

Graham Windham

Financial Statements

June 30, 2014

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, 2014, 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.

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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, 2014 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

November 13, 2014

Graham Windham

Statement of Financial Position
June 30, 2014
(with comparative amounts at June 30, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 2,306,446	\$ 2,077,937
Public maintenance receivables	14,131,311	15,666,945
Other accounts receivable and prepaid expenses	1,040,070	710,792
Investments	12,095,812	10,624,261
Property, plant and equipment, net	2,990,334	3,811,130
Restricted investments	1,124,390	978,806
	<u>\$ 33,688,363</u>	<u>\$ 33,869,871</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 8,461,893	\$ 8,217,433
Due to governments	7,905,870	10,404,285
Mortgage payable	851,904	923,904
Total Liabilities	<u>17,219,667</u>	<u>19,545,622</u>
 Net Assets		
Unrestricted	14,774,878	13,191,093
Temporarily restricted	569,428	154,350
Permanently restricted	1,124,390	978,806
Total Net Assets	<u>16,468,696</u>	<u>14,324,249</u>
	<u>\$ 33,688,363</u>	<u>\$ 33,869,871</u>

See notes to financial statements

Graham Windham

Statement of Activities Year Ended June 30, 2014 (with summarized totals for the year ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
OPERATING INCOME					
Public Support					
Public maintenance income	\$ 52,195,806	\$ -	\$ -	\$ 52,195,806	\$ 56,408,653
Contributions and grants	230,587	823,548	-	1,054,135	524,401
Special events, net of direct costs of \$250,080 and \$204,739	<u>1,428,645</u>	<u>-</u>	<u>-</u>	<u>1,428,645</u>	<u>1,077,138</u>
Total Public Support	53,855,038	823,548	-	54,678,586	58,010,192
Program service fees and other	34,974	-	-	34,974	198,385
Revenue from UFSD No. 10	88,062	-	-	88,062	87,921
Interest income	11,199	21,115	-	32,314	33,184
Net assets released from restrictions	<u>429,585</u>	<u>(429,585)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Income	<u>54,418,858</u>	<u>415,078</u>	<u>-</u>	<u>54,833,936</u>	<u>58,329,682</u>
OPERATING EXPENSES					
Program services	48,131,446	-	-	48,131,446	51,944,424
Management and general	4,986,610	-	-	4,986,610	5,370,728
Fundraising	<u>632,794</u>	<u>-</u>	<u>-</u>	<u>632,794</u>	<u>605,279</u>
Total Operating Expenses	<u>53,750,850</u>	<u>-</u>	<u>-</u>	<u>53,750,850</u>	<u>57,920,431</u>
Excess of Operating Income Over Operating Expenses	668,008	415,078	-	1,083,086	409,251
NON OPERATING INCOME (EXPENSES)					
Investment income	1,472,553	-	145,584	1,618,137	891,367
Loss on abandoned project	<u>(556,776)</u>	<u>-</u>	<u>-</u>	<u>(556,776)</u>	<u>-</u>
Change in Net Assets	1,583,785	415,078	145,584	2,144,447	1,300,618
NET ASSETS					
Beginning of year	<u>13,191,093</u>	<u>154,350</u>	<u>978,806</u>	<u>14,324,249</u>	<u>13,023,631</u>
End of year	<u>\$ 14,774,878</u>	<u>\$ 569,428</u>	<u>\$ 1,124,390</u>	<u>\$ 16,468,696</u>	<u>\$ 14,324,249</u>

See notes to financial statements

Graham Windham

Statement of Functional Expenses Year Ended June 30, 2014 (with summarized totals for the year ended June 30, 2013)

	Program Services					Supporting Services				
	Westchester Residential Services	Permanency Planning	Medicaid	Family Community Support	Total	Management and General	Fundraising	Total	2014 Total	2013 Total
PERSONNEL										
Salaries	\$ 6,473,169	\$ 7,038,747	\$ 5,847,477	\$ 3,218,248	\$ 22,577,641	\$ 2,698,571	\$ 425,872	\$ 3,124,443	\$ 25,702,084	\$ 26,797,398
Employee benefits and payroll taxes	2,628,947	2,132,613	1,614,440	907,528	7,283,528	779,769	122,364	902,133	8,185,661	8,931,564
CARE AND MAINTENANCE										
Food	442,689	514	-	12,765	455,968	-	-	-	455,968	530,128
Clothing	84,620	615,611	-	54	700,285	-	-	-	700,285	758,961
Travel and workers expense	84,503	174,541	61,425	60,187	380,656	2,899	1,324	4,223	384,879	426,152
Allowances and recreation	220,998	192,038	1,265	111,560	525,861	-	14,801	14,801	540,662	577,666
Medicine and medical supplies	-	-	518,039	477	518,516	-	-	-	518,516	606,321
Boarding payments to foster parents	331,208	7,008,722	-	-	7,339,930	-	-	-	7,339,930	9,137,198
PROFESSIONAL FEES										
Health services	-	-	1,943,736	111,547	2,055,283	-	-	-	2,055,283	1,696,406
Audit, legal and consultants	64,524	332,543	9,332	-	406,399	209,383	-	209,383	615,782	468,448
Purchased services	224,239	434,583	110,966	205,739	975,527	326,540	27	326,567	1,302,094	1,497,471
STAFF										
Staff development and conference	14,753	51,003	20,209	16,953	102,918	34,546	3,723	38,269	141,187	136,379
FIXED CHARGES, SERVICES AND EQUIPMENT										
Rent	-	358,386	192,637	146,704	697,727	361,910	23,937	385,847	1,083,574	1,039,325
Utilities	352,581	100,751	105,288	31,540	590,160	44,165	2,891	47,056	637,216	643,588
Repairs and maintenance	431,944	385,580	226,684	109,858	1,154,066	60,864	5,403	66,267	1,220,333	1,253,467
Telephone	44,618	67,059	78,502	73,950	264,129	53,904	4,484	58,388	322,517	306,022
Insurance	189,264	133,006	108,938	57,719	488,927	49,943	7,287	57,230	546,157	573,854
Postage	11,123	34,534	11,346	14,507	71,510	18,781	3,120	21,901	93,411	107,817
Equipment rental	108,140	71,451	40,013	30,356	249,960	30,639	2,972	33,611	283,571	300,531
Supplies and equipment	211,610	89,472	59,720	68,560	429,362	44,357	3,991	48,348	477,710	999,797
Dues, licenses and permits	7,545	8,467	18,865	7,414	42,291	123,127	4,160	127,287	169,578	109,749
Subscriptions and publications	547	-	-	44	591	401	229	630	1,221	3,393
Depreciation and amortization	254,384	139,873	96,612	15,207	506,076	34,496	572	35,068	541,144	606,620
Property taxes	54,946	33,126	16,640	24,070	128,782	30,188	1,996	32,184	160,966	124,327
Administrative	35,254	35,069	29,284	18,006	117,613	82,127	3,641	85,768	203,381	214,995
Interest	-	38,367	24,826	4,547	67,740	-	-	-	67,740	72,854
Total Expenses	\$ 12,271,606	\$ 19,476,056	\$ 11,136,244	\$ 5,247,540	\$ 48,131,446	\$ 4,986,610	\$ 632,794	\$ 5,619,404	\$ 53,750,850	\$ 57,920,431

See notes to financial statements

Graham Windham

Statement of Cash Flows Year Ended June 30, 2014 (with comparative amounts for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,144,447	\$ 1,300,618
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	541,144	606,620
Loss on abandoned project	556,776	-
Donation of stock	(348,311)	(86,438)
Realized and unrealized gain on investments	(1,364,690)	(606,879)
Changes in operating assets and liabilities		
Public maintenance receivables	1,535,634	(245,061)
Other accounts receivable and prepaid expenses	(329,278)	30,740
Accounts payable and accrued expenses	244,460	(1,207,638)
Due to governments	<u>(2,498,415)</u>	<u>(609,783)</u>
Net Cash from Operating Activities	<u>481,767</u>	<u>(817,821)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(277,124)	(405,726)
Purchase of investments	(271,991)	(368,572)
Proceeds from sale of investments	<u>367,857</u>	<u>346,840</u>
Net Cash from Investing Activities	<u>(181,258)</u>	<u>(427,458)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt	<u>(72,000)</u>	<u>(72,000)</u>
Net Change in Cash and Cash Equivalents	228,509	(1,317,279)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,077,937</u>	<u>3,395,216</u>
End of year	<u><u>\$ 2,306,446</u></u>	<u><u>\$ 2,077,937</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 67,740	\$ 72,854

See notes to financial statements

Graham Windham

Notes to Financial Statements

June 30, 2014

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 meet the needs of economically deprived, abused, neglected, and emotionally disturbed children and to support, preserve and strengthen families with children at risk.

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 and the Westchester based Therapeutic Foster Boarding Home.

Family Permanency Planning Services include the following programs:

Foster Boarding Homes - 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 Foster Boarding Homes - 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.

Forever Families - Provide parents with peer support before, during and following the process of reunification or adoption.

Medicaid:

Foster Care Clinics provided 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.

Graham Windham

Notes to Financial Statements

June 30, 2014

1. Organization and Tax Status (*continued*)

Program Services (continued)

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 - Provide comprehensive 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 at the Manhattanville Community Center in Harlem.

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

Passport to Parenting Program - works with pregnant or parenting teens in the child welfare system to improve the health, educational, vocational, and self-efficacy outcomes for parent and child. This program is a collaboration between Graham Windham, Forestdale and Inwood House.

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.

Family Success Initiative - Provides various approaches to helping parents develop their parenting skill sets and deepen their understanding in a highly supportive environment.

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).

Graham Windham

Notes to Financial Statements June 30, 2014

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. Unrestricted amounts are those currently available at the discretion of the board for use in the Agency's operations and those resources invested in property, plant and equipment. Temporarily restricted amounts are those which are stipulated by the donors for specific operating purposes or for the acquisition of equipment. Permanently restricted amounts are those which are established by donor restricted gifts and bequests to provide a permanent endowment. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

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.

Graham Windham

Notes to Financial Statements June 30, 2014

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, 2014

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 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.

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, 2013 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 audits by the applicable taxing jurisdictions for tax years prior to fiscal 2011.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

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Notes to Financial Statements June 30, 2014

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 November 13, 2014.

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 \$13,656,464 and \$15,113,438 as of June 30, 2014 and 2013. Management believes all receivables are collectible and accordingly no allowances for uncollectible accounts have been established for 2014 and 2013. The percentage of the total by third party payor was as follows:

	<u>2014</u>	<u>2013</u>
New York City	76 %	70 %
Medicaid	20	24
Other counties	4	5
New York State	-	1
	<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. Investments

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

	<u>2014</u>	<u>2013</u>
Domestic Stocks Large Blend Index Fund	\$ 5,980,465	\$ 4,801,843
International Stocks Large Blend Index Fund	1,104,876	905,975
Intermediate Term Bond Index Fund	6,134,861	5,895,249
	<u>\$ 13,220,202</u>	<u>\$ 11,603,067</u>

Graham Windham

Notes to Financial Statements June 30, 2014

4. Investments *(continued)*

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

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 12,095,812	\$ 10,624,261
Restricted	<u>1,124,390</u>	<u>978,806</u>
	<u>\$ 13,220,202</u>	<u>\$ 11,603,067</u>

As of June 30, 2014 and 2013, 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>2014</u>	<u>2013</u>
Interest and dividends	\$ 296,135	\$ 322,617
Realized and unrealized gains	1,364,690	606,879
Investment fees	<u>(19,277)</u>	<u>(17,156)</u>
	<u>\$ 1,641,548</u>	<u>\$ 912,340</u>
Operating	\$ 23,411	\$ 20,973
Non-operating	<u>1,618,137</u>	<u>891,367</u>
	<u>\$ 1,641,548</u>	<u>\$ 912,340</u>

5. Property, Plant and Equipment

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

	<u>2014</u>	<u>2013</u>
Land	\$ 144,900	\$ 144,900
Buildings and improvements	10,515,930	10,238,747
Furniture and equipment	2,863,453	2,843,512
Leasehold improvements	3,036,443	3,036,443
Trucks and automobiles	<u>16,450</u>	<u>16,450</u>
	16,577,176	16,280,052
Construction in progress	<u>-</u>	<u>576,776</u>
	16,577,176	16,856,828
Accumulated depreciation and amortization	<u>(13,586,842)</u>	<u>(13,045,698)</u>
	<u>\$ 2,990,334</u>	<u>\$ 3,811,130</u>

Graham Windham

Notes to Financial Statements

June 30, 2014

5. Property, Plant and Equipment (*continued*)

During the year ended June 30, 2014, the Agency determined that \$556,776 of construction in progress related to the Graham School Campus Master Plan should be written off since the project was discontinued and any such related costs were deemed non salvageable.

6. 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 \$4,810,241 is included in the \$7,905,870 on the accompanying statement of financial position. The remaining balance of \$3,095,629 consists of potential liabilities to governments for non foster care programs. Management believes this estimated liability is adequate.

7. Mortgage Payable

The Agency has a mortgage loan payable maturing in April 2026. The interest rate for the first rate period ending April 26, 2016 is 7.5%. Interest for the second rate period (April 27, 2016 through April 26, 2026) will adjust to that rate which is equal to 1.80% per annum above the "Index" (the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of ten years as made available by the Federal Reserve Board) in effect forty-five days prior to April 26, 2016. Future scheduled principal payments at June 30, 2014 are payable as follows:

2015	\$ 72,000
2016	72,000
2017	72,000
2018	72,000
2019	72,000
Thereafter	<u>491,904</u>
	<u>\$ 851,904</u>

8. 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. Interest is charged monthly on all outstanding amounts under this agreement at an interest rate of LIBOR plus 2.25 percent. At June 30, 2014 the available borrowing was \$2,500,000 with no outstanding obligation under this agreement.

Graham Windham

Notes to Financial Statements

June 30, 2014

9. Union Free School District No. 10

The Agency received payments in fiscal 2014 totaling \$88,062 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.

10. Employee Benefit Plans

The Agency's union employees are covered by a collective bargaining agreement with the 1199SEIU United Healthcare Workers East (the 'Union'), which expires April 30, 2015, 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 July 21, 2014, 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.

The Agency's contributions to the Pension Plan totaled approximately \$465,000 and \$380,000 and its contributions to the Health Plan totaled \$953,000 and \$928,000 for the years ended June 30, 2014 and 2013.

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 \$914,000 and \$992,000 for the years ended June 30, 2014 and 2013.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$106,000 and \$110,000 for the years ended June 30, 2014 and 2013.

Graham Windham

Notes to Financial Statements June 30, 2014

11. 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 March 2022. The lease for the Agency's headquarters includes provisions for escalations and sharing of common expenses. Aggregate minimum annual rentals for office and program facilities for the years ending June 30, are payable as follows:

2015	\$ 1,077,372
2016	1,057,719
2017	715,280
2018	658,883
2019	536,162
Thereafter	<u>1,208,364</u>
	<u>\$ 5,253,780</u>

In accordance with a lease agreement, a standby letter of credit is maintained in the amount of \$59,000. This standby letter of credit is held by the landlord and may be presented to the bank by the landlord 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:

2015	\$ 227,408
2016	163,434
2017	88,853
2018	41,415
2019	<u>19,163</u>
	<u>\$ 540,273</u>

Rental expense for office and program facilities for the years ended June 30, 2014 and 2013 was \$1,083,574 and \$1,039,325. Rental expense for equipment and automobiles for the years ended June 30, 2014 and 2013 was \$283,571 and \$300,531.

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. It is the opinion of management that the probable resolution of such proceedings will not materially affect the financial position, results of operations or cash flows of the Agency.

Graham Windham

Notes to Financial Statements

June 30, 2014

12. Economic Dependency

The Agency is licensed by the New York State Office of Children and Family Services 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.

13. Temporarily Restricted Net Assets

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

	2014	2013
Westchester Residential Services	\$ 11,074	\$ 46,502
Family Permanency Planning	276,721	59,408
Family and Community Support	277,893	48,440
Support Program	3,740	-
	<u>\$ 569,428</u>	<u>\$ 154,350</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:

	2014	2013
Westchester Residential Services	\$ 45,429	\$ 376,597
Family Permanency Planning	116,365	118,807
Family and Community Support	242,467	22,560
General Support	5,130	-
Time Restriction	20,194	20,973
	<u>\$ 429,585</u>	<u>\$ 538,937</u>

14. 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.

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.

Graham Windham

Notes to Financial Statements June 30, 2014

14. Endowment Funds (*continued*)

Changes in donor-restricted endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2012	\$ -	\$ 890,353	\$ 890,353
Interest and dividends	23,845	-	23,845
Advisory fees	(2,872)	-	(2,872)
Realized gains	-	35,056	35,056
Unrealized gains	-	53,397	53,397
Appropriation for expenditure	(20,973)	-	(20,973)
Balance, June 30, 2013	-	978,806	978,806
Interest and dividends	24,144	-	24,144
Advisory fees	(3,029)	-	(3,029)
Realized gains	-	182	182
Unrealized gains	-	145,402	145,402
Appropriation for expenditure	(20,194)	-	(20,194)
Balance, June 30, 2014	\$ 921	\$ 1,124,390	\$ 1,125,311

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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