

Graham Windham

Financial Statements

June 30, 2019

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, 2019, 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, 2019 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Graham Windham adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Graham Windham's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 15, 2020

Graham Windham

Statement of Financial Position
June 30, 2019
(with comparative amounts at June 30, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 4,687,541	\$ 2,870,657
Public maintenance receivables	13,172,151	15,370,910
Other receivables and prepaid expenses	5,060,759	2,506,181
Investments	13,445,988	12,541,574
Property, plant and equipment, net	3,484,111	3,789,497
Restricted investments	1,370,189	1,314,001
	<u>\$ 41,220,739</u>	<u>\$ 38,392,820</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 8,640,837	\$ 9,048,648
Deferred lease liabilities	1,124,528	1,145,787
Due to governments	9,014,033	8,034,192
Mortgage and loans payable	1,780,431	2,002,466
Total Liabilities	<u>20,559,829</u>	<u>20,231,093</u>
Net Assets		
Without donor restrictions	<u>14,393,596</u>	<u>15,549,885</u>
With Donor Restrictions		
Temporary in nature	4,897,125	1,297,841
Permanent in nature	1,370,189	1,314,001
Total With Donor Restrictions	<u>6,267,314</u>	<u>2,611,842</u>
Total Net Assets	<u>20,660,910</u>	<u>18,161,727</u>
	<u>\$ 41,220,739</u>	<u>\$ 38,392,820</u>

See notes to financial statements

Graham Windham

Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

		With Donor Restrictions				
	Without Donor Restrictions	Temporary in Nature	Permanent in Nature	Total With Donor Restrictions	2019 Total	2018 Total
OPERATING INCOME						
Public Support						
Public maintenance income	\$ 49,393,795	\$ -	\$ -	\$ -	\$ 49,393,795	\$ 50,429,621
Contributions and grants	648,449	5,211,026	-	5,211,026	5,859,475	2,558,857
Special events, net of direct costs of \$317,456 and \$283,059	1,639,079	308,730	-	308,730	1,947,809	1,381,149
Total Public Support	51,681,323	5,519,756	-	5,519,756	57,201,079	54,369,627
Program service fees and other	137,933	-	-	-	137,933	48,391
Revenue from UFSD No. 10	95,646	-	-	-	95,646	95,646
Interest income	20,738	29,269	-	29,269	50,007	45,761
Net assets released from restrictions	1,949,741	(1,949,741)	-	(1,949,741)	-	-
Total Operating Income	53,885,381	3,599,284	-	3,599,284	57,484,665	54,559,425
OPERATING EXPENSES						
Program services	48,707,405	-	-	-	48,707,405	48,374,749
Management and general	6,261,320	-	-	-	6,261,320	6,070,267
Fundraising	917,164	-	-	-	917,164	640,310
Total Operating Expenses	55,885,889	-	-	-	55,885,889	55,085,326
Excess (Deficiency) of Operating Income Over Operating Expenses	(2,000,508)	3,599,284	-	3,599,284	1,598,776	(525,901)
NON OPERATING ACTIVITY						
Investment income	844,219	-	56,188	56,188	900,407	809,831
Change in Net Assets	(1,156,289)	3,599,284	56,188	3,655,472	2,499,183	283,930
NET ASSETS						
Beginning of year	15,549,885	1,297,841	1,314,001	2,611,842	18,161,727	17,877,797
End of year	\$ 14,393,596	\$ 4,897,125	\$ 1,370,189	\$ 6,267,314	\$ 20,660,910	\$ 18,161,727

See notes to financial statements

Graham Windham

Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Program Services					Supporting Services			2019 Total	2018 Total
	Westchester Residential Services	Foster Care and Preventive Services	Medicaid	Family and Community Support Services	Total	Management and General	Fundraising	Total		
PERSONNEL										
Salaries	\$ 6,012,167	\$ 8,747,318	\$ 5,897,232	\$ 3,332,543	\$ 23,989,260	\$ 3,416,945	\$ 290,210	\$ 3,707,155	\$ 27,696,415	\$ 27,529,319
Employee benefits and payroll taxes	2,403,048	2,555,441	1,634,929	755,027	7,348,445	969,898	83,524	1,053,422	8,401,867	8,784,415
CARE AND MAINTENANCE										
Food	399,090	1,863	1,906	45,523	448,382	-	1,338	1,338	449,720	505,106
Clothing	57,528	496,366	-	-	553,894	-	-	-	553,894	608,422
Travel and workers expense	64,935	253,093	46,059	100,980	465,067	4,079	841	4,920	469,987	409,509
Allowances and recreation	278,071	222,938	29,874	471,374	1,002,257	-	33,557	33,557	1,035,814	935,901
Medicine and medical supplies	-	-	142,580	-	142,580	-	-	-	142,580	237,245
Boarding payments to foster parents	49,258	6,282,117	-	-	6,331,375	-	-	-	6,331,375	6,085,270
PROFESSIONAL FEES										
Health services	-	-	1,468,913	-	1,468,913	-	-	-	1,468,913	1,507,641
Audit, legal and consultants	60,649	275,643	-	1,670	337,962	145,443	386,328	531,771	869,733	521,102
Purchased services	151,645	415,744	194,602	101,883	863,874	300,403	376	300,779	1,164,653	703,550
STAFF										
Staff development and conference	77,662	90,978	33,816	48,905	251,361	50,760	4,070	54,830	306,191	233,277
FIXED CHARGES, SERVICES AND EQUIPMENT										
Rent	13,621	417,959	199,329	167,625	798,534	486,308	41,293	527,601	1,326,135	1,293,390
Utilities	348,062	100,137	88,307	22,849	559,355	47,097	3,999	51,096	610,451	549,048
Repairs and maintenance	686,844	393,158	202,954	184,374	1,467,330	77,659	4,895	82,554	1,549,884	1,764,542
Telephone	61,437	77,686	46,682	47,435	233,240	24,672	1,512	26,184	259,424	251,613
Insurance	277,435	238,935	162,802	82,772	761,944	86,350	7,429	93,779	855,723	755,085
Postage	8,599	19,808	6,420	11,772	46,599	30,006	2,931	32,937	79,536	85,294
Equipment and vehicle rental	93,406	77,346	43,975	22,966	237,693	33,735	2,188	35,923	273,616	341,879
Supplies and equipment	313,778	158,044	72,568	92,701	637,091	66,957	5,856	72,813	709,904	782,420
Dues, licenses and permits	5,464	5,470	9,580	3,278	23,792	146,307	4,039	150,346	174,138	185,388
Subscriptions and publications	-	-	1,956	-	1,956	310	146	456	2,412	510
Event expenses	-	-	-	-	-	-	317,456	317,456	317,456	283,059
Depreciation and amortization	147,829	113,500	83,670	26,026	371,025	122,948	9,388	132,336	503,361	531,248
Taxes	31,723	44,467	40,632	8,729	125,551	54,757	136	54,893	180,444	142,115
Administrative	46,926	105,003	41,944	23,667	217,540	108,942	32,505	141,447	358,987	289,617
Interest	70	12,569	8,263	1,483	22,385	87,744	603	88,347	110,732	52,420
Total Expenses	11,589,247	21,105,583	10,458,993	5,553,582	48,707,405	6,261,320	1,234,620	7,495,940	56,203,345	55,368,385
Less costs with direct benefit to donors	-	-	-	-	-	-	(317,456)	(317,456)	(317,456)	(283,059)
Total Expenses Reported by Function on the Statement of Activities	\$ 11,589,247	\$ 21,105,583	\$ 10,458,993	\$ 5,553,582	\$ 48,707,405	\$ 6,261,320	\$ 917,164	\$ 7,178,484	\$ 55,885,889	\$ 55,085,326

See notes to financial statements

Graham Windham

Statement of Cash Flows Year Ended June 30, 2019 (with comparative amounts for the year ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,499,183	\$ 283,930
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	503,361	531,248
Donation of stock	(341,318)	(438,497)
Realized and unrealized gain on investments	(601,651)	(517,622)
Straight-line rent adjustment	24,202	24,203
Deferred lease incentive amortization	(45,461)	(45,461)
Changes in operating assets and liabilities		
Public maintenance receivables	2,198,759	(2,910,498)
Other receivables and prepaid expenses	(2,554,578)	(458,360)
Accounts payable and accrued expenses	(407,811)	1,056,578
Due to governments	979,841	205,913
Net Cash from Operating Activities	<u>2,254,527</u>	<u>(2,268,566)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(197,975)	(459,997)
Purchase of investments	(341,738)	(1,896,293)
Proceeds from sale of investments	324,105	3,177,278
Net Cash from Investing Activities	<u>(215,608)</u>	<u>820,988</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from portfolio loan	1,000,000	1,017,533
Repayment of portfolio loan	(1,000,000)	-
Repayment of debt	(222,035)	(198,183)
Net Cash from Financing Activities	<u>(222,035)</u>	<u>819,350</u>
Net Change in Cash and Cash Equivalents	1,816,884	(628,228)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,870,657</u>	<u>3,498,885</u>
End of year	<u>\$ 4,687,541</u>	<u>\$ 2,870,657</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 110,732	\$ 52,420

See notes to financial statements

Graham Windham

Notes to Financial Statements June 30, 2019 and 2018

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.

Graham Windham

Notes to Financial Statements
June 30, 2019 and 2018

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 - 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 struggling schools 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.

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Notes to Financial Statements June 30, 2019 and 2018

1. Organization and Tax Status (*continued*)

Supporting Services

Management and General - Direction of the overall affairs of the Agency, including 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.

Change in Accounting Principle

On July 1, 2018, the Agency adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Agency to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Agency to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements

Net Asset Presentation

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

Net assets without donor restrictions - consist of resources available for the general support of the Agency's operations. Net assets without donor restrictions may be used at the discretion of the Agency's management and Board of Directors.

Graham Windham

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation (continued)

Net assets with donor restrictions - represent amounts restricted by donors for specific activities of the Agency or to be used at some future date. The Agency records contributions as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions also consist of net assets that are subject to donor imposed restrictions that require the Agency to maintain them in perpetuity, 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. These funds are held as endowment fund investments. Income and gains earned on endowment fund investments are available to be used as net assets without donor restrictions or net assets with donor restrictions 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.

Graham Windham

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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.

Contributions received, including unconditional promises to give, are recognized as income in the period received at their fair values. Contributions are recorded as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Graham Windham

Notes to Financial Statements June 30, 2019 and 2018

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

Property, Plant and Equipment

Property, plant and equipment are 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 are 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, 2019 and 2018.

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 on a square footage methodology.

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, 2018 from which the summarized information was derived.

Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform the 2019 presentation.

Graham Windham

Notes to Financial Statements June 30, 2019 and 2018

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

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 2016.

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 January 15, 2020.

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 \$12,970,771 and \$14,887,676 as of June 30, 2019 and 2018. Management believes all these receivables are collectible and accordingly no allowances for uncollectible accounts have been established. The percentage of the total by third party payors was as follows:

	<u>2019</u>	<u>2018</u>
New York City	77 %	82 %
Medicaid	12	15
New York State	9	-
Other counties	<u>2</u>	<u>3</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.

Graham Windham

Notes to Financial Statements June 30, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>
Due in one year or less	\$4,116,935	\$1,368,681
Due in two through five years	<u>220,000</u>	<u>-</u>
	<u><u>\$4,336,935</u></u>	<u><u>\$1,368,681</u></u>

As of June 30, 2019, 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. During the year ended June 30, 2019, the loan was fully repaid, including interest of approximately \$10,000.

6. Investments

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

	<u>2019</u>	<u>2018</u>
Domestic Stocks Large Blend Index Fund	\$ 5,476,819	\$ 5,243,798
International Stocks Large Blend Index Fund	2,897,232	2,735,191
Intermediate Term Bond Index Fund	6,410,923	5,876,586
Equities	<u>31,203</u>	<u>-</u>
	<u><u>\$ 14,816,177</u></u>	<u><u>\$ 13,855,575</u></u>

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

	<u>2019</u>	<u>2018</u>
Unrestricted	\$ 13,445,988	\$ 12,541,574
Restricted	<u>1,370,189</u>	<u>1,314,001</u>
	<u><u>\$ 14,816,177</u></u>	<u><u>\$ 13,855,575</u></u>

Graham Windham

Notes to Financial Statements June 30, 2019 and 2018

6. Investments *(continued)*

As of June 30, 2019 and 2018, 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:

	2019	2018
Interest and dividends	\$ 368,018	\$ 357,227
Realized and unrealized gains	601,651	517,622
Direct investment fees	(19,255)	(19,257)
	<u>\$ 950,414</u>	<u>\$ 855,592</u>
Operating	\$ 50,007	\$ 45,761
Non-operating	900,407	809,831
	<u>\$ 950,414</u>	<u>\$ 855,592</u>

7. Property, Plant and Equipment

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

	2019	2018
Land	\$ 144,900	\$ 144,900
Buildings and improvements	11,007,191	10,907,071
Leasehold improvements	3,713,158	3,713,158
Furniture and equipment	3,155,401	3,057,546
Trucks and automobiles	31,400	31,400
Construction in progress	541,770	541,770
	18,593,820	18,395,845
Accumulated depreciation and amortization	(15,109,709)	(14,606,348)
	<u>\$ 3,484,111</u>	<u>\$ 3,789,497</u>

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Notes to Financial Statements June 30, 2019 and 2018

8. Due to Governments

A New York City ("NYC") foster care audit for fiscal years 2016 and 2017 is currently in progress with the results yet to be determined. A liability to NYC of \$5,271,156 is included in the \$9,014,033 amount due to governments in the accompanying statement of financial position at June 30, 2019. The total also includes \$1,490,424 of unearned revenue from the NYS Office for Children and Family Services for the Agency's Raise the Age program. The remaining balance of \$2,252,453 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, 2019. 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%).

Future scheduled principal payments at June 30, 2019 are payable as follows:

	<u>Mortgage</u>	<u>Loan</u>
2020	\$ 72,000	\$ 132,643
2021	72,000	136,017
2022	72,000	22,999
2023	72,000	-
2024	72,000	-
Thereafter	131,836	-
	<u>\$ 491,836</u>	<u>\$ 291,659</u>

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Notes to Financial Statements June 30, 2019 and 2018

10. Portfolio Loan Account

The Agency has a portfolio loan account with Morgan Stanley. 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, 2019 the available borrowing was \$2,500,000 with \$996,936 outstanding as of year-end. The total interest expense on the outstanding borrowing amounted to \$79,404.

11. Union Free School District No. 10

The Agency received payments in fiscal 2019 and 2018 totaling \$95,646 per year 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"), effective through September 30, 2021, 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, 2018, 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 \$364,000 and \$342,000 and its contributions to the Health Plan totaled \$960,000 and \$1,033,000 for the years ended June 30, 2019 and 2018 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.

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Notes to Financial Statements June 30, 2019 and 2018

12. Employee Benefit Plans *(continued)*

The Agency makes contributions to a defined contribution pension plan for participating employees. Pension expense was approximately \$960,000 and \$1,001,000 for the years ended June 30, 2019 and 2018.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$143,000 and \$124,000 for the years ended June 30, 2019 and 2018.

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, 2019, the cumulative balance of deferred rent expense totaled \$566,873 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, 2019, the balance of the deferred lease incentive was \$557,655 and is reflected in the accompanying statement of financial position as part of the deferred lease liabilities.

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

2020	\$ 1,405,060
2021	1,228,186
2022	1,061,491
2023	632,704
2024	632,704
Thereafter	4,885,571
	<u>\$ 9,845,716</u>

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Notes to Financial Statements June 30, 2019 and 2018

13. Commitments and Contingencies (*continued*)

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 landlords 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:

2020	\$ 221,110
2021	100,406
2022	40,309
2023	5,148
2024	3,848
Thereafter	962
	<u>\$ 371,783</u>

Rental expense for office and program facilities for the years ended June 30, 2019 and 2018 was \$1,326,135 and \$1,293,390. Rental expense for equipment and automobiles for the years ended June 30, 2019 and 2018 was \$273,616 and \$341,879.

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 ("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.

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Notes to Financial Statements June 30, 2019 and 2018

15. Net Assets with Donor Restrictions – Temporary in Nature

Net assets with donor restrictions – temporary in nature, are available for the following programs or purposes as of June 30:

	2019	2018
Westchester Residential Services	\$ 54,251	\$ 46,533
Family Permanency Planning	165,716	384,191
Family and Community Support	1,141,346	863,524
General support	9,812	3,593
Time restriction	3,526,000	-
	<u>\$ 4,897,125</u>	<u>\$ 1,297,841</u>

Net assets with donor restrictions – temporary in nature, were released from donor restrictions by incurring expenses for the following programs or purposes during the years ended June 30 as follows:

	2019	2018
Westchester Residential Services	\$ 130,036	\$ 51,198
Family Permanency Planning	144,184	418,732
Family and Community Support	1,581,777	1,806,617
General support	65,751	1,833
Time restriction	27,993	25,451
	<u>\$ 1,949,741</u>	<u>\$ 2,303,831</u>

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.

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Notes to Financial Statements June 30, 2019 and 2018

16. Endowment Funds *(continued)*

Interpretation of Relevant Law

The Board of the Agency has interpreted the 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, 2019 and 2018 are as follows:

	With Donor Restrictions		
	Temporary in Nature	Permanent in Nature	Total
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
Interest and dividends	32,956	-	32,956
Advisory fees	(3,687)	-	(3,687)
Realized gains	-	17,304	17,304
Unrealized gains	-	38,884	38,884
Appropriation for expenditure	(27,993)	-	(27,993)
Balance, June 30, 2019	<u>\$ 10,731</u>	<u>\$ 1,370,189</u>	<u>\$ 1,380,920</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.

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Notes to Financial Statements June 30, 2019 and 2018

16. Endowment Funds (*continued*)

Spend Policy

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

17. Availability and Liquidity

Financial assets available for general expenditures within one year of June 30, 2019 are as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 4,687,541
Public maintenance receivables	13,172,151
Other receivables	4,384,241
Investments	13,445,988
Restricted investments	<u>1,370,189</u>
Total Financial Assets	<u>37,060,110</u>
Less: amounts not available to be used within one year	
Net assets with donor restrictions	(6,267,314)
Add: net assets with purpose restrictions to be met	
in less than one year	<u>4,602,125</u>
	<u>(1,665,189)</u>
Financial Assets Available to Meet General Expenditures	
Over the Next Twelve Months	<u><u>\$ 35,394,921</u></u>

The Agency structures its financial assets to be available to meet its general expenditures and obligations as they come due. As part of its liquidity plan, the Agency relies on reimbursements from government contracts and contributions from donors. Additionally, the Agency has a portfolio loan account which it can draw from.

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