

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

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| 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 | <u>5,724,872</u> | <u>5,815,395</u> |
| | <u>\$ 24,630,723</u> | <u>\$ 22,621,403</u> |

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 | <u>1,428,000</u> | <u>1,500,000</u> |
| Total liabilities | <u>14,368,417</u> | <u>13,025,002</u> |
| Net assets | | |
| Unrestricted | | |
| Unrestricted | 8,116,900 | 7,427,188 |
| Board designated | <u>675,095</u> | <u>675,095</u> |
| Total unrestricted | 8,791,995 | 8,102,283 |
| Temporarily restricted | 672,354 | 738,835 |
| Permanently restricted | <u>797,957</u> | <u>755,283</u> |
| Total net assets | <u>10,262,306</u> | <u>9,596,401</u> |
| | <u>\$ 24,630,723</u> | <u>\$ 22,621,403</u> |

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 Total Program and Supporting Services | 2005 Total Program and Supporting Services |
|--|--|----------------------------------|---------------------|----------------------|------------------------|----------------------|---------------------------|--|--|
| | Westchester Residential Services | Family Permanency Planning | Medicaid | Early Childhood | Family Preservation | Total | Management and General | Fundraising | Total |
| 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 |
| 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 |
| Care and maintenance | | | | | | | | | |
| Food | 379,794 | 3,430 | | 169,929 | 6,870 | 560,023 | | | 560,023 |
| Clothing | 145,404 | 650,830 | | 1,135 | | 797,369 | | | 797,369 |
| Travel | 92,008 | 53,299 | 26,475 | 20,041 | 13,712 | 205,535 | 6,190 | 484 | 6,674 |
| Allowances and recreation | 217,063 | 139,518 | 855 | 38,356 | 41,614 | 437,406 | | | 437,406 |
| Medicine and medical supplies | | | 417,422 | | | 417,422 | | | 417,422 |
| Boarding payments to foster parents | 798,050 | 6,615,064 | | 4,480,809 | | 11,893,923 | | | 11,893,923 |
| Professional fees | | | | | | | | | |
| Health services | | 2,203 | 1,246,767 | 547,345 | 9,430 | 1,805,745 | | | 1,805,745 |
| Audit, legal and consultants | 49,669 | 267,037 | | 7,034 | 2,500 | 326,240 | 86,306 | | 412,546 |
| Purchased services | 190,122 | 313,289 | 38,876 | 131,425 | 46,812 | 720,524 | 154,299 | 29,698 | 904,521 |
| Staff | | | | | | | | | |
| Staff development and conference | 9,852 | 5,203 | 7,069 | 33,424 | 10,152 | 65,700 | 15,425 | 2,084 | 17,509 |
| Fixed charges, services and equipment | | | | | | | | | |
| Rent | | 279,783 | 54,218 | 344,733 | 71,184 | 749,918 | 196,496 | 10,760 | 207,256 |
| Utilities | 293,767 | 70,492 | 25,546 | 109,148 | 17,496 | 516,449 | 54,147 | 3,233 | 57,380 |
| Repairs and maintenance | 464,086 | 161,610 | 41,013 | 88,976 | 38,677 | 794,362 | 64,102 | 6,818 | 70,920 |
| Telephone | 52,725 | 48,436 | 12,345 | 34,328 | 26,398 | 174,232 | 21,204 | 761 | 21,965 |
| Insurance | 235,705 | 105,442 | 23,604 | 89,822 | 44,572 | 499,145 | 50,782 | 5,864 | 56,646 |
| Postage | 26,115 | 53,426 | 3,507 | 8,725 | 4,991 | 96,764 | 20,982 | 4,895 | 25,877 |
| Equipment rental | 92,466 | 43,569 | 10,613 | 25,918 | 10,981 | 183,547 | 40,026 | 1,161 | 41,187 |
| Supplies and sundry | | | | | | | | | |
| Supplies and equipment | 415,043 | 96,293 | 8,085 | 297,058 | 62,669 | 879,148 | 74,935 | 8,333 | 83,268 |
| Dues, licenses and permits | 5,335 | 16,929 | 532 | 6,844 | 2,735 | 32,375 | 29,780 | | 29,780 |
| Subscriptions and publications | 846 | | | 1,510 | 165 | 2,521 | 2,995 | 553 | 3,548 |
| Depreciation and amortization | 589,297 | 164,492 | 43,373 | 63,592 | 40,053 | 900,807 | 85,751 | 3,729 | 89,480 |
| Property taxes | 44,563 | | | 66,339 | | 110,902 | 24,866 | 1,394 | 26,260 |
| Interest | | 66,866 | 17,190 | 14,298 | 13,204 | 111,558 | 28 | | 28 |
| Administrative | 33,600 | 34,447 | 6,347 | 14,597 | 4,936 | 93,927 | 115,388 | 146,367 | 261,755 |
| 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 |

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.