

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

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

**JUNE 30, 2017**

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

**TABLE OF CONTENTS**

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

**Exhibit**

**A - Consolidated Statement of Financial Position**

**B - Consolidated Statement of Activities**

**C - Consolidated Statement of Cash Flows**

**Notes to Consolidated Financial Statements**

**Schedules**

**1 - Consolidating Schedule of Financial Position**

**2 - Consolidating Schedule of Activities**

**3 - Consolidated Schedule of Functional Expenses**



**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, 2017 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leake and Watts Services, Inc. and Affiliate as of June 30, 2017, 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.

***Emphasis of Matter - Change in Accounting Principle***

As further disclosed in Notes 2, 6 and 8 to the financial statements, Leake and Watts Services, Inc. and Affiliates implemented Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The 2016 balances have been reclassified to conform with the provisions of ASU No. 2015-03. Our opinion is not modified with respect to this matter.

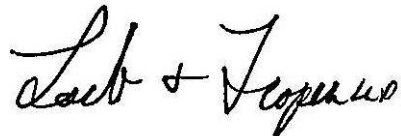
***Supplementary Information***

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, 2017 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 consolidated 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, the information as of and for the year ended June 30, 2017 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, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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, 2016 in relation to those consolidated financial statements as a whole. In our opinion, the 2016 supplementary information in Schedules 1 through 3 is consistent, in all material respects, with the audited supplementary information from which it has been derived.

A handwritten signature in black ink, appearing to read "Loeb & Troper LLP". The signature is written in a cursive, flowing style.

November 28, 2017

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2017**

**(With Summarized Financial Information for June 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,731,947	\$ 3,091,604
Investments (Note 3)	7,822,148	7,237,695
Investments - certificates of deposit	25,000	25,000
Accounts receivable (net of allowance of \$271,000)	9,671,905	10,157,586
Other receivables	133,128	186,965
Prepaid expenses	838,719	640,855
Accrued investment interest receivable	31,768	32,262
	<u>23,254,615</u>	<u>21,371,967</u>
Total current assets		
Assets limited as to use - investments (Notes 3 and 8)	<u>821,326</u>	<u>639,057</u>
Other assets		
Investments (Note 3)	2,361,096	2,361,096
Security deposits	105,727	105,727
Beneficial interest in perpetual trusts (Notes 3 and 14)	1,593,169	1,436,906
Fixed assets - net (Note 4)	<u>32,352,740</u>	<u>34,202,984</u>
Total other assets	<u>36,412,732</u>	<u>38,106,713</u>
Total assets	<u>\$ 60,488,673</u>	<u>\$ 60,117,737</u>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2017**

**(With Summarized Financial Information for June 30, 2016)**

	<b>2017</b>	<b>2016</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 3,865,207	\$ 3,277,851
Accrued payroll and employee benefits (Notes 9 and 10)	4,549,513	3,962,620
Accrued expenses and other liabilities (Note 10)	5,746,883	3,658,063
Advances from government agencies	2,117,721	2,117,721
Accrued interest payable	39,844	42,744
Line of credit and notes payable (Note 6)	725,361	743,483
Capital leases payable (Note 7)	23,412	56,147
Bonds payable - net (Note 8)	1,649,000	1,606,000
Total current liabilities	18,716,941	15,464,629
Long-term liabilities		
Accrued payroll and employee benefits (Note 10)	414,220	465,549
Line of credit and notes payable (Note 6)	6,774,940	7,487,443
Capital leases payable (Note 7)	69,096	92,509
Bonds payable - net (Note 8)	17,921,834	19,469,624
Total long-term liabilities	25,180,090	27,515,125
Total liabilities	43,897,031	42,979,754
Net assets (Exhibit B)		
Unrestricted	12,462,821	13,198,603
Temporarily restricted (Note 11)	174,556	141,378
Permanently restricted (Note 14)	3,954,265	3,798,002
Total net assets	16,591,642	17,137,983
Total liabilities and net assets	\$ 60,488,673	\$ 60,117,737

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, 2017  
(With Summarized Financial Information  
for the Year Ended June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Operating revenues					
Program revenue (Note 5)	\$ 88,929,622			\$ 88,929,622	\$ 86,299,264
In-kind contributions	469,160			469,160	470,609
Program development grant					4,347,952
	<u>89,398,782</u>			<u>89,398,782</u>	<u>91,117,825</u>
Total operating revenues					
Operating expenses (Schedule 3)					
Program services					
Child Welfare	30,663,517			30,663,517	29,918,264
Special Education	16,539,994			16,539,994	17,809,935
Developmental Disabilities	11,184,425			11,184,425	12,214,129
Early Childhood	13,669,124			13,669,124	12,242,168
Juvenile Justice	12,047,551			12,047,551	10,282,912
	<u>84,104,611</u>			<u>84,104,611</u>	<u>82,467,408</u>
Total program services					
Supporting services					
Management and general	9,002,971			9,002,971	8,215,484
Development	282,065			282,065	273,428
	<u>9,285,036</u>			<u>9,285,036</u>	<u>8,488,912</u>
Total supporting services					
Total operating expenses (includes interest expense of \$1,482,380)	<u>93,389,647</u>			<u>93,389,647</u>	<u>90,956,320</u>

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

**EXHIBIT B  
-2-**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information  
for the Year Ended June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Change in net assets from operations	\$ (3,990,865)			\$ (3,990,865)	\$ 161,505
Nonoperating revenues and expenses					
Investment income (Note 3)	1,416,179			1,416,179	(13,017)
Capital improvement grant	127,387			127,387	645,974
Contributions	1,190,381	\$ 149,556		1,339,937	909,682
Special events	529,441			529,441	474,647
Direct costs of special events	(124,720)			(124,720)	(122,557)
Change in value of beneficial interest in perpetual trusts			\$ 156,263	156,263	(88,668)
Miscellaneous income	37			37	115
Net assets released from restrictions (Note 11)	<u>116,378</u>	<u>(116,378)</u>			
Change in net assets (Exhibit C)	(735,782)	33,178	156,263	(546,341)	1,967,681
Net assets - beginning of year	<u>13,198,603</u>	<u>141,378</u>	<u>3,798,002</u>	<u>17,137,983</u>	<u>15,170,302</u>
Net assets - end of year (Exhibit A)	<u>\$ 12,462,821</u>	<u>\$ 174,556</u>	<u>\$ 3,954,265</u>	<u>\$ 16,591,642</u>	<u>\$ 17,137,983</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets (Exhibit B)	\$ (546,341)	\$ 1,967,681
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,046,625	2,535,937
Amortization of debt issuance costs	105,788	103,813
Amortization of bond discount	3,809	3,190
Realized (gains) losses on investments	(348,683)	139,675
Unrealized (gains) losses on investments	(884,317)	98,569
Change in value of beneficial interest in perpetual trusts	(156,263)	88,668
Donated securities	(38,910)	(25,496)
Decrease (increase) in assets		
Accounts receivable	485,681	562,052
Other receivables	53,837	111,157
Prepaid expenses	(197,864)	(13,046)
Accrued investment interest receivable	494	8,467
Security deposits		(69,700)
Increase (decrease) in liabilities		
Accounts payable	587,356	(103,848)
Accrued payroll and employee benefits	535,564	981,978
Accrued expenses and other liabilities	2,088,820	516,597
Advances from government agencies		(2,658,101)
Accrued interest payable	(2,900)	(2,800)
	<u>4,732,696</u>	<u>4,244,793</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(7,427,308)	(8,584,268)
Proceeds from sale of investments	8,114,765	11,740,302
Decrease (increase) in investments limited as to use	(182,269)	749,975
Fixed asset acquisitions	(1,196,381)	(3,088,387)
	<u>(691,193)</u>	<u>817,622</u>
Net cash provided (used) by investing activities		

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from financing activities		
Payments of line of credit and notes payable	\$ (7,739,012)	\$ (9,698,857)
Proceeds from line of credit and notes payable	7,000,000	7,145,100
Payments on bonds payable	(1,606,000)	(1,689,000)
Principal payments on capital lease	<u>(56,148)</u>	<u>(52,245)</u>
Net cash used by financing activities	<u>(2,401,160)</u>	<u>(4,295,002)</u>
Net change in cash and cash equivalents	1,640,343	767,413
Cash and cash equivalents - beginning of year	<u>3,091,604</u>	<u>2,324,191</u>
Cash and cash equivalents - end of year	<u>\$ 4,731,947</u>	<u>\$ 3,091,604</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 1,375,683</u>	<u>\$ 1,411,450</u>
Capital lease acquisition		<u>\$ 120,568</u>

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, 2017**

**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, residential treatment and group homes for youth with emotional and mental health challenges and a spectrum of residential and treatment services for adjudicated youth and youth awaiting court action. Most families served live throughout New York City and Westchester County. The primary sources of revenue are the 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. Leake and Watts received \$75,000 from The Emergency Shelter, Inc. for certain services that Leake and Watts has provided. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - NATURE OF ORGANIZATION (continued)**

- Our evidence-based **Multidimensional Treatment Foster Care (MTFC)** serves teens in foster care with emotional and behavioral challenges with more intensive supports.
- Our **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 wellbeing.
- **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.
- Our **Passage of Hope (POH)** program serves undocumented migrant children (mostly from Honduras, El Salvador and Guatemala) who have come into the United States without an adult guardian. These children are temporarily taken into the custody of the Department of Health and Human Services, Office of Refugee Resettlement, and placed with us so they may receive a myriad of services (medical, clinical, education, legal, etc.) while they are reunified with their families in the U.S.
- Youngsters in our child welfare programs also receive services and referrals from our **health service programs** 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, prevocational services, supportive employment, day habilitation services, and Medicaid Service Coordination for both children and adults. Our supportive clinical practices address the associated emotional, behavioral and psychological issues/disorders in order to assist our consumers to live more fulfilling lives.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - NATURE OF ORGANIZATION (continued)**

- **Community School Services**, in collaboration with the NYC Department of Education, work with two middle schools in the Bronx. Educators, Leake and Watts staff and families share leadership and organize resources so that academics, social services and other supports are integrated into the fabric of each school. These combined supports help the schools better address the needs of young people, resulting in improved student learning, stronger families, and healthier communities.
- **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.
  - 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 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.
  - Our **Parent-Child Home Program** provides support to low-income families in the Bronx with children ages 18 months to 33 months. This evidence-informed, early childhood home-visiting program focuses on developing pre-literacy skills to promote school readiness, promoting positive parenting skills, building positive child-parent interactions, and enhancing children's social and emotional development.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - NATURE OF ORGANIZATION (continued)**

- **Juvenile Justice** Services include secure to 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 **Limited Secure Placement** program (LSP) is a residential program serving adjudicated youth ages 14 to 18 (and on occasion, an older or younger youth may be served). Both general and specialized populations are served. We ensure that youth are able to develop their academic, pre-vocational and communications skills through various aspects of the program and work with family members to maintain and strengthen the youth's connection with his or her family and community. Aftercare services are also provided to youth around New York City who are transitioning out of LSP programs.
  - Our **Non-Secure Placement** program is also part of the residential care continuum for adjudicated Juvenile Delinquents in New York City 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.
  - The **Family Respite** program 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - NATURE OF ORGANIZATION (continued)**

- The **Article 31 Clinic** provides outpatient mental health treatment to children and adolescents ages 5 to 21 years and their family members who meet criteria for a mental health diagnosis under DSM5.
- **Care Coordination** enables Leake and Watts to serve as a downstream Care Management Agency (CMA) providing comprehensive care management services to children and adults who meet necessary criteria.

**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, 2017**

**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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fair Value Measurements (continued)*

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.

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, 2017 as compared to those used at June 30, 2016.

- *Fixed-income securities (other than mutual funds and mortgage-backed securities)* - 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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

**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.

**Debt issuance costs** - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized on the straight-line method over the term of the associated debt. Amortization of debt issuance costs is included in interest expense.

**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.

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Net assets (continued)*

**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.

**Government grants** - Leake and Watts records revenue from expense based reimbursement grants as earned.

**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 \$469,160 of contributed costs.

**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, capital improvement grant, 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.

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Operating leases* - Rent expense has been recorded on the straight-line basis over the term of the lease. Deferred rent is recorded when 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, 2016, from which the summarized information was derived.

*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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through November 28, 2017, which is the date the consolidated financial statements were issued.

*New accounting pronouncements* - In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03 - *Simplifying the Presentation of Debt Issuance Costs*. This update was issued as part of an initiative to reduce complexity in accounting standards. This amendment updates Subtopic 835-30 - *Interest - Imputation of Interest* and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments to this update are effective for financial statements issued for fiscal years beginning after December 15, 2015 and are applied retrospectively. \$968,885 of unamortized debt issuance cost on the 2016 balance sheet have been reclassified with the implementation of the ASU.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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. Treasury obligations	\$ 762,622	\$ 34,976	\$ 797,598					\$ 797,598
Mortgage-backed securities				\$ 6,637		\$ 6,637		6,637
Municipal authorities	167,906		167,906					167,906
Corporate bonds								
Telecommunications	300,680		300,680					300,680
Energy	50,891		50,891					50,891
Finance	732,845		732,845					732,845
Consumer goods	411,817		411,817					411,817
Services	279,367		279,367					279,367

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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	Total		
Mutual funds								
Large cap	\$ 2,793,644		\$ 2,793,644					\$ 2,793,644
Mid cap	1,133,806		1,133,806					1,133,806
Small cap	692,857		692,857					692,857
International-developed	895,804		895,804					895,804
Emerging markets	258,687		258,687					258,687
Equity REITS	57,424		57,424					57,424
Other equity	40,242		40,242					40,242
Balance funds	979,294		979,294					979,294
Managed futures	197,956		197,956					197,956
Absolute return	206,178		206,178					206,178
Total investments reported on the fair value hierarchy	9,962,020	\$ 34,976	9,996,996	\$ 6,637		\$ 6,637		10,003,633
Cash equivalents	<u>214,587</u>	<u>786,350</u>	<u>1,000,937</u>					<u>1,000,937</u>
Total investments	<u>\$10,176,607</u>	<u>\$ 821,326</u>	<u>\$10,997,933</u>	<u>\$ 6,637</u>	<u>\$ -</u>	<u>\$ 6,637</u>		<u>\$11,004,570</u>
Beneficial interests in perpetual trusts							<u>\$ 1,593,169</u>	<u>\$ 1,593,169</u>

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

Included in investments is \$2,361,096 of permanently restricted funds.

Included in assets limited as to use is \$261,933 of replacement fund for residences.

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

	<b>Beneficial Interest in Perpetual Trusts</b>
Beginning balance	\$ 1,436,906
Total gains (losses) (realized/unrealized) included in changes in net assets for the year ended June 30	<u>156,263</u>
Ending balance	<u>\$ 1,593,169</u>
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date	<u>\$ 156,263</u>

Investment income consists of the following:

Interest and dividend income	\$ 253,703
Realized gains	348,683
Unrealized gains	884,317
Investment expenses	<u>(70,524)</u>
Investment income	<u>\$ 1,416,179</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 4 - FIXED ASSETS**

Fixed assets consist of the following:

Land	\$ 38,787
Building and building improvements	55,809,075
Leasehold improvements	5,872,319
Furniture, fixtures and equipment	8,225,864
Construction in progress	<u>1,142,647</u>
 Total cost	 71,088,692
 Less accumulated depreciation and amortization	 <u>(38,735,952)</u>
 Fixed assets - net	 <u>\$ 32,352,740</u>

Equipment costing \$120,568 and associated accumulated amortization of \$20,950 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 rate reconciliation which could result in 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, 2017**

**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. Per diem tuition rate per student is subject to final reconciliation based on audited financial statements. Revenue and support payments have been reconciled with the NYS Rate Setting Unit through the fiscal year ended June 30, 2015.

**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, pre vocational, respite/recreation services, supportive employment, day services for adults and children, and Medicaid Service Coordination are funded through contracts with OPWDD and by Medicaid, based on rates established by OPWDD.

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 6 - LINE OF CREDIT AND NOTES PAYABLE**

- |   |                     |
|---|---------------------|
| A) 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 Avenue, 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%.   | \$ 2,758,864        |
| B) On May 14, 2015, Leake and Watts obtained a \$5,625,807 term loan from TD Bank, N.A. (TD Bank). 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.   | 4,675,978           |
| C) On June 27, 2016, Leake and Watts entered into an unsecured property renovation note with Tower Property Management Co., Inc. in the amount of \$165,100 for the partial renovation of the second floor to the property located at Williamsbridge Road, Bronx. Payments of \$5,098, including interest at 7%, are due monthly. The note matures in May 2019.   | 113,869             |
| D) On May 15, 2015, Leake and Watts obtained a \$5,000,000 revolving line of credit from TD Bank. The revolving line of credit matured on May 15, 2017 and bore interest at the prime rate. On June 14, 2017, Leake and Watts renewed their revolving line of credit from TD Bank and increased the amount available to \$8,000,000. The revolving line of credit matures on May 15, 2019 and bears interest at the prime rate, which was 4.25% at June 30, 2017. The line of credit is secured by accounts receivable. | -                   |
| 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 were due monthly. Interest was charged at 7.49%. This note matured in January 2017.   | -                   |
|   | \$ <u>7,548,711</u> |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

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

2018	\$ 725,361
2019	760,676
2020	735,286
2021	770,917
2022	807,975
Thereafter	<u>3,748,496</u>
	<u>7,548,711</u>
Less unamortized debt issuance costs	<u>(48,410)</u>
Net	\$ <u>7,500,301</u>

There are certain financial covenants associated with Leake and Watts' lines of credit. As of June 30, 2017, Leake and Watts was in compliance with those covenants.

**Change in Accounting Principle**

In 2017, Leake and Watts adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense. The effect of the change for 2017 was to decrease deferred charges by \$48,410 and net them against a mortgage payable. The change does not impact net assets.

Interest expense was \$529,520 in 2017 and includes amortization of debt issuance cost of \$8,387.

**NOTE 7 - CAPITAL LEASES PAYABLE**

**Baytree National Bank and Trust Company**

In February 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 were due monthly. The interest rate was 9.1%. This loan matured in February 2017.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 7 - CAPITAL LEASES PAYABLE (continued)**

**TD Equipment Finance, Inc.**

In October 2015, Leake and Watts entered into a \$1,000,000 equipment financing agreement with TD Equipment Finance, Inc. to lease equipment that expires in February 28, 2018. In addition, in April 2016, Leake and Watts financed the purchase of \$120,568 of equipment. Principal payments of approximately \$2,207 and interest at an annual rate of 3.75% charged on the outstanding balance are due monthly. The lease matures in March 2021. The balance outstanding at June 30, 2017 was \$92,508. \$907,492 was available to finance future purchases at June 30, 2017.

The capital leases are secured by the underlying assets financed. Future lease payments are as follows:

2018	\$ 26,483
2019	26,483
2020	26,483
2021	<u>19,863</u>
	99,312
Less amount representing interest	<u>(6,804)</u>
Present value of net minimum lease payments	92,508
Less current portion	<u>(23,412)</u>
Long-term obligation under capital lease	<u>\$ 69,096</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. 233<sup>rd</sup> Street, Bronx (233<sup>rd</sup> Street) for \$965,000; (b) 634 East 241<sup>st</sup> Street, Bronx (241<sup>st</sup> Street) for \$590,000; (c) 954 East 211<sup>th</sup> Street, Bronx (211<sup>th</sup> 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.

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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 principal balance outstanding on the bonds at June 30, 2017 was \$3,175,000.

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, 2017, the amount held in the debt service reserve fund was \$188,973; in the debt service fund was \$330,819; in the construction fund was \$39,601. 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 2.00% 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. At June 30, 2017, the unamortized bond issuance cost was \$186,127. At June 30, 2017, the unamortized bond discount was \$34,479.

**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>Original Principal Amount</u>	<u>Balance at June 30, 2017</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price</u>
Series 2014A	\$ 16,670,000	\$ 14,040,000	June 1, 2029	3.330%	100%
Series 2014B	1,240,000	645,000	June 1, 2022	3.550%	100%
Series 2014C	3,125,000	2,490,000	June 1, 2026	4.380%	100%
Series 2014D	<u>138,000</u>	<u>70,000</u>	June 1, 2019	2.980%	100%
	<u>\$ 21,173,000</u>	<u>\$ 17,245,000</u>			

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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, 2017, the unamortized bond issuance cost was \$628,560.

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 \$17,245,000 at June 30, 2017.

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:

2018	\$ 1,649,000
2019	1,686,000
2020	1,690,000
2021	1,760,000
2022	1,870,000
Thereafter	<u>11,765,000</u>
	20,420,000
Less net unamortized discount	(34,479)
Less unamortized debt issuance cost	<u>(814,687)</u>
Total	<u>\$ 19,570,834</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 8 - BONDS PAYABLE (continued)**

**Change in Accounting Principle**

In 2017, Leake and Watts adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense. The effect of the change for 2017 was to decrease deferred charges by \$814,687 and net them against a mortgage payable. The change does not impact net assets.

Interest expense was \$903,184 in 2017 and includes amortization of debt issuance cost of \$97,401.

**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, 2017 was \$8,258. The liability is included in accrued payroll and employee benefits on the accompanying statement of financial position.

In June 2015, Leake and Watts entered into an agreement whereby Leake and Watts would assist in the purchase of a trust owned life insurance policy for the executive director that could 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. Leake and Watts agreed to loan the trust \$64,000 in each of the next 5 years, which loan was secured by an interest in the policy. The loan accrues interest at the prevailing Applicable Federal Rate (AFR) which was 1.81% at June 30, 2017, and was to 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.

Subsequent to year end, in October 2017, Leake and Watts amended their agreement with the executive director retroactive to June 2015. The loans to the trust in 2015 and 2016 were reclassified as compensation to the executive director, additional compensation was paid to account for any additional taxes that may be owed as a result of the re-characterization, and amended W-2's will be issued. Additional compensation of \$93,000 per year is being paid to the executive director in 2017, 2018 and 2019 under the amended agreement, however, Leake and Watts will be relieved of the obligation to pay this additional compensation upon the termination of the executive director's employment by Leake and Watts for any reason whatsoever. In addition, Leake and Watts will no longer be paid any amount from either the cash surrender value of the executive director's life insurance policy or from proceeds from the life insurance policy and has no further interest therein.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

- (a) Noncancelable leases principally relate to office space, residential housing, office equipment, and automobiles. These leases expire between July 2017 and December 2029. Minimum payments for the next five years and thereafter are as follows:

2018	\$ 3,143,000
2019	2,544,000
2020	2,114,000
2021	733,000
2022	707,000
Thereafter	<u>3,245,000</u>
Total	<u>\$ 12,486,000</u>

- (b) Total rent expense, including office equipment and vehicle leases, amounted to \$4,068,444.
- (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"). 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. The balance as of June 30, 2017 was \$465,548.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)**

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

2018	\$ 51,328
2019	53,154
2020	55,044
2021	57,002
2021	59,029
Thereafter	<u>189,991</u>
Total	<u>\$ 465,548</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 \$4,262,657 for the eventual settlement of the open cost reporting periods and are included in accrued expenses and other liabilities.

(f) Contracts

- Leake and Watts has been awarded a contract for approximately \$4.9 million annually to operate a Limited Secure Placement program in Brooklyn. This contract is expected to be operational in November 2017. This award, which represents a commitment 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 \$1,142,000 relating to starting the program have been capitalized and are included in construction in progress in these financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Parent child home program	\$ 149,556
J. Douglas Richards fund	<u>25,000</u>
	<u>\$ 174,556</u>

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

Parent child home program	<u>\$ 116,378</u>
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**NOTE 12 - FUNCTIONAL EXPENSES**

Program services	\$ 84,104,611
Management and general (including investment management fees)	9,073,495
Fundraising (development) expenses	282,065
Direct costs of special events	<u>124,720</u>
Total expenses	<u>\$ 93,584,891</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 57% of their operating revenues from the City of New York in 2017.

92% 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, 2017.

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**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.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued))**

**A. Endowment Funds (continued)**

**Interpretation of Relevant Law**

The Board of Directors of Leake and Watts adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA 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.

**Funds with Deficiencies**

There were no funds with deficiencies as of June 30, 2017.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2017**

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

-continued-

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)**

**A. Endowment Funds (continued)**

***Changes in Endowment Net Assets for the Year Ended June 30, 2017***

	<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	\$ 20,103		20,103
Appropriation of endowment assets for expenditure	<u>(20,103)</u>		<u>(20,103)</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 \$1,593,169 as of June 30, 2017.

**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 75% of the first 3% of the employee's base salary that an employee contributed to the 401(k) plan. Effective January 1, 2017, the plan was amended to require an employer match of 100% of the first 3% of the employee's base salary that an employee contributes. In addition, effective January 1, 2018 Leake and Watts will increase their employer match to 100% of the first 4% of the employee's base salary that an employee contributes. For the year ended June 30, 2017, Leake and Watts contributed \$361,618 to the 401(k) savings retirement plan.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 16 - RELATED PARTIES**

During 2017, 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 \$83,000 in 2017.

During 2017, 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 for the year ended June 30, 2017 were \$6,011 which were included as a reduction of 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, 2017 were \$19,921.

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

**SCHEDULE 1**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**JUNE 30, 2017**

**(With Summarized Financial Information for June 30, 2016)**

	<u>Leake and Watts Services, Inc.</u>	<u>The Emergency Shelter, Inc.</u>	<u>Eliminations</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 4,501,350	\$ 230,597		\$ 4,731,947	\$ 3,091,604
Investments	7,822,148			7,822,148	7,237,695
Investments - certificates of deposit		25,000		25,000	25,000
Accounts receivable (net of allowance of \$271,000)	9,671,905	645,356	\$ (645,356)	9,671,905	10,157,586
Other receivable	133,128			133,128	186,965
Prepaid expenses	838,719			838,719	640,855
Accrued investment interest receivable	31,768			31,768	32,262
Total current assets	<u>22,999,018</u>	<u>900,953</u>	<u>(645,356)</u>	<u>23,254,615</u>	<u>21,371,967</u>
Assets limited as to use - investments	<u>821,326</u>			<u>821,326</u>	<u>639,057</u>
Other assets					
Investments	2,361,096			2,361,096	2,361,096
Security deposits	105,727			105,727	105,727
Beneficial interest in perpetual trusts		1,593,169		1,593,169	1,436,906
Fixed assets - net	<u>32,352,740</u>			<u>32,352,740</u>	<u>34,202,984</u>
Total other assets	<u>34,819,563</u>	<u>1,593,169</u>		<u>36,412,732</u>	<u>38,106,713</u>
Total assets	<u>\$ 58,639,907</u>	<u>\$ 2,494,122</u>	<u>\$ (645,356)</u>	<u>\$ 60,488,673</u>	<u>\$ 60,117,737</u>

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LEAKE AND WATTS SERVICES, INC.  
AND AFFILIATE

SCHEDULE 1

-2-

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2017

(With Summarized Financial Information for June 30, 2016)

	Leake and Watts Services, Inc.	The Emergency Shelter, Inc.	Eliminations	Total	
				2017	2016
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities					
Accounts payable	\$ 3,865,207			\$ 3,865,207	\$ 3,277,851
Accrued payroll and employee benefits	4,549,513			4,549,513	3,962,620
Accrued expenses and other liabilities	6,368,489	\$ 23,750	\$ (645,356)	5,746,883	3,658,063
Advances from government agencies	2,117,721			2,117,721	2,117,721
Accrued interest payable	39,844			39,844	42,744
Line of credit and notes payable	725,361			725,361	743,483
Capital leases payable	23,412			23,412	56,147
Bonds payable - net	1,649,000			1,649,000	1,606,000
Total current liabilities	<u>19,338,547</u>	<u>23,750</u>	<u>(645,356)</u>	<u>18,716,941</u>	<u>15,464,629</u>
Long-term liabilities					
Accrued payroll and employee benefits	414,220			414,220	465,549
Line of credit and notes payable	6,774,940			6,774,940	7,487,443
Capital leases payable	69,096			69,096	92,509
Bonds payable - net	17,921,834			17,921,834	19,469,624
Total long-term liabilities	<u>25,180,090</u>			<u>25,180,090</u>	<u>27,515,125</u>
Total liabilities	<u>44,518,637</u>	<u>23,750</u>	<u>(645,356)</u>	<u>43,897,031</u>	<u>42,979,754</u>
Net assets (Schedule 2)					
Unrestricted	11,585,618	877,203		12,462,821	13,198,603
Temporarily restricted	174,556			174,556	141,378
Permanently restricted	2,361,096	1,593,169		3,954,265	3,798,002
Total net assets	<u>14,121,270</u>	<u>2,470,372</u>		<u>16,591,642</u>	<u>17,137,983</u>
Total liabilities and net assets	<u>\$ 58,639,907</u>	<u>\$ 2,494,122</u>	<u>\$ (645,356)</u>	<u>\$ 60,488,673</u>	<u>\$ 60,117,737</u>

See independent auditor's report.

LEAKE AND WATTS SERVICES, INC.  
AND AFFILIATE

SCHEDULE 2

CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information  
for the Year Ended June 30, 2016)

	2017									2016
	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	\$ 88,929,622					\$ 88,929,622			\$ 88,929,622	\$ 86,299,264
In-kind contributions	469,160					469,160			469,160	470,609
Program development grant										4,347,952
Total operating revenues	<u>89,398,782</u>					<u>89,398,782</u>			<u>89,398,782</u>	<u>91,117,825</u>
Operating expenses										
Program services	<u>84,104,611</u>			\$ 75,000		\$ (75,000)	<u>84,104,611</u>		<u>84,104,611</u>	<u>82,467,408</u>
Supporting services										
Management and general	9,010,843			7,226		(15,098)	9,002,971		9,002,971	8,215,484
Development	<u>282,065</u>						<u>282,065</u>		<u>282,065</u>	<u>273,428</u>
Total supporting services	<u>9,292,908</u>			<u>7,226</u>		<u>(15,098)</u>	<u>9,285,036</u>		<u>9,285,036</u>	<u>8,488,912</u>
Total operating expenses	<u>93,397,519</u>			<u>82,226</u>		<u>(90,098)</u>	<u>93,389,647</u>		<u>93,389,647</u>	<u>90,956,320</u>
Change in net assets from operations	(3,998,737)			(82,226)		90,098	(3,990,865)		(3,990,865)	161,505
Nonoperating revenues										
Investment income (loss)	1,416,179			15,098		(15,098)	1,416,179		1,416,179	(13,017)
Capital improvement grant	127,387						127,387		127,387	645,974
Contributions	1,200,858	\$ 149,556		64,523		(75,000)	1,190,381	\$ 149,556	1,339,937	909,682
Special events	529,441						529,441		529,441	474,647
Direct costs of special events	(124,720)						(124,720)		(124,720)	(122,557)
Change in value of beneficial interest in perpetual trusts					\$ 156,263			\$ 156,263	156,263	(88,668)
Miscellaneous income				37			37		37	115
Net assets released from restrictions	<u>116,378</u>	<u>(116,378)</u>					<u>116,378</u>	<u>(116,378)</u>		
Change in net assets	(733,214)	33,178		(2,568)	156,263	-	(735,782)	33,178	156,263	1,967,681
Net assets - beginning of year	<u>12,318,832</u>	<u>141,378</u>	<u>\$ 2,361,096</u>	<u>879,771</u>	<u>\$ 1,436,906</u>		<u>13,198,603</u>	<u>141,378</u>	<u>3,798,002</u>	<u>17,137,983</u>
Net assets - end of year	<u>\$ 11,585,618</u>	<u>\$ 174,556</u>	<u>\$ 2,361,096</u>	<u>\$ 877,203</u>	<u>\$ 1,593,169</u>	<u>\$ -</u>	<u>\$ 12,462,821</u>	<u>\$ 174,556</u>	<u>\$ 3,954,265</u>	<u>\$ 17,137,983</u>

See independent auditor's report.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017  
(With Summarized Financial Information  
for the Year Ended June 30, 2016)

	2017						2016				
	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	\$ 17,107,174	\$ 9,459,307	\$ 5,673,358	\$ 7,755,527	\$ 6,586,032	\$ 46,581,398	\$ 4,583,858	\$ 155,057	\$ 4,738,915	\$ 51,320,313	\$ 49,922,626
Fringe benefits	4,792,128	2,627,960	1,537,130	2,196,872	1,888,821	13,042,911	1,253,916	42,961	1,296,877	14,339,788	14,583,543
Total employee compensation and benefits	21,899,302	12,087,267	7,210,488	9,952,399	8,474,853	59,624,309	5,837,774	198,018	6,035,792	65,660,101	64,506,169
Specific assistance to individuals											
Payments to foster parents	1,989,543					1,989,543				1,989,543	2,091,939
Food	463,069	107,424	154,519	197,793	504,638	1,427,443				1,427,443	1,232,890
Children's allowances and activities	1,008,200	159,269	47,142	141,946	266,796	1,623,353				1,623,353	1,340,414
Consumer incidentals	28,265			1,260	29,836	59,361				59,361	48,929
Clothing	76,150		487	15,937	16,126	108,700				108,700	115,699
Total specific assistance to individuals	3,565,227	266,693	202,148	356,936	817,396	5,208,400				5,208,400	4,829,871
Occupancy											
Interest expense	190,650	274,077	133,997	391,769	379	990,872	363,559	1,484	365,043	1,355,915	1,288,511
Rent	493,029	913,092	1,159,895	356,589	359,978	3,282,583				3,282,583	3,088,897
Utilities	342,325	388,923	167,673	209,291	103,101	1,211,313	77,006	1,533	78,539	1,289,852	1,372,649
Maintenance and repairs	206,226	92,262	113,042	199,660	184,495	795,685	219,078		219,078	1,014,763	590,617
Security	61,421	62,839	13,557	67,811	68,802	274,430	25,852	1,916	27,768	302,198	358,978
Janitorial services	97,486	69,082	35,747	61,208	10,916	274,439	167,586	9,368	176,954	451,393	312,190
Total occupancy	1,391,137	1,800,275	1,623,911	1,286,328	727,671	6,829,322	853,081	14,301	867,382	7,696,704	7,011,842
Professional fees											
Clinical services	470,200		544,707		68,997	1,083,904				1,083,904	907,012
Legal and audit	172,093	104,088	21,097	22,940	17,809	338,027	202,338		202,338	540,365	640,263
Other independent contractors	363,549	317,906	754,949	156,957	129,606	1,722,967	655,885		655,885	2,378,852	2,240,937
Total professional fees	1,005,842	421,994	1,320,753	179,897	216,412	3,144,898	858,223		858,223	4,003,121	3,788,212
Other											
Supplies	516,903	487,385	227,617	187,666	221,302	1,640,873	168,004	28,029	\$ 14,374	210,407	1,851,280
Transportation and other travel-related expenses	428,320	20,645	13,901	253,900	63,447	780,213	66,081	4,948	71,029	851,242	781,515
Insurance	364,777	355,794	136,738	245,504	140,265	1,243,078	122,291	2,766	125,057	1,368,135	1,178,342
Telephone	134,366	304,941	73,457	139,539	72,978	725,281	71,640		71,640	796,921	798,852
Vehicle rentals, repairs and replacement	207,576	23,170		262,882	69,107	562,735	30,282		30,282	593,017	462,958
Equipment/furniture rentals, repairs and replacement	189,714	80,702	61,800	76,387	41,207	449,810	121,602	6,826	128,428	578,238	524,517
Staff development	174,436	36,202	58,242	57,467	393,537	719,884	35,798	289	36,087	755,971	660,827
Staff recruitment	77,745	28,334	49,385	32,232	11,748	199,444	45,639	500	46,139	245,583	288,377
Printing, postage, subscriptions, publications	14,887	24,911	1,235	860	1,769	43,662	60,035	18,214	78,249	121,911	95,547
Dues, licenses, permits	25,173	16,826	26,137			68,136	70,726	4,827	75,553	143,689	136,717
Line of credit interest expense							126,465		126,465	126,465	120,139
Investment management fees							70,524		70,524	70,524	71,928
Bad debt											1,020,573
Miscellaneous	4,855	1,784	28,594	25,393	2,170	62,796	293,822		110,346	404,168	466,964
Total other	2,138,752	1,380,694	677,106	1,281,830	1,017,530	6,495,912	1,282,909	66,399	124,720	1,474,028	7,969,940
Total expenses before depreciation and amortization	30,000,260	15,956,923	11,034,406	13,057,390	11,253,862	81,302,841	8,831,987	278,718	124,720	9,235,425	90,538,266
Depreciation and amortization	663,257	583,071	150,019	611,734	793,689	2,801,770	241,508	3,347	244,855	3,046,625	2,535,937
Total expenses	30,663,517	16,539,994	11,184,425	13,669,124	12,047,551	84,104,611	9,073,495	282,065	124,720	9,480,280	93,584,891
Less expenses deducted directly from revenues on the consolidated statement of activities											
Investment management fees							(70,524)		(70,524)	(70,524)	(71,928)
Direct cost of special events								(124,720)	(124,720)	(124,720)	(122,557)
Total expenses reported by function on the consolidated statement of activities	\$ 30,663,517	\$ 16,539,994	\$ 11,184,425	\$ 13,669,124	\$ 12,047,551	\$ 84,104,611	\$ 9,002,971	\$ 282,065	\$ -	\$ 9,285,036	\$ 93,389,647

See independent auditor's report.