Graham Windham

Financial Statements

June 30, 2018

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, 2018, 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, 2018 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 6, 2018

Graham Windham

Statement of Financial Position
June 30, 2018
(with comparative amounts at June 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,870,657	$ 3,498,885
Public maintenance receivables	15,370,910	12,460,412
Other receivables and prepaid expenses	2,506,181	2,047,821
Investments	12,541,574	12,932,636
Property, plant and equipment, net	3,789,497	3,860,748
Restricted investments	1,314,001	1,247,805
	$ 38,392,820	$ 36,048,307
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 9,048,648	$ 7,992,070
Deferred lease liabilities	1,145,787	1,167,045
Due to governments	8,034,192	7,828,279
Mortgage and loans payable	2,002,466	1,183,116
Total Liabilities	20,231,093	18,170,510
Net Assets		
Unrestricted	15,549,885	14,818,331
Temporarily restricted	1,297,841	1,811,661
Permanently restricted	1,314,001	1,247,805
Total Net Assets	18,161,727	17,877,797
	$ 38,392,820	$ 36,048,307

See notes to financial statements

Graham Windham

Statement of Activities
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING INCOME					
Public Support					
Public maintenance income	$ 50,429,621	$ -	$ -	$ 50,429,621	$ 47,471,450
Contributions and grants	795,456	1,763,401	-	2,558,857	3,182,572
Special events, net of direct costs of $283,059 and $300,337	1,381,149	-	-	1,381,149	1,091,328
Total Public Support	52,606,226	1,763,401	-	54,369,627	51,745,350
Program service fees and other	48,391	-	-	48,391	42,793
Revenue from UFSD No. 10	95,646	-	-	95,646	90,374
Interest income	19,151	26,610	-	45,761	42,399
Net assets released from restrictions	2,303,831	(2,303,831)	-	-	-
Total Operating Income	55,073,245	(513,820)	-	54,559,425	51,920,916
OPERATING EXPENSES					
Program services	48,374,749	-	-	48,374,749	46,324,804
Management and general	6,070,267	-	-	6,070,267	5,532,234
Fundraising	640,310	-	-	640,310	576,046
Total Operating Expenses	55,085,326	-	-	55,085,326	52,433,084
Deficiency of Operating Income Over Operating Expenses	(12,081)	(513,820)	-	(525,901)	(512,168)
NON OPERATING ACTIVITY					
Investment income	743,635	-	66,196	809,831	1,236,036
Change in Net Assets	731,554	(513,820)	66,196	283,930	723,868
NET ASSETS					
Beginning of year	14,818,331	1,811,661	1,247,805	17,877,797	17,153,929
End of year	$ 15,549,885	$ 1,297,841	$ 1,314,001	$ 18,161,727	$ 17,877,797

See notes to financial statements

Graham Windham

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	Program Services					Supporting Services				
	Westchester Residential Services	Foster Care and Preventitive Services	Medicaid	Family and Community Support Services	Total	Management and General	Fundraising	Total	2018 Total	2017 Total
PERSONNEL										
Salaries	$ 6,269,518	$ 8,356,231	$ 5,127,108	$ 4,096,608	$ 23,849,465	$ 3,368,360	$ 311,494	$ 3,679,854	$ 27,529,319	$ 26,142,283
Employee benefits and payroll taxes	2,502,210	2,587,961	1,489,471	1,088,689	7,668,331	1,022,215	93,869	1,116,084	8,784,415	8,249,306
CARE AND MAINTENANCE										
Food	459,422	1,694	243	43,259	504,618	-	488	488	505,106	537,858
Clothing	72,869	535,161	-	392	608,422	-	-	-	608,422	539,729
Travel and workers expense	80,718	172,273	36,033	113,954	402,978	5,605	926	6,531	409,509	406,264
Allowances and recreation	230,038	216,341	30,966	427,200	904,545	-	31,356	31,356	935,901	934,687
Medicine and medical supplies	-	-	237,245	-	237,245	-	-	-	237,245	359,473
Boarding payments to foster parents	31,313	6,053,957	-	-	6,085,270	-	-	-	6,085,270	5,805,630
PROFESSIONAL FEES										
Health services	-	-	1,429,717	77,924	1,507,641	-	-	-	1,507,641	1,375,806
Audit, legal and consultants	31,451	268,671	-	213	300,335	141,409	79,358	220,767	521,102	376,572
Purchased services	59,996	218,739	45,982	126,252	450,969	250,489	2,092	252,581	703,550	1,083,941
STAFF										
Staff development and conference	70,697	42,583	29,075	31,339	173,694	53,827	5,756	59,583	233,277	187,929
FIXED CHARGES, SERVICES AND EQUIPMENT										
Rent	-	495,395	116,334	158,636	770,365	482,215	40,810	523,025	1,293,390	1,260,350
Utilities	292,019	117,878	77,535	24,200	511,632	34,553	2,863	37,416	549,048	584,849
Repairs and maintenance	352,640	681,599	227,434	444,304	1,705,977	54,374	4,191	58,565	1,764,542	1,328,475
Telephone	61,777	75,411	37,264	47,849	222,301	27,705	1,607	29,312	251,613	261,288
Insurance	241,884	204,071	128,591	93,821	668,367	79,478	7,240	86,718	755,085	711,604
Postage	6,870	26,394	5,586	15,079	53,929	28,996	2,369	31,365	85,294	82,688
Equipment rental	119,715	104,115	50,474	29,356	303,660	36,154	2,065	38,219	341,879	323,114
Supplies and equipment	212,084	327,189	47,719	120,170	707,162	67,397	7,861	75,258	782,420	632,897
Dues, licenses and permits	2,954	7,861	9,486	7,034	27,335	152,179	5,874	158,053	185,388	130,102
Subscriptions and publications	-	-	-	60	60	450	-	450	510	2,657
Depreciation and amortization	187,877	127,933	69,260	19,831	404,901	117,137	9,210	126,347	531,248	575,772
Taxes	28,897	48,678	17,492	20,837	115,904	26,081	130	26,211	142,115	124,269
Administrative	36,125	72,471	31,266	27,200	167,062	92,756	29,799	122,555	289,617	355,831
Interest	-	14,349	6,388	1,844	22,581	28,887	952	29,839	52,420	59,710
Total Expenses	$ 11,351,074	$ 20,756,955	$ 9,250,669	$ 7,016,051	$ 48,374,749	$ 6,070,267	$ 640,310	$ 6,710,577	$ 55,085,326	$ 52,433,084

See notes to financial statements

Graham Windham

Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 283,930	$ 723,868
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	531,248	575,772
Donation of stock	(438,497)	(322,091)
Realized and unrealized gain on investments	(517,622)	(953,437)
Straight-line rent adjustment	24,203	178,805
Deferred lease incentive amortization	(45,461)	(45,461)
Changes in operating assets and liabilities		
Public maintenance receivables	(2,910,498)	(86,275)
Other receivables and prepaid expenses	(458,360)	(556,891)
Accounts payable and accrued expenses	1,056,578	(631,119)
Due to governments	205,913	(277,580)
Net Cash from Operating Activities	(2,268,566)	(1,394,409)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(459,997)	(326,612)
Purchase of investments	(1,896,293)	(301,676)
Proceeds from sale of investments	3,177,278	1,845,358
Net Cash from Investing Activities	820,988	1,217,070
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from portfolio loan	1,017,533	1,018,637
Repayment of portfolio loan	-	(1,018,637)
Repayment of debt	(198,183)	(174,781)
Net Cash from Financing Activities	819,350	(174,781)
Net Change in Cash and Cash Equivalents	(628,228)	(352,120)
CASH AND CASH EQUIVALENTS		
Beginning of year	3,498,885	3,851,005
End of year	$ 2,870,657	$ 3,498,885
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 52,420	$ 59,710

See notes to financial statements

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 Windham seeks to ensure that each child served 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.

Foster Care and Preventive Services include the following programs:

Family Foster Care - Placement and supervision of children with selected foster families. Supplemental programming includes Family Team Conferencing, Foster Care Waiver for caseload reduction purposes and Preventive Waiver for Aftercare Support.

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.

Therapeutic 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.

Medicaid:

Foster Care Clinics and the Health Home program provide 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.

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, 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 Bronx, and the Manhattanville Community Centers in Harlem.

The Family Enrichment Center in Hunts Point is aimed at providing help to stressed families before they come to the attention of the child welfare or justice systems. Family Enrichment Centers use a community organizing, family-centered and customer-service oriented approach to help families identify their needs and use their own strengths and the strength of their community to support each other and create meaningful lasting solutions.

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.

Family Success Initiative (including Forever Families and Visit Coaching) - 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.

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.

1. Organization and Tax Status *(continued)*

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 the Agency's operations. Unrestricted net assets may be used at the discretion of the Agency's management and Board of Directors.

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.

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

Net Asset Presentation (continued)

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.

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, New York State, New York City and other counties' government agencies, 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.

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

Public Maintenance and Contribution Income Recognition (continued)

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 due to governments 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.

An estimated allowance for doubtful accounts is provided when necessary based on management's assessment of collectability on a pledge-by-pledge and contract-by-contract basis.

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 other receivables and prepaid expenses on the statement of financial position.

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.

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

Property, Plant and Equipment (continued)

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, 2018 and 2017.

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 or functional classification. 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 as of and for the year ended June 30, 2017 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 2015.

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 6, 2018.

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.

3. Concentration of Credit Risk *(continued)*

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 $14,887,676 and $12,010,552 as of June 30, 2018 and 2017. Management believes all these receivables are collectible and accordingly no allowances for uncollectible accounts have been established for fiscal 2018 and 2017. The percentage of the total by third party payor was as follows:

	2018	2017
New York City	82 %	80 %
Medicaid	15	18
Other counties	3	2
	100 %	100 %

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 in the accompanying statement of financial position include unconditional promises to give, and as of June 30, are due to be collected as follows:

	2018	2017
Due in one year or less	$ 1,368,681	$ 1,086,272
Due in two through five years	-	360,000
	$ 1,368,681	$ 1,446,272

As of June 30, 2018, all promises to give receivable are deemed collectable by management.

5. Loan Receivable

On June 11, 2018, the Agency issued a loan to Greenburgh Graham Free School District for $500,000, at 3.25% plus the 30 day LIBOR rate, payable December 1, 2018. At June 30, 2018, $500,963 is outstanding and is included in other receivables and prepaid expenses on the statement of financial position.

6. Investments

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

	2018	2017
Domestic Stocks Large Blend Index Fund	$ 5,243,798	$ 6,169,134
International Stocks Large Blend Index Fund	2,735,191	1,391,621
Intermediate Term Bond Index Fund	5,876,586	6,619,686
	$ 13,855,575	$ 14,180,441

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

	2018	2017
Unrestricted	$ 12,541,574	$ 12,932,636
Restricted	1,314,001	1,247,805
	$ 13,855,575	$ 14,180,441

As of June 30, 2018 and 2017, 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:

	2018	2017
Interest and dividends	$ 357,227	$ 344,075
Realized and unrealized gains	517,622	953,437
Investment fees	(19,257)	(19,077)
	$ 855,592	$ 1,278,435
Operating	$ 45,761	$ 42,399
Non-operating	809,831	1,236,036
	$ 855,592	$ 1,278,435

7. Property, Plant and Equipment

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

	2018	2017
Land	$ 144,900	$ 144,900
Buildings and improvements	10,907,071	10,821,065
Leasehold improvements	3,713,158	3,781,806
Furniture and equipment	3,057,546	3,057,546
Trucks and automobiles	31,400	31,400
Construction in progress	541,770	99,131
	18,395,845	17,935,848
Accumulated depreciation and amortization	(14,606,348)	(14,075,100)
	$ 3,789,497	$ 3,860,748

8. Due to Governments

A New York City ("NYC") foster care audit for fiscal years 2013, 2014 and 2015 are currently in progress with the results yet to be determined. A liability to NYC of $4,882,893 is included in the $8,034,192 amount due to governments in the accompanying statement of financial position at June 30, 2018. The remaining balance of $3,151,299 consists of potential liabilities to governments for non foster care programs. Management believes this estimated liability is adequate.

9. Mortgage and Loans Payable

The Agency has a mortgage loan payable maturing in April 2026. The interest rate for the first rate period which ended 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 leased office space (see note 13), which matures 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 at June 30, 2018. The interest for the period through August 10, 2016 was subject to a variable rate of interest based on changes in the Index, as defined in the loan agreement, which was 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 consist of both interest and principal and the rate was adjusted to a fixed rate of 1.4% above the Index (2.47%).

9. Mortgage and Loans Payable *(continued)*

Future scheduled principal payments at June 30, 2018 are payable as follows:

	Mortgage	Loan
2019	$ 72,000	$ 129,380
2020	72,000	132,643
2021	72,000	136,017
2022	72,000	22,999
2023	72,000	-
Thereafter	203,894	-
	$ 563,894	$ 421,039

10. 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 $3,000,000 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. During the fiscal year ended June 30, 2018 the Agency borrowed approximately $1,000,000 against this account, which was outstanding at June 30, 2018. The total interest expense on the outstanding borrowing amounted to $17,533.

11. Union Free School District No. 10

The Agency received payments in fiscal 2018 and 2017 totaling $95,646 and $90,374 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.

12. 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, 2017, the Pension Plan was in the “Green Zone” with a current funded percentage of at least 80%. The Health Plan is a jointly-trusteed 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.

12. Employee Benefit Plans *(continued)*

The Agency's contributions to the Pension Plan totaled approximately $342,000 and $339,000 and its contributions to the Health Plan totaled $1,033,000 and $1,222,000 for the years ended June 30, 2018 and 2017 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 $1,001,000 and $998,000 for the years ended June 30, 2018 and 2017.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately $124,000 and $138,000 for the years ended June 30, 2018 and 2017.

13. 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 which commenced December 1, 2015. The 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, 2018, the cumulative balance of deferred rent expense totaled $542,670 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, 2018, the balance of the deferred lease incentive was $603,117 and is reflected in the accompanying statement of financial position as part of the deferred lease liabilities.

13. Commitments and Contingencies *(continued)*

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

2019	$ 1,375,984
2020	1,066,776
2021	1,012,725
2022	950,451
2023	632,704
Thereafter	5,518,275
	$ 10,556,915

In accordance with the lease agreements, two standby letters of credit are maintained in the amount of $309,726. 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 savings account held in Citibank is identified 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:

2019	$ 274,797
2020	207,870
2021	110,277
2022	12,802
	$ 605,746

Rental expense for office and program facilities for the years ended June 30, 2018 and 2017 was $1,293,390 and $1,260,350. Rental expense for equipment and automobiles for the years ended June 30, 2018 and 2017 was $341,879 and $323,114.

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.

14. Economic Dependency

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

15. Temporarily Restricted Net Assets

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

	2018	2017
Westchester Residential Services	$ 46,533	$ 45,649
Family Permanency Planning	384,191	289,203
Family and Community Support	863,524	1,472,884
Support Program	3,593	3,925
	$ 1,297,841	$ 1,811,661

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:

	2018	2017
Westchester Residential Services	$ 51,198	$ 12,289
Family Permanency Planning	418,732	579,256
Family and Community Support	1,806,617	1,889,736
General Support	1,833	40,000
Time Restriction	25,451	22,434
	$ 2,303,831	$ 2,543,715

16. 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.

Changes in donor-restricted endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	$ 7,271	$ 1,140,381	$ 1,147,652
Interest and dividends	26,793	167	26,960
Advisory fees	(3,336)	-	(3,336)
Realized gains	-	8,040	8,040
Unrealized gains	-	99,217	99,217
Appropriation for expenditure	(22,434)	-	(22,434)
Balance, June 30, 2017	8,294	1,247,805	1,256,099
Interest and dividends	30,261	308	30,569
Advisory fees	(3,650)	-	(3,650)
Realized gains	-	149,967	149,967
Unrealized losses	-	(84,079)	(84,079)
Appropriation for expenditure	(25,450)	-	(25,450)
Balance, June 30, 2018	$ 9,455	$ 1,314,001	$ 1,323,456

16. Endowment Funds *(continued)*

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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