

Graham Windham

Financial Statements

June 30, 2013

Independent Auditors' Report

Board of Directors Graham Windham

We have audited the accompanying financial statements of Graham Windham, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

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, 2013 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.

Report on Summarized Comparative Information

We have previously audited Graham Windham's June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 29, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

November 18, 2013

Graham Windham

Statement of Financial Position
June 30, 2013
(with comparative amounts at June 30, 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 2,077,937	\$ 3,395,216
Public maintenance receivables	15,666,945	15,421,884
Other accounts receivable and prepaid expenses	710,792	741,532
Investments	10,624,261	9,997,665
Property, plant and equipment, net	3,811,130	4,012,024
Restricted investments	978,806	890,353
	<u>\$ 33,869,871</u>	<u>\$ 34,458,674</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	8,217,433	\$ 9,425,071
Due to governments	10,313,720	10,943,503
Due to Greenburgh School	90,565	70,565
Mortgage payable	923,904	995,904
Total Liabilities	<u>19,545,622</u>	<u>21,435,043</u>
Net Assets		
Unrestricted	13,191,093	11,742,362
Temporarily restricted	154,350	390,916
Permanently restricted	978,806	890,353
Total Net Assets	<u>14,324,249</u>	<u>13,023,631</u>
	<u>\$ 33,869,871</u>	<u>\$ 34,458,674</u>

Graham Windham

Statement of Activities
Year Ended June 30, 2013

(with summarized totals for the year ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
OPERATING INCOME					
Public Support					
Public maintenance income	\$ 56,408,653	\$ -	\$ -	\$ 56,408,653	\$ 65,294,651
Contributions and grants	243,003	281,398	-	524,401	402,408
Special events, net of direct costs of \$204,739 and \$116,451	1,077,138	-	-	1,077,138	1,116,837
Revenue from UFSD No. 10	87,921	-	-	87,921	87,110
Total Public Support	57,816,715	281,398	-	58,098,113	66,901,006
Program service fees, other	198,385	-	-	198,385	869,429
Interest income	12,211	20,973	-	33,184	30,615
Net assets released from restrictions	538,937	(538,937)	-	-	-
Total Operating Income	58,566,248	(236,566)	-	58,329,682	67,801,050
OPERATING EXPENSES					
Program services	51,944,424	-	-	51,944,424	62,085,058
Management and general	5,370,728	-	-	5,370,728	5,369,232
Fundraising	605,279	-	-	605,279	558,737
Total Operating Expenses	57,920,431	-	-	57,920,431	68,013,027
Deficiency of Operating Income					
Over Expenses	645,817	(236,566)	-	409,251	(211,977)
NON OPERATING INCOME					
Investment income	802,914	-	88,453	891,367	407,409
Change in Net Assets	1,448,731	(236,566)	88,453	1,300,618	195,432
NET ASSETS					
Beginning of year	11,742,362	390,916	890,353	13,023,631	12,828,199
End of year	<u>\$ 13,191,093</u>	<u>\$ 154,350</u>	<u>\$ 978,806</u>	<u>\$ 14,324,249</u>	<u>\$ 13,023,631</u>

See notes to financial statements

Graham Windham

Statement of Functional Expenses
Year Ended June 30, 2013
(with summarized totals for the year ended June 30, 2012)

	Program Services						Supporting Services			2013	2012
	Westchester Residential Services	Permanency Planning	Medicaid	Early Childhood	Family Preservation	Total	Management and General	Fundraising	Total	Total	Total
PERSONNEL											
Salaries	\$ 6,858,474	\$ 6,951,623	\$ 6,048,836	\$ 518,476	\$ 3,042,605	\$ 23,420,014	\$ 2,996,812	\$ 380,572	\$ 3,377,384	\$ 26,797,398	\$ 30,121,760
Employee benefits and payroll taxes	2,734,418	2,260,642	1,810,384	145,628	917,656	7,868,728	943,537	119,299	1,062,836	8,931,564	9,705,529
CARE AND MAINTENANCE											
Food	496,947	878	831	20,284	11,188	530,128	-	-	-	530,128	588,551
Clothing	107,373	651,501	-	87	-	758,961	-	-	-	758,961	812,130
Travel and workers expense	85,180	222,075	57,418	941	54,722	420,336	5,428	388	5,816	426,152	367,506
Allowances and recreation	328,013	141,782	1,750	1,620	85,799	558,964	-	18,702	18,702	577,666	483,927
Medicine and medical supplies	-	-	605,333	-	988	606,321	-	-	-	606,321	675,107
Boarding payments to foster parents	353,689	7,461,938	-	1,321,571	-	9,137,198	-	-	-	9,137,198	13,786,490
PROFESSIONAL FEES											
Health services	-	8	1,601,378	-	95,020	1,696,406	-	-	-	1,696,406	2,223,212
Audit, legal and consultants	22,146	275,894	840	5,500	1,236	305,616	162,832	-	162,832	468,448	554,215
Purchased services	284,833	566,639	151,462	11,730	133,182	1,147,846	349,150	475	349,625	1,497,471	2,001,197
STAFF											
Staff development and conference	12,098	25,321	14,261	6,060	17,644	75,384	39,548	21,447	60,995	136,379	166,437
FIXED CHARGES, SERVICES AND EQUIPMENT											
Rent	-	328,979	195,057	18,058	127,770	669,864	344,650	24,811	369,461	1,039,325	1,099,914
Utilities	373,577	85,399	104,049	14,381	26,436	603,842	37,070	2,676	39,746	643,588	727,594
Repairs and maintenance	504,250	345,439	220,274	33,215	79,997	1,183,175	63,624	6,668	70,292	1,253,467	1,236,602
Telephone	43,935	65,963	66,216	6,915	64,700	247,729	54,223	4,070	58,293	306,022	293,576
Insurance	189,705	130,662	134,291	5,705	52,500	512,863	54,678	6,313	60,991	573,854	533,163
Postage	12,347	37,725	14,022	4,631	13,251	81,976	23,404	2,437	25,841	107,817	113,599
Equipment rental	112,974	56,691	39,922	16,814	29,233	255,634	41,792	3,105	44,897	300,531	279,139
SUPPLIES AND SUNDRY											
Supplies and equipment	732,377	72,475	101,485	10,300	32,004	948,641	43,328	7,828	51,156	999,797	721,048
Dues, licenses and permits	5,035	11,054	12,271	306	4,613	33,279	76,143	327	76,470	109,749	152,192
Subscriptions and publications	-	-	41	-	-	41	3,302	50	3,352	3,393	2,368
Depreciation and amortization	266,683	152,250	109,956	9,409	15,501	553,799	52,229	592	52,821	606,620	716,970
Property taxes	55,214	31,785	13,884	2,657	3,205	106,745	16,401	1,181	17,582	124,327	195,452
Interest	-	36,051	31,194	1,465	4,144	72,854	-	-	-	72,854	78,912
Administrative	37,409	46,811	38,767	3,247	21,846	148,080	62,577	4,338	66,915	214,995	376,437
Total Expenses	\$ 13,616,677	\$ 19,959,585	\$ 11,373,922	\$ 2,159,000	\$ 4,835,240	\$ 51,944,424	\$ 5,370,728	\$ 605,279	\$ 5,976,007	\$ 57,920,431	\$ 68,013,027

Graham Windham

Statement of Cash Flows
Year Ended June 30, 2013

(with comparative amounts for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,300,618	\$ 195,432
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	606,620	716,970
Donation of stock	(86,438)	(54,623)
Realized and unrealized gain on investments	(606,879)	(135,771)
Changes in operating assets and liabilities		
Public maintenance receivables	(245,061)	(1,700,732)
Other accounts receivable and prepaid expenses	30,740	55,309
Accounts payable and accrued expenses	(1,207,638)	683,681
Due to governments	(629,783)	(448,239)
Due to Greenburgh School	<u>20,000</u>	<u>(214,328)</u>
Net Cash from Operating Activities	<u>(817,821)</u>	<u>(902,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(405,726)	(530,651)
Purchase of investments	(368,572)	(290,041)
Proceeds from sale of investments	<u>346,840</u>	<u>72,250</u>
Net Cash from Investing Activities	<u>(427,458)</u>	<u>(748,442)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt	<u>(72,000)</u>	<u>(72,003)</u>
Net Change in Cash and Cash Equivalents	(1,317,279)	(1,722,746)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,395,216</u>	<u>5,117,962</u>
End of year	<u>\$ 2,077,937</u>	<u>\$ 3,395,216</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 72,854	\$ 78,912

Graham Windham

Notes to Financial Statements
June 30, 2013

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, 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 present significant emotional and educational challenges. 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 and Multidimensional Treatment 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, 2013

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.

As a result of a Board of Director's decision, Graham Windham no longer operates any Early Childhood programs effective October 31, 2012. All Early Childhood programs were successfully transferred to other Child Care Agencies.

Family and Community Support Services include the following programs:

Manhattan Mental Health 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– Provide comprehensive support services to the students of PS 123 in Manhattan and MS 42 in the Bronx.

Preventive Services – A diverse set of community based programs designed to help families address challenges which threaten their stability and safety.

Passport to Parenting Program - works with pregnant or parenting teens in the child welfare system to improve the health, educational, 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 juvenile justice 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: executive; human resources; information technology; policy, planning and performance; fiscal and administrative services.

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Notes to Financial Statements
June 30, 2013

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 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, 2013

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.

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Notes to Financial Statements
June 30, 2013

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, 2012 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 2009.

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 18, 2013.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

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, 2013

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 \$15,113,438 and \$14,934,286 as of June 30, 2013 and 2012. Management believes all receivables are collectible and accordingly no allowances for uncollectible accounts have been established for 2013 and 2012. The percentage of the total by third party payor was as follows:

	<u>2013</u>		<u>2012</u>	
New York City	70	%	67	%
Medicaid	24		24	
Federal	-		1	
Other counties	5		5	
New York State	<u>1</u>		<u>3</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>2013</u>	<u>2012</u>
Domestic Stocks Large Blend Index Fund	\$ 4,801,843	\$ 4,198,682
International Stocks Large Blend Index Fund	905,975	790,672
Intermediate Term Bond Index Fund	<u>5,895,249</u>	<u>5,898,664</u>
	<u>\$ 11,603,067</u>	<u>\$ 10,888,018</u>

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

	<u>2013</u>	<u>2012</u>
Unrestricted	\$ 10,624,261	\$ 9,997,665
Restricted	<u>978,806</u>	<u>890,353</u>
	<u>\$ 11,603,067</u>	<u>\$ 10,888,018</u>

As of June 30, 2013 and 2012, all of the Agency's investments, bought, sold and held were considered Level 1 investments.

Graham Windham

Notes to Financial Statements June 30, 2013

4. Investments (*continued*)

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

	2013	2012
Interest and dividends	\$ 322,617	\$ 303,331
Realized and unrealized gains	606,879	135,571
Investment fees	(17,156)	(12,984)
	<u>\$ 912,340</u>	<u>\$ 425,918</u>
Operating	\$ 20,973	\$ 18,509
Non-operating	891,367	407,409
	<u>\$ 912,340</u>	<u>\$ 425,918</u>

5. Property, Plant and Equipment

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

	2013	2012
Land	\$ 144,900	\$ 144,900
Buildings and improvements	10,238,747	9,915,582
Furniture and equipment	2,843,512	2,802,101
Leasehold improvements	3,036,443	3,015,293
Trucks and automobiles	16,450	16,450
	16,280,052	15,894,326
Construction in progress	576,776	556,776
	16,856,828	16,451,102
Accumulated depreciation and amortization	(13,045,698)	(12,439,078)
	<u>\$ 3,811,130</u>	<u>\$ 4,012,024</u>

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 \$6,229,636 (inclusive of \$1,021,306 to satisfy the amount due for completed audits for fiscal year 2004 through 2007 and \$5,208,330 for potential liabilities resulting from audits for fiscal years 2008 through 2013) is included in the \$10,313,720. Management believes this estimated liability is adequate.

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Notes to Financial Statements June 30, 2013

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, 2013 are payable as follows:

2014	\$ 72,000
2015	72,000
2016	72,000
2017	72,000
2018	72,000
Thereafter	<u>563,904</u>
	<u>\$ 923,904</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 \$2,500,000 or 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, 2013 the available borrowing was \$2,500,000 with no outstanding obligation under this agreement.

9. Union Free School District No. 10

The Agency received payments in 2013 totaling \$87,921 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 \$992,000 and \$1,090,600 for the years ended June 30, 2013 and 2012.

The Agency has a matching thrift savings plan available to all eligible employees. Agency expense amounted to approximately \$110,000 and \$118,500 for the years ended June 30, 2013 and 2012.

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Notes to Financial Statements June 30, 2013

11. Commitments and Contingencies

The Agency maintains several operating leases for office and program facilities which expire in varying years through March 2022. 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:

2014	\$ 1,050,647
2015	1,029,970
2016	1,057,719
2017	715,281
2018	658,883
Thereafter	<u>1,744,523</u>
	<u>\$ 6,257,023</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:

2014	\$ 187,798
2015	137,312
2016	72,982
2017	46,092
2018	<u>16,617</u>
	<u>\$ 460,801</u>

Rental expense for office and program facilities for the years ended June 30, 2013 and 2012 was \$1,037,042 and \$1,097,631, net of rental income of \$0 and \$204,302. Rental expense for equipment and automobiles for the years ended June 30, 2013 and 2012 was \$301,091 and \$278,908.

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.

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Notes to Financial Statements June 30, 2013

12. Economic Dependency

The Agency is licensed by the New York State Office of Children and Family Services 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>2013</u>	<u>2012</u>
Westchester Residential Services	\$ 46,502	\$ 211,100
Family Permanency Planning	59,408	179,816
Family and Community Support	<u>48,440</u>	<u>-</u>
	<u>\$ 154,350</u>	<u>\$ 390,916</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>2013</u>	<u>2012</u>
Westchester Residential Services	\$ 376,597	\$ -
Family Permanency Planning	118,807	75,029
Early Childhood	-	15,000
Family and Community Support	22,560	31,643
Time restriction	<u>20,973</u>	<u>19,379</u>
	<u>\$ 538,937</u>	<u>\$ 141,051</u>

14. Endowment Funds

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.

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.

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Notes to Financial Statements June 30, 2013

14. Endowment Funds (*continued*)

Changes in donor-restricted endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
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	-	890,353	890,353
Interest and dividends	23,845	-	23,845
Advisory fees	(2,872)	-	(2,872)
Realized gains	-	35,056	35,056
Unrealized gains	-	53,397	53,397
Appropriation for expenditure	<u>(20,973)</u>	<u>-</u>	<u>(20,973)</u>
Balance, June 30, 2013	<u>\$ -</u>	<u>\$ 978,806</u>	<u>\$ 978,806</u>

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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