,173,000 |
| Payments on bonds payable | (1,471,618) | (23,580,000) |
| Principal payments on capital lease | (42,687) | (38,989) |
| Deferred financing costs | | (929,238) |
| | <u>1,014</u> | <u>(7,695,533)</u> |
| Net change in cash and cash equivalents | (63,657) | 968,354 |
| Cash and cash equivalents - beginning of year | <u>2,387,848</u> | <u>1,419,494</u> |
| Cash and cash equivalents - end of year | <u>\$ 2,324,191</u> | <u>\$ 2,387,848</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | <u>\$ 1,094,362</u> | <u>\$ 2,106,673</u> |
| Noncash transactions related to the acquisition of a term loan and line of credit from TD Bank | | |
| The following were paid through direct financing: | | |
| Payment of line of credit and notes payable | \$ (7,571,656) | |
| Payments of interest | (11,280) | |
| Deferred financing costs | (60,512) | |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - NATURE OF ORGANIZATION

Leake and Watts Services, Inc. provides comprehensive social services including family stabilization, foster care, child care and Head Start, residential and respite services for children and adults with developmental disabilities, special education, and residential treatment and group homes for youth with emotional and mental health challenges principally in the Bronx and Westchester County. The primary sources of revenue are from New York City Administration for Children's Services and various New York State government agencies.

The Emergency Shelter, Inc. alleviates human suffering and distress through programs that feed, house, shelter, and train homeless and unemployed men, women and youth. The primary source of funding is income associated with the organization's beneficial interests in perpetual trusts held by third parties.

Leake and Watts Services, Inc. is related to The Emergency Shelter, Inc. through common board control. The Emergency Shelter, Inc. is consolidated in these financial statements.

Leake and Watts Services, Inc. and its Affiliate ("Leake and Watts") are each exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

- **Child Welfare** programs and services.
 - The **Residential Treatment Center**, located on a 30-acre campus in Yonkers, provides 24-hour residential care to youth ages 12-21 requiring more significant therapeutic and educational support. An enriched, structured program of activities coupled with clinical services assists youth with mental health concerns and challenging behaviors to develop the ability to participate fully in the surrounding community and to return to a less restrictive environment. Some of the youth served at the Residential Treatment Center are in foster care.
 - The **Family Foster Care** program serves children who have experienced abuse and neglect. The goal in all cases is to establish a permanent appropriate living arrangement for the child, preferably back with his/her birth family. If that is not possible, the goal is to establish a home with an adoptive family or to prepare the youth to live independently.
 - Our evidence-based **Multidimensional Treatment Foster Care (MTFC)** serves teens in foster care with emotional and behavioral challenges with more intensive supports.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - NATURE OF ORGANIZATION (continued)

- **Mother/Child home** in the Bronx serves teen mothers in foster care along with their children. The focus, as with all foster youth, is on education, skills development (with particular emphasis on parenting skills training), employment, safety and well-being.
- **Preventive Services Programs** strengthen and preserve families, keep children safe by preventing child abuse and neglect, and prevent the necessity of placing children in foster care utilizing two evidence-based models that have proven track records of success, Family Connections and Functional Family Therapy - Child Welfare adaptation.
- Children in our child welfare programs also receive services and referrals from our **Clinic** to ensure that their health and mental health needs are met.
- **Special Education** services to school-age children through both The Biondi School and at our Residential Treatment Center.
 - Many students have a history of mental health challenges, learning disabilities, substance abuse, general delinquency, depression, psychotic thinking, suicidal ideation, impulsivity, anxiety and poor social skills. **The Biondi School** is a non-public school providing 12-month specialized educational services. Emphasis is on academic achievement, skills development, and increasing each student's ability to remain on task, interact appropriately with peers, and improve behavior so that they can return to their local public school.
- **Developmental Disabilities Services** include community-based programs such as community residences and supported apartments, respite/recreation services, supportive employment, day services, and Medicaid Service Coordination for both children and adults. We also offer habilitation services and respite care. Our supportive clinical practices address the associated emotional, behavioral and psychological issues/disorders in order to assist our consumers to live more fulfilling lives.
- **Early Childhood Centers** for children ages 18 months to 5 years.
 - Program components include an early childhood educational curriculum which prepares children for their school years promoting creativity, pre-academic skills, socialization, and independence, bilingual (Spanish) services, parent involvement, and linkage to community and social services.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - NATURE OF ORGANIZATION (continued)

- Located in the Bronx, our federally funded **Head Start** program serves children and families living at or below the poverty level and our **Early Head Start** program serves pregnant women, infants and toddlers. The **Seabury Day Care** Center provides early education services to children from low-income, working families.
- **The Brownell Preschool** and **Ames Early Childhood Center** serve both typically developing children with Universal Pre-Kindergarten (UPK) services as well as those in need of preschool special education services in integrated as well as segregated classes, depending on the need of the child.
- **The Children's Learning Center** provides preschool special education to children with intensive needs in small classes.
- The **Family Resource Center** provides a wide range of free services to children and families in the Soundview section of the Bronx. Services include: Computer lab, recreational activities for families, infant and toddler play groups, parent support groups, money management workshops, assistance connecting to Adult Education programs and additional social services.
- **Juvenile Justice** Services include secure, limited secure and non-secure placement programs for court-involved youth, all of which are based on the belief that young people with histories of delinquency need support, education and other tools to return safely and successfully to their communities and break the cycle of delinquency.
 - **Woodfield Facility** is a secure detention center for youth under the age of 16 who are awaiting court action. These youth are accused of committing crimes, some of which are violent in nature. Services include individual and group counseling, a full-day school program, 24-hour medical services, family outreach, aftercare planning, and religious and spiritual services. These services are offered in a structured setting and a caring, albeit high-security, environment.
 - Our **Non-Secure Placement** program is a residential program serving adjudicated youth ages 12 to 14. Our program is community-oriented and family-focused, using the nationally recognized treatment method, the Missouri Model, that involves grouping youth into small cohorts of 10-12 with whom they live, attend school, participate in recreational activities and receive counseling. We ensure that youth are able to develop their academic, pre-vocational and communications skills through various aspects of the program as well as work with family members to maintain and strengthen the youth's connection with his or her family and community.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - NATURE OF ORGANIZATION (continued)

- Our **Limited Secure Placement** program (LSP), which will begin operations in fiscal year 2016, is also part of the residential care continuum for adjudicated Juvenile Delinquents in New York City. Yet to be operational, Leake and Watts will run two sites with a total of 32 beds for both a general and a specialized population. Most youth served will range from 14 to 18 years of age but, on occasion, an older or younger youth may be served.
- The **Family Respite** program, which will begin operations in fiscal year 2016, serves youth ages 7 to 17 who are at risk of contact with the juvenile justice system by providing respite services for up to 21 days. The program staff also refers families to appropriate community-based services for sustained assistance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of Leake and Watts have been prepared on the accrual basis of accounting.

Basis of consolidation - All material intercompany transactions and balances are eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Leake and Watts considers highly liquid investments with original maturities, when acquired, of 90 days or less to be cash equivalents.

Investments - Investments are recorded at fair value. Leake and Watts invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

Investments - certificates of deposit - Certificates of deposit with maturities greater than three months when originally acquired are considered investments for cash flow purposes.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable, other receivables and program revenue - Leake and Watts records receivables and revenue when earned based on established rates and contracts for service provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. Revenues received from government agencies are subject to audit by such agencies. Laws and regulations related to government programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs. Interest is not charged on outstanding receivables.

Allowance for doubtful accounts - Leake and Watts determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its sources, current economic conditions and historical information. Accounts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Leake and Watts has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 as compared to those used at June 30, 2014.

- *Common stocks, fixed-income securities (other than mutual funds and mortgage-backed securities) and Exchange Traded Funds (ETF)* - Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mortgage-backed securities* - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Mutual funds* - Valued at the net asset value (NAV) of shares held at end of year.
- *Beneficial interests in perpetual trusts* - Beneficial interests in perpetual trusts are valued at fair value of The Emergency Shelter, Inc.'s beneficial interests in the fair value of underlying assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Leake and Watts believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See Note 3 for the tables that set forth by level, within the fair value hierarchy, the assets at fair value.

Fixed assets - Fixed assets having a useful life greater than one year and costing \$5,000 or more, are stated at cost or fair market value. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Capital leases and leasehold improvements are amortized over either the remaining term of the underlying lease or the useful lives of the improvements, whichever is shorter, using the straight-line method.

The estimated useful lives of such assets are as follows:

| | |
|------------------------------------|----------------|
| Building and building improvements | 10 to 40 years |
| Furniture, fixtures and equipment | 3 to 10 years |
| Leasehold improvements | 3 to 20 years |

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets limited as to use - Investments whose assets are set aside under the terms of various bond agreements as well as the Replacement Reserve Fund. The Replacement Reserve Fund is used specifically for repair and maintenance of New York State Office for People With Developmental Disabilities (OPWDD) - funded IRA residences.

Beneficial interests in perpetual trusts - The Emergency Shelter, Inc. has beneficial interests in various perpetual trusts. The Emergency Shelter, Inc.'s interest in these trusts is reported as a contribution in the year received at their fair value. Changes in the fair value of the underlying assets are recorded as revenue adjusting permanently restricted net assets.

Advances from government agencies - Advances from government agencies consists of cash received from various government agencies in advance of allowable expenses being incurred.

Deferred financing costs - deferred financing costs are recorded at cost and are amortized using the straight-line basis over the term of the related debt.

Net assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Leake and Watts are classified and reported as follows:

Unrestricted - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met by either the actions of Leake and Watts and/or the passage of time. Temporarily restricted revenue earned and expended in the same fiscal year is reflected as unrestricted revenue.

Permanently restricted - Net assets that have been restricted by donors to be maintained in perpetuity. Investment income earned in relation to permanently restricted endowments is initially classified as temporarily restricted net assets and is recorded as unrestricted upon expenditure for the program for which the endowment fund was established.

Contributions - Unconditional contributions, including promises to give cash and other assets, are recorded at fair value at the date the contribution is received. Leake and Watts 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donated fixed assets that are restricted for use in specific programs are released from restriction over the useful lives of the assets.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed costs and revenues - Leake and Watts operates programs where certain costs including facility costs, fringe benefits for staff, and consumable supplies are paid directly by New York City. Leake and Watts reports these amounts as operating revenues and expenses, and recognized \$637,985 of contributed costs. Leake and Watts also received voluntary services of \$451,650, and these are reported as operating revenues and expenses.

Measure of operations - Leake and Watts' change in net assets from operations includes revenues and expenses directly related to the provision of program services. Investment income, contributions, both restricted and unrestricted, special events and related direct costs, bond cost write off, change in value of beneficial interests in perpetual trusts, and miscellaneous income are considered nonoperating.

Operating leases - Rent lease expense has been recorded on the straight-line basis over the term of the lease. Deferred rent is recorded if material.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Leake and Watts' financial statements for the year ended June 30, 2014, from which the summarized information was derived. \$24,106 reported as contributions receivable and \$312,001 reported as accounts receivable in the June 30, 2014 financial statements have been included as other receivables to conform with the current year presentation.

Uncertainty in income taxes - Leake and Watts has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending June 30, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 25, 2015, which is the date the consolidated financial statements were issued.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS

Unrestricted and permanently restricted investments, assets limited as to use and beneficial interests in perpetual trusts, as described in Note 2, are included in the following tables set forth by level, within the fair value hierarchy at fair value:

| | Level 1 | | | Level 2 | | | Level 3 | Total |
|--|--------------|--------------------------------|--------------|-------------|--------------------------------|------------|---------|--------------|
| | Investments | Assets Limited As To Use | Total | Investments | Assets Limited As To Use | Total | | |
| Investments at fair value | | | | | | | | |
| Fixed-income securities | | | | | | | | |
| U.S. government and agency obligations | | | | | | | | |
| U.S. Treasury obligations | \$ 1,548,511 | | \$ 1,548,511 | | | | | \$ 1,548,511 |
| Government related | 5,356 | | 5,356 | | | | | 5,356 |
| Mortgage-backed securities | | | | \$ 11,718 | \$ 799,845 | \$ 811,563 | | 811,563 |
| Other | 180,696 | | 180,696 | | | | | 180,696 |
| Pooled vehicle - bond mutual funds | 308,037 | | 308,037 | | | | | 308,037 |
| Tax exempt | 25,055 | | 25,055 | | | | | 25,055 |
| High yield | 251,213 | | 251,213 | | | | | 251,213 |
| Corporate bonds | | | | | | | | |
| Telecommunications | 336,673 | | 336,673 | | | | | 336,673 |
| Energy | 158,041 | | 158,041 | | | | | 158,041 |
| Finance | 827,621 | | 827,621 | | | | | 827,621 |
| Consumer goods | 474,372 | | 474,372 | | | | | 474,372 |
| Services | 150,250 | | 150,250 | | | | | 150,250 |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS (continued)

| | Level 1 | | Level 2 | | | Level 3 | Total |
|---|---------------------|--------------------------------|---------------------|------------------|--------------------------------|-------------------|---------------------|
| | Investments | Assets Limited As To Use | Total | Investments | Assets Limited As To Use | | |
| Mutual funds | | | | | | | |
| Large cap | \$ 4,421,531 | | \$ 4,421,531 | | | | \$ 4,421,531 |
| Mid cap | 874,118 | | 874,118 | | | | 874,118 |
| Small cap | 640,576 | | 640,576 | | | | 640,576 |
| International-developed | 902,244 | | 902,244 | | | | 902,244 |
| Emerging markets | 428,440 | | 428,440 | | | | 428,440 |
| Equity REITS | 232,816 | | 232,816 | | | | 232,816 |
| Other equity | 125,606 | | 125,606 | | | | 125,606 |
| Exchange traded funds | | | | | | | |
| Managed futures | 401,310 | | 401,310 | | | | 401,310 |
| Absolute return | 490,541 | | 490,541 | | | | 490,541 |
| Total investments at fair value | 12,783,007 | | 12,783,007 | \$ 11,718 | \$ 799,845 | \$ 811,563 | 13,594,570 |
| Cash equivalents | 172,848 | \$ 589,187 | 762,035 | | | | 762,035 |
| Total investments | <u>\$12,955,855</u> | <u>\$ 589,187</u> | <u>\$13,545,042</u> | <u>\$ 11,718</u> | <u>\$ 799,845</u> | <u>\$ 811,563</u> | <u>\$14,356,605</u> |
| Beneficial interests in perpetual trusts | | | | | | \$ 1,525,574 | \$ 1,525,574 |

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

**NOTE 3 - INVESTMENTS AND BENEFICIAL INTERESTS IN PERPETUAL TRUSTS
(continued)**

Included in investments is \$861,096 of permanently restricted funds.

Included in assets limited as to use is \$74,400 of replacement fund for residences.

The following table sets forth the changes in the Level 3 assets:

| | Beneficial Interest in Perpetual Trusts |
|---|--|
| Beginning balance | \$ 1,501,601 |
| Total gains (realized/unrealized) included in changes in net assets for the year ended June 30 | 23,973 |
| Ending balance | \$ 1,525,574 |
| The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date | \$ 23,973 |

Investment income consists of the following:

| | | |
|------------------------------|----|----------|
| Interest and dividend income | \$ | 279,322 |
| Realized gains | | 33,363 |
| Unrealized gains | | 87,624 |
| Investment expenses | | (66,383) |
| Investment income | \$ | 333,926 |

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 - FIXED ASSETS

Fixed assets consist of the following:

| | |
|---|--------------------------|
| Land | \$ 38,787 |
| Building and building improvements | 52,833,821 |
| Leasehold improvements | 1,423,263 |
| Furniture, fixtures and equipment | 7,172,120 |
| Construction in progress | <u>5,838,609</u> |
| Total cost | 67,306,600 |
| Less accumulated depreciation and amortization | <u>(33,153,390)</u> |
| Fixed assets - net | <u>\$ 34,153,210</u> |

Equipment costing \$221,535 and associated accumulated amortization of \$102,164 are subject to capital lease agreements as described in Note 7.

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS

Revenues are recognized when earned as services are performed and are based on rates, fees for services and contractual agreements with various Federal, New York State, New York City, Westchester County and other public agencies.

Revenues under third-party-payor agreements are subject to audit and potential retroactive adjustments. Provisions for estimated third-party-payor settlements are recorded in the period when the services are rendered. Differences between the estimated amounts accrued, interim and final settlements are reported in operations in the year of determination.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5 - REVENUE RECOGNITION AND ADJUSTMENTS (continued)

Reimbursement methodologies for some of the major programs present at Leake and Watts are as follows:

Education and Early Childhood

Leake and Watts' school programs are regulated and funded by the New York State Education Department. A tuition rate per student is established based upon enrollment, actual cost data, geographic location and other cost "screens" prescribed by the State. Fluctuations in enrollment and costs can have a significant impact on Leake and Watts' receipt of a rate sufficient to cover program costs. Revenue from support payments from the New York City Department of Education (NYC-DOE) is subject to final reconciliation. Revenue and support payments have been reconciled with the NYC-DOE through the fiscal year ended June 30, 2012.

Foster Care, Residential Treatment and Medical and Mental Health Services

The principal source of revenue consists of support payments received from the City of New York (the "City") and Westchester County for congregate and foster boarding home care, and health care provided to children referred to Leake and Watts. Such payments, based initially upon per diem rates established annually by the New York State Office of Children and Family Services (NYS-OCFS), the New York City Administration for Children's Services (NYC-ACS), and the State Department of Health, are finalized after the reported costs and days of care are audited. Revenue for support payments from NYC-ACS is subject to audit.

Developmental Disabilities Services

Developmental Disabilities Services including community-based programs such as group homes and supported apartments, respite/recreation services, supportive employment, day services, and Medicaid Service Coordination are funded through contracts with OPWDD and by Medicaid, based on rates established by OPWDD.

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE

- A) Leake and Watts had a term loan and a revolving line of credit with The Bank of New York Mellon (BNY), which was set to mature on July 10, 2015. Interest was charged on the term loan and the revolving line of credit at 1.15% and 3.25%, respectively. Both the term loan and the revolving line of credit were refinanced and paid off on May 14, 2015. \$ -

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

| | |
|---|----------------------|
| B) On May 14, 2015, Leake and Watts obtained a \$5,625,807 term loan from TD Bank, N.A. (TD Bank) and paid off both the term loan and the revolving line of credit from BNY. The loan matures on June 1, 2025, and is payable in monthly installments of \$57,146 including interest at 4.01%, beginning July 1, 2015. The loan is collateralized by assets held by BNY Mellon in the custodial investment accounts of Leake and Watts. | \$ 5,625,807 |
| C) On May 15, 2015, Leake and Watts obtained a \$5,000,000 revolving line of credit from TD Bank. The revolving line of credit matures on May 15, 2017 and bears interest at the prime rate, which was 3.25% at June 20, 2015. The line of credit is secured by accounts receivable. | 2,017,641 |
| D) On January 5, 2009, Leake and Watts entered into a mortgage with Castle Combe Associates LLC for \$3,795,737 to purchase a building at 450 Castle Hill Ave., Bronx. The mortgage is secured by the aforementioned property. Payments of \$28,300 are due monthly through February 1, 2029. The interest rate is 6.50%. | 3,058,691 |
| E) On December 15, 2011, Leake and Watts entered into a computer equipment financing agreement with HVB Leasing Corp. in the amount of \$400,000 to upgrade the computer network. Payments of \$7,800 per month are due monthly. The interest rate is 7.49%. The note matures in January 2017. HVB Leasing Corp. has a first-priority security interest in the computer equipment. | <u>139,341</u> |
| | <u>\$ 10,841,480</u> |

Payments for the line of credit and all notes payable over the next five years are as follows:

| | |
|------------|----------------------|
| 2016 | \$ 2,713,790 |
| 2017 | 692,907 |
| 2018 | 670,096 |
| 2019 | 702,072 |
| 2020 | 735,286 |
| Thereafter | <u>5,327,329</u> |
| Total | <u>\$ 10,841,480</u> |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE (continued)

In connection with the term loan obtained from TD Bank, Leake and Watts incurred \$60,512 of financing costs. These costs will be amortized over the life of the term loan.

NOTE 7 - CAPITAL LEASE PAYABLE

Baytree National Bank and Trust Company

On February 10, 2013, Leake and Watts entered into a computer equipment financing agreement with Baytree National Bank and Trust Company in the amount of \$221,535 to finance the purchase of smart boards and audio equipment. Payments of \$4,344 are due monthly. The interest rate is 9.1%. The lease matures in February 2017. The balance outstanding as of June 30, 2015 was \$80,333.

Future lease payments are as follows:

| | |
|---|------------------|
| 2016 | \$ 52,128 |
| 2017 | <u>34,752</u> |
| Total | 86,880 |
| Less amount representing interest | <u>(6,547)</u> |
| Present value of net minimum lease payments | 80,333 |
| Less current portion | <u>(46,737)</u> |
| Long-term obligation under capital lease | <u>\$ 33,596</u> |

NOTE 8 - BONDS PAYABLE

Series 2013B-1 and Series 2013B-2

On May 9, 2013, the Dormitory Authority of the State of New York ("DASNY") issued Series 2013B-1 and Series 2013B-2 Bonds aggregating \$4,035,000 for the purpose of the financing and refinancing of costs incurred in connection with (a) 1035 E. 233rd Street, Bronx (233rd Street) for \$965,000; (b) 634 East 241st Street, Bronx (241st Street) for \$590,000; (c) 954 East 211th Street, Bronx (211th Street) for \$550,000; (d) 1623 Glover Street, Bronx (Glover Street) for \$715,000; (e) 4316 Van Cortland Parkway East, Bronx (Hurst House) for \$640,000; and (f) 450 Castle Hill Avenue, Bronx (Castle Hill) for \$575,000.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - BONDS PAYABLE (continued)

Series 2013B-1 and Series 2013B-2 (continued)

One twelfth of the annual principal payment and one sixth of the semiannual interest payment are paid to the bond trustee monthly. The debt service schedule (term of loan) for each Facility coincides with its reimbursement commitment from OPWDD.

The bonds are secured by a second mortgage lien on each Facility and a subordinate lien on the Public Funds attributable to the Facilities secured by a Stand-by Intercept Agreement with OPWDD. At June 30, 2015, the amount held in the debt service reserve fund was \$188,031; in the debt service fund was \$325,602; in the construction fund was \$801,099. These amounts are reflected as investments limited as to use on the accompanying statement of financial position. The rate of interest on the bonds ranges from 1.43% to 3.25%.

Bond proceeds from the Series 2013B-1 and 2013B-2 were also used to pay the cost of issuance of the bonds totaling \$256,423 and the bond discount of \$47,860. These costs will be amortized as interest expense over the life of the bonds. At June 30, 2015, the unamortized bond issuance cost was \$221,933. At June 30, 2015, the unamortized bond discount was \$41,478. The principal balance outstanding on the Series 2013B-1 was \$3,745,000 at June 30, 2015. The 2013B-2 Bonds matured and were paid off in 2015.

Series 2014 Bonds

On June 27, 2014, \$21,173,000 aggregate principal amount of Special Obligation Revenue Bonds were issued pursuant to a certain Bond Purchase and Loan Agreement by and among the Yonkers Economic Development Corporation (the "Issuer"), Leake and Watts Services, Inc. (the "Company"), and BankUnited, Inc., as purchaser of the Bonds (the "Bank"). The component features of the total bond financing are set forth in the table below:

| <u>Series</u> | <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Price</u> |
|---------------|-----------------------------|-----------------|--------------------------|--------------|
| Series 2014A | \$ 16,670,000 | June 1, 2029 | 3.330% | 100% |
| Series 2014B | 1,240,000 | June 1, 2022 | 3.550% | 100% |
| Series 2014C | 3,125,000 | June 1, 2026 | 4.380% | 100% |
| Series 2014D | <u>138,000</u> | June 1, 2019 | 2.980% | 100% |
| | <u>\$ 21,173,000</u> | | | |

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - BONDS PAYABLE (continued)

Series 2014 Bonds (continued)

The Bonds were issued for the purpose of providing funds for certain projects for the Company consisting of (i) the refinancing and paying down of old debt and (ii) issuance cost of the Series 2014 Bonds totaling \$871,100. These costs will be amortized over the life of the bonds. At June 30, 2015, the unamortized bond issuance cost was \$790,253.

The 2014 Bonds loan agreement requires principal payments through June 1, 2029, and the maintenance of certain reserve funds. Principal payments are due annually. Interest payments are due semiannually. The principal balance outstanding on the Bonds was \$19,970,000 at June 30, 2015.

The Bonds are special obligations of the Issuer and are payable solely from the revenues, receipts and other payments derived from the loan by the Bank from the Company. As security for the Bonds and the Company's obligations under the Loan Agreement, the Company has granted to the Issuer a first priority mortgage lien and security interest in the Facility pursuant to a certain Mortgage, Assignment of Rents, Security Agreement and Fixture Filing.

Annual debt service amounts payable during the next five years and thereafter are as follows:

| | |
|-------------------------------|----------------------|
| 2016 | \$ 1,689,000 |
| 2017 | 1,606,000 |
| 2018 | 1,649,000 |
| 2019 | 1,686,000 |
| 2020 | 1,690,000 |
| Thereafter | <u>15,395,000</u> |
| | 23,715,000 |
| Less net unamortized discount | <u>(41,478)</u> |
| Total | <u>\$ 23,673,522</u> |

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 - POSTRETIREMENT BENEFITS

The present value of Leake and Watts' agreement with the former executive director relating to the provision of health benefits on his family's behalf as of June 30, 2015 was \$58,372. The liability is included in accrued payroll and employee benefits on the accompanying statement of financial position.

In June 2015, Leake and Watts established a trust to accumulate funds that can be used to supplement the executive director's retirement income and to provide additional benefits in the event of the executive director's death or serious illness. To fund the trust, Leake and Watts has agreed to loan the trust \$64,000 in each of the next 5 years but can discontinue payments at its discretion. The loan accrues interest at the prevailing Applicable Federal Rate (AFR) which was 2.58% at June 30, 2015, and will be repaid from either the cash value of the policy or from the proceeds from the life insurance policy upon the executive director's death. The receivable is included in accounts receivable on the accompanying statement of financial position.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) Noncancelable leases principally relate to office space, residential housing, office equipment, and automobiles. These leases expire between July 2015 and December 2029. Minimum payments for the next five years and thereafter are as follows:

| | |
|------------|----------------------|
| 2016 | \$ 2,319,000 |
| 2017 | 2,081,000 |
| 2018 | 1,970,000 |
| 2019 | 1,785,000 |
| 2020 | 1,724,000 |
| Thereafter | <u>4,257,284</u> |
| Total | <u>\$ 14,136,284</u> |

- (b) Total rent expense, including office equipment and vehicle leases, amounted to \$3,224,130.
- (c) During the period from January 2000 to December 2005, workers' compensation coverage was provided by the Provider Agency Trust for Human Services (the "Trust"). Leake and Watts was informed during 2008 that the Trust's reserves for claims were insufficient, resulting in a revised assessment of \$2,394,738. Monthly payments to settle such liability were \$18,293, and the interest rate was 7.50%. From July 2014 until April 2015, payments of \$164,638 were made based upon this assessment.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

(c) (continued)

In May 2015, Leake and Watts agreed to a settlement of \$562,976, plus interest at 3.5%, resulting in 120 monthly payments of \$5,567 beginning July 2015. As a result of the settlement, Leake and Watts was able to write down their accrued liability by \$207,511. The balance as of June 30, 2015 was \$562,976.

Principal payments over the next five years and thereafter are as follows:

| | |
|------------|-------------------|
| 2016 | \$ 47,863 |
| 2017 | 49,565 |
| 2018 | 51,328 |
| 2019 | 53,154 |
| 2020 | 55,044 |
| Thereafter | <u>306,022</u> |
| Total | <u>\$ 562,976</u> |

- (d) Leake and Watts is involved with third parties in legal matters in which damages and other remedies are sought. Such suits and claims are either specifically covered by insurance or are not material. While the outcome of these suits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of Leake and Watts.
- (e) Leake and Watts is responsible for reporting to several third parties. These agencies, as well as the New York State office of the Attorney General, the Internal Revenue Service, the New York State Office of the Medicaid Inspector General and the New York State Department of Charities Registration have the right to audit Leake and Watts.

The eventual liability to governmental agencies, if any, upon final settlement of the open years has not been finalized. However, Leake and Watts has recorded estimated provisions of approximately \$2,181,181 for the eventual settlement of the open cost reporting periods and are included in accrued expenses and other liabilities.

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**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

(f) Contracts

- Leake and Watts has been awarded two contracts for approximately \$8.6 million annually to operate Limited Secure Placement Programs at two sites. Both these contracts were registered by mid-October 2015 and are expected to be operational in FY16. These awards, which represent commitments of NYC-ACS to provide funds on a cost reimbursement basis to Leake and Watts, will not be reflected in the financial statements until reimbursable activities have been conducted in accordance with the provisions of the contracts. However the construction costs of approximately \$2,500,000 relating to starting the program have been capitalized and are included in construction in progress in these financial statements.
- Leake and Watts has also been awarded two contracts for approximately \$864,000 with the NYC Department of Youth and Community Development and the Department of Education to serve as lead Community School partner for two middle schools in the Bronx. Both programs were operational on July 1, 2015, and, therefore, are not recognized in these financial statements.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | |
|---------------------------|-------------------|
| Fire safety | \$ 6,120 |
| Parent child home program | 108,185 |
| Branding grant | 163,524 |
| J. Douglas Richards fund | <u>25,000</u> |
| | <u>\$ 302,829</u> |

Net assets were released from restrictions by satisfying the following purposes:

| | |
|---|------------------|
| Fire safety | \$ 11,520 |
| Parent child home program | 54,341 |
| Strategy Count | <u>24,106</u> |
| Total net assets released from restrictions | <u>\$ 89,967</u> |

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 12 - FUNCTIONAL EXPENSES

| | |
|------------------------------------|----------------------|
| Program services | \$ 76,740,065 |
| Management and general | 6,396,968 |
| Fundraising (development) expenses | 223,644 |
| Investment management fees | 66,383 |
| Direct costs of special events | <u>109,702</u> |
| Total expenses | <u>\$ 83,536,762</u> |

NOTE 13 - CONCENTRATIONS

Leake and Watts' cash accounts are in several financial institutions and, at times, they exceed FDIC insurance limits.

Leake and Watts received approximately 58% of their operating revenues from the City of New York in 2015.

98% of Leake and Watts' accounts receivable is from the City of New York, Westchester County, the State of New York and several municipalities within the State at June 30, 2015.

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

A. Endowment Funds

General

Leake and Watts' endowment consists of four individual donor-restricted endowment funds as follows:

The **Orphan's Fund** contains the funds formerly held by the Orphans Home and Asylum. The income may be used from time to time as the Board of Directors may designate. Its "historic value" is \$1,557,319.

The **Sevilla Fund** contains the funds formerly held by the Sevilla Home for Children. Its "historic value" is \$527,479. The income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

The **Hopewell Fund** stems from the Hopewell Society of Brooklyn and its "historic value" is \$175,826. In brief, the income from this fund is for maintenance and education, including religious instruction of orphans, half-orphans and dependent girls.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)

A. Endowment Funds (continued)

The Andrew Peck Memorial Fund (**Peck Fund**) is an endowment created in 1927 with \$100,472. The income is to be spent furthering the education and support of the children who are no longer residing at Leake and Watts.

As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of Leake and Watts adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. Leake and Watts is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, Leake and Watts classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of Leake and Watts is to generate revenues to support programs, as defined above, while maintaining the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Restricted investment income earned and expended in the same fiscal year is reflected as unrestricted revenue.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)

A. Endowment Funds (continued)

Funds with Deficiencies

Leake and Watts' unrestricted fund borrowed a total of \$1,500,000 from the permanently restricted Orphan's Fund in 2014. Leake and Watts, subsequently, repaid these funds.

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

The endowment net asset composition of \$2,361,096 consists of permanently donor-restricted funds.

Changes in Endowment Net Assets for the Year Ended June 30, 2015

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | | \$ 2,361,096 | \$ 2,361,096 |
| Interest and dividends | \$ 29,808 | | 29,808 |
| Appropriation of endowment assets for expenditure | <u>(29,808)</u> | | <u>(29,808)</u> |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 2,361,096</u> | <u>\$ 2,361,096</u> |

B. Beneficial Interests in Perpetual Trusts

The Emergency Shelter, Inc. has beneficial interests in two perpetual trusts of \$1,525,574 as of June 30, 2015.

-continued-

**LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 15 - RETIREMENT PLAN

Leake and Watts offers a 401(k) savings retirement plan, including an employer matching program through ING Life Insurance and Annuity Company, a wholly owned subsidiary of Voya Financial, Inc. Leake and Watts matched 33% of the first 3% of the employee's base salary that an employee contributed to the 401(k) plan. Effective January 1, 2015, the plan was amended to require an employer match of 58% of the first 3% of the employee's base salary that an employee contributes. For the year ended June 30, 2015, Leake and Watts contributed \$148,592 to the 401(k) savings retirement plan.

NOTE 16 - RELATED PARTIES

During 2015, a board member, and the spouse of another board member were senior officers at a bank which provides banking services for Leake and Watts. Fees and interest paid to the bank were approximately \$181,000 in 2015.

During 2015, the spouse of a board member had a financial interest in Leake and Watts' relationship with ING Life Insurance and Annuity Company (ING). Fees paid to ING were included as a reduction on the investment earnings on the pension assets under management by them.

A board member of Leake and Watts is senior council of a law firm retained by Leake and Watts. Legal fees paid to the law firm for the year ended June 30, 2015 were \$25,261.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 1

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

| | <u>Leake and Watts Services, Inc.</u> | <u>The Emergency Shelter, Inc.</u> | <u>Eliminations</u> | <u>Total</u> | |
|---|---|--|---------------------|----------------------|----------------------|
| | | | | <u>2015</u> | <u>2014</u> |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 1,736,798 | \$ 587,393 | | \$ 2,324,191 | \$ 2,387,848 |
| Investments | 12,106,477 | | | 12,106,477 | 12,497,046 |
| Investments - certificates of deposit | | 25,000 | | 25,000 | 25,000 |
| Accounts receivable (net of allowance of \$367,000) | 10,657,638 | 280,258 | \$ (280,258) | 10,657,638 | 8,113,439 |
| Other receivable | 298,122 | | | 298,122 | 336,107 |
| Prepaid expenses | 663,836 | | | 663,836 | 528,933 |
| Accrued investment interest receivable | 40,729 | | | 40,729 | 40,007 |
| Total current assets | <u>25,503,600</u> | <u>892,651</u> | <u>(280,258)</u> | <u>26,115,993</u> | <u>23,928,380</u> |
| Assets limited as to use - investments | <u>1,389,032</u> | | | <u>1,389,032</u> | <u>1,459,277</u> |
| Other assets | | | | | |
| Investments | 861,096 | | | 861,096 | 861,096 |
| Beneficial interest in perpetual trusts | | 1,525,574 | | 1,525,574 | 1,501,601 |
| Deferred financing costs | 1,072,698 | | | 1,072,698 | 1,110,257 |
| Fixed assets - net | <u>34,153,210</u> | | | <u>34,153,210</u> | <u>30,327,806</u> |
| Total other assets | <u>36,087,004</u> | <u>1,525,574</u> | | <u>37,612,578</u> | <u>33,800,760</u> |
| Total assets | <u>\$ 62,979,636</u> | <u>\$ 2,418,225</u> | <u>\$ (280,258)</u> | <u>\$ 65,117,603</u> | <u>\$ 59,188,417</u> |

-continued-

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 1

-2-

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2015

(With Summarized Financial Information for June 30, 2014)

| | Leake and Watts Services, Inc. | The Emergency Shelter, Inc. | Eliminations | Total | |
|--|-----------------------------------|--------------------------------|--------------|---------------|---------------|
| | | | | 2015 | 2014 |
| LIABILITIES AND NET ASSETS | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 3,381,699 | | | \$ 3,381,699 | \$ 3,535,302 |
| Accounts payable - construction | 623,244 | | | 623,244 | |
| Accrued payroll and employee benefits | 2,869,078 | | | 2,869,078 | 2,768,091 |
| Accrued expenses and other liabilities | 3,401,514 | \$ 20,210 | \$ (280,258) | 3,141,466 | 2,657,314 |
| Advances from government agencies | 4,775,822 | | | 4,775,822 | |
| Accrued interest payable | 45,544 | | | 45,544 | 47,838 |
| Line of credit and notes payable | 2,713,790 | | | 2,713,790 | 575,838 |
| Capital leases payable | 46,737 | | | 46,737 | 42,687 |
| Bonds payable - net | 1,689,000 | | | 1,689,000 | 1,478,000 |
| Total current liabilities | 19,546,428 | 20,210 | (280,258) | 19,286,380 | 11,105,070 |
| Long-term liabilities | | | | | |
| Accrued payroll and employee benefits | 515,113 | | | 515,113 | 730,922 |
| Line of credit and notes payable | 8,127,690 | | | 8,127,690 | 8,689,811 |
| Capital leases payable | 33,596 | | | 33,596 | 80,333 |
| Bonds payable - net | 21,984,522 | | | 21,984,522 | 23,670,331 |
| Total long-term liabilities | 30,660,921 | | | 30,660,921 | 33,171,397 |
| Total liabilities | 50,207,349 | 20,210 | (280,258) | 49,947,301 | 44,276,467 |
| Net assets (Schedule 2) | | | | | |
| Unrestricted | 10,108,362 | 872,441 | | 10,980,803 | 10,953,166 |
| Temporarily restricted | 302,829 | | | 302,829 | 96,087 |
| Permanently restricted | 2,361,096 | 1,525,574 | | 3,886,670 | 3,862,697 |
| Total net assets | 12,772,287 | 2,398,015 | | 15,170,302 | 14,911,950 |
| Total liabilities and net assets | \$ 62,979,636 | \$ 2,418,225 | \$ (280,258) | \$ 65,117,603 | \$ 59,188,417 |

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

| | 2015 | | | | | | | | | 2014 |
|--|--------------------------------|------------------------|------------------------|-----------------------------|------------------------|--------------|---------------|------------------------|------------------------|---------------|
| | Leake and Watts Services, Inc. | | | The Emergency Shelter, Inc. | | Eliminations | Total | | | Total |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Permanently Restricted | | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Operating revenues | | | | | | | | | | |
| Program revenue | \$ 81,543,802 | | | | | \$ (75,000) | \$ 81,468,802 | | \$ 81,468,802 | \$ 74,796,319 |
| Other | 308,513 | | | | | | 308,513 | | 308,513 | 10,232 |
| Total operating revenues | 81,852,315 | | | | | (75,000) | 81,777,315 | | 81,777,315 | 74,806,551 |
| Operating expenses | | | | | | | | | | |
| Program services | 76,740,065 | | | \$ 75,000 | | (75,000) | 76,740,065 | | 76,740,065 | 69,084,424 |
| Supporting services | | | | | | | | | | |
| Management and general | 6,404,142 | | | 3,374 | | (10,617) | 6,396,899 | | 6,396,899 | 5,926,701 |
| Development | 223,644 | | | | | | 223,644 | | 223,644 | 178,823 |
| Total supporting services | 6,627,786 | | | 3,374 | | (10,617) | 6,620,543 | | 6,620,543 | 6,105,524 |
| Total operating expenses | 83,367,851 | | | 78,374 | | (85,617) | 83,360,608 | | 83,360,608 | 75,189,948 |
| Decrease in net assets from operations | (1,515,536) | | | (78,374) | | 10,617 | (1,583,293) | | (1,583,293) | (383,397) |
| Nonoperating revenues | | | | | | | | | | |
| Investment income (loss) | 333,926 | | | 10,617 | | (10,617) | 333,926 | | 333,926 | 168,695 |
| Contributions | 604,479 | \$ 296,709 | | 70,459 | | | 674,938 | \$ 296,709 | 971,647 | 572,114 |
| Special events | 621,668 | | | | | | 621,668 | | 621,668 | 553,509 |
| Direct costs of special events | (109,702) | | | | | | (109,702) | | (109,702) | (76,350) |
| Change in value of beneficial interest in perpetual trusts | | | | | \$ 23,973 | | | \$ 23,973 | 23,973 | 162,463 |
| Bond issuance cost write-off | | | | | | | | | | (781,006) |
| Miscellaneous income | | | | 133 | | | 133 | | 133 | 132 |
| Net assets released from restrictions | 89,967 | (89,967) | | | | | 89,967 | (89,967) | | |
| Change in net assets | 24,802 | 206,742 | | 2,835 | 23,973 | - | 27,637 | 206,742 | 23,973 | 258,352 |
| Net assets - beginning of year | 10,083,560 | 96,087 | \$ 2,361,096 | 869,606 | 1,501,601 | | 10,953,166 | 96,087 | 3,862,697 | 14,911,950 |
| Net assets - end of year | \$ 10,108,362 | \$ 302,829 | \$ 2,361,096 | \$ 872,441 | \$ 1,525,574 | \$ - | \$ 10,980,803 | \$ 302,829 | \$ 3,886,670 | \$ 15,170,302 |

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.
AND AFFILIATE

SCHEDULE 3

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

| | 2015 | | | | | | 2014 | | | | | |
|---|------------------|-------------------|----------------------------|-----------------|------------------|---------------|------------------------|-------------|--------------------------------|---------------|---------------|--|
| | Program Services | | | | | Total | Supporting Services | | | Total | | |
| | Child Welfare | Special Education | Developmental Disabilities | Early Childhood | Juvenile Justice | | Management and General | Development | Direct Costs of Special Events | | | |
| Employee compensation and benefits | | | | | | | | | | | | |
| Salaries and wages | \$ 15,209,785 | \$ 10,733,591 | \$ 6,693,523 | \$ 6,826,729 | \$ 4,169,111 | \$ 43,632,739 | \$ 3,428,039 | \$ 122,345 | \$ 3,550,384 | \$ 47,183,123 | \$ 42,356,779 | |
| Fringe benefits | 4,680,702 | 3,279,327 | 2,040,528 | 1,922,249 | 1,258,689 | 13,181,495 | 1,043,304 | 36,482 | 1,079,786 | 14,261,281 | 11,738,905 | |
| Total employee compensation and benefits | 19,890,487 | 14,012,918 | 8,734,051 | 8,748,978 | 5,427,800 | 56,814,234 | 4,471,343 | 158,827 | 4,630,170 | 61,444,404 | 54,095,684 | |
| Specific assistance to individuals | | | | | | | | | | | | |
| Payments to foster parents | 2,305,773 | | | | | 2,305,773 | | | | 2,305,773 | 2,592,701 | |
| Food | 344,465 | 97,189 | 239,914 | 183,543 | 213,463 | 1,078,574 | | | | 1,078,574 | 1,034,771 | |
| Children's allowances and activities | 632,529 | 83,629 | 102,648 | 13,635 | 26,379 | 858,820 | | | | 858,820 | 808,370 | |
| Consumer incidentals | 27,081 | 870 | 3,419 | | 19,829 | 51,199 | | | | 51,199 | 53,462 | |
| Clothing | 79,930 | | 15,853 | 49 | 5,701 | 101,533 | | | | 101,533 | 97,235 | |
| Total specific assistance to individuals | 3,389,778 | 181,688 | 361,834 | 197,227 | 265,372 | 4,395,899 | | | | 4,395,899 | 4,586,539 | |
| Occupancy | | | | | | | | | | | | |
| Interest expense | 147,943 | 303,580 | 302,327 | 146,457 | 394 | 900,701 | 184,804 | 1,541 | 186,345 | 1,087,046 | 1,530,635 | |
| Rent | 426,838 | 732,762 | 206,696 | 1,108,884 | 220,208 | 2,695,388 | | | | 2,695,388 | 2,030,826 | |
| Utilities | 409,882 | 530,459 | 192,049 | 160,016 | 82,067 | 1,374,473 | 43,146 | 1,811 | 44,957 | 1,419,430 | 1,370,025 | |
| Maintenance and repairs | 188,071 | 137,709 | 73,545 | 72,504 | 25,059 | 496,888 | 79,696 | 992 | 80,688 | 577,576 | 706,234 | |
| Security | 99,381 | 46,732 | 41,349 | 19,313 | 38,626 | 245,401 | 12,381 | 747 | 13,128 | 258,529 | 316,385 | |
| Janitorial services | 60,979 | 77,749 | 13,571 | 14,181 | 5 | 166,485 | 22,236 | 455 | 22,691 | 189,176 | 109,619 | |
| Total occupancy | 1,333,094 | 1,828,991 | 829,537 | 1,521,355 | 366,359 | 5,879,336 | 342,263 | 5,546 | 347,809 | 6,227,145 | 6,063,724 | |
| Professional fees | | | | | | | | | | | | |
| Clinical services | 529,204 | | 20 | 321,168 | 73,733 | 924,125 | | | | 924,125 | 1,024,481 | |
| Legal and audit | 239,316 | 152,550 | 18,388 | 31,404 | 43,011 | 484,669 | 103,266 | | 103,266 | 587,935 | 767,520 | |
| Other independent contractors | 323,900 | 226,509 | 201,885 | 678,736 | 94,387 | 1,525,417 | 341,638 | 1,545 | 343,183 | 1,868,600 | 1,212,179 | |
| Total professional fees | 1,092,420 | 379,059 | 220,293 | 1,031,308 | 211,131 | 2,934,211 | 444,904 | 1,545 | 446,449 | 3,380,660 | 3,004,180 | |
| Other | | | | | | | | | | | | |
| Supplies | 512,538 | 299,900 | 150,111 | 223,431 | 124,585 | 1,310,565 | 98,429 | 22,714 | \$ 15,650 | 136,793 | 1,447,358 | |
| Transportation and other travel-related expenses | 331,260 | 23,245 | 267,164 | 10,727 | 26,243 | 658,639 | 48,310 | 6,438 | 54,748 | 713,387 | 577,078 | |
| Insurance | 325,498 | 321,031 | 138,220 | 107,212 | 96,928 | 988,889 | 116,009 | 2,426 | 118,435 | 1,107,324 | 837,578 | |
| Telephone | 140,094 | 271,669 | 116,720 | 36,364 | 34,477 | 599,324 | 28,728 | 711 | 29,439 | 628,763 | 478,634 | |
| Vehicle rentals, repairs and replacement | 174,584 | 30,123 | 149,114 | 654 | 29,734 | 384,209 | 11,526 | | 11,526 | 395,735 | 308,625 | |
| Equipment/furniture rentals, repairs and replacement | 113,833 | 64,323 | 36,087 | 70,507 | 45,195 | 329,945 | 67,933 | 7,641 | 75,574 | 405,519 | 485,425 | |
| Staff development | 197,392 | 19,726 | 32,809 | 33,782 | 160,236 | 443,945 | 45,890 | 35 | 45,925 | 489,870 | 622,620 | |
| Staff recruitment | 23,287 | 7,252 | 4,592 | 2,905 | 64,113 | 102,149 | 8,802 | 321 | 9,123 | 111,272 | 120,047 | |
| Printing, postage, subscriptions, publications | 6,121 | 13,661 | 225 | 1,389 | 2,618 | 24,014 | 47,367 | 6,849 | 54,216 | 78,230 | 94,834 | |
| Dues, licenses, permits | 2,934 | 4,990 | (4,194) | 15,457 | 400 | 19,587 | 44,003 | 6,493 | 50,496 | 70,083 | 103,786 | |
| Line of credit interest expense | | | | | | | 113,476 | | 113,476 | 113,476 | 95,747 | |
| Investment management fees | | | | | | | 66,383 | | 66,383 | 66,383 | 58,527 | |
| Miscellaneous | 17,315 | 1,453 | 18,705 | 9,018 | 6,584 | 53,075 | 178,123 | 75 | 94,052 | 272,250 | 103,358 | |
| Total other | 1,844,856 | 1,057,373 | 909,553 | 511,446 | 591,113 | 4,914,341 | 874,979 | 53,703 | 109,702 | 1,038,384 | 5,952,725 | |
| Total expenses before depreciation and amortization | 27,550,635 | 17,460,029 | 11,055,268 | 12,010,314 | 6,861,775 | 74,938,021 | 6,133,489 | 219,621 | 109,702 | 6,462,812 | 81,400,833 | |
| Depreciation and amortization | 498,124 | 613,925 | 555,216 | 90,813 | 43,966 | 1,802,044 | 329,793 | 4,023 | 333,816 | 2,135,860 | 2,120,678 | |
| Total expenses | 28,048,759 | 18,073,954 | 11,610,484 | 12,101,127 | 6,905,741 | 76,740,065 | 6,463,282 | 223,644 | 109,702 | 6,796,628 | 83,536,693 | |
| Less expenses deducted directly from revenues on the consolidated statement of activities | | | | | | | | | | | | |
| Investment management fees | | | | | | | (66,383) | | (66,383) | (66,383) | (58,527) | |
| Direct cost of special events | | | | | | | | (109,702) | (109,702) | (109,702) | (76,350) | |
| Total expenses reported by function on the consolidated statement of activities | \$ 28,048,759 | \$ 18,073,954 | \$ 11,610,484 | \$ 12,101,127 | \$ 6,905,741 | \$ 76,740,065 | \$ 6,396,899 | \$ 223,644 | \$ - | \$ 6,620,543 | \$ 83,360,608 | |

See independent auditor's report.