

Graham Windham

Financial Statements

June 30, 2016

Independent Auditors' Report

Board of Directors **Graham Windham**

We have audited the accompanying financial statements of Graham Windham, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Graham Windham as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Graham Windham's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 19, 2016

Graham Windham

Statement of Financial Position June 30, 2016 (with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 3,851,005	\$ 3,138,749
Public maintenance receivables	12,360,703	13,768,775
Other receivables and prepaid expenses	1,504,364	1,953,361
Investments	13,308,214	12,513,881
Property, plant and equipment, net	4,109,908	2,848,654
Restricted investments	1,140,381	1,141,959
	<u>\$ 36,274,575</u>	<u>\$ 35,365,379</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 8,623,189	\$ 8,333,911
Deferred lease liabilities	1,033,701	-
Due to governments	8,105,859	8,849,140
Mortgage and loans payable	1,357,897	779,900
Total Liabilities	<u>19,120,646</u>	<u>17,962,951</u>
Net Assets		
Unrestricted	14,193,067	14,370,552
Temporarily restricted	1,820,481	1,889,917
Permanently restricted	1,140,381	1,141,959
Total Net Assets	<u>17,153,929</u>	<u>17,402,428</u>
	<u>\$ 36,274,575</u>	<u>\$ 35,365,379</u>

See notes to financial statements

Graham Windham

Statement of Activities Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING INCOME					
Public Support					
Public maintenance income	\$ 50,386,209	\$ -	\$ -	\$ 50,386,209	\$ 51,576,305
Contributions and grants	477,322	1,615,933	-	2,093,255	2,381,295
Special events, net of direct costs of \$297,741 and \$187,707	1,266,441	-	-	1,266,441	1,082,889
Total Public Support	52,129,972	1,615,933	-	53,745,905	55,040,489
Program service fees and other	57,825	-	-	57,825	36,282
Revenue from UFSD No. 10	83,000	-	-	83,000	78,120
Interest income	13,128	25,946	-	39,074	26,833
Net assets released from restrictions	1,711,315	(1,711,315)	-	-	-
Total Operating Income	53,995,240	(69,436)	-	53,925,804	55,181,724
OPERATING EXPENSES					
Program services	48,251,352	-	-	48,251,352	48,951,930
Management and general	5,537,445	-	-	5,537,445	5,011,928
Fundraising	754,148	-	-	754,148	721,122
Total Operating Expenses	54,542,945	-	-	54,542,945	54,684,980
(Deficiency) Excess of Operating Income Over Operating Expenses	(547,705)	(69,436)	-	(617,141)	496,744
NON OPERATING ACTIVITY					
Investment income	370,220	-	(1,578)	368,642	436,988
Change in Net Assets	(177,485)	(69,436)	(1,578)	(248,499)	933,732
NET ASSETS					
Beginning of year	14,370,552	1,889,917	1,141,959	17,402,428	16,468,696
End of year	\$ 14,193,067	\$ 1,820,481	\$ 1,140,381	\$ 17,153,929	\$ 17,402,428

See notes to financial statements

Graham Windham

Statement of Functional Expenses Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Program Services					Supporting Services			2016	2015
	Westchester Residential Services	Permanency Planning	Medicaid	Family and Community Support	Total	Management and General	Fundraising	Total	Total	Total
PERSONNEL										
Salaries	\$ 6,670,456	\$ 6,575,068	\$ 5,539,746	\$ 5,243,932	\$ 24,029,202	\$ 2,820,541	\$ 441,521	\$ 3,262,062	\$ 27,291,264	\$ 26,242,845
Employee benefits and payroll taxes	2,498,015	1,884,104	1,422,398	1,333,778	7,138,295	779,011	124,816	903,827	8,042,122	8,118,903
CARE AND MAINTENANCE										
Food	475,931	997	15	21,821	498,764	-	-	-	498,764	526,111
Clothing	76,728	484,585	-	3,040	564,353	-	-	-	564,353	686,248
Travel and workers expense	78,751	184,974	49,393	107,976	421,094	4,540	2,003	6,543	427,637	382,333
Allowances and recreation	227,637	215,978	29,342	424,038	896,995	1,000	57,950	58,950	955,945	889,463
Medicine and medical supplies	-	-	427,779	-	427,779	-	-	-	427,779	576,722
Boarding payments to foster parents	3,025	5,797,382	-	-	5,800,407	-	-	-	5,800,407	6,847,003
PROFESSIONAL FEES										
Health services	-	-	1,623,176	34,933	1,658,109	-	-	-	1,658,109	2,196,916
Audit, legal and consultants	52,476	269,009	1,262	71,683	394,430	189,308	4,939	194,247	588,677	533,062
Purchased services	199,048	459,107	175,633	225,898	1,059,686	256,420	477	256,897	1,316,583	1,115,516
STAFF										
Staff development and conference	13,234	52,736	26,799	112,895	205,664	53,688	7,811	61,499	267,163	195,917
FIXED CHARGES, SERVICES AND EQUIPMENT										
Rent	-	388,061	141,153	189,983	719,197	685,520	57,966	743,486	1,462,683	1,113,979
Utilities	311,875	110,250	82,663	42,633	547,421	39,551	2,295	41,846	589,267	684,803
Repairs and maintenance	434,266	398,468	129,996	353,883	1,316,613	99,035	8,550	107,585	1,424,198	1,443,094
Telephone	57,644	101,941	53,223	108,566	321,374	46,129	5,197	51,326	372,700	390,023
Insurance	206,009	134,879	106,918	93,169	540,975	54,763	7,829	62,592	603,567	577,442
Postage	7,541	26,907	9,756	23,011	67,215	21,352	2,164	23,516	90,731	82,228
Equipment rental	102,021	75,809	46,484	47,694	272,008	56,674	2,733	59,407	331,415	317,240
Supplies and equipment	235,442	79,925	43,477	174,681	533,525	66,275	8,302	74,577	608,102	526,318
Dues, licenses and permits	4,361	6,994	16,756	8,062	36,173	123,537	2,012	125,549	161,722	197,017
Subscriptions and publications	-	54	-	20	74	3,073	766	3,839	3,913	1,210
Depreciation and amortization	257,267	124,604	67,437	25,501	474,809	73,741	5,419	79,160	553,969	504,491
Property taxes	53,149	32,040	12,315	31,007	128,511	55,902	4,470	60,372	188,883	239,679
Administrative	29,812	38,689	36,024	41,782	146,307	104,001	6,641	110,642	256,949	234,144
Interest	-	33,001	12,661	6,710	52,372	3,384	287	3,671	56,043	62,273
Total Expenses	\$ 11,994,688	\$ 17,475,562	\$ 10,054,406	\$ 8,726,696	\$ 48,251,352	\$ 5,537,445	\$ 754,148	\$ 6,291,593	\$ 54,542,945	\$ 54,684,980

See notes to financial statements

Graham Windham

Statement of Cash Flows Year Ended June 30, 2016 (with comparative amounts for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (248,499)	\$ 933,732
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	553,969	504,491
Donation of stock	(459,468)	(332,041)
Realized and unrealized gain on investments	(97,839)	(148,192)
Straight-line rent adjustment	339,662	-
Deferred lease incentive amortization	(25,761)	-
Changes in operating assets and liabilities		
Public maintenance receivables	1,408,072	362,536
Other receivables and prepaid expenses	448,997	(913,291)
Accounts payable and accrued expenses	289,278	(127,982)
Deferred lease liabilities	719,800	-
Due to governments	(743,281)	943,270
Net Cash from Operating Activities	<u>2,184,930</u>	<u>1,222,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,815,223)	(362,811)
Purchase of investments	(821,787)	(773,572)
Proceeds from sale of investments	586,339	818,167
Net Cash from Investing Activities	<u>(2,050,671)</u>	<u>(318,216)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	650,000	-
Repayment of debt	(72,003)	(72,004)
Net Cash from Financing Activities	<u>577,997</u>	<u>(72,004)</u>
Net Change in Cash and Cash Equivalents	712,256	832,303
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,138,749</u>	<u>2,306,446</u>
End of year	<u>\$ 3,851,005</u>	<u>\$ 3,138,749</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 56,043	\$ 62,273

See notes to financial statements

Graham Windham

Notes to Financial Statements June 30, 2016 and 2015

1. Organization and Tax Status

General

Graham Windham (the "Agency") is a not-for-profit, nonsectarian voluntary child welfare agency in New York State, providing a range of services and resources to children and their families in the New York metropolitan area. The Agency's purpose is to strive to make a life-altering difference with children, youth and families in full partnership with them and the communities where they live. Graham seeks to ensure that each child we serve has a strong foundation for life: a safe, loving, permanent family and the opportunity and preparation to thrive in school and in the world.

Program Services

The various programs of the Agency are as follows:

Westchester Residential Services:

Operation of the Agency's owned facilities located in Hastings-on-Hudson, New York, providing rehabilitative programs for children who present significant emotional and educational challenges. The programs also include Preparing Youth for Adulthood.

Family Permanency Planning Services include the following programs:

Family Foster Care - Placement and supervision of children with selected foster families. Supplemental programming includes Family Team Conferencing, Aftercare Reinvestment and Foster Parent Support.

Therapeutic and Multidimensional Treatment Family Foster Care - Placement and supervision of children with specially trained foster families and enhanced services.

Preparing Youth for Adulthood - Enhanced services for foster care children ages 14 - 21 to prepare them for independent living after foster care.

Family Success Initiative (including Forever Families and Passport to Parenting) - Provides an array of services that include various approaches to helping parents develop their parenting skill sets and deepen their understanding of child development in a highly supportive environment; parental peer support before, during and following the process of reunification and adoption; improving outcomes for pregnant and parenting teens ages 12 to 21 through workshops, increased access to pre and post-natal services by referrals and play groups.

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Notes to Financial Statements
June 30, 2016 and 2015

1. Organization and Tax Status (*continued*)

Program Services (continued)

Medicaid:

Foster Care Clinics provides medical, clinical and nursing care for all children in the above-mentioned foster care programs. Bridges to Health ("B2H") Waiver Program provides opportunities for strong support of permanency planning and improving the health and well-being of foster children served. These complement but do not duplicate foster care services and include waiver services for children with serious emotional disturbances, children with developmental disabilities and for medically fragile children. All medical costs incurred in non foster care programs are provided for within the specific program.

Family and Community Support Services include the following programs:

Manhattan Mental Health Center - An Article 31 clinic that provides a range of counseling services to youngsters and their families to address mental health issues.

The Beacon Schools, Cornerstone Community Centers and Saturday Night Lights - Provide comprehensive afterschool support services in the form of tutoring, recreation and cultural activities for community students at PS 123 in Manhattan, MS 201 in the Bronx, and the Manhattanville, Lafayette Gardens and Davidson Avenue Community Centers in Harlem, Brooklyn and the Bronx.

Preventive Services - A diverse set of community based programs designed to help families at risk of having a child placed in 24 hour care and address challenges which threaten their stability and safety.

Young Adult Justice Scholars Program ("SLAM") - is an educational and vocational program for court involved youth who are or have been involved with the juvenile justice system. The program serves up to 40 youths between the ages of 16 and 23, and provides direct educational services, vocational assessments and referrals, and peer support services.

Graham SLAM Initiative - Provides children from Graham Windham's various programs with coaching, college and employment readiness, and peer support through youth programming and partnerships with schools, colleges, employers and other service providers.

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Notes to Financial Statements
June 30, 2016 and 2015

1. Organization and Tax Status (*continued*)

Program Services (continued)

Family and Community Support Services include the following program:

Department of Education Community Schools - Provides a struggling school in need of intensive support to improve student outcomes with community school coordination, parent and community engagement, expanded learning and enrichment activities and mental health services.

Supporting Services

Management and General - Direction of the overall affairs of the Agency, including the following: executive, human resources, information technology, policy, planning and performance, fiscal and administrative services.

Fundraising - Activities to secure increased support from the public for the needs of the various programs of the Agency.

Tax Status

The Agency is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a publicly supported organization described in Section 509(a).

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which 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 financial statements and the reported amounts of income and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Asset Presentation

The financial statements report amounts separately by class of net assets as follows:

Unrestricted - consist of resources available for the general support of Agency's operations. Unrestricted net assets may be used at the discretion of Agency's management and Board of Directors.

Graham Windham

Notes to Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

Temporarily restricted - represent amounts restricted by donors for specific activities of the Agency or to be used at some future date. The Agency records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions and investment return are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently restricted - consist of net assets that are subject to donor imposed restrictions that require the Agency to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

Cash and Cash Equivalents

For statement of cash flow purposes, the Agency considers all highly liquid investments with a maturity of ninety days or less, at the time of purchase, to be cash equivalents.

Fair Value Measurements

The Agency follows US GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted market prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuations

Investments are carried at fair value.

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Notes to Financial Statements June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (*continued*)

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Public Maintenance and Contribution Income Recognition

The Agency derives its revenue from, among other sources, cost reimbursement contracts with federal government agencies, New York State and New York City and through contributions received from corporations and individuals.

Public maintenance income from cost reimbursement contracts with the various government agencies is recognized as the expenses associated with each contract are incurred.

Contributions received, including unconditional promises to give, are recognized as income in the period received at their fair values. Contributions are recorded as restricted income 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 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.

Governmentally funded programs are generally subject to audit and, therefore the final operating reimbursement rates may not be determinable until years after the Agency has rendered services. Governmental funding is generally based upon allowable costs, with the excess of allowable cost over reimbursement returnable to the governmental funding agency. The Agency reflects an estimated amount in its financial statements as payable to governmental agencies for underspent interim rates but does not reflect any adjustment for potential disallowances of expenses since management believes that all expenses incurred for such programs should be treated as allowable costs.

Special Events

Revenues received and expenses incurred for special events are recognized in the fiscal year in which the events occur. Expenses incurred for events occurring in the subsequent fiscal year are included in prepaid expenses on the statement of financial position.

Graham Windham

Notes to Financial Statements June 30, 2016 and 2015

2. Summary of Significant Accounting Policies *(continued)*

Property, Plant and Equipment

Property, plant and equipment is stated at cost or, if donated, at the estimated fair value at the date of donation. Costs incurred for repairs and maintenance are charged to expense as incurred. Depreciation and amortization is recognized on a straight line basis over the useful lives of such assets as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Trucks and automobile	4 years
Leasehold improvements	Life of lease or useful life if shorter

Property, plant and equipment purchased through government contracts that remain the property of the funding source or where it is probable that the item will revert back to the grantor are treated as expenses in the year of purchase.

The Agency reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset exceeds its fair value. If such review indicates that the asset is impaired, the asset's carrying amount would be written down to fair value. Management has determined that no impairment adjustment was required for the years ended June 30, 2016 and 2015.

Functional Allocation of Expenses

The costs of providing programs by the Agency have been summarized on a functional basis in the accompanying financial statements. Accordingly, expenses have been charged to program and supporting services based on direct expenses and other specific allocation methods.

Summarized Comparative Information

The statements of activities and functional expenses 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 US GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

The Agency recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition or disclosure. The Agency is no longer subject to examinations by the applicable taxing jurisdictions for tax years prior to fiscal 2013.

Graham Windham

Notes to Financial Statements June 30, 2016 and 2015

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 19, 2016.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Agency to significant concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. At times cash balances held at financial institutions may be in excess of federally insured limits. The Agency has not experienced any losses on its cash deposits.

The Agency provides program services that are covered under various third party payor agreements. Receivables that are due from government agencies for such arrangements, included in public maintenance receivables on the statement of financial position, totaled \$11,719,961 and \$13,136,432 as of June 30, 2016 and 2015. Management believes all these receivables are collectible and accordingly no allowances for uncollectible accounts have been established for fiscal 2016 and 2015. The percentage of the total by third party payor was as follows:

	<u>2016</u>	<u>2015</u>
New York City	86 %	76 %
Medicaid	12	20
Other counties	<u>2</u>	<u>4</u>
	<u>100 %</u>	<u>100 %</u>

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represent a significant concentration of market risk.

4. Unconditional Promises to Give

Other receivables and prepaid expenses include unconditional promises to give and as of June 30, are due to be collected as follows:

	<u>2016</u>	<u>2015</u>
Due in one year or less	\$ 849,250	\$ 821,027
Due in two through five years	<u>150,000</u>	<u>400,000</u>
	<u>\$ 999,250</u>	<u>\$ 1,221,027</u>

As of June 30, 2016, all promises to give receivable are deemed collectable by management.

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Notes to Financial Statements June 30, 2016 and 2015

5. Investments

Investments stated at fair value consist of the following mutual funds as of June 30:

	<u>2016</u>	<u>2015</u>
Domestic Stocks Large Blend Index Fund	\$ 6,471,834	\$ 5,914,423
International Stocks Large Blend Index Fund	1,314,194	1,449,661
Intermediate Term Bond Index Fund	<u>6,662,567</u>	<u>6,291,756</u>
	<u>\$ 14,448,595</u>	<u>\$ 13,655,840</u>

The Agency's investments are reported as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 13,308,214	\$ 12,513,881
Restricted	<u>1,140,381</u>	<u>1,141,959</u>
	<u>\$ 14,448,595</u>	<u>\$ 13,655,840</u>

As of June 30, 2016 and 2015, all of the Agency's investments, bought, sold and held were considered Level 1 investments.

The composition of investment income as reported in the statement of activities for the years ended June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 327,901	\$ 332,868
Realized and unrealized gains	97,839	148,192
Investment fees	<u>(18,024)</u>	<u>(17,239)</u>
	<u>\$ 407,716</u>	<u>\$ 463,821</u>
Operating	\$ 39,074	\$ 26,833
Non-operating	<u>368,642</u>	<u>436,988</u>
	<u>\$ 407,716</u>	<u>\$ 463,821</u>

Graham Windham

Notes to Financial Statements June 30, 2016 and 2015

6. Property, Plant and Equipment

Property, plant and equipment consist of the following as of June 30:

	2016	2015
Land	\$ 144,900	\$ 144,900
Buildings and improvements	10,741,583	10,688,404
Leasehold improvements	3,630,912	3,056,490
Furniture and equipment	3,051,939	3,018,793
Trucks and automobiles	31,400	31,400
Construction in progress	8,500	-
	17,609,234	16,939,987
Accumulated depreciation and amortization	(13,499,326)	(14,091,333)
	<u>\$ 4,109,908</u>	<u>\$ 2,848,654</u>

During fiscal 2016, the Agency disposed of \$1,145,976 of fully depreciated assets.

7. Due to Governments

A New York City ("NYC") foster care audit for fiscal years 2011 and 2012 is currently in progress with the results yet to be determined. A liability to NYC of \$4,826,228 is included in the \$8,105,859 amount due to governments on the accompanying statement of financial position. The remaining balance of \$3,279,631 consists of potential liabilities to governments for non foster care programs. Management believes this estimated liability is adequate.

8. Mortgage and Loans Payable

The Agency has a mortgage loan payable maturing in April 2026. The interest rate for the first rate period ending April 26, 2016 was 7.5% per annum. Interest for the second rate period, which commenced April 27, 2016, was adjusted to 3.7% per annum.

On August 11, 2015, the Agency entered into a \$650,000 loan agreement to help fund the buildout of the new office space (see note 12), which is expected to mature August 2021. The loan is subject to a debt covenant as defined in the loan agreement. The Agency was in compliance with this debt covenant as of June 30, 2016. The interest for the period through August 10, 2016 is subject to a variable rate of interest based on changes in the Index which is the weekly average treasury yield on U.S. Securities adjusted to a constant maturity of five years as made available by the Federal Reserve Board. Commencing August 11, 2016, monthly payments will consist of both interest and principal and the rate will be adjusted to a fixed rate of 1.4% above the Index (2.47%).

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Notes to Financial Statements June 30, 2016 and 2015

8. Mortgage and Loans Payable (*continued*)

Future scheduled principal payments at June 30, 2016 are payable as follows:

	<u>Mortgage</u>	<u>Loan</u>
2017	\$ 72,000	\$ 102,778
2018	72,000	126,183
2019	72,000	129,380
2020	72,000	132,643
2021	72,000	136,017
Thereafter	347,897	22,999
	<u>\$ 707,897</u>	<u>\$ 650,000</u>

9. Portfolio Loan Account

The Agency has a portfolio loan account with Morgan Stanley Smith Barney. The portfolio loan account is a security-based loan agreement that allows the Agency to borrow up to \$2,500,000 or 50 percent of the assets in the account whichever is lower. Interest is charged monthly on all outstanding amounts under this agreement at an interest rate of LIBOR plus 2.25 percent. At June 30, 2016 the available borrowing was \$2,500,000 with no outstanding obligation under this agreement.

10. Union Free School District No. 10

The Agency received payments in fiscal 2016 and 2015 totaling \$83,000 and \$78,120 from the Union Free School District No. 10 (the "School District") for services provided. The cost of these services is included under Westchester Residential Services program expenses in the accompanying financial statements. Certain Agency board members are also on the School Board of the School District.

11. Employee Benefit Plans

The Agency's union employees are covered by a collective bargaining agreement with the 1199 SEIU United Healthcare Workers East (the "Union"), which expires April 30, 2019, and includes participation in the following funds: (A) 1199 SEIU National Benefit Fund for Health and Human Services Employees ("Health Plan"); and, (B) 1199 SEIU Health Care Employees Pension Fund ("Pension Plan"). The Pension Plan is a multi-employer, non-contributory defined benefit pension plan that runs on a calendar year and operates under employer identification number 13-3604862. Separate actuarial information regarding such plan is not made available to the contributing employers by the union administrators or trustees since the plan does not maintain separate records for each reporting unit. According to the latest available information, as of December 31, 2015, the Pension Plan was in the "Green Zone" with a current funded percentage of at least 80%. The Health Plan is a jointly-trusted employee welfare benefit fund which provides health and other benefits to eligible participants employed in the healthcare industry who are covered under collective bargaining agreements and operates under employer identification number 13-1628401.

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Notes to Financial Statements June 30, 2016 and 2015

11. Employee Benefit Plans (*continued*)

The Agency's contributions to the Pension Plan totaled approximately \$366,000 and \$233,000 and its contributions to the Health Plan totaled \$985,000 and \$995,000 for the years ended June 30, 2016 and 2015 and did not exceed more than 5% of the total contributions made to the plans by all contributing employers.

Assets contributed to the multi-employer plans may be used to provide benefits of employment to other participating employers. If a plan employer stops contributing to the plans, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Agency stops participating in the plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Agency makes contributions to a defined contribution pension plan for participating employees. Pension expense was approximately \$854,000 and \$915,000 for the years ended June 30, 2016 and 2015.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$115,000 and \$118,000 for the years ended June 30, 2016 and 2015.

12. Commitments and Contingencies

The Agency maintains several operating leases for office and program facilities and for equipment and automobiles which expire in varying years through 2032. The lease for the Agency's headquarters includes provisions for escalations and sharing of common expenses.

On July 1, 2015, the Agency entered into a new fifteen year lease agreement for the rental of new office space located in Brooklyn, New York and commences December 1, 2015. The new lease agreement provides the Agency with a ten month free rent allowance. The Agency uses the straight-line method to recognize the annual rent expense. The use of the straight-line method results in accelerated recognition of rent expense. At June 30, 2016, the cumulative balance of deferred rent expense totaled \$339,662 and is reflected in deferred lease liabilities in the accompanying statement of financial position. The new lease agreement also provided the Agency with a lease incentive payment of \$719,800 to be applied to the buildout of the new building space. This amount has been deferred and is being amortized over the life of the lease and will be netted against rent expense. At June 30, 2016, the balance of the deferred lease incentive was \$694,039 and is reflected in the accompanying statement of financial position as part of the deferred lease liabilities.

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Notes to Financial Statements June 30, 2016 and 2015

12. Commitments and Contingencies (*continued*)

Aggregate minimum annual rentals for office and program facilities for the years ending June 30, are payable as follows:

2017	\$ 1,148,186
2018	1,233,619
2019	1,246,129
2020	1,012,776
2021	1,012,725
Thereafter	<u>7,101,430</u>
	<u>\$ 12,754,865</u>

In accordance with the new lease agreement, two standby letters of credit are maintained in the amount of \$369,226. These standby letters of credit are held by the landlord and may be presented to the bank by the landlords for collection if the Agency fails to comply with the terms of the lease. A portion of the bond fund included in the Agency's investment portfolio is identified by the bank as specific collateral for this commitment.

Aggregate minimum annual rentals on operating leases for equipment and automobiles for the years ending June 30, are payable as follows:

2017	\$ 244,321
2018	182,429
2019	73,080
2020	32,233
2021	<u>6,224</u>
	<u>\$ 538,287</u>

Rental expense for office and program facilities for the years ended June 30, 2016 and 2015 was \$1,462,683 and \$1,113,979. Rental expense for equipment and automobiles for the years ended June 30, 2016 and 2015 was \$331,415 and \$317,240.

The Agency is involved in various legal proceedings incurred in the normal course of operations. Management believes it has defenses for all such claims and is vigorously defending the actions. In addition, in management's opinion, the ultimate liability for these claims will not be in excess of the Agency's insurance coverage.

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Notes to Financial Statements June 30, 2016 and 2015

13. Economic Dependency

The Agency is licensed by the New York State Office of Children and Family Services ("OCFS") to operate as a child welfare agency. Reimbursement rates for the services provided by the Agency are promulgated by OCFS and payments for such services are received through various governmental agencies. The Agency is economically dependent on these funds to continue operations.

14. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs or purpose as of June 30:

	2016	2015
Westchester Residential Services	\$ 11,547	\$ 11,074
Family Permanency Planning	457,793	197,109
Family and Community Support	1,348,216	1,681,734
Support Program	2,925	-
	<u>\$ 1,820,481</u>	<u>\$ 1,889,917</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses for the following programs or purposes during the years ended June 30 as follows:

	2016	2015
Westchester Residential Services	\$ 58,000	\$ 15,000
Family Permanency Planning	376,676	323,190
Family and Community Support	1,256,384	549,977
General Support	-	45,000
Time Restriction	20,255	14,641
	<u>\$ 1,711,315</u>	<u>\$ 947,808</u>

15. Endowment Funds

The Agency maintains assets that are limited in their use by donor-imposed restrictions and restricted for investment in perpetuity. The income and gains from investment of these funds are available to support the operations and various programs of the Agency.

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Notes to Financial Statements June 30, 2016 and 2015

15. Endowment Funds (*continued*)

Interpretation of Relevant Law

The Board of the Agency has interpreted New York Prudent Management of Institutional Funds Act ("NYPMIFA") as allowing the Agency to appropriate for expenditures or accumulate so much of the donor-restricted endowment fund as the Agency determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donors as expressed in their gift instruments except in those cases where the law allows appropriation for spending of the original gift amounts. The assets in the endowment funds shall be donor-restricted assets until appropriated for expenditure by the Board. Unless authorized by the Board, the appropriations from the endowment fund should not deplete the historical dollar value of the endowment fund.

Changes in donor-restricted endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2014	\$ 921	\$ 1,124,390	\$ 1,125,311
Interest and dividends	18,354	-	18,354
Advisory fees	(3,054)	-	(3,054)
Realized gains	-	40,697	40,697
Unrealized gains	-	(23,128)	(23,128)
Appropriation for expenditure	(14,641)	-	(14,641)
Balance, June 30, 2015	1,580	1,141,959	1,143,539
Interest and dividends	29,170	254	29,424
Advisory fees	(3,224)	-	(3,224)
Realized gains	-	3,731	3,731
Unrealized loss	-	(5,563)	(5,563)
Appropriation for expenditure	(20,255)	-	(20,255)
Balance, June 30, 2016	<u>\$ 7,271</u>	<u>\$ 1,140,381</u>	<u>\$ 1,147,652</u>

Investment Policy, Return Objective and Risk Parameters

The Agency utilizes a total return investment approach with its asset allocation diversified over multiple asset classes. Target allocation percentages are established for various asset classes and are modified over time. Performance is measured against a composite benchmark of investment indices reflecting the target asset allocation.

Spend Policy

The Agency's spending policy is to use only interest and dividends earned on the endowment funds, per donor stipulation.

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