

**FAMILY AND CHILDREN'S
ASSOCIATION, INC. AND AFFILIATES**

Mineola, New York

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

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CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Family and Children's
Association, Inc. and Affiliates
Mineola, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Family and Children's Association, Inc. and Affiliates (the "Organization") which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family and Children's Association, Inc. and Affiliates as of December 31, 2016 and 2015, and the change in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
Family and Children's
Association, Inc. and Affiliates

Other Matters

Report on Consolidating and Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 17 to 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. Also, the supplementary information on page 20 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Melville, New York
May 11, 2017

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidated Statements of Financial Position

<i>As of December 31,</i>	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,466,943	\$ 468,377
Investments	4,330,857	4,264,291
Accounts receivable, net of allowance of approximately \$109,000 and \$113,000, respectively	3,398,322	4,247,420
Prepaid expenses and other current assets	167,151	125,890
Investments held as collateral (Note 2)	7,282,412	7,082,412
Total Current Assets	<u>16,645,685</u>	16,188,390
Property, Plant and Equipment, net	3,894,180	3,839,923
Other Assets	172,436	127,680
Total Assets	<u>\$ 20,712,301</u>	<u>\$ 20,155,993</u>
Liabilities and Net Assets		
Current Liabilities:		
Notes payable to bank	\$ 7,282,412	\$ 7,082,412
Accounts payable and accrued expenses	2,005,127	2,045,970
Advances	548,620	208,850
Current portion of long-term debt	42,656	58,887
Liabilities - discontinued operations (Note 15)	2,039,277	2,342,293
Total Current Liabilities	<u>11,918,092</u>	11,738,412
Long-Term Debt	677,293	719,948
Other Long-Term Liabilities	21,226	21,126
Total Liabilities	<u>12,616,611</u>	12,479,486
Net Assets:		
Unrestricted (Note 8)	6,894,901	6,393,128
Temporarily restricted	618,456	701,046
Permanently restricted	582,333	582,333
Total Net Assets	<u>8,095,690</u>	7,676,507
Total Liabilities and Net Assets	<u>\$ 20,712,301</u>	<u>\$ 20,155,993</u>

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidated Statements of Activities and Change in Net Assets

For the Years Ended December 31,

2016

2015

Change in Unrestricted Net Assets from Operations:

Support and revenue:		
Contracts and fees from government agencies	\$ 15,578,177	\$ 16,479,382
Revenue from services to other agencies	858,941	678,969
Other program fees	1,009,371	777,050
Contributions and grants	1,347,170	1,046,770
Special events revenue	1,369,057	935,406
Special event costs of direct benefits to donors	(328,836)	(321,775)
Loss from rental operations	(119,671)	(88,934)
Other income (loss)	86,614	(25,898)
Net assets released from restriction	84,866	95,340
Total Unrestricted Support and Revenue	19,885,689	19,576,310

Expenses:

Program services:		
Mental health services	5,477,197	5,053,336
Runaway and homeless youth services	3,103,570	3,270,476
Family services	1,528,394	2,739,898
Services to the aged	1,757,729	1,918,571
Drug and alcohol services	3,066,342	2,584,644
Group home services	90,421	66,987
Independent living services	563,730	573,754
Adult and children and general counseling services	243,369	321,287
Crisis intervention and advocacy services	-	5,897
Scholarship programs	152,918	120,190
Total program services	15,983,670	16,655,040
Supporting services:		
Management and general	2,244,744	2,429,201
Fundraising	625,478	319,151
Total supporting services	2,870,222	2,868,542
Services to other agencies	783,382	629,941
Total Expenses	19,637,274	20,033,333

Change in Unrestricted Net Assets before Transfer from Investments and Non-Operating Activities	248,415	(457,023)
Transfer from Investments for Operations and Capital Expenditures	-	500,000
Change in Unrestricted Net Assets after Transfer for Operations and Capital Expenditures and before Non-Operating Activities	248,415	42,977

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidated Statements of Activities and Change in Net Assets (continued)

<i>For the Years Ended December 31,</i>	2016	2015
Change in Unrestricted Net Assets from Non-Operating Activities:		
Interest and dividend income, net of fees of \$71,839 and \$77,951, respectively	\$ 117,244	\$ 130,508
Net realized (loss) gain on sale of investments	(132,133)	210,664
Unrealized appreciation (depreciation) in fair value of investments	268,247	(216,881)
Transfer from investments for operations and capital expenditures	-	(500,000)
Change in Unrestricted Net Assets from Non-Operating Activities	<u>253,358</u>	<u>(375,709)</u>
Change in Unrestricted Net Assets	<u>501,773</u>	<u>(332,732)</u>
Change in Temporarily Restricted Net Assets:		
Interest and dividend income, net of fees of \$12,340 and \$6,000, respectively	11,696	23,620
Net realized (loss) gain on sale of investments	(3,630)	5,049
Unrealized depreciation in fair value of investments	(5,790)	(47,117)
Net assets released from restriction	(84,866)	(95,340)
Change in Temporarily Restricted Net Assets	<u>(82,590)</u>	<u>(113,788)</u>
Change in Net Assets	419,183	(446,520)
Unrestricted Net Assets at Substitution Date (Notes 1 and 16)	-	171,230
Temporarily Restricted Net Assets at Substitution Date (Notes 1 and 16)	-	606,715
Permanently Restricted Net Assets at Substitution Date (Notes 1 and 16)	-	400,000
Net Assets, beginning of year	7,676,507	6,945,082
Net Assets, end of year	\$ 8,095,690	\$ 7,676,507

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

<i>For the Years Ended December 31,</i>	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 419,183	\$ (446,520)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	304,522	322,074
Loss on disposal of fixed assets	155	141,817
Decrease in allowance for doubtful accounts	(4,257)	(86,463)
Net realized and unrealized (gain) loss on investments	(126,694)	48,285
Increase (decrease) in operating assets:		
Accounts receivable	853,355	(968,922)
Prepaid expenses and other current assets	(41,261)	57,814
Assets - discontinued operations	-	30,324
Other assets	(44,756)	2,210
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	(40,843)	97,448
Advances	339,770	(231,275)
Liabilities - discontinued operations	(303,016)	(67,497)
Other long-term liabilities	100	(5,747)
Net Cash Provided by (Used in) Operating Activities	<u>1,356,258</u>	<u>(1,106,452)</u>
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(363,373)	(113,217)
Proceeds from sale of fixed assets	4,439	-
Purchase of investments	(5,596,616)	(5,422,519)
Proceeds from the sale of investments	5,456,744	5,801,833
Proceeds from affiliate (Note 16)	-	168,721
Net Cash (Used in) Provided by Investing Activities	<u>(498,806)</u>	<u>434,818</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	200,000	600,000
Payments on long-term debt	(58,886)	(84,194)
Net Cash Provided by Financing Activities	<u>141,114</u>	<u>515,806</u>
Net Increase (Decrease) in Cash and Cash Equivalents	998,566	(155,828)
Cash and Cash Equivalents, beginning of year	468,377	624,205
Cash and Cash Equivalents, end of year	<u>\$ 1,466,943</u>	<u>\$ 468,377</u>
Supplemental Information:		
Interest paid	<u>\$ 144,958</u>	<u>\$ 118,852</u>

See Note 16 for Noncash Transaction.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

1. Description of Organization and Summary of Significant Accounting Policies

Nature of operations - Family and Children's Association, Inc. and Affiliates ("FCA" or the "Organization") is a New York State charitable not-for-profit organization established in 1998, following the merger of Family Services Association of Nassau County, Inc. with Children's House.

FCA provides a broad range of programs and services, which are designed to support families who are experiencing difficulties. Assistance is provided through professional counseling and through participation in community activities directed toward family well-being. The Organization works with other service providers and organizations to improve the well-being of its target population and to enhance the delivery and accessibility of programs through the greater Long Island region. Such programs include Mental Health Counseling, Family Support, Drug and Alcohol, Runaway and Homeless Youth Services, Crisis Intervention and Advocacy, Services to the Aged, as well as Independent Living Services and Group Homes.

Long Island Council on Alcoholism and Drug Dependence, Inc. ("LICADD") is a nonprofit organization dedicated to the prevention of drug and alcohol abuse and the promotion of recovery from addiction. On July 31, 2015 ("substitution date"), FCA entered into a Member Substitution agreement, without consideration, with LICADD through which FCA obtained control as the sole member of LICADD in order to achieve programmatic and administrative synergies. The accompanying consolidated financial statements of the Organization include the results of operations of LICADD from the substitution date. See Note 16 for assets and liabilities included.

The consolidated financial statements through February 2015 also include the programs of an affiliate, Community Advocates Housing Development Fund Company, Inc. ("CAHD"), which operated a housing project in Roslyn Heights for low income families. CAHD was transferred to a government agency in February 2015 resulting in a loss on disposal of approximately \$142,000.

Basis of presentation - The consolidated financial statements have been prepared on the accrual basis. All intercompany activities have been eliminated.

Revenue recognition - The Organization derives its revenue from, among other sources, contracts and fees for service from federal, state and county (Nassau and Suffolk Counties) governments; contributions and grants from individuals and organizations; Long Island's United Way contributions; fundraising drives and rental income. Revenues from reimbursement contracts are recorded as expenditures are made under the contracts.

Contributions - The Organization reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and change in net assets as net assets released from restrictions. Temporarily restricted contributions that originate in a given year and are released from restriction in the same year by meeting the donors' restricted purposes are reflected in unrestricted net assets.

The Organization reports gifts of property, plant and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

Net assets - The net assets of the Organization are reported as follows:

Unrestricted - Net assets which are not donor restricted and are available for general operations.

Temporarily restricted - Net assets which are limited by donor restrictions that either expire with the passage of time or can be fulfilled and removed by actions of the Organization.

Permanently restricted - Net assets subject to donor-imposed restrictions that stipulate resources be maintained in perpetuity, but generally permit the Organization to utilize earnings for unrestricted or temporarily restricted purposes, upon appropriation.

Donated services - In excess of 250 volunteers have donated significant amounts of their time in the Organization's program services and fundraising campaigns. The value of this contributed time is not reflected in the accompanying consolidated financial statements for the years ended December 31, 2016 and 2015, as it does not meet the criteria for recognition under generally accepted accounting principles.

Investments - Investments consist primarily of cash and cash equivalents, and corporate stocks and bonds which are carried at fair value. The change in unrealized appreciation (depreciation) in the fair value of investments is reflected in the accompanying consolidated statements of activities and change in net assets.

Fair value - In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, the Organization must determine whether its assets and liabilities recorded at fair value are valued based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements.

Property, plant and equipment, depreciation and amortization - Property, plant and equipment are stated at cost except for donated assets, which are recorded at fair value at the time of donation. The Organization capitalizes property and equipment with a cost of \$1,000 or higher, and a useful life of at least two years. Depreciation is provided using the straight-line method calculated over the estimated lives of the related assets, which range from 2 to 40 years. Amortization of leasehold improvements is provided over the shorter of their useful lives or the terms of the lease period using the straight-line method.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Tax status - The Organization's income is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of the New York State income tax laws, except for income not related to its tax-exempt purpose (revenue from certain rental income). No income taxes were incurred for the years ended December 31, 2016 and 2015.

Uncertain tax positions - Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the consolidated financial statements to comply with the provisions of FASB ASC No. 740.

Use of estimates - The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

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As of and for the Years Ended December 31, 2016 and 2015

Cash and cash equivalents - The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less on the date of purchase to be cash equivalents, except for amounts held by investment managers, which are included in investments.

Allowance for doubtful accounts - Management must make estimates of uncollectability of accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, current funding trends and changes in payment trends and rates when evaluating the adequacy of the allowance for doubtful accounts.

Evaluation of subsequent events - Management has evaluated subsequent events through May 11, 2017, the date the consolidated financial statements are available for issuance, for inclusion or disclosure in the consolidated financial statements.

Recent accounting pronouncements - In August 2014, the FASB issued Accounting Standards Update ("ASU") 2014-15, "*Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*". The core principle of ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 defines the term substantial doubt and requires an assessment for a period of one year after the date the financial statements are issued (or available to be issued). ASU 2014-15 is effective for fiscal years ending after December 15, 2016. The adoption of ASU 2014-15 did not impact the Organization's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". The core principle of ASU 2014-09 requires recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for the Organization for fiscal years beginning after December 15, 2018, with early adoption permitted. Management has concluded that the adoption of ASU 2014-09 will not impact the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and lease liabilities on the consolidated statements of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Organization for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of ASU 2016-02 on the Organization's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*". The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-14 on the Organization's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*". The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the consolidated statements of cash flows. ASU 2016-18 is effective for the Organization for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-18 is to be

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-18 on the Organization's consolidated financial statements.

Reclassifications - Certain 2015 amounts have been reclassified to conform with the 2016 presentation.

2. Investments

Investments consist of the following:

<i>As of December 31,</i>	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 2,452,210	\$ 2,452,210	\$ 1,446,560	\$ 1,446,560
Corporate Stocks	4,101,377	4,883,003	5,133,535	5,649,199
Corporate Bonds	4,329,583	4,278,056	4,298,966	4,250,944
Total	<u>\$ 10,883,170</u>	<u>\$ 11,613,269</u>	<u>\$ 10,879,061</u>	<u>\$ 11,346,703</u>

The following represents unrealized appreciation (depreciation) in fair market value of investments:

<i>For the Years Ended December 31,</i>	2016	2015
Unrealized Appreciation, beginning of year	\$ 467,642	\$ 692,556
Unrealized Appreciation, LICADD, at substitution date	-	39,084
Unrealized Appreciation (Depreciation) in Fair Value of Investments, during fiscal year	262,457	(263,998)
Unrealized Appreciation, end of year	<u>\$ 730,099</u>	<u>\$ 467,642</u>

Interest and dividend income was approximately \$88,700 and \$124,400, respectively, for 2016 and \$74,500 and \$163,200, respectively, for 2015.

Fair value measurements - All assets and liabilities held by the Organization that are measured at fair value as of December 31, 2016 and 2015 are Level 1 in the fair value hierarchy. The Organization had no Level 2 or Level 3 investments at December 31, 2016 or 2015.

At December 31, 2016 and 2015, investment portfolio balances held as collateral for the note payable to the bank (Note 6) was \$7,282,412 and \$7,082,412, respectively.

3. Transfer from Investments

The board of trustees may authorize a transfer of a designated amount from investments to the Organization's operating account. This designated amount is identified in the Organization's annual budget in order to assist with operating expenses, and is at the discretion of management and the board of trustees. For the year ended December 31, 2015, \$500,000 was transferred from the endowment. There was no such transfer for the year ended December 31, 2016.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

4. Endowment Funds

The Organization has two endowment funds as follows: a scholarship fund, consisting of restricted cash, included in investments, and board designated funds, which together represent an endowment for scholarships and a LICADD endowment fund, consisting of one individual donor restricted endowment fund established to use for the labor associated with and management of alcoholism programs.

Interpretation of relevant law - The spending of endowment funds by a not-for-profit corporation in the State of New York is governed by the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). The Organization has interpreted NYPMIFA as requiring the preservation of the original value of a gift for gifts received prior to September 17, 2010, absent donor stipulations to the contrary, and for post September 17, 2010 gifts, as allowing the Organization to appropriate for expenditure or accumulate earnings as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the Organization has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. 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.

Spending policy - The Organization may spend earnings from the scholarship fund annually to provide scholarships. The LICADD endowment fund may be used when appropriated in accordance with the donor's intention.

Endowment investment policy - The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of returns while seeking to maintain the purchasing power of the endowment assets.

Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve investment returns that are competitive versus pools of assets of similar nature and circumstances.

The following presents the composition of endowment net assets by fund type:

<i>For the Year Ended December 31, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Endowment Funds	\$ 246,567	\$ -	\$ -
Donor Restricted Endowment Funds	-	590,543	582,333
<hr/>			
<i>For the Year Ended December 31, 2015</i>	Unrestricted	Temporarily Restricted	Permanently Restricted
Board Designated Endowment Funds	\$ 247,153	\$ -	\$ -
Donor Restricted Endowment Funds	-	588,267	582,333

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

The changes in endowment net assets were as follows:

<i>For the Year Ended December 31, 2016</i>	Board Designated	Temporarily Restricted	Permanently Restricted
Net Assets, beginning of year	\$ 247,153	\$ 588,267	\$ 582,333
Investment (Loss) Income	(586)	2,276	-
Net Assets, end of year	<u>\$ 246,567</u>	<u>\$ 590,543</u>	<u>\$ 582,333</u>
<i>For the Year Ended December 31, 2015</i>	Board Designated	Temporarily Restricted	Permanently Restricted
Net Assets, beginning of year	\$ 248,208	\$ -	\$ 182,333
Net Assets, LICADD at substitution date	-	606,715	400,000
Investment (Loss) Income	(1,055)	(18,448)	2,247
Net Assets, LICADD at substitution date	-	-	(2,247)
Net Assets, end of year	<u>\$ 247,153</u>	<u>\$ 588,267</u>	<u>\$ 582,333</u>

5. Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following:

<i>As of December 31,</i>	2016	2015
Land	\$ 762,782	\$ 762,782
Building and Improvements	6,530,640	6,519,520
Furniture and Equipment	896,992	801,184
Vehicles	401,750	394,944
Construction in Progress	237,272	31,489
	<u>8,829,436</u>	8,509,919
Accumulated Depreciation and Amortization	4,935,256	4,669,996
	<u>\$ 3,894,180</u>	<u>\$ 3,839,923</u>

Total depreciation and amortization expense for the years ended December 31, 2016 and 2015 was approximately \$305,000 and \$322,000, respectively, including approximately \$18,100 and \$16,600 of depreciation expense that has been offset against income from rental operations in the years ended December 31, 2016 and 2015, respectively.

6. Notes Payable to Bank

At December 31, 2016 and 2015, the Organization maintained a line of credit, secured by the Organization's investments as collateral, as such item is defined in the Uniform Commercial Code of New York, with a financial institution for \$7,500,000, of which, \$7,282,412 and \$7,082,412 was outstanding, respectively. Interest was payable monthly at 30 day LIBOR (0.77% and 0.43% at December 31, 2016 and 2015, respectively), plus 1.00%. The line was paid in full on March 30, 2017 through the liquidation of investments.

Interest expense on the line for the years ended December 31, 2016 and 2015 approximated \$113,000 and \$82,000, respectively.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

7. Long-Term Debt

Long-term debt consists of the following:

<i>As of December 31,</i>	2016	2015
Mortgage Note (a)	\$ 588,460	\$ 600,357
New York State Medical Care Facilities Finance Agency Mortgage Payable (b)	-	18,306
New York State Medical Care Facilities Finance Agency Mortgage Payable (c)	131,489	160,172
	719,949	778,835
Less Current Portion of Debt	42,656	58,887
Long-Term Portion of Debt	\$ 677,293	\$ 719,948

- (a) Effective September 2014, the Organization refinanced this pre-existing mortgage to a lower rate of 3.75%, with monthly interest payments of \$2,851 payable through July 1, 2018. The remaining balance of unpaid principal, together with accrued interest is to be paid on August 1, 2018. The mortgage note is secured by the Organization's administrative offices located in Mineola, New York.
- (b) The mortgage obtained from New York State Medical Care Facilities Finance Agency bore interest at the rate of 9.59% per annum. Principal and interest of \$19,560 were payable semi-annually until June 1, 2016, when the entire unpaid balance of principal and interest were paid in full. The Organization received annual funding from the New York State Department of Mental Health for payment of principal and interest.
- (c) The mortgage acquired through merger with West Nassau Counseling Center from New York State Medical Care Facilities Finance Agency bears interest at the rate of 5.58% per annum. Principal and interest of \$18,609 are payable semi annually until December 1, 2020, when the entire unpaid balance of principal and interest shall become due and payable. The Organization receives annual funding from the Department of Mental Health for payment of principal and interest.

Future principal payments on the above listed debt are approximately as follows:

<i>Years Ending December 31,</i>	
2017	\$ 43,000
2018	608,000
2019	34,000
2020	35,000
	\$ 720,000

Interest expense for the years ended December 31, 2016 and 2015 approximated \$32,000 and \$37,000, respectively, of which, \$22,000 and \$23,000 has been offset against income from rental operations in 2016 and 2015, respectively.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

8. Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>As of December 31,</i>	2016	2015
Scholarships	\$ 27,913	\$ 97,779
Hempstead S.T.E.M. Project	-	15,000
LICADD - R. Brinkley Smithers Endowment	590,543	588,267
	\$ 618,456	\$ 701,046

The following is a summary of the net assets that were released from donor restrictions:

<i>Years Ended December 31,</i>	2016	2015
Scholarships	\$ 69,866	\$ -
UCC - Walk About/Mental Health	-	75,340
Hempstead S.T.E.M. Project	15,000	20,000
	\$ 84,866	\$ 95,340

At December 31, 2016 and 2015, permanently restricted net assets consisted of amounts restricted for endowed scholarships and for the LICADD R. Brinkley Smithers Endowment.

At December 31, 2016 and 2015, approximately \$247,000 of unrestricted net assets have been designated by the Organization's board of trustees for scholarships, respectively.

9. Special Events Revenue

The Organization generated revenue from the following special events during the years ended December 31, 2016 and 2015:

<i>For the Year Ended December 31, 2016</i>	Gross Revenue	Costs of Direct Benefits to Donors	Net Revenue
Holiday Ball	\$ 321,767	\$ 38,026	\$ 283,741
Golf Outings	546,274	191,350	354,924
Scholarship Dinner	102,908	18,818	84,090
Breakfast Sponsorship	48,576	6,956	41,620
Angel Ball	291,366	63,335	228,031
Other	58,166	10,351	51,565
Total	\$ 1,369,057	\$ 328,836	\$ 1,043,971

<i>For the Year Ended December 31, 2015</i>	Gross Revenue	Costs of Direct Benefits to Donors	Net Revenue
Holiday Ball	\$ 238,260	\$ 51,678	\$ 186,582
Golf Outing	497,205	197,146	300,059
Scholarship Dinner	122,076	54,621	67,455
Breakfast Sponsorship	36,208	5,302	30,906
Other	41,657	13,028	28,629
Total	\$ 935,406	\$ 321,775	\$ 613,631

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

10. Services to Other Agencies

The Organization has entered into agreements with independent agencies, under which such agencies carry out the daily activities of groups of programs that are principally financed by grants from governmental agencies. The Organization maintains the financial records and incurs various expenses relating to these programs, which consist primarily of payroll and related expenses. The Organization does not direct the daily activities of such programs.

11. Defined Contribution Pension Plans

FCA 401(a) Plan - FCA sponsors a defined contribution pension plan for employees who are eligible after one year of service. Annual contributions to the Plan are based on a percentage of each eligible employee's compensation, as determined by the Organization's board of trustees (5% for each of the years ended December 31, 2016 and 2015, respectively). Pension expense was approximately \$395,000 and \$422,000 for the years ended December 31, 2016 and 2015, respectively.

FCA 403(b) Plan - FCA maintains a Tax-Deferred Annuity Plan as defined under Section 403(b) of the Internal Revenue Code. This Plan provides for employee deferrals only.

LICADD 401(a) Plan - LICADD has a defined contribution pension plan for all eligible employees. LICADD's contributions are equal to 6% of each employee's annual compensation. Pension expense was approximately \$29,000 and \$15,100 for the year ended December 31, 2016 and period July 31, 2015 to December 31, 2015, respectively. Subsequent to year end, this plan was merged into the FCA 401(a) Plan.

LICADD 403(b) Plan - LICADD maintains a Tax-Deferred Annuity Plan as defined under Section 403(b) of the Internal Revenue Code. This Plan provides for employee deferrals only. Subsequent to year end, this plan was merged into the FCA 403(b) Plan.

12. Commitments and Contingencies

Leases - The Organization is obligated under various noncancellable operating leases for certain of its facilities, expiring through fiscal 2021. Future minimum lease payments under these operating leases at December 31, 2016 are approximately as follows:

Years Ending December 31,

2017	\$	590,000
2018		537,000
2019		298,000
2020		83,000
2021		42,000
	\$	<u>1,550,000</u>

Rent expense for the years ended December 31, 2016 and 2015 approximated \$687,000 and \$568,000, respectively.

Litigation - The Organization is subject to lawsuits and claims with respect to matters arising in the normal course of business. The Organization defends its position on all actions. In the opinion of management, the ultimate liabilities, if any, from these lawsuits or claims will not materially affect the financial position of the Organization. Nevertheless, due to the uncertainty of the settlement process, management's view of the outcome may be modified in the future.

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

13. Government Funding and Rate Adjustments

Substantial funding of programs is provided to the Organization by federal, state and local government agencies. Continuation of such funding is dependent on budgetary allocations from such agencies. In addition, reimbursements under contracts are subject to audit by various agencies on a regular basis. Additional liabilities resulting from future audits are not presently determinable. Changes in contract amounts due or payable resulting from audit adjustments or rate appeals are reflected in the operations of the Organization when such adjustments are determined or can be reasonably estimated.

14. Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments and accounts receivable from government agencies and client fees. The Organization places its temporary cash investments with various financial institutions. Accounts receivable are predominately from federal, state and local government agencies, including Medicaid, Medicare, and other third-party and private payors. From time to time, the cash balances exceed the federal depository insurance coverage limit.

15. Discontinued Mental Health Clinic Operations

On December 16, 2011, the Organization's board approved a resolution to discontinue the operations of its Article 31 mental health clinics in West Hempstead and Roosevelt (the "Clinics"). As of March 31, 2012, the Clinics ceased operations. Liabilities in the amounts of \$2,039,277 and \$2,342,293 as of December 31, 2016 and 2015, respectively, are segregated on the consolidated statements of financial position related to the discontinued operations.

16. Noncash Transaction

In conjunction with the member substitution agreement with LICADD, the following noncash assets and liabilities of LICADD were included in the consolidated financial statements for the period beginning August 1, 2015.

	Amount
Investments	\$ 1,119,943
Accounts Receivable	94,746
Prepaid Expenses	9,500
Property, Plant and Equipment	10,548
Other Long-Term Assets	14,519
Accounts Payable	9,293
Deferred Revenue	226,953

Also included in the consolidated financial statements beginning August 1, 2015 was \$168,721 of cash from LICADD. At the substitution date, the book value of all assets and liabilities approximated fair value.

CONSOLIDATING AND SUPPLEMENTARY INFORMATION

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidating Statement of Financial Position

As of December 31, 2016

	Family and Children's Association, Inc.	Long Island Council on Alcoholism and Drug Dependence, Inc.	Eliminations	Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,207,472	\$ 259,471	\$ -	\$ 1,466,943
Investments	3,228,843	1,102,014	-	4,330,857
Accounts receivable, net of allowance of approximately \$105,000 and \$4,000, respectively	3,319,578	78,744	-	3,398,322
Prepaid expenses and other current assets	161,427	5,724	-	167,151
Due from affiliate	30,289	-	(30,289)	-
Investments held as collateral (Note 2)	7,282,412	-	-	7,282,412
Total Current Assets	15,230,021	1,445,953	(30,289)	16,645,685
Property, Plant and Equipment, net	3,886,467	7,713	-	3,894,180
Interest in Net Assets of Affiliate	1,343,350	-	(1,343,350)	-
Other Assets	156,275	16,161	-	172,436
Total Assets	\$ 20,616,113	\$ 1,469,827	\$ (1,373,639)	\$ 20,712,301
Liabilities and Net Assets				
Current Liabilities:				
Notes payable to bank	\$ 7,282,412	\$ -	\$ -	\$ 7,282,412
Accounts payable and accrued expenses	1,954,675	50,452	-	2,005,127
Advances	502,884	45,736	-	548,620
Current portion of long-term debt	42,656	-	-	42,656
Due to affiliate	-	30,289	(30,289)	-
Liabilities - discontinued operations (Note 15)	2,039,277	-	-	2,039,277
Total Current Liabilities	11,821,904	126,477	(30,289)	11,918,092
Long-Term Debt	677,293	-	-	677,293
Other Long-Term Liabilities	21,226	-	-	21,226
Total Liabilities	12,520,423	126,477	(30,289)	12,616,611
Net Assets:				
Unrestricted (Note 8)	6,894,901	352,807	(352,807)	6,894,901
Temporarily restricted	618,456	590,543	(590,543)	618,456
Permanently restricted	582,333	400,000	(400,000)	582,333
Total Net Assets	8,095,690	1,343,350	(1,343,350)	8,095,690
Total Liabilities and Net Assets	\$ 20,616,113	\$ 1,469,827	\$ (1,373,639)	\$ 20,712,301

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidating Statement of Activities and Change in Net Assets

For the Year Ended December 31, 2016

	Family and Children's Association, Inc.	Long Island Council on Alcoholism and Drug Dependence, Inc.	Eliminations	Total
Change in Unrestricted Net Assets from Operations:				
Support and revenue:				
Contracts and fees from government agencies	\$ 15,578,177	\$ -	\$ -	\$ 15,578,177
Revenue from services to other agencies	858,941	-	-	858,941
Other program fees	320,772	688,599	-	1,009,371
Contributions and grants	1,104,659	242,511	-	1,347,170
Special events revenue	608,794	760,263	-	1,369,057
Special event costs of direct benefits to donors	(138,927)	(189,909)	-	(328,836)
Loss from rental operations	(119,671)	-	-	(119,671)
Other income	142,024	-	(55,410)	86,614
Net assets released from restriction	84,866	-	-	84,866
Total Unrestricted Support and Revenue	18,439,635	1,501,464	(55,410)	19,885,689
Expenses:				
Program services:				
Mental health services	5,477,197	-	-	5,477,197
Runaway and homeless youth services	3,103,570	-	-	3,103,570
Family services	1,528,394	-	-	1,528,394
Services to the aged	1,757,729	-	-	1,757,729
Drug and alcohol services	2,082,756	1,011,291	(27,705)	3,066,342
Group home services	90,421	-	-	90,421
Independent living services	563,730	-	-	563,730
Adult and children and general counseling services	243,369	-	-	243,369
Scholarship programs	152,918	-	-	152,918
Total program services	15,000,084	1,011,291	(27,705)	15,983,670
Supporting services:				
Management and general	2,076,369	190,539	(22,164)	2,244,744
Fundraising	388,981	242,038	(5,541)	625,478
Total supporting services	2,465,350	432,577	(27,705)	2,870,222
Services to other agencies	783,382	-	-	783,382
Total Expenses	18,248,816	1,443,868	(55,410)	19,637,274
Change in Unrestricted Net Assets before Non-Operating Activities	\$ 190,819	\$ 57,596	\$ -	\$ 248,415

FAMILY AND CHILDREN'S ASSOCIATION, INC. AND AFFILIATES

Consolidating Statement of Activities and Change in Net Assets (continued)

For the Year Ended December 31, 2016

	Family and Children's Association, Inc.	Long Island Council on Alcoholism and Drug Dependence, Inc.	Eliminations	Total
Change in Unrestricted Net Assets from Non-Operating Activities:				
Interest and dividend income, net of fees	\$ 115,939	\$ 1,305	\$ -	\$ 117,244
Net realized loss on sale of investments	(131,196)	(937)	-	(132,133)
Unrealized appreciation (depreciation) in fair value of investments	268,312	(65)	-	268,247
Earnings of affiliate	57,899	-	(57,899)	-
Change in Unrestricted Net Assets from Non-Operating Activities	310,954	303	(57,899)	253,358
Change in Unrestricted Net Assets	501,773	57,899	(57,899)	501,773
Change in Temporarily Restricted Net Assets:				
Interest and dividend income, net of fees	-	11,696	-	11,696
Net realized loss on sale of investments	-	(3,630)	-	(3,630)
Unrealized depreciation in fair value of investments	-	(5,790)	-	(5,790)
Earnings of Affiliate	2,276	-	(2,276)	-
Net assets released from restriction	(84,866)	-	-	(84,866)
Change in Temporarily Restricted Net Assets	(82,590)	2,276	(2,276)	(82,590)
Change in Net Assets	419,183	60,175	(60,175)	419,183
Net Assets, beginning of year	7,676,507	1,283,175	(1,283,175)	7,676,507
Net Assets, end of year	\$ 8,095,690	\$ 1,343,350	\$ (1,343,350)	\$ 8,095,690

**FAMILY AND CHILDREN'S
ASSOCIATION, INC. AND AFFILIATES**

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2016 (with comparative totals for 2015)

	Mental Health Services	Runaway and Homeless Youth Services	Family Services	Services to the Aged	Drug and Alcohol Services	Group Home Services	Independent Living Services	Adult and Children and General Counseling Services	Scholarship	Total Program Services	Management and General	Public Relations	Total Management and General	Fundraising	Services to Other Agencies	2016 Total Expenses	2015 Total Expenses
Salaries	\$ 3,511,424	\$ 2,061,838	\$ 966,932	\$ 1,145,836	\$ 1,826,073	\$ 27,612	\$ 348,583	\$ 127,831	\$ 13,477	\$ 10,029,606	\$ 1,189,071	\$ 42,548	\$ 1,231,619	\$ 423,038	\$ 498,982	\$ 12,183,245	\$ 11,951,276
Payroll Taxes and Employee Benefits	972,472	550,137	275,866	347,658	429,715	6,641	75,096	42,101	3,393	2,703,079	294,923	9,707	304,630	96,752	166,706	3,271,167	3,400,311
	4,483,896	2,611,975	1,242,798	1,493,494	2,255,788	34,253	423,679	169,932	16,870	12,732,685	1,483,994	52,255	1,536,249	519,790	665,688	15,454,412	15,351,587
Occupancy Costs, Insurance and Utilities	313,936	76,093	56,104	65,702	381,870	11,674	79,500	18,010	622	1,003,511	124,887	-	124,887	33,225	66,460	1,228,083	1,112,827
Client Activity	34,516	22,578	7,042	49,090	19,689	1,020	14,219	32,000	1	180,155	-	-	-	-	985	181,140	693,055
Contracted Services	297,551	150,332	75,476	62,765	186,155	19,527	17,573	6,831	1,416	817,626	252,063	3,420	255,483	10,267	5,711	1,089,087	1,084,747
House Supplies and Equipment	23,285	20,286	5,050	2,727	6,715	481	446	3,519	-	62,509	4,190	-	4,190	418	9	67,126	81,949
Food and Clothing	34,647	33,505	7,839	2,146	9,484	568	1,336	1,112	41	90,678	2,106	-	2,106	669	22,571	116,024	131,998
Repairs and Maintenance	22,087	27,069	9,179	5,014	14,625	3,890	3,443	1,011	23	86,341	9,722	-	9,722	1,206	1,326	98,595	131,839
Travel	100,281	13,910	23,634	13,004	20,047	236	7,935	920	28	179,995	6,858	-	6,858	2,728	2,617	192,198	164,072
Telecommunications	43,528	30,874	31,203	17,431	54,481	1,677	10,241	2,870	10	192,315	25,165	-	25,165	8,885	2,575	228,940	180,984
Office Supplies	15,626	21,134	12,388	16,290	26,609	105	1,695	4,214	1,443	99,504	19,026	-	19,026	10,322	1,649	130,501	167,982
Dues, Licenses and Permits	5,769	3,984	3,050	1,130	7,288	29	565	258	12	22,085	25,540	1,101	26,641	2,216	8	50,950	56,490
Conference and Workshops	7,258	14,740	858	930	4,092	-	-	112	-	27,990	7,641	-	7,641	-	-	35,631	67,110
Staff Development	11,986	21,459	4,899	8,168	4,321	-	868	240	2	51,943	5,087	-	5,087	7,650	13,628	78,308	73,879
Scholarship	-	-	-	-	-	-	-	-	114,600	114,600	-	-	-	-	-	114,600	91,055
Interest and Bank Charges	9,413	1	-	-	1,502	-	-	-	-	10,916	133,859	-	133,859	15,882	-	160,657	130,100
Fundraising	128	2,372	2,326	6,158	19,820	-	174	500	17,850	49,328	18,235	4,832	23,067	2,886	111	75,392	48,500
Bad Debt and Other	11,443	1,340	54	27	1	-	198	-	-	13,063	1,113	-	1,113	730	-	14,906	152,931
Miscellaneous	480	-	-	-	11,478	-	-	-	-	11,958	18,802	-	18,802	3,720	-	34,480	6,919
Depreciation and Amortization	61,367	51,918	46,494	13,653	42,377	16,961	1,858	1,840	-	236,468	44,848	-	44,848	4,884	44	286,244	305,309
	\$ 5,477,197	\$ 3,103,570	\$ 1,528,394	\$ 1,757,729	\$ 3,066,342	\$ 90,421	\$ 563,730	\$ 243,369	\$ 152,918	\$ 15,983,670	\$ 2,183,136	\$ 61,608	\$ 2,244,744	\$ 625,478	\$ 783,382	\$ 19,637,274	\$ 20,033,333