

Graham Windham

Financial Statements

June 30, 2007



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



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, 2007 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, 2006 and, in our report dated October 18, 2006 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, 2007 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
November 6, 2007

Graham Windham
Statement of Financial Position
June 30, 2007

(With comparative amounts at June 30, 2006)

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 4,409,276	\$ 4,556,616
Public maintenance receivables, net	6,882,523	5,024,500
Other accounts receivable and prepaid expenses	868,324	838,323
Investments	9,661,302	8,486,412
Property, plant and equipment, net	5,336,880	5,724,872
	\$ 27,158,305	\$ 24,630,723
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 7,096,679	\$ 6,767,921
Due to governments	6,993,103	5,909,944
Due to Greenburgh School	244,329	257,927
Program advances	4,625	4,625
Security deposits	13,406	-
Mortgage payable	1,356,000	1,428,000
Total Liabilities	15,708,142	14,368,417
 Net Assets		
Unrestricted		
Unrestricted	9,673,871	8,261,386
Board designated	30,609	530,609
Total Unrestricted	9,704,480	8,791,995
Temporarily restricted	841,707	672,354
Permanently restricted	903,976	797,957
Total Net Assets	11,450,163	10,262,306
	\$ 27,158,305	\$ 24,630,723

Graham Windham
Statement of Activities

Year Ended June 30, 2007

(With summarized totals for the year ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
OPERATING INCOME					
Public support					
Public maintenance income	\$ 49,608,081	-	-	\$ 49,608,081	\$ 44,722,204
Contributions and grants	169,247	1,083,500	-	1,252,747	654,130
Special events, net of direct cost of \$205,102	644,719	-	-	644,719	942,284
Revenue from UFSD No. 10	460,084	-	-	460,084	226,648
Total Public Support	<u>50,882,131</u>	<u>1,083,500</u>	<u>-</u>	<u>51,965,631</u>	<u>46,545,266</u>
Program service fees, other	721,773	-	-	721,773	731,711
Interest income	232,280	-	-	232,280	103,503
Net assets released from restrictions	936,860	(936,860)	-	-	-
Total Operating Income	<u>52,773,044</u>	<u>146,640</u>	<u>-</u>	<u>52,919,684</u>	<u>47,380,480</u>
OPERATING EXPENSES					
Program services	48,721,276	-	-	48,721,276	43,143,947
Management and general	3,760,943	-	-	3,760,943	3,559,215
Fundraising	467,151	-	-	467,151	501,990
Total Operating Expenses	<u>52,949,370</u>	<u>-</u>	<u>-</u>	<u>52,949,370</u>	<u>47,205,152</u>
Excess of Operating Income Over Expenses	(176,326)	146,640	-	(29,686)	175,328
Non operating income					
Investment income	1,088,811	22,713	106,019	1,217,543	490,577
Change in Net Assets	912,485	169,353	106,019	1,187,857	665,905
NET ASSETS					
Beginning of year	8,791,995	672,354	797,957	10,262,306	9,596,401
End of year	<u>\$ 9,704,480</u>	<u>\$ 841,707</u>	<u>\$ 903,976</u>	<u>\$ 11,450,163</u>	<u>\$ 10,262,306</u>

See notes to financial statements

Graham Windham
Statement of Functional Expenses
Year Ended June 30, 2007
(With summarized totals for the year ended June 30, 2006)

	Program Services					Supporting Services			2006 Total	
	Weschester Residential Services	Family Permanency Planning	Medicaid	Early Childhood	Family Preservation	Total	Management and General	Fundraising		2007 Total
PERSONNEL										
Salaries	\$ 6,307,212	\$ 5,158,479	\$ 1,159,319	\$ 3,984,773	\$ 2,196,878	\$ 18,806,661	\$ 2,076,286	\$ 275,191	\$ 21,158,138	\$ 18,529,375
Employee benefits and payroll taxes	1,901,781	1,375,323	313,574	882,445	546,404	5,019,527	542,646	71,750	5,633,923	5,030,399
CARE AND MAINTENANCE										
Food	433,212	2,976	244	154,095	9,380	599,907	-	-	599,907	560,023
Clothing	185,090	721,107	-	1,758	182	908,137	160	-	908,297	797,369
Travel	84,138	59,659	30,028	20,771	18,889	213,485	4,890	1,964	220,339	212,209
Allowances and recreation	339,262	173,019	444	21,548	101,516	635,789	-	-	635,789	437,406
Medicine and medical supplies	-	-	527,618	-	-	527,618	-	-	527,618	417,422
Boarding payments to foster parents	884,355	7,595,493	-	4,319,918	-	12,799,766	-	-	12,799,766	11,893,923
PROFESSIONAL FEES										
Health services	600	675	1,323,151	537,771	92,060	1,954,257	-	-	1,954,257	1,805,745
Audit, legal and consultants	26,052	304,461	2,050	40,859	557	373,979	96,049	-	470,028	412,546
Purchased services	534,606	865,173	44,185	126,754	119,899	1,690,617	277,426	19,109	1,987,152	904,521
STAFF										
Staff development and conference	17,328	10,302	6,624	41,037	9,225	84,516	26,087	3,216	113,819	83,209
FIXED CHARGES, SERVICES AND EQUIPMENT										
Rent	-	293,901	55,956	339,061	73,407	762,325	219,602	16,173	998,100	957,174
Utilities	371,416	75,227	34,332	109,278	12,860	603,113	39,288	2,572	644,973	573,829
Repairs and maintenance	327,889	224,773	63,334	133,376	29,852	779,224	84,052	6,888	870,164	865,282
Telephone	64,373	47,271	13,458	38,275	24,170	187,547	28,197	1,988	217,732	196,197
Insurance	208,947	103,218	25,084	81,636	41,049	459,934	48,863	4,844	513,641	555,791
Postage	25,594	47,486	3,443	7,915	4,369	88,807	18,554	4,681	112,042	122,641
Equipment rental	103,043	35,203	9,749	27,678	12,691	188,364	42,972	3,092	234,428	224,734
SUPPLIES AND SUNDRY										
Supplies and equipment	378,916	88,259	11,034	253,422	116,422	848,053	69,669	25,700	943,422	962,416
Dues, licenses and permits	7,720	16,121	750	9,710	4,797	39,098	28,398	150	67,646	62,155
Subscriptions and publications	183	-	-	1,371	355	1,909	1,993	340	4,242	6,069
Depreciation and amortization	548,724	170,040	41,177	67,705	35,727	863,373	69,587	4,464	937,424	990,287
Property taxes	44,752	69	26	50,100	94,947	94,947	32,609	3,931	131,487	137,162
Interest	-	24,286	9,330	9,605	2,533	45,754	-	-	45,754	111,586
Administrative	47,926	56,254	10,053	26,057	4,279	144,569	53,615	21,098	219,282	355,682
Total Expenses	\$ 12,843,119	\$ 17,448,775	\$ 3,684,963	\$ 11,286,918	\$ 3,457,501	\$ 48,721,276	\$ 3,760,943	\$ 467,151	\$ 52,949,370	\$ 47,205,152

Graham Windham
Statement of Cash Flows
Year Ended June 30, 2007
(With comparative amounts for the year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,187,857	\$ 665,905
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	937,424	990,287
Donation of stock	(132,291)	(148,487)
Realized and unrealized gain on investments	(914,942)	(207,721)
Changes in operating assets and liabilities		
Public maintenance receivables	(1,858,023)	(1,834,958)
Other accounts receivable and prepaid expenses	(30,001)	(288,298)
Accounts payable and accrued expenses	328,758	767,260
Due to governments	1,083,159	630,655
Due to Greenburgh School	(13,598)	17,500
Net Cash Provided by Operating Activities	<u>588,343</u>	<u>592,143</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(656,771)	(899,764)
Disposal of property, plant and equipment	107,339	-
Purchase of investments	(285,536)	(1,035,902)
Proceeds from sale of investments	157,879	1,457,385
Security deposits held	13,406	-
Net Cash Used by Investing Activities	<u>(663,683)</u>	<u>(478,281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt	<u>(72,000)</u>	<u>(72,000)</u>
Net Change in Cash and Cash Equivalents	(147,340)	41,862
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,556,616</u>	<u>4,514,754</u>
End of year	<u>\$ 4,409,276</u>	<u>\$ 4,556,616</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 45,754	\$ 111,556

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.

Graham Windham

Notes to Financial Statements

1. Organization and Tax Status *(continued)*

Program Services (continued)

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.

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

Use of Estimates

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

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 a component 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

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

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

Functional Allocation of Expenses

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

Summarized Comparative Information

The 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, 2006 from which the summarized information was derived.

3. Concentration of Credit Risk

At June 30, 2007 and 2006, 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

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 \$6,597,344 and \$4,976,330 as of June 30, 2007 and 2006, net of an allowance of \$24,130 for uncollectible accounts for 2007 and 2006. The percentage of the total by third party payor was as follows:

	<u>2007</u>	<u>2006</u>
New York City	64%	54%
Medicaid	23	20
Federal	2	4
Other counties	5	17
New York State	<u>6</u>	<u>5</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 consist of the following mutual funds as of June 30:

	<u>2007</u>	<u>2006</u>
Domestic Stock Index Fund	\$ 4,357,858	\$ 3,628,880
International Stock Index Fund	1,037,526	804,011
Bond Index Fund	<u>4,265,917</u>	<u>4,053,521</u>
	<u>\$ 9,661,302</u>	<u>\$ 8,486,412</u>

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

	<u>2007</u>	<u>2006</u>
Unrestricted	\$ 8,757,326	\$ 7,688,455
Permanently restricted	<u>903,976</u>	<u>797,957</u>
	<u>\$ 9,661,302</u>	<u>\$ 8,486,412</u>

Graham Windham

Notes to Financial Statements

4. Investments (continued)

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

	2007	2006
Interest on certificates of deposit	\$ -	\$ 17,384
Interest and dividends	325,456	286,688
Realized and unrealized gain	914,942	207,721
Investment fees	(22,855)	(21,216)
	\$ 1,217,543	\$ 490,577

5. Property, Plant and Equipment

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

	2007	2006
Land	\$ 144,900	\$ 144,900
Buildings and improvements	9,180,926	8,978,097
Furniture and equipment	1,513,975	954,965
Leasehold improvements	2,833,070	2,824,485
Construction in progress	-	220,992
	13,672,871	13,123,439
Accumulated depreciation and amortization	(8,335,991)	(7,398,567)
	\$ 5,336,880	\$ 5,724,872

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

2008	\$	72,000
2009		72,000
2010		72,000
2011		72,000
2012		72,000
Thereafter		996,000
	\$	1,356,000

Graham Windham

Notes to Financial Statements

7. Due to Governments

A New York City Controller's foster care audit is currently in progress for fiscal year 2002. 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, 2001 and 2003. A liability to New York City of \$4,061,806 is included in the \$6,993,103 which acts as a reserve for any potential liabilities resulting from audits for fiscal years 2000 through 2007.

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 \$690,000 and \$600,000 for the years ended June 30, 2007 and 2006.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$66,000 and \$63,000 for the years ended June 30, 2007 and 2006.

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

2008	\$ 1,421,076
2009	1,243,398
2010	1,175,186
2011	1,198,915
2012	1,232,484
Thereafter	<u>8,002,274</u>
	<u>\$14,273,333</u>

Graham Windham

Notes to Financial Statements

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

2008	\$114,458
2009	98,821
2010	50,168
2011	<u>1,217</u>
	<u>\$264,664</u>

Rental expense for the years ended June 30, 2007 and 2006 was \$993,763 and \$953,072, net of rental income of \$178,636 and \$174,020.

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

12. Temporarily Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Westchester Residential Services	\$ 87,090	\$ 109,901
Family Permanency Planning	137,036	259,380
Early Childhood	515,381	258,740
Family Preservation	100,000	44,333
Support Services	<u>2,200</u>	<u>-</u>
	<u>\$ 841,707</u>	<u>\$ 672,354</u>

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

	<u>2007</u>	<u>2006</u>
Westchester Residential Services	\$ 53,246	\$ 65,835
Family Permanency Planning	127,966	55,504
Early Childhood	699,550	382,073
Family Preservation	42,162	53,204
Support Services	<u>13,936</u>	<u>11,948</u>
	<u>\$ 936,860</u>	<u>\$ 568,564</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.

14. Board Designated Net Assets

The Agency's Board of Directors designated \$30,609 and \$530,609 for the years ended June 30, 2007 and 2006 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.

15. Reclassification

Certain 2006 amounts have been reclassified to conform with the 2007 presentation.