

GRAHAM WINDHAM
FINANCIAL STATEMENTS
JUNE 30, 2006



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham Windham

We have audited the accompanying statement of financial position of Graham Windham as of June 30, 2006 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Graham Windham's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Graham Windham's financial statements as of and for the year ended June 30, 2005 and, in our report dated October 4, 2005 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Graham Windham's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2006 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.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
October 18, 2006

GRAHAM WINDHAM
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006
(With comparative amounts at June 30, 2005)

ASSETS

	2006	2005
Cash and cash equivalents	\$ 4,556,616	\$ 4,514,754
Public maintenance receivables, net	5,024,500	3,189,542
Other accounts receivable and prepaid expenses	838,323	550,025
Investments	8,486,412	8,551,687
Property, plant and equipment, net	5,724,872	5,815,395
	\$ 24,630,723	\$ 22,621,403

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 6,767,921	\$ 6,000,661
Due to governments	5,909,944	5,279,289
Due to Greenburgh School	257,927	240,427
Program advances	4,625	4,625
Mortgage payable	1,428,000	1,500,000
Total liabilities	14,368,417	13,025,002
Net assets		
Unrestricted		
Unrestricted	8,116,900	7,427,188
Board designated	675,095	675,095
Total unrestricted	8,791,995	8,102,283
Temporarily restricted	672,354	738,835
Permanently restricted	797,957	755,283
Total net assets	10,262,306	9,596,401
	\$ 24,630,723	\$ 22,621,403

See notes to financial statements.

GRAHAM WINDHAM

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

(with summarized totals for the year ended June 30, 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
Public support and revenue					
Public support					
Public maintenance income	\$ 44,722,204	\$	\$	\$ 44,722,204	\$ 42,937,341
Contributions and grants	177,130	477,000		654,130	505,340
Special events, net of direct cost of \$227,051	942,284			942,284	561,073
Revenue from UFSD No. 10	226,648			226,648	168,443
Total public support	46,068,266	477,000		46,545,266	44,172,197
Program service fees and other	731,711			731,711	682,555
Interest income	103,503			103,503	
Net assets released from restrictions	568,564	(568,564)			
Total public support and revenue	47,472,044	(91,564)		47,380,480	44,854,752
Expenses					
Program services	43,143,947			43,143,947	39,797,742
Supporting services					
Management and general	3,559,215			3,559,215	3,171,761
Fundraising	501,990			501,990	549,418
Total expenses	47,205,152			47,205,152	43,518,921
Excess of public support and revenue over expenses before non operating income	266,892	(91,564)		175,328	1,335,831
Non operating income					
Investment income	422,820	25,083	42,674	490,577	663,504
Change in net assets	689,712	(66,481)	42,674	665,905	1,999,335
Net assets, beginning of year	8,102,283	738,835	755,283	9,596,401	7,597,066
Net assets, end of year	\$ 8,791,995	\$ 672,354	\$ 797,957	\$ 10,262,306	\$ 9,596,401

See notes to financial statements.

GRAHAM WINDHAM

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006

(with summarized totals for the year ended June 30, 2005)

	Program Services						Supporting Services			2006	2005
	Westchester Residential Services	Family Permanency Planning	Medicaid	Early Childhood	Family Preservation	Total	Management and General	Fundraising	Total	Total Program and Supporting Services	Total Program and Supporting Services
Personnel											
Salaries	\$ 5,439,863	\$ 4,145,447	\$ 1,015,716	\$ 3,838,791	\$ 1,887,991	\$ 16,327,808	\$ 1,983,998	\$ 217,569	\$ 2,201,567	\$ 18,529,375	\$ 17,331,533
Employee benefits and payroll taxes	1,685,213	1,132,240	278,318	854,501	490,325	4,440,597	531,515	58,287	589,802	5,030,399	5,004,663
Care and maintenance											
Food	379,794	3,430		169,929	6,870	560,023				560,023	495,343
Clothing	145,404	650,830		1,135		797,369				797,369	628,665
Travel	92,098	53,299	26,475	20,041	13,712	205,535	6,190	484	6,674	212,209	204,218
Allowances and recreation	217,063	139,518	855	38,356	41,614	437,406				437,406	453,777
Medicine and medical supplies			417,422			417,422				417,422	373,052
Boarding payments to foster parents	798,050	6,615,064		4,480,809		11,893,923				11,893,923	10,849,074
Professional fees											
Health services		2,203	1,246,767	547,345	9,430	1,805,745				1,805,745	1,467,464
Audit, legal and consultants	49,669	267,037		7,034	2,500	326,240	86,306		86,306	412,546	414,977
Purchased services	190,122	313,289	38,876	131,425	46,812	720,524	154,299	29,698	183,997	904,521	728,540
Staff											
Staff development and conference	9,852	5,203	7,069	33,424	10,152	65,700	15,425	2,084	17,509	83,209	101,827
Fixed charges, services and equipment											
Rent		279,783	54,218	344,733	71,184	749,918	196,496	10,760	207,256	957,174	1,025,724
Utilities	293,767	70,492	25,546	109,148	17,496	516,449	54,147	3,233	57,380	573,829	618,688
Repairs and maintenance	464,086	161,610	41,013	88,976	38,677	794,362	64,102	6,818	70,920	865,282	598,169
Telephone	52,725	48,436	12,345	34,328	26,398	174,232	21,204	761	21,965	196,197	223,683
Insurance	235,705	105,442	23,604	89,822	44,572	499,145	50,782	5,864	56,646	555,791	512,054
Postage	26,115	53,426	3,507	8,725	4,991	96,764	20,982	4,895	25,877	122,641	114,495
Equipment rental	92,466	43,569	10,613	25,918	10,981	183,547	40,026	1,161	41,187	224,734	188,792
Supplies and sundry											
Supplies and equipment	415,043	96,293	8,085	297,058	62,669	879,148	74,935	8,333	83,268	962,416	696,527
Dues, licenses and permits	5,335	16,929	532	6,844	2,735	32,375	29,780		29,780	62,155	64,482
Subscriptions and publications	846			1,510	165	2,521	2,995	553	3,548	6,069	5,364
Depreciation and amortization	589,297	164,492	43,373	63,592	40,053	900,807	85,751	3,729	89,480	990,287	1,068,952
Property taxes	44,563			66,339		110,902	24,866	1,394	26,260	137,162	93,401
Interest		66,866	17,190	14,298	13,204	111,558	28		28	111,586	122,730
Administrative	33,600	34,447	6,347	14,597	4,936	93,927	115,388	146,367	261,755	355,682	132,727
Total expenses	\$ 11,260,586	\$ 14,469,345	\$ 3,277,871	\$ 11,288,678	\$ 2,847,467	\$ 43,143,947	\$ 3,559,215	\$ 501,990	\$ 4,061,205	\$ 47,205,152	\$ 43,518,921

See notes to financial statements.

GRAHAM WINDHAM

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(With comparative amounts for the year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Change in net assets	\$ 665,905	\$ 1,999,335
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	990,287	1,068,952
Donation of stock	(148,487)	(10,072)
Realized and unrealized gain on investments	(207,721)	(355,085)
Changes in operating assets and liabilities		
Public maintenance receivables	(1,834,958)	(653,755)
Other accounts receivable and prepaid expenses	(288,298)	(13,326)
Accounts payable and accrued expenses	767,260	513,169
Due to governments	630,655	(1,568,497)
Due to Greenburgh School	17,500	5,637
Program advances		(33,829)
Net cash provided by operating activities	<u>592,143</u>	<u>952,529</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(899,764)	(310,455)
Purchase of investments	(1,035,902)	(734,217)
Proceeds from sale of investments	1,457,385	31,532
Net cash used by investing activities	<u>(478,281)</u>	<u>(1,013,140)</u>
Cash flows from financing activities		
Repayment of debt	(72,000)	(336,739)
Net change in cash and cash equivalents	41,862	(397,350)
Cash and cash equivalents, beginning of year	<u>4,514,754</u>	<u>4,912,104</u>
Cash and cash equivalents, end of year	<u>\$ 4,556,616</u>	<u>\$ 4,514,754</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 111,586	\$ 122,730

See notes to financial statements.

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

1. Organization and Tax Status

General

Graham Windham (the Agency) is a not-for-profit, nonsectarian voluntary childcare 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, homeless 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 have significant emotional and educational handicaps. The programs also include substance abuse services.

Family Permanency Planning Services include the following programs:

Foster Boarding Homes – Placement and supervision of children with selected foster families.

Therapeutic Foster Boarding Homes – Placement and supervision of children with specially trained foster families and enhanced services.

Emergency Foster Boarding Homes – Emergency placement (not to exceed 60 days) and supervision of children with selected foster families.

Independent Living – Enhanced services for foster care children age 14-21 to prepare them for independent living after foster care.

Medicaid – Provision of medical, clinical and nursing care for all children in the above-mentioned foster-care programs. All medical costs incurred in non foster-care programs are provided for within the specific program.

Early Childhood Services include the following programs:

Day Care Centers – Provision of child care for two to twelve year-olds during the daytime. The Agency operates three centers; Williamsburg Day Care Center in Brooklyn, Finest and Harlem Day Care Centers in Manhattan.

Family Day Care – Provision of supervised, licensed day care homes five days a week to infants and children. Parents pay for this service according to their income.

Early Head Start Family Child Care - Provides supervised, licensed day care five days a week for children up to 3 years of age, as well as providing supervised, licensed day care homes for parents or guardians working or attending job-training classes.

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Organization and Tax Status (Continued)

Program Services (continued)

Preschool – Provision of special education for three to five year-olds with learning disabilities.

Family Preservation Services include the following programs:

Manhattan Center – This center provides both family and individual counseling, tutoring, recreation and cultural activities for youngsters as well as parenting education and support for families.

The Beacon Schools Program – This program provides comprehensive support services to the students of PS 195 and their families days, evenings and weekends throughout the year.

Preventive Services - Diverse family and community support programs designed to provide comprehensive community-based services.

Supporting Services

Management and General – Direction of the overall affairs of the Agency, including accounting, personnel and administrative services.

Fund raising – Activities to secure increased support from the public for the needs of the various programs and overall direction 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 Accounting and Use of Estimates

The accompanying financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Agency to make certain estimates and assumptions relating to the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. Summary of Significant Accounting Policies (Continued)

Basis of 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 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, when purchased, to be cash equivalents.

Investments

Investments are recorded at fair value. Investment income is reflected as earned. Interest and dividend income is presented net of investment management fees. Changes in the fair value of investments are reported in the statement of activities as part of investment income.

Revenue

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 for special events received from corporations and individuals.

Governmentally funded programs are generally subject to audit and, therefore the final operating reimbursement rates to be realized may not be determinable until years after the Agency has rendered services. Governmental funding is based upon allowable costs, the excess 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 subsequent fiscal year are included in prepaid expenses on the statement of financial position.

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 market 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
Automobile and trucks	4 years
Leasehold improvements	Life of lease or useful life if shorter

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 statement of activities includes 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2005 from which the summarized information was derived.

3. Concentration of Credit Risk

At June 30, 2006 and 2005, the Agency maintained cash balances with large, commercial banking institutions that exceeded the Federal Deposit Insurance Corporation's insurable limit. The Agency has not experienced any losses in such accounts.

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Concentration of Credit Risk (Continued)

The Agency provides program services that are covered under various third party payor agreements. Receivables from such arrangements totaled \$4,976,330 and \$3,168,020 as of June 30, 2006 and 2005, respectively. An allowance of \$24,130 and \$34,130 for uncollectible accounts was recognized in 2006 and 2005, respectively. The percentage of the total by third party payor was as follows

	<u>2006</u>	<u>2005</u>
New York City	54%	45%
Medicaid	20	25
Federal	4	3
Other counties	17	20
New York State	<u>5</u>	<u>7</u>
	<u>100%</u>	<u>100%</u>

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

4. Investments

Investments stated at fair market value at June 30 consist of the following

	<u>2006</u>	<u>2005</u>
Certificate of deposit		\$ 508,250
Domestic Stock Index Fund	\$3,628,880	3,311,508
International Stock Index Fund	804,011	756,737
Bond Index Fund	<u>4,053,521</u>	<u>3,975,192</u>
	<u>\$8,486,412</u>	<u>\$8,551,687</u>

The Agency's investments at June 30 are reported as follows

	<u>2006</u>	<u>2005</u>
Unrestricted	\$7,688,455	\$7,796,404
Permanently restricted	<u>797,957</u>	<u>755,283</u>
	<u>\$8,486,412</u>	<u>\$8,551,687</u>

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. Investments (Continued)

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

	<u>2006</u>	<u>2005</u>
Interest on certificates of deposit	\$ 17,384	\$ 80,710
Interest and dividends	286,688	247,876
Realized and unrealized gain	207,721	355,085
Investment fees	<u>(21,216)</u>	<u>(20,167)</u>
	<u>\$490,577</u>	<u>\$663,504</u>

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30

	<u>2006</u>	<u>2005</u>
Land	\$ 144,900	\$ 144,900
Buildings and improvements	8,978,097	10,125,530
Furniture and equipment	954,965	910,617
Leasehold improvements	2,824,485	2,823,383
Construction in progress	<u>220,992</u>	
	13,123,439	14,004,430
Accumulated depreciation and amortization	<u>(7,398,567)</u>	<u>(8,189,035)</u>
	<u>\$ 5,724,872</u>	<u>\$ 5,815,395</u>

6. Mortgage Payable

The Agency has a mortgage loan payable over 25 years with Citibank, NA. 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 are as follows

June 30, 2007	\$ 72,000
2008	72,000
2009	72,000
2010	72,000
2011	72,000
Thereafter	<u>1,068,000</u>
	<u>\$1,428,000</u>

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Due to Governments

A New York City (NYC) Controller's foster care audit is currently in progress for fiscal years 2002 and 2003. The results of this audit are yet to be determined. Subsequent to the conclusion of the Controller's field work, the New York City Agency for Children Services will commence the foster care audits for fiscal years 2000 and 2001. A liability to the City of \$2,926,196 is included in the \$5,909,944 which acts as a reserve for any potential liabilities resulting from audits for fiscal years 2000 through 2006.

8. Union Free School District No. 10

The Agency receives payments from 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 Union Free School District No. 10.

9. Pension Plan

The Agency makes contributions to a defined contribution pension plan for participating employees. Pension expense was approximately \$600,000 and \$590,000 for the years ended June 30, 2006 and 2005, respectively.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$63,000 and \$57,000 for the years ended June 30, 2006 and 2005, respectively.

10. Commitments and Contingencies

The Agency maintains several operating leases for office and program facilities.

The lease for the Agency's headquarters and preschool includes provisions for escalations and sharing of common expenses. Rental expense for the office lease has been included in the financial statements on the straight-line basis. Aggregate minimum annual rentals for the years ending June 30, are as follows

2007	\$ 1,127,129
2008	1,179,173
2009	1,227,370
2010	1,174,053
2011	1,198,915
Thereafter	<u>9,234,759</u>
	<u>\$15,141,399</u>

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Commitments and Contingencies (Continued)

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 debt.

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

2007	\$132,838
2008	110,840
2009	78,210
2010	22,295
2011	<u>10,800</u>
	<u>\$354,983</u>

Net rental expense for the years ended June 30, 2006 and 2005 was \$953,072 and \$1,021,622, respectively.

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 or results of operations of the Agency taken as a whole.

11. Economic Dependency

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

GRAHAM WINDHAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following programs

	<u>2006</u>	<u>2005</u>
Westchester Residential Services	\$109,901	\$141,121
Family Permanency Planning	259,380	308,780
Early Childhood	258,740	197,205
Family Preservation	<u>44,333</u>	<u>91,729</u>
	<u>\$672,354</u>	<u>\$738,835</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses for the following programs

	<u>2006</u>	<u>2005</u>
Westchester Residential Services	\$ 65,835	
Family Permanency Planning	55,504	
Early Childhood	382,073	\$163,911
Family Preservation	53,204	46,898
Support services	<u>11,948</u>	
	<u>\$568,564</u>	<u>\$210,809</u>

13. Permanently Restricted Net Assets

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.

15. Board Designated Net Assets

In 2005 the Agency's Board of Directors designated \$675,095 of unrestricted net assets resulting from the proceeds from the sale of Agency owned land on its campus. This reserve will be used for various improvements to the remaining campus property.