

**Graham Windham**

Financial Statements

June 30, 2008



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, 2008 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, 2007 and, in our report dated November 6, 2007 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, 2008 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, 2008

**Graham Windham**

Statement of Financial Position

June 30, 2008

(With comparative amounts at June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,195,267	\$ 4,409,276
Public maintenance receivables	8,910,929	6,882,523
Other accounts receivable and prepaid expenses	1,103,715	868,324
Investments	9,294,486	9,661,302
Property, plant and equipment, net	<u>4,975,991</u>	<u>5,336,880</u>
	<u>\$ 29,480,388</u>	<u>\$ 27,158,305</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	8,512,732	7,101,304
Due to governments	8,055,093	6,993,103
Due to Greenburgh School	244,329	244,329
Security deposits	13,406	13,406
Mortgage payable	<u>1,284,000</u>	<u>1,356,000</u>
Total Liabilities	<u>18,109,560</u>	<u>15,708,142</u>
 <b>Net Assets</b>		
Unrestricted		
Unrestricted	9,469,458	9,673,871
Board designated	-	30,609
Total Unrestricted	<u>9,469,458</u>	<u>9,704,480</u>
Temporarily restricted	1,074,774	841,707
Permanently restricted	<u>826,596</u>	<u>903,976</u>
Total Net Assets	<u>11,370,828</u>	<u>11,450,163</u>
	<u>\$ 29,480,388</u>	<u>\$ 27,158,305</u>

# **Graham Windham**

## **Statement of Activities**

**Year Ended June 30, 2008**

(With summarized totals for the year ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
<b>OPERATING INCOME</b>					
Public Support					
Public maintenance income	\$ 55,829,924	\$ -	\$ -	\$ 55,829,924	\$ 49,608,081
Contributions and grants	432,461	1,075,500	-	1,507,961	1,252,747
Special events, net of direct costs of \$118,313	681,505	135,402	-	816,907	644,719
Revenue from UFSD No. 10	441,742	-	-	441,742	460,084
Total Public Support	57,385,632	1,210,902	-	58,596,534	51,965,631
Program service fees, other	800,597	-	-	800,597	721,773
Interest income	165,176	-	-	165,176	232,280
Net assets released from restrictions	987,866	(987,866)	-	-	-
Total Operating Income	59,339,271	223,036	-	59,562,307	52,919,684
<b>OPERATING EXPENSES</b>					
Program services	54,417,420	-	-	54,417,420	48,721,276
Management and general	4,403,968	-	-	4,403,968	3,760,943
Fundraising	473,756	-	-	473,756	467,151
Total Operating Expenses	59,295,144	-	-	59,295,144	52,949,370
Excess of Operating Income Over Expenses	44,127	223,036	-	267,163	(29,686)
<b>NON OPERATING INCOME</b>					
Investment (loss) income	(279,149)	10,031	(77,380)	(346,498)	1,217,543
Change in Net Assets	(235,022)	233,067	(77,380)	(79,335)	1,187,857
<b>NET ASSETS</b>					
Beginning of year	9,704,480	841,707	903,976	11,450,163	10,262,306
End of year	\$ 9,469,458	\$ 1,074,774	\$ 826,596	\$ 11,370,828	\$ 11,450,163

See notes to financial statements

(With summarized totals for the year ended June 30, 2007)

See notes to financial statements

**Graham Windham**  
Statement of Cash Flows  
Year Ended June 30, 2008  
(With comparative amounts for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (79,335)	\$ 1,187,857
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	905,467	937,424
Donation of stock	(111,286)	(132,291)
Realized and unrealized loss (gain) on investments	642,547	(914,942)
Changes in operating assets and liabilities		
Public maintenance receivables	(2,028,406)	(1,858,023)
Other accounts receivable and prepaid expenses	(235,391)	(30,001)
Accounts payable and accrued expenses	1,411,428	328,758
Due to governments	1,061,990	1,083,159
Due to Greenburgh School	-	(13,598)
Net Cash Provided by Operating Activities	<u>1,567,014</u>	<u>588,343</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(544,578)	(656,771)
Disposal of property, plant and equipment	-	107,339
Purchase of investments	(301,147)	(285,536)
Proceeds from sale of investments	136,702	157,879
Security deposits held	-	13,406
Net Cash Used by Investing Activities	<u>(709,023)</u>	<u>(663,683)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of debt	(72,000)	(72,000)
Net Change in Cash and Cash Equivalents	785,991	(147,340)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>4,409,276</u>	<u>4,556,616</u>
End of year	<u>\$ 5,195,267</u>	<u>\$ 4,409,276</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 18,396	\$ 45,754

# **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 Preparing Youth for Adulthood 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.

Preparing Youth for Adulthood – 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.

Parent Child Home Program - This program provides home based literacy services for toddlers and pre-school children 2 - 4 years of age.

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 and United Way After-school Programs - These programs provides comprehensive support services to the students of PS 195, MS 55 and MS 201 and their families during 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, at the time of purchase, to be cash equivalents.

#### *Investments*

Investments are recorded at fair market 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 may not be determinable until years after the Agency has rendered services. Governmental funding is 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 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, 2007 from which the summarized information was derived.

#### **3. Concentration of Credit Risk**

At June 30, 2008 and 2007, 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, included in public maintenance receivable on the statement of financial position, totaled \$8,617,671 and \$6,597,344 as of June 30, 2008 and 2007. Management believes all receivables are collectible and accordingly no allowances for uncollectible accounts have been established for 2008 and 2007. The percentage of the total by third party payor was as follows:

	<u>2008</u>	<u>2007</u>
New York City	70%	64%
Medicaid	11	23
Federal	2	2
Other counties	12	5
New York State	<u>5</u>	<u>6</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>2008</u>	<u>2007</u>
Domestic Stock Index Fund	\$ 3,805,734	\$ 4,357,859
International Stock Index Fund	950,731	1,037,526
Bond Index Fund	<u>4,538,021</u>	<u>4,265,917</u>
	<u>\$ 9,294,486</u>	<u>\$ 9,661,302</u>

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

	<u>2008</u>	<u>2007</u>
Unrestricted	\$ 8,467,936	\$ 8,757,326
Permanently restricted	<u>826,550</u>	<u>903,976</u>
	<u>\$ 9,294,486</u>	<u>\$ 9,661,302</u>

Subsequent to year end, the credit and liquidity crisis in the United States has resulted in substantial volatility in the global financial markets. As a result, the Agency's investment portfolio has incurred a significant decline in fair value since June 30, 2008. However, because the values of the Agency's individual investments have and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

# Graham Windham

## Notes to Financial Statements

### 4. Investments (continued)

The composition of investment (loss) income as reported in the statement of activities for the years ended June 30 is as follows:

	2008	2007
Interest and dividends	\$ 321,296	\$ 325,456
Realized and unrealized gain	(642,547)	914,942
Investment fees	(25,247)	(22,855)
	<u>\$ (346,498)</u>	<u>\$ 1,217,543</u>

### 5. Property, Plant and Equipment

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

	2008	2007
Land	\$ 144,900	\$ 144,900
Buildings and improvements	9,407,648	9,180,927
Furniture and equipment	1,791,149	1,513,974
Leasehold improvements	2,873,753	2,833,070
	<u>14,217,450</u>	<u>13,672,871</u>
Accumulated depreciation and amortization	(9,241,459)	(8,335,991)
	<u>\$ 4,975,991</u>	<u>\$ 5,336,880</u>

### 6. Mortgage Payable

The Agency has a mortgage loan payable over 25. 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 at June 30, 2008 are payable as follows:

2009	\$ 72,000
2010	72,000
2011	72,000
2012	72,000
2013	72,000
Thereafter	<u>924,000</u>
	<u>\$ 1,284,000</u>

# Graham Windham

## Notes to Financial Statements

### 7. Due to Governments

During fiscal 2008, a New York City (NYC) foster care audit covering the fiscal years 2000 through 2003 was concluded, resulting in the disallowance of previously reimbursed services in the amount of \$411,833 for which \$698,746 had previously been accrued. At June 30, 2008, due to governments of \$8,055,093 includes an unpaid remaining balance of \$211,833 to be collected by NYC for the aforementioned audit and \$3,693,181 of estimated liabilities for future NYC foster care audits for the years 2004 through 2008.

### 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 \$814,000 and \$690,000 for the years ended June 30, 2008 and 2007.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$83,000 and \$66,000 for the years ended June 30, 2008 and 2007.

### 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. Aggregate minimum annual rentals for the years ending June 30, are payable as follows:

2009	\$ 1,358,230
2010	1,224,487
2011	1,248,217
2012	1,281,789
2013	1,283,640
Thereafter	<u>7,014,533</u>
	<u>\$13,410,896</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 payable as follows

2009	\$153,453
2010	95,805
2011	23,513
2012	<u>2,880</u>
	<u>\$275,651</u>

Rental expense for the years ended June 30, 2008 and 2007 was \$1,164,575 and \$993,763, net of rental income of \$183,538 and \$178,636.

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, results of operations or cash flows of the Agency.

#### 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>2008</u>	<u>2007</u>
Westchester Residential Services	\$ 100,400	\$ 87,090
Family Permanency Planning	226,035	137,036
Early Childhood	735,706	515,381
Family Preservation	9,654	100,000
Support Services	<u>2,979</u>	<u>2,200</u>
	<u>\$ 1,074,774</u>	<u>\$ 841,707</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses for the following programs during the years ended June 30 as follows:

	<u>2008</u>	<u>2007</u>
Westchester Residential Services	\$ 23,545	\$ 65,835
Family Permanency Planning	5,790	55,504
Early Childhood	732,015	382,073
Family Preservation	226,516	53,204
Support Services	<u>-</u>	<u>11,948</u>
	<u>\$ 987,866</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 for the year ended June 30, 2007 of unrestricted net assets resulting from the proceeds from the sale of Agency owned land on its campus. This reserve was used for various improvements to the remaining campus property during the year ended June 30, 2008.