

Graham Windham

Financial Statements

June 30, 2012

Independent Auditors' Report

**Board of Directors
Graham Windham**

We have audited the accompanying statement of financial position of Graham Windham as of June 30, 2012 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, 2011 and, in our report dated November 28, 2011 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 the 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, 2012 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, LLP

New York, New York
November 29, 2012

O'CONNOR DAVIES, LLP

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Graham Windham

Statement of Financial Position

June 30, 2012

(with comparative amounts at June 30, 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 3,395,216	\$ 5,117,962
Public maintenance receivables	14,993,906	13,293,174
Other accounts receivable and prepaid expenses	741,532	796,841
Investments	9,997,665	9,590,422
Property, plant and equipment, net	4,012,024	4,198,343
Restricted investments	890,353	889,411
	<u>\$ 34,030,696</u>	<u>\$ 33,886,153</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 9,425,071	\$ 8,741,390
Due to governments	10,515,525	10,963,764
Due to Greenburgh School	70,565	284,893
Mortgage payable	995,904	1,067,907
Total Liabilities	<u>21,007,065</u>	<u>21,057,954</u>
Net Assets		
Unrestricted	11,742,362	11,707,217
Temporarily restricted	390,916	231,571
Permanently restricted	890,353	889,411
Total Net Assets	<u>13,023,631</u>	<u>12,828,199</u>
	<u>\$ 34,030,696</u>	<u>\$ 33,886,153</u>

Graham Windham

Statement of Activities
Year Ended June 30, 2012
(with summarized totals for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
OPERATING INCOME					
Public Support					
Public maintenance income	\$ 65,294,651	\$ -	\$ -	\$ 65,294,651	\$ 65,022,497
Contributions and grants	120,143	282,265	-	402,408	223,665
Special events, net of direct costs of \$204,739 and \$116,451	1,116,837	-	-	1,116,837	955,972
Revenue from UFSD No. 10	87,110	-	-	87,110	122,529
Total Public Support	66,618,741	282,265	-	66,901,006	66,324,663
Program service fees, other	869,429	-	-	869,429	864,709
Interest income	12,484	18,131	-	30,615	33,444
Net assets released from restrictions	141,051	(141,051)	-	-	-
Total Operating Income	67,641,705	159,345	-	67,801,050	67,222,816
OPERATING EXPENSES					
Program services	62,085,058	-	-	62,085,058	60,884,974
Management and general	5,369,232	-	-	5,369,232	5,104,032
Fundraising	558,737	-	-	558,737	405,057
Total Operating Expenses	68,013,027	-	-	68,013,027	66,394,063
Excess (Deficiency) of Operating Income Over Expenses	(371,322)	159,345	-	(211,977)	828,753
NON OPERATING INCOME					
Investment income	406,467	-	942	407,409	1,473,510
Change in Net Assets	35,145	159,345	942	195,432	2,302,263
NET ASSETS					
Beginning of year	11,707,217	231,571	889,411	12,828,199	10,525,936
End of year	<u>\$ 11,742,362</u>	<u>\$ 390,916</u>	<u>\$ 890,353</u>	<u>\$ 13,023,631</u>	<u>\$ 12,828,199</u>

See notes to financial statements

Graham Windham

Statement of Functional Expenses
Year Ended June 30, 2012
(with summarized totals for the year ended June 30, 2011)

	Program Services						Supporting Services			2012	2011
	Westchester Residential Services	Permanency Planning	Medicaid	Early Childhood	Family Preservation	Total	Management and General	Fundraising	Total	Total	Total
PERSONNEL											
Salaries	\$ 7,317,736	\$ 6,966,961	\$ 6,107,559	\$ 3,468,196	\$ 2,922,622	\$ 26,783,074	\$ 2,987,821	\$ 350,865	\$ 3,338,686	\$ 30,121,760	\$ 28,980,763
Employee benefits and payroll taxes	2,865,579	2,254,188	1,831,360	820,399	891,321	8,662,847	934,568	108,114	1,042,682	9,705,529	8,817,333
CARE AND MAINTENANCE											
Food	462,343	668	10,417	106,232	8,891	588,551	-	-	-	588,551	564,451
Clothing	68,770	742,400	-	960	-	812,130	-	-	-	812,130	766,535
Travel and workers expense	61,967	211,715	37,418	6,509	43,632	361,241	5,914	351	6,265	367,506	412,908
Allowances and recreation	217,681	171,457	13,269	25,811	53,190	481,408	-	2,519	2,519	483,927	454,221
Medicine and medical supplies	-	-	675,107	-	-	675,107	-	-	-	675,107	597,046
Boarding payments to foster parents	489,586	7,796,112	-	5,500,792	-	13,786,490	-	-	-	13,786,490	14,880,858
PROFESSIONAL FEES											
Health services	-	-	1,195,955	907,819	119,438	2,223,212	-	-	-	2,223,212	2,127,257
Audit, legal and consultants	52,363	389,108	3,379	8,020	-	452,870	101,345	-	101,345	554,215	479,032
Purchased services	342,692	752,362	111,452	303,223	103,837	1,613,566	369,768	17,863	387,631	2,001,197	1,818,198
STAFF											
Staff development and conference	21,145	25,572	14,101	31,170	15,519	107,507	58,632	298	58,930	166,437	164,115
FIXED CHARGES, SERVICES AND EQUIPMENT											
Rent	-	316,726	148,573	157,388	104,100	726,787	354,178	18,949	373,127	1,099,914	1,085,232
Utilities	383,774	85,097	88,091	104,471	24,292	685,725	39,591	2,278	41,869	727,594	807,638
Repairs and maintenance	348,080	348,202	209,977	174,132	89,258	1,169,649	61,972	4,981	66,953	1,236,602	1,081,046
Telephone	44,986	71,447	43,988	30,749	60,342	251,512	39,001	3,063	42,064	293,576	313,800
Insurance	171,175	114,281	112,383	32,112	45,326	475,277	52,795	5,091	57,886	533,163	430,483
Postage	11,953	33,504	9,542	14,199	12,390	81,588	26,060	5,951	32,011	113,599	116,396
Equipment rental	97,596	50,189	36,085	26,780	27,640	238,290	38,102	2,747	40,849	279,139	292,532
SUPPLIES AND SUNDRY											
Supplies and equipment	255,255	85,164	94,931	157,350	64,945	657,645	45,657	17,746	63,403	721,048	754,031
Dues, licenses and permits	5,120	20,173	18,410	13,951	6,969	64,623	87,569	-	87,569	152,192	118,695
Subscriptions and publications	321	585	15	120	61	1,102	971	295	1,266	2,368	4,581
Depreciation and amortization	326,499	165,792	107,212	37,438	20,726	657,667	58,603	700	59,303	716,970	789,736
Property taxes	52,258	26,353	18,990	77,833	2,771	178,205	16,370	877	17,247	195,452	170,100
Interest	-	40,061	28,160	5,618	5,073	78,912	-	-	-	78,912	84,085
Administrative	45,716	78,298	61,144	23,561	61,354	270,073	90,315	16,049	106,364	376,437	282,991
Total Expenses	\$ 13,642,595	\$ 20,746,415	\$ 10,977,518	\$ 12,034,833	\$ 4,683,697	\$ 62,085,058	\$ 5,369,232	\$ 558,737	\$ 5,927,969	\$ 68,013,027	\$ 66,394,063

Graham Windham

Statement of Cash Flows
Year Ended June 30, 2012

(with comparative amounts for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 195,432	\$ 2,302,263
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	716,970	789,736
Donation of stock	(54,623)	(280,612)
Loss from disposal of property, plant and equipment	-	2,728
Realized and unrealized loss on investments	(135,771)	(1,241,738)
Changes in operating assets and liabilities		
Public maintenance receivables	(1,700,732)	(1,680,643)
Other accounts receivable and prepaid expenses	55,309	14,573
Accounts payable and accrued expenses	683,681	(439,168)
Due to governments	(448,239)	2,526,308
Due to Greenburgh School	(214,328)	40,564
Security deposits	-	(13,406)
Net Cash from Operating Activities	<u>(902,301)</u>	<u>2,020,605</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(530,651)	(438,908)
Purchase of investments	(290,041)	(1,057,043)
Proceeds from sale of investments	<u>72,250</u>	<u>1,109,127</u>
Net Cash from Investing Activities	<u>(748,442)</u>	<u>(386,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt	<u>(72,003)</u>	<u>(72,093)</u>
Net Change in Cash and Cash Equivalents	(1,722,746)	1,561,688
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>5,117,962</u>	<u>3,556,274</u>
End of year	<u><u>\$ 3,395,216</u></u>	<u><u>\$ 5,117,962</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 78,912	\$ 84,085

Graham Windham

Notes to Financial Statements
June 30, 2012

1. Organization and Tax Status

General

Graham Windham (the Agency) is a not-for-profit, nonsectarian voluntary child welfare agency in New York State, providing a range of services and resources to children and their families in the New York metropolitan area. The Agency's purpose is to 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 and the Westchester based Therapeutic Foster Boarding Home.

Family Permanency Planning Services include the following programs:

Foster Boarding Homes – Placement and supervision of children with selected foster families. Supplemental programming includes Family Team Conferencing, Aftercare Reinvestment and Foster Parent Support.

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

Preparing Youth for Adulthood – Enhanced services for foster care children ages 14-21 to prepare them for independent living after foster care.

Medicaid:

Foster Care Clinics provided medical, clinical and nursing care for all children in the above-mentioned foster-care programs. Bridges to Health (B2H) Waiver Program provides opportunities for strong support of permanency planning and improving the health and well-being of foster children served. These complement but do not duplicate foster care services and include waiver services for children with serious emotional disturbances, children with developmental disabilities and for medically fragile children. All medical costs incurred in non foster-care programs are provided for within the specific program.

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Notes to Financial Statements
June 30, 2012

1. Organization and Tax Status (*continued*)

Program Services (continued)

Early Childhood Services include the following programs:

Day Care Centers – Provision of child care for two to five year-olds during the daytime. The Agency operated three centers; Williamsburg Day Care Center in Brooklyn, Harlem Child Care Center in Manhattan and the Early Learn Child Care Center in the Bronx.

Family Child Care Network (previously called 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.

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

Family Preservation Services include the following programs:

Manhattan Center and School Based Mental Health Programs (previously only Manhattan Center) – Provide both family and individual counseling, tutoring, recreation and cultural activities for youngsters as well as parenting education and support for families.

The Beacon Schools– Provides comprehensive support services to the students of PS 123 in Manhattan and MS 42 in the Bronx.

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

Passport to Parenting Program - works with pregnant or parenting teens in the child welfare system, to improve the health, educational and vocational, and self-efficacy outcomes for parent and child. This program is a collaboration between Graham Windham, Forestdale and Inwood House.

Young Adult Justice Scholars Program (SLAM) – is an educational and vocational program for court involved youth who are or have been involved with the child welfare system. The program serves up to 40 youth between the ages of 16 and 23, and provides direct educational services, vocational assessments and referrals, and peer support services.

Supporting Services

Management and General – Direction of the overall affairs of the Agency, including the following personnel: executive; human resources; information technology; policy, planning and performance; fiscal and administrative services.

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Notes to Financial Statements
June 30, 2012

1. Organization and Tax Status (*continued*)

Supporting Services (continued)

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 Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Asset 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 the 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.

Fair Value Measurements

The Agency follows Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted market prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

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Notes to Financial Statements
June 30, 2012

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

Investment Valuations

Investments are carried at fair value.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

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 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 the subsequent fiscal year are included in prepaid expenses on the statement of financial position.

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.

Graham Windham

Notes to Financial Statements June 30, 2012

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

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, 2011 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

The Agency recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Agency had no uncertain tax positions that would require financial statement recognition. The Agency is no longer subject to audits by the applicable taxing jurisdictions for tax years prior to 2008.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 29, 2012.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Agency to significant concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. At times cash balances held at financial institutions may be in excess of federally insured limits. The Agency has not experienced any losses on its cash deposits.

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Notes to Financial Statements June 30, 2012

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 receivables on the statement of financial position, totaled \$14,934,286 and \$13,204,392 as of June 30, 2012 and 2011. Management believes all receivables are collectible and accordingly no allowances for uncollectible accounts have been established for 2012 and 2011. The percentage of the total by third party payor was as follows:

	<u>2012</u>	<u>2011</u>
New York City	67 %	69 %
Medicaid	24	19
Federal	1	1
Other counties	5	6
New York State	<u>3</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 value consist of the following mutual funds as of June 30:

	<u>2012</u>	<u>2011</u>
Domestic Stocks Large Blend Index Fund	\$ 4,198,682	\$ 4,062,217
International Stocks Large Blend Index Fund	790,672	929,848
Intermediate Term Bond Index Fund	<u>5,898,664</u>	<u>5,487,768</u>
	<u>\$ 10,888,018</u>	<u>\$ 10,479,833</u>

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

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 9,997,665	\$ 9,590,422
Restricted	<u>890,353</u>	<u>889,411</u>
	<u>\$10,888,018</u>	<u>\$10,479,833</u>

As of and for the years ended June 30, 2012 and 2011, all of the Agency's investments, bought, sold and held were considered Level 1 investments.

Graham Windham

Notes to Financial Statements June 30, 2012

4. Investments (continued)

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

	2012	2011
Interest and dividends	\$ 303,131	\$ 266,443
Realized and unrealized gains	135,771	1,241,738
Investment fees	(12,984)	(16,196)
	<u>\$ 425,918</u>	<u>\$ 1,491,985</u>
Operating	\$ 18,509	\$ 18,475
Non-operating	407,409	1,473,510
	<u>\$ 425,918</u>	<u>\$ 1,491,985</u>

5. Property, Plant and Equipment

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

	2012	2011
Land	\$ 144,900	\$ 144,900
Buildings and improvements	9,894,706	9,765,463
Furniture and equipment	2,802,101	2,576,215
Leasehold improvements	3,036,169	2,894,628
Trucks and automobiles	16,450	16,450
	15,894,326	15,397,656
Construction in progress	556,776	522,795
	16,451,102	15,920,451
Accumulated depreciation and amortization	(12,439,078)	(11,722,108)
	<u>\$ 4,012,024</u>	<u>\$ 4,198,343</u>

During fiscal year 2011, the agency disposed of furniture and equipment amounting to \$7,551 with accumulated depreciation of \$4,823 resulting in a loss on disposal of \$2,728. No PP&E were disposed of during fiscal year 2012.

6. Due to Governments

A New York City (NYC) foster care audit for fiscal years 2008, 2009 and 2010 is currently in progress with the results yet to be determined. A liability to NYC of \$6,825,287 (inclusive of \$1,621,306 to satisfy the amount due for completed audits for fiscal year 2004 through 2007 and \$5,203,981 which acts as a reserve for any potential liabilities resulting from audits for fiscal years 2008 through 2012) is included in the \$10,515,525. Management believes this reserve is adequate.

Graham Windham

Notes to Financial Statements June 30, 2012

7. Mortgage Payable

The Agency has a mortgage loan payable through April 2026. 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, 2012 are payable as follows:

2013	\$ 72,000
2014	72,000
2015	72,000
2016	72,000
2017	72,000
Thereafter	<u>635,904</u>
	<u>\$ 995,904</u>

8. Portfolio Loan Account

The Agency has a portfolio loan account with Morgan Stanley Smith Barney. The portfolio loan account is a security-based loan agreement that allows the Agency to borrow up to 50 percent of the assets in the account. Interest is charged monthly on all outstanding amounts under this agreement at an interest rate of LIBOR plus 2.25 percent. At June 30, 2012 the available borrowing was \$2,806,661 with no outstanding obligation under this agreement.

9. 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.

10. Pension Plan

The Agency makes contributions to a defined contribution pension plan for participating employees. Pension expense was approximately \$1,090,600 and \$1,167,000 for the years ended June 30, 2012 and 2011.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$118,500 and \$114,600 for the years ended June 30, 2012 and 2011.

Graham Windham

Notes to Financial Statements June 30, 2012

11. 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. Beginning July 1, 2011, the Agency entered into a new eight year operating lease for the Family Foster Care Program in Manhattan. Aggregate minimum annual rentals for the years ending June 30, are payable as follows:

2013	\$ 1,024,013
2014	1,003,245
2015	1,029,971
2016	1,057,719
2017	707,353
Thereafter	2,493,707
	<u>\$ 7,316,008</u>

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 commitment.

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

2013	\$ 206,051
2014	154,969
2015	96,932
2016	44,525
2017	30,460
	<u>\$ 532,937</u>

Rental expense for office and program facilities for the years ended June 30, 2012 and 2011 was \$1,097,631 and \$1,082,949, net of rental income of \$204,305 and \$198,903. Rental expense for equipment and automobiles for the years ended June 30, 2012 and 2011 was \$278,908 and \$291,908.

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.

Graham Windham

Notes to Financial Statements June 30, 2012

12. Economic Dependency

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

13. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Westchester Residential Services	\$ 211,100	\$ 36,100
Family Permanency Planning	179,816	168,579
Early Childhood	-	25,644
Time restriction	-	1,248
	<u>\$ 390,916</u>	<u>\$ 231,571</u>

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

	<u>2012</u>	<u>2011</u>
Westchester Residential Services	\$ -	\$ 36,337
Family Permanency Planning	75,029	60,125
Early Childhood	15,000	72,280
Family Preservation	31,643	81,511
Time restriction	19,379	17,227
	<u>\$ 141,051</u>	<u>\$ 267,480</u>

14. Endowment and Net Assets Designated for Investments

The Agency maintains assets that are limited in their use by donor-imposed restrictions and restricted for investment in perpetuity. The income and gains from investment of these funds are available to support the operations and various programs of the Agency.

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Notes to Financial Statements
June 30, 2012

14. Endowment and Net Assets Designated for Investments *(continued)*

Interpretation of Relevant Law

The Board of the Agency has interpreted NYPMIFA as allowing the Agency to appropriate for expenditures or accumulate so much of the donor-restricted endowment fund as the Agency determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donors as expressed in their gift instruments except in those cases where the law allows appropriation for spending of the original gift amounts. The assets in the endowment funds shall be donor-restricted assets until appropriated for expenditure by the Board. Unless authorized by the Board, the appropriations from the endowment fund should not deplete the historical dollar value of the endowment fund.

Changes in donor-restricted endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2010	\$ -	\$ 749,312	\$ 749,312
Interest and dividends	20,892	-	20,892
Advisory fees	(2,417)	-	(2,417)
Realized gains	-	83	83
Unrealized gains	-	140,016	140,016
Appropriation for expenditure	<u>(17,227)</u>	<u>-</u>	<u>(17,227)</u>
Balance, June 30, 2011	1,248	889,411	890,659
Interest and dividends	20,889	-	20,889
Advisory fees	(2,758)	-	(2,758)
Realized gains	-	159	159
Unrealized gains	-	783	783
Appropriation for expenditure	<u>(19,379)</u>	<u>-</u>	<u>(19,379)</u>
Balance, June 30, 2012	<u>\$ -</u>	<u>\$ 890,353</u>	<u>\$ 890,353</u>

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Notes to Financial Statements
June 30, 2012

14. Endowment and Net Assets Designated for Investments (*continued*)

Investment Policy, Return Objective and Risk Parameters

The Agency utilizes a total return investment approach with its asset allocation diversified over multiple asset classes. Target allocation percentages are established for various asset classes and are modified over time. Performance is measured against a composite benchmark of investment indices reflecting the target asset allocation.

Spend Policy

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

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