



**NATIONAL CENTER FOR DISABILITY SERVICES (d/b/a ABILITIES!);
ITS SUBSIDIARIES, ABILITIES, INC. AND JUST ONE BREAK, INC.;
AND HENRY VISCARDI SCHOOL**

Combined Financial Statements and Schedule

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Board of Directors/Trustees
National Center for Disability Services (d/b/a Abilities!);
its subsidiaries, Abilities, Inc. and Just One Break, Inc.;
and Henry Viscardi School:

We have audited the accompanying combined statements of financial position of National Center for Disability Services (d/b/a Abilities!); its subsidiaries, Abilities, Inc. and Just One Break, Inc.; and Henry Viscardi School (collectively, the Organization) as of June 30, 2011 and 2010, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of National Center for Disability Services (d/b/a Abilities!); its subsidiaries, Abilities, Inc. and Just One Break, Inc.; and Henry Viscardi School as of June 30, 2011 and 2010, and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic combined financial statements taken as a whole.

KPMG LLP

November 30, 2011

**NATIONAL CENTER FOR DISABILITY SERVICES (d/b/a ABILITIES!);
ITS SUBSIDIARIES, ABILITIES, INC. AND JUST ONE BREAK, INC.;
AND HENRY VISCARDI SCHOOL**

Combined Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Assets:		
Cash and cash equivalents	\$ 794,432	3,374,165
Investments (note 3)	27,505,845	24,402,537
Receivables (less allowances of \$894,540 in 2011 and \$902,786 in 2010):		
Government agencies	1,382,933	1,776,668
Contributions and pledges (note 4)	483,833	614,056
Other	144,220	97,276
Prepaid expenses and other assets	133,679	149,079
Beneficial interest in split-interest agreements (note 3)	2,084,582	1,680,204
Property, plant, and equipment, net (note 5)	4,716,789	5,381,408
Total assets	\$ 37,246,313	37,475,393
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities	\$ 1,141,154	1,770,561
Accrued payroll and employee benefits	1,059,175	1,093,098
Accrued postretirement benefits (note 8)	3,736,469	4,584,528
Line of credit (note 6)	300,000	—
Asset retirement obligation (note 12)	187,087	176,497
Deferred revenue	81,875	71,042
Total liabilities	6,505,760	7,695,726
Net assets:		
Unrestricted	17,132,961	18,896,529
Temporarily restricted (note 7)	5,309,541	2,970,087
Permanently restricted (note 7)	8,298,051	7,913,051
Total net assets	30,740,553	29,779,667
Total liabilities and net assets	\$ 37,246,313	37,475,393

See accompanying notes to combined financial statements.

**NATIONAL CENTER FOR DISABILITY SERVICES (d/b/a ABILITIES!);
ITS SUBSIDIARIES, ABILITIES, INC. AND JUST ONE BREAK, INC.;
AND HENRY VISCARDI SCHOOL**

Combined Statements of Activities
Years ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total net assets
Program activities:								
Program support and revenue:								
New York State grants	\$ 13,493,685	—	—	13,493,685	14,028,940	—	—	14,028,940
Federal grants	545,151	—	—	545,151	806,863	—	—	806,863
New York State fees for programs for the disabled	1,423,928	—	—	1,423,928	2,120,405	—	—	2,120,405
Other fees for programs for the disabled	2,460,148	—	—	2,460,148	2,329,623	—	—	2,329,623
Investment income appropriated for expenditure (note 3)	1,349,451	—	—	1,349,451	—	—	—	—
Miscellaneous	379,440	—	—	379,440	431,238	—	—	431,238
Net assets released from restriction for programs and related expenses (note 7)	366,435	(366,435)	—	—	563,959	(563,959)	—	—
Total program support and revenue	<u>20,018,238</u>	<u>(366,435)</u>	<u>—</u>	<u>19,651,803</u>	<u>20,281,028</u>	<u>(563,959)</u>	<u>—</u>	<u>19,717,069</u>
Program expenses:								
Henry Viscardi School	14,558,694	—	—	14,558,694	14,492,774	—	—	14,492,774
Abilities, Inc.	4,612,886	—	—	4,612,886	4,978,219	—	—	4,978,219
Just One Break, Inc.	619,598	—	—	619,598	729,307	—	—	729,307
Research and Training Institute	472,931	—	—	472,931	483,670	—	—	483,670
Innovation and expansion	721,997	—	—	721,997	698,799	—	—	698,799
Total program expenses	<u>20,986,106</u>	<u>—</u>	<u>—</u>	<u>20,986,106</u>	<u>21,382,769</u>	<u>—</u>	<u>—</u>	<u>21,382,769</u>
Net program operating loss	<u>(967,868)</u>	<u>(366,435)</u>	<u>—</u>	<u>(1,334,303)</u>	<u>(1,101,741)</u>	<u>(563,959)</u>	<u>—</u>	<u>(1,665,700)</u>
Supporting and other activities:								
Supporting and other revenue:								
Contributions and pledges	986,985	448,925	—	1,435,910	1,076,054	465,819	—	1,541,873
Change in value of split-interest agreements	—	404,378	—	404,378	—	(30,093)	—	(30,093)
Insurance recovery (note 3)	—	51,205	400,000	451,205	—	—	—	—
Investment income, net of amounts appropriated for expenditure (note 3)	1,545,725	1,392,691	—	2,938,416	1,887,080	216,337	—	2,103,417
Net assets released from restriction for capital (note 7)	212,591	(212,591)	—	—	72,709	(72,709)	—	—
Donor-designated reclassification of net assets	—	15,000	(15,000)	—	—	—	—	—
Total supporting and other revenue	<u>2,745,301</u>	<u>2,099,608</u>	<u>385,000</u>	<u>5,229,909</u>	<u>3,035,843</u>	<u>579,354</u>	<u>—</u>	<u>3,615,197</u>
Supporting and other expenses:								
Management and general	1,954,948	—	—	1,954,948	1,638,108	—	—	1,638,108
Fund-raising and external relations	1,230,088	—	—	1,230,088	1,241,338	—	—	1,241,338
Total supporting and other expenses	<u>3,185,036</u>	<u>—</u>	<u>—</u>	<u>3,185,036</u>	<u>2,879,446</u>	<u>—</u>	<u>—</u>	<u>2,879,446</u>
Net supporting and other activities surplus (loss)	<u>(439,735)</u>	<u>2,099,608</u>	<u>385,000</u>	<u>2,044,873</u>	<u>156,397</u>	<u>579,354</u>	<u>—</u>	<u>735,751</u>
(Decrease) increase in net assets before other changes	<u>(1,407,603)</u>	<u>1,733,173</u>	<u>385,000</u>	<u>710,570</u>	<u>(945,344)</u>	<u>15,395</u>	<u>—</u>	<u>(929,949)</u>
Other changes:								
Pension-related changes other than net periodic pension cost (note 8)	250,316	—	—	250,316	(136,835)	—	—	(136,835)
Net assets reclassification based on adoption of ASC 958-205 (note 7)	(606,281)	606,281	—	—	—	—	—	—
Total other changes	<u>(355,965)</u>	<u>606,281</u>	<u>—</u>	<u>250,316</u>	<u>(136,835)</u>	<u>—</u>	<u>—</u>	<u>(136,835)</u>
(Decrease) increase in net assets	<u>(1,763,568)</u>	<u>2,339,454</u>	<u>385,000</u>	<u>960,886</u>	<u>(1,082,179)</u>	<u>15,395</u>	<u>—</u>	<u>(1,066,784)</u>
Net assets at beginning of year	18,896,529	2,970,087	7,913,051	29,779,667	19,978,708	2,954,692	7,913,051	30,846,451
Net assets at end of year	<u>\$ 17,132,961</u>	<u>5,309,541</u>	<u>8,298,051</u>	<u>30,740,553</u>	<u>18,896,529</u>	<u>2,970,087</u>	<u>7,913,051</u>	<u>29,779,667</u>

See accompanying notes to combined financial statements.

**NATIONAL CENTER FOR DISABILITY SERVICES (d/b/a ABILITIES!);
ITS SUBSIDIARIES, ABILITIES, INC. AND JUST ONE BREAK, INC.;
AND HENRY VISCARDI SCHOOL**

Combined Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 960,886	(1,066,784)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Pension-related changes other than net periodic pension cost	(250,316)	136,835
Change in value of split-interest agreements	(404,378)	30,093
Depreciation expense	976,621	1,126,551
Loss on disposal of property and equipment	—	2,676
Audit disallowance and bad debt expense	478,803	49,921
Unrealized gains on investments	(5,448,000)	(1,940,481)
Realized losses on investments, net	1,512,113	66,863
Contributions restricted for capital	(10,600)	(172,950)
Insurance recovery	(400,000)	—
Changes in assets and liabilities:		
Receivables	(1,789)	(34,859)
Prepaid expenses and other assets	15,400	25,338
Accounts payable, accrued expenses, and other liabilities	(629,407)	(159,415)
Accrued payroll and employee benefits	(631,666)	(187,893)
Asset retirement obligation	10,590	7,636
Deferred revenue	10,833	(80,383)
Net cash used in operating activities	(3,810,910)	(2,196,852)
Cash flows from investing activities:		
Purchases of investment securities	(28,582,634)	(6,211,521)
Proceeds from redemption and sales of investment securities	29,415,213	5,778,880
Acquisition of property and equipment, net	(312,002)	(182,267)
Net cash provided by (used in) investing activities	520,577	(614,908)
Cash flows from financing activities:		
Contributions restricted for capital	10,600	172,950
Insurance recovery	400,000	—
Proceeds from line of credit	6,200,000	—
Principal payments on line of credit	(5,900,000)	—
Net cash provided by financing activities	710,600	172,950
Decrease in cash and cash equivalents	(2,579,733)	(2,638,810)
Cash and cash equivalents at beginning of year	3,374,165	6,012,975
Cash and cash equivalents at end of year	\$ 794,432	3,374,165

See accompanying notes to combined financial statements.

**NATIONAL CENTER FOR DISABILITY SERVICES (d/b/a ABILITIES!);
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Notes to Combined Financial Statements

June 30, 2011 and 2010

(1) Organization

National Center for Disability Services d/b/a Abilities! (the Center); its subsidiaries, Abilities, Inc. (Abilities) and Just One Break, Inc. (JOB); and Henry Viscardi School (the School) (collectively, the Organization) are dedicated to empowering people with disabilities to be active, independent, and self-sufficient participants in our society. The Center conducts its work through Abilities, which provides evaluation, training, counseling, and job placement services for over 2,000 adults with disabilities; the National Business and Disability Council (NBDC), which, along with other companies and labor unions, conducts training seminars, programs, conferences, and technical assistance to facilitate the employment of persons with disabilities; and the Research and Training Institute (RTI), which conducts research on the education, employment, and career development of persons with disabilities. NBDC is a division of JOB; RTI is a division of the Center. The School provides tuition-free education for approximately 200 children with disabilities through its early childhood, elementary, and secondary educational programs.

The Organization receives a majority of its program revenue from state, federal, and private sources. Revenue from New York State for state-funded programs represents approximately 76% and 82% of the Organization's program revenue for the years ended June 30, 2011 and 2010, respectively.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting, which combine the accounts of the Center with its wholly owned subsidiaries, Abilities and JOB; and the School. Such organizations operate under common management. All intercompany accounts and transactions have been eliminated in consolidation and combination.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management of the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. Significant items subject to such estimates and assumptions include the useful lives and valuation of property, plant, and equipment; allowances for doubtful receivables; investments; and reserves for employee benefit obligations, uncertainties, and other contingencies. As future events and their effects cannot be determined with precision, actual results could differ from those estimates.

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Notes to Combined Financial Statements

June 30, 2011 and 2010

(c) *Cash and Cash Equivalents*

The Organization considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents, except for those short-term investments purchased by the Organization's investment managers as a part of their investment strategy.

(d) *Investments and Investment Income*

Investments in marketable securities with readily determinable market values are carried at fair value or, with respect to alternative investments, at estimated values provided by external investment managers. The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, with respect to certain investments in funds that do not have readily determinable fair values. This guidance allows, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. In addition, classification of these investments within the fair value hierarchy is based on the Organization's ability to redeem its interest at or near balance sheet date rather than on valuation inputs.

These estimated values, as well as the underlying valuation methodologies and assumptions, are reviewed and evaluated by the Organization. Due to the inherent uncertainties of these estimates, these values may differ significantly from the values that would have been used had a ready market existed for such investments. Donated marketable securities are recorded at fair value at the date of the gift.

Investment income or loss is included in the increase or decrease in unrestricted net assets unless the income or loss is restricted by the donor or law. The Organization uses the specific-identification method to determine the cost of securities sold. Income derived from investments, receivables, and the like are classified based upon the absence or presence of donor-imposed restrictions.

(e) *Split-Interest Agreements*

The Organization's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts. Contributions are recognized at the date the trusts are established. The change in the value of the assets is reflected as a change in value of split-interest agreements in the accompanying combined statements of activities.

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Notes to Combined Financial Statements

June 30, 2011 and 2010

(f) Property and Equipment

Property and equipment are recorded at cost when acquired and at estimated fair value when donated. Depreciation is provided over the estimated useful lives of the assets on the straight-line method. Estimated useful lives are as follows:

Building and land and building improvements	5 to 40 years
Furniture, fixtures, and equipment	3 to 30 years
Vehicles and computer software	3 to 5 years

Building and land improvements are depreciated over the lesser of the estimated useful life of the improvement or the remaining useful life of the building. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

(g) Temporarily and Permanently Restricted Net Assets

The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific purpose. If assets are donated with the stipulation that they must be retained indefinitely with only income from the assets to be used, the assets are reported as permanently restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as released from restriction.

(h) Contributions and Pledges

Unconditional contributions and pledges are recognized as revenue in the period received. Such amounts are recorded at fair value on the date of the gift, inclusive of an allowance for uncollectible pledges receivable.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donated long-lived assets, securities, and other assets are recorded as contributions at their fair value at the date of receipt.

(i) Income Taxes

The Organization has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Section 501(a) of the IRC.

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June 30, 2011 and 2010

The Organization follows ASU 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (now included in Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*). FASB Interpretation No. 48 addresses the accounting for uncertainties in income taxes recognized in an organization's combined financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There are no significant uncertain tax positions at June 30, 2010 and 2011.

(j) Program Revenue

Revenues for program services are recorded at amounts appropriated or rates established by governmental payors and are recognized as services are performed. Certain appropriations and rates are subject to audit and adjustment by governmental payors based upon regulations of the various funding entities.

Rate and appropriation adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits. For the years ended June 30, 2011 and 2010, there were no adjustments related to grant appropriations for prior years. However, certain reimbursed costs from the School's 2008 and 2009 fiscal years were refunded to New York State as a result of a grant audit (see note 10).

Deferred revenue is recorded by the Organization for grant payments received in the current fiscal year relating to grants awarded for the next fiscal year.

(k) Recently Adopted Accounting Standards

In September 2010, New York State adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). In accordance with the provisions of NYPMIFA, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA, and in accordance with the disclosure provisions set forth by ASC 958-205, *Not-for-Profit Entities-Presentation of Financial Statements* (see note 7(c)).

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Notes to Combined Financial Statements

June 30, 2011 and 2010

(3) Investments and Fair Value Measurements

Operating investment income, net, for 2011 and 2010 comprises the following:

	2011	2010
Interest and dividend income	\$ 553,463	437,382
Realized losses on sales of securities, net	(1,512,113)	(66,863)
Unrealized gains on securities	5,448,000	1,940,481
Investment advisory fees	(201,483)	(207,583)
	\$ 4,287,867	2,103,417

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Includes alternative investments that can be redeemed at net asset value per share (or its equivalent) at or near the measurement date.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value in its entirety.

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Notes to Combined Financial Statements

June 30, 2011 and 2010

The Organization's assets at June 30, 2011 and 2010 that are reported at fair value are summarized in the following table by their fair value hierarchy:

		2011			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:					
Cash and cash equivalents	\$	214,892	104,420	—	319,312
Domestic fixed income		4,434,598	154,688	—	4,589,286
Domestic equities		4,938,837	—	1,432,642	6,371,479
International fixed income		1,284,007	—	—	1,284,007
International equities		1,809,281	3,318,486	—	5,127,767
Global asset allocation funds		2,247,289	3,963,639	—	6,210,928
Commodities fund		—	1,310,595	—	1,310,595
Hedge funds of funds		—	—	2,292,471	2,292,471
Total investments	\$	<u>14,928,904</u>	<u>8,851,828</u>	<u>3,725,113</u>	<u>27,505,845</u>
Beneficial interests in split-interest agreements					
	\$	—	2,084,582	—	2,084,582
		2010			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:					
Cash and cash equivalents	\$	320,879	131,509	—	452,388
Domestic fixed income		5,106,812	263,444	—	5,370,256
Domestic equities		4,661,843	—	—	4,661,843
International equities		399,773	3,507,776	—	3,907,549
Global asset allocation funds		1,883,289	3,215,505	—	5,098,794
Commodities fund		—	1,010,687	—	1,010,687
Hedge funds of funds		—	1,591,940	2,309,080	3,901,020
Total investments	\$	<u>12,372,596</u>	<u>9,720,861</u>	<u>2,309,080</u>	<u>24,402,537</u>
Beneficial interests in split-interest agreements					
	\$	—	1,680,204	—	1,680,204

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Notes to Combined Financial Statements

June 30, 2011 and 2010

The following table represents the Organization's activity for the fiscal years ended June 30, 2011 and 2010 for Level 3 investments measured at fair value on a recurring basis using significant unobservable inputs:

	<u>2011</u>	<u>2010</u>
Fair value at July 1	\$ 2,309,080	2,112,168
Purchases	1,100,000	—
Realized losses on investments	(48,093)	—
Unrealized gains on investments	541,033	196,912
Withdrawals	(176,907)	—
Fair value at June 30	<u>\$ 3,725,113</u>	<u>2,309,080</u>

The Organization's investments are not subject to limitations or restrictions that would inhibit the Organization's ability to redeem or sell its investments during the 2012 fiscal year.

As of June 30, 2011, the Organization's investments in hedge funds of funds represent portfolios of hedge funds comprised of the following broad categories: relative value, event driven, hedged equities, and futures trading.

The Organization's alternative investments contain redemption restrictions with required written notice ranging from 30 to 95 days. As of June 30, 2011, the following table summarizes the composition of alternative investments at the net asset value of such investments by the various redemption provisions:

	<u>Global Asset Allocation Funds</u>	<u>International Equity</u>	<u>Commodities Fund</u>	<u>Hedge Funds of Funds</u>	<u>Domestic Equities</u>	<u>Amount</u>
Redemption frequency:						
Daily	\$ 3,963,639	—	—	—	—	3,963,639
Monthly	—	3,318,486	1,310,595	—	—	4,629,081
Quarterly	—	—	—	2,292,471	—	2,292,471
Annual	—	—	—	—	1,432,642	1,432,642
Total	<u>\$ 3,963,639</u>	<u>3,318,486</u>	<u>1,310,595</u>	<u>2,292,471</u>	<u>1,432,642</u>	<u>12,317,833</u>

In December 2008, the Organization was notified that a federal court issued a temporary order freezing the assets and appointing a receiver over one of its investment managers, Bernard L. Madoff Investment Securities LLC (BMIS), due to allegations of wrong-doing. The SEC determined that securities fraud had transpired. Therefore, the Organization deemed its donor-directed investment in BMIS as fully impaired and recorded an extraordinary investment loss of approximately \$1,215,000 in its 2009 combined statements of activities. During fiscal year 2011, a one-time distribution of \$451,205 was received from the Securities Investor Protection Corporation (SIPC) representing the approximate deposit amount net of withdrawals that the Organization had lost as a result of the fraud. The Organization utilized the proceeds to restore the \$400,000 permanently restricted endowment, which was included in the 2009 extraordinary investment loss and classified the remainder as temporarily restricted income to benefit the School.

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(4) Contributions and Pledges Receivable

- (a) Contributions receivable, included in unrestricted, temporarily restricted, and permanently restricted net assets in the accompanying combined statements of financial position, consisted of the following at June 30, 2011 and 2010:

	2011	2010
Total contributions receivable	\$ 550,866	685,847
Less:		
Allowance for uncollectible receivables	35,350	22,850
Discounted at rates ranging from 3.2% to 6.0%	31,683	48,941
	\$ 483,833	614,056

Contributions receivable as of June 30, 2011 are expected to be collected as follows:

Less than one year	\$ 346,704
One to five years	204,162
	\$ 550,866

- (b) The Center received donated services and in-kind gifts from various professional individuals. The amounts of these services recorded as contribution revenue and expense in the accompanying combined statements of activities are \$64,871 and \$58,856 in fiscal 2011 and 2010, respectively. The School received approximately \$35,000 and \$47,000 in fiscal 2011 and 2010, respectively, in donated services predominantly from volunteers assisting in the classroom, which appropriately has not been reflected in the accompanying combined financial statements.

(5) Property and Equipment

The components of property and equipment and accumulated depreciation as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Land and improvements	\$ 1,947,003	1,938,754
Buildings and improvements	24,304,413	24,282,349
Furniture, fixtures, and computer and other equipment	6,461,691	6,264,251
Vehicles	347,480	347,480
Purchased computer software	732,336	715,013
	33,792,923	33,547,847
Less accumulated depreciation	29,076,134	28,166,439
Property and equipment, net	\$ 4,716,789	5,381,408

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Depreciation expense amounted to \$976,621 and \$1,126,551 in fiscal 2011 and 2010, respectively.

In April 1997, the Center executed an agreement, which is set to expire in March 2013, to lease 9,040 square feet of its facility to St. Charles Hospital (St. Charles). Rental payments under this lease agreement were \$329,461 and \$327,523 for the years ended June 30, 2011 and 2010, respectively. Such payments are recorded as miscellaneous program revenue in the accompanying combined statements of activities. Future annual rental payments receivable under the lease are \$330,673 and \$250,785 for fiscal 2012 and 2013, respectively.

(6) Line of Credit

In June 2010, the Center was approved for a working capital line of credit of \$3 million with a financial institution. As of June 30, 2011, there was \$300,000 outstanding under this line and there were no outstanding borrowings at June 30, 2010. The line expires on January 31, 2012 and bears interest at the London Interbank Offered Rate (LIBOR) plus 3.0%. The line is secured by the Organization's investments with the financial institution.

During September 2011, the Center's line of credit was approved for an increase to \$6 million.

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(7) Temporarily Restricted and Permanently Restricted Net Assets

(a) Released from Restrictions

The following purpose and time restrictions on temporarily restricted net assets were satisfied during 2011 and 2010:

	2011		
	Programs and related expenses	Capital	Total
Universal design project	\$ 2,805	19,976	22,781
Inclusive technology program	5,877	1,823	7,700
Kornreich Technology Center	30,936	14,049	44,985
Skills development area	14,646	—	14,646
Transition services	8,742	—	8,742
National Business and Disability Council	120,029	—	120,029
Fine arts program	33,039	3,170	36,209
Laboratory program	20,209	—	20,209
After-school programs	57,223	—	57,223
Career Readiness and Testing Center	18,391	—	18,391
Henry Viscardi School computer upgrade	275	165,547	165,822
Time-restricted pledges	12,500	—	12,500
All other purposes	41,763	8,026	49,789
	\$ 366,435	212,591	579,026

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	2010		
	Programs and related expenses	Capital	Total
Universal design project	\$ 3,536	1,203	4,739
Inclusive technology program	12,723	1,310	14,033
Kornreich Technology Center	26,271	12,216	38,487
Skills development area	75,354	—	75,354
Learn and Earn program	104,279	—	104,279
National Business and Disability Council	109,134	—	109,134
Fine arts program	9,480	2,778	12,258
Laboratory program	20,000	—	20,000
After-school programs	49,272	—	49,272
Career Readiness and Testing Center	35,637	—	35,637
Medical suite renovation	4,266	46,996	51,262
Henry Viscardi Museum	—	6,732	6,732
Time-restricted pledges	25,000	—	25,000
All other purposes	89,007	1,474	90,481
	\$ 563,959	72,709	636,668

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(b) Composition

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
New Jersey laboratory project	\$ 34,341	34,341
Universal design project	19,273	42,053
Inclusive technology program	111,485	51,445
Kornreich Technology Center	490,690	454,130
Skills development area	19,098	32,179
Transition services	105,758	—
PROSPER program	55,034	—
National Business and Disability Council	185,366	144,823
Fine arts program	80,173	49,268
Laboratory program	—	20,209
Gym renovation	20,036	20,036
Henry Viscardi School computer upgrade	10,419	168,847
After school programs	65,066	49,855
Career Readiness and Testing Center	9,382	27,773
General purpose endowment income	1,718,351	—
Henry Viscardi Museum	17,793	17,793
Beneficial interest in remainder trusts	2,084,582	1,680,204
All other purposes	282,694	177,131
	<u>\$ 5,309,541</u>	<u>2,970,087</u>

Permanently restricted net assets at June 30, 2011 and 2010 are restricted to investment in perpetuity, with the accumulated investment income available to support the following purposes:

	<u>2011</u>	<u>2010</u>
General – Center	\$ 4,091,103	4,091,103
General education – School	1,577,197	1,577,197
Kornreich Technology Center	1,000,000	1,000,000
To be designated by donor – School	400,000	—
Multimedia technology – School	300,000	300,000
Information services – Center	200,000	200,000
Information services – School	100,000	100,000
Fine arts programs – School	120,000	120,000
School art program – School	100,000	100,000
Kornreich Library	88,861	103,861
Career and Employment Institute	50,000	50,000
All other purposes	270,890	270,890
	<u>\$ 8,298,051</u>	<u>7,913,051</u>

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(c) Endowment Funds

The Organization's endowments consist of approximately 23 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Organization to function as endowments (quasi-endowment). As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's management and investment of donor-restricted endowment funds has historically been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA) and the New York State Trust Laws. In 2006, the Uniform Law Commission approved the model act, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline for states to use in enacting legislation. Among UPMIFA's most significant changes was the elimination of UMIFA's important concept of historical dollar-value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

In September 2010, New York State enacted NYPMIFA. The Organization has interpreted NYPMIFA as allowing it to appropriate for expenditure or accumulate so much of the donor-restricted endowment fund as is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to intent of the donor as expressed in the gift instrument absent explicit donor stipulations to the contrary. Accounting guidance associated with the enactment of NYPMIFA as set forth in ASC 958, Section 205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In response to the adoption of ASC 958-205 and the enacted version of NYPMIFA, the Organization reclassified net assets of \$606,281 from unrestricted net assets to temporarily restricted net assets in the 2011 combined statement of activities. This represents the unrestricted portion of those donor-restricted endowment funds that have not been appropriated by the board for expenditure.

The following represents the net asset classes of the Organization's endowment funds at June 30, 2011 and 2010:

	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (105,418)	2,250,877	8,298,051	10,443,510
Quasi (board designated)	16,202,411	—	—	16,202,411
	\$ 16,096,993	2,250,877	8,298,051	26,645,921

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2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ 354,858	539,450	7,913,051	8,807,359
Quasi (board designated)	14,849,629	—	—	14,849,629
	\$ 15,204,487	539,450	7,913,051	23,656,988

Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 were as follows:

2011				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2010	\$ 15,204,487	539,450	7,913,051	23,656,988
Net asset reclassification based on adoption of ASC 958-205	(606,281)	606,281	—	—
Interest and dividends	352,020	192,764	—	544,784
Realized losses	(1,293,913)	(174,231)	—	(1,468,144)
Unrealized gains	3,984,876	1,222,474	—	5,207,350
Investment fees	(144,395)	(55,507)	—	(199,902)
Donor-designated reclassification of net assets	—	15,000	(15,000)	—
Additions	—	7,689	400,000	407,689
Appropriation of endowment assets for expenditure	(1,349,451)	—	—	(1,349,451)
Other distributions	(50,350)	(103,043)	—	(153,393)
Net assets at June 30, 2011	\$ 16,096,993	2,250,877	8,298,051	26,645,921

2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2009	\$ 13,029,319	374,888	7,913,051	21,317,258
Interest and dividends	360,702	85,736	—	446,438
Realized (losses) gains	(51,340)	13,185	—	(38,155)
Unrealized gains	1,740,102	128,159	—	1,868,261
Investment fees	(196,130)	(10,742)	—	(206,872)
Additions and distributions	321,834	(51,776)	—	270,058
Net assets at June 30, 2010	\$ 15,204,487	539,450	7,913,051	23,656,988

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Organization to retain as a fund for perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent there are accumulated gains available to absorb such loss, or otherwise unrestricted net assets. There were deficiencies as of June 30, 2011 and 2010 of \$105,418 and \$124,181, respectively.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift. Under this policy, as approved by the Board of Directors, the Organization expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. The Organization has a policy of appropriating 4% of the net investment return, after deducting for 3% inflation and 1% in fees, on the endowment funds for spending unless otherwise explicitly stipulated by the donor. There was no spending appropriated in fiscal 2011 or 2010; however, in 2011 the Board of Trustees authorized a one-time appropriation of \$1,349,451 from the board designated endowment funds to subsidize certain operating costs.

(8) Retirement Benefits

- (a) Employees of the Organization who meet certain age and service requirements are covered under a defined contribution retirement plan with the Teachers Insurance and Annuity Association and College Retirement Equities Fund, which provides for the purchase of annuities for plan participants. Under the provisions of the Collective Bargaining Agreement (the Agreement), School employees hired after February 7, 2001 participate in the New York State's Employee Retirement Systems Pension Plan. Retirement expense under these plans amounted to approximately \$876,494 and \$864,615 in fiscal 2011 and 2010, respectively. The Organization also maintained a defined benefit supplemental executive retirement plan (SERP). The SERP was fully settled in 2011 and was a nonqualified plan under the IRC.
- (b) Under the provisions of the Agreement, all union employees are entitled to receive payment of certain of their unused sick/personal days upon retirement. In addition, under the Agreement, the Organization is required to provide certain healthcare benefits to retired employees. Expenditures under these plans are reimbursable expenses under the School's New York State grant when actual payments to retirees are made subject to the specific limitations on grant expenditures.

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As of June 30, 2011, the items not yet recognized as a component of net periodic postretirement benefit cost are as follows:

	<u>SERP</u>	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
Prior service cost	\$ —	386,330	505	386,835
Net actuarial loss	—	723,678	157,071	880,749
	<u>\$ —</u>	<u>1,110,008</u>	<u>157,576</u>	<u>1,267,584</u>

The following tables provide the components of the net periodic benefit costs for the years ended June 30:

2011				
	<u>SERP</u>	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
Service cost	\$ —	116,018	13,410	129,428
Interest cost	54,004	187,588	17,740	259,332
Amortization of prior service cost	43,420	32,033	9,523	84,976
Amortization of actuarial loss	77,269	32,481	6,450	116,200
Settlements	243,718	—	—	243,718
Curtailments	31,015	—	—	31,015
Net postretirement expense	<u>\$ 449,426</u>	<u>368,120</u>	<u>47,123</u>	<u>864,669</u>

2010				
	<u>SERP</u>	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
Service cost	\$ 89,251	149,250	19,941	258,442
Interest cost	77,374	151,680	15,035	244,089
Amortization of prior service cost	82,579	32,033	9,523	124,135
Amortization of actuarial loss	141,636	1,495	6,024	149,155
Settlements	(33,887)	—	—	(33,887)
Net postretirement expense	<u>\$ 356,953</u>	<u>334,458</u>	<u>50,523</u>	<u>741,934</u>

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In addition to service and interest costs, the components of projected net periodic postretirement benefit costs for fiscal 2012 will include the following:

	<u>SERP</u>	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
Amortization of prior service costs	\$ —	32,033	9,523	41,556
			<u>2011</u>	<u>2010</u>
Weighted average assumptions as of June 30:				
Discount rate – benefit obligation – SERP			N/A	4.88%
Discount rate – benefit obligation – other plans			4.95%	5.07
Discount rate – net periodic benefit cost – SERP			4.88	5.35
Discount rate – net periodic benefit cost – other plans			5.07	5.78
Rate compensation increase – SERP			N/A	6.00
Rate compensation increase – other plans			4.00	4.00

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2011. The rate was assumed to decrease gradually to 5% for 2013 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare benefit retirement plan. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

<u>Effect of change in medical cost trend rate</u>	<u>2011</u>	
	<u>1% increase</u>	<u>1% decrease</u>
Effect on total of service cost and interest	\$ 49,219	(51,114)
Effect on accumulated postretirement benefit obligation	215,249	(187,749)

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for fiscal years ending in:

	<u>SERP</u>	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
2012	\$ —	145,947	55,040	200,987
2013	—	139,196	62,631	201,827
2014	—	131,372	65,490	196,862
2015	—	127,198	70,409	197,607
2016	—	122,396	55,116	177,512
2017 – 2021	—	558,471	177,904	736,375
	<u>\$ —</u>	<u>1,224,580</u>	<u>486,590</u>	<u>1,711,170</u>

(9) Functional and Organizational Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the combined statements of activities. Accordingly, certain operating costs amounting to \$2,662,933 and \$3,083,650 in fiscal 2011 and 2010, respectively, have been allocated among the Center's and School's programs.

The following schedule summarizes the indirect costs, which are included in program expenses and fund-raising and external relations in the combined statements of activities for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Henry Viscardi School	\$ 1,853,947	2,117,668
Abilities, Inc.	562,781	633,289
Research and Training Institute	70,481	77,819
Just One Break, Inc.	31,137	70,657
Innovation and expansion	54,283	71,412
Fundraising and external relations	90,304	112,805
Total program and supporting service overhead	<u>\$ 2,662,933</u>	<u>3,083,650</u>

The Center entered into an administrative services agreement with Abilities, JOB, and the School, where the Center incurs all common central administrative overhead costs for those entities. These costs relate principally to maintenance, utilities, management, accounting, data processing, and purchasing services. Such costs are allocated among the entities based upon a formula that reflects management's estimate of usage of such services. The fees charged by the Center to Abilities, JOB, and the School eliminate in consolidation and combination.

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(10) Contingencies

The Center and School are recipients of funding from both federal and state governmental agencies. Consequently, certain revenues included in the accompanying combined statements of activities are subject to audit by the grant agencies. Although such audits could result in reimbursement to the grantor agencies, management believes that any disallowances resulting from such audits would be immaterial to the financial position and results of operations of the Organization. Future funding from these agencies may be adversely affected by changes in reimbursement regulations, education law, or budgetary constraints experienced by such agencies.

New York State performed an audit of claimed expenses under the School's educational grant for fiscal years 2008 and 2009. During fiscal year 2011, the New York State Education Department (the State) determined that approximately \$835,000 of claimed costs identified during the audit were not reimbursable. As a result, the State reduced the outstanding amount owed to the School. The School's receivable at June 30, 2011 reflects the State's ruling. As part of the adjustment, the School reduced its reserve for disallowed costs by \$413,860 and recorded an audit disallowance of \$421,215. Abilities! contributed \$648,000 to the School in 2011 to mitigate the financial impact of the State's ruling. The contribution from Abilities! to the School was eliminated in the 2011 combined statement of activities.

Claims have been asserted against the Organization by various claimants. The claims are in various stages and some may ultimately be brought to trial. Incidents occurring through June 30, 2011 may result in the assertion of additional claims. In the opinion of management, losses from these asserted and unasserted actions, if any, will be settled within the limits of insurance coverage.

Indirect cost allowance recoveries under certain government grants are accrued on an estimated basis in the period the work is performed. Such estimates are subject to revision based upon actual indirect costs for the year. Final rates have been negotiated and accepted by the cognizant government granting agency for years through June 30, 2009. Management does not anticipate a material adverse impact on the financial position of the Organization as a result of changes to the interim rates utilized through June 30, 2011.

(11) Commitments

At June 30, 2011, the Organization was obligated for minimum annual rental payments under noncancelable operating leases for equipment and facilities as follows:

Year ending June 30:		
2012	\$	70,169
2013		70,169
2014		52,791
2015		10,366
2016		4,499
		207,994
	\$	207,994

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Rental expenses under leases approximated \$83,080 and \$82,075 for the years ended June 30, 2011 and 2010, respectively.

(12) Asset Retirement Obligation

The Organization accrues for costs related to legal obligations to perform asbestos abatement as a conditional asset retirement obligation and estimated that the present value of the cost of remediation is \$187,087 and \$176,497 as of June 30, 2011 and 2010, respectively. Accretion expense is recognized annually using the effective interest method. There was no remediation of asbestos during fiscal 2011. The Organization remediated \$3,350 of asbestos in the 2010 fiscal year.

(13) Subsequent Events

The Organization evaluated events subsequent to June 30, 2011 and through November 30, 2011, the date on which the combined financial statements were issued and concluded that no additional disclosures are required.

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Combining Schedule of Functional Expenses

Year ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	Program expenses					Supporting and other expenses			2011 Total expenses	2010 Total expenses	
	Henry Viscardi School	Abilities, Inc.	Just One Break, Inc.	Research and Training Institute	Innovation and expansion	Total program services	Management and general	Fund-raising and external relations			Total supporting services
Salaries	\$ 9,007,289	2,787,255	235,902	300,293	371,892	12,702,631	671,571	523,499	1,195,070	13,897,701	14,151,646
Health and retirement benefits, payroll taxes, etc.	3,306,079	804,723	62,686	71,848	87,523	4,332,859	605,948	136,579	742,527	5,075,386	4,996,572
Total salaries and related expenses	12,313,368	3,591,978	298,588	372,141	459,415	17,035,490	1,277,519	660,078	1,937,597	18,973,087	19,148,218
Contracted medical, educational, and vocational services	81,643	3,498	1,353	4,891	107,215	198,600	109	152,955	153,064	351,664	358,045
Professional services and fees	503,948	104,315	20,933	7,781	34,669	671,646	120,618	60,208	180,826	852,472	904,909
Program and fund-raising supplies	252,890	56,530	3,078	3,612	1,066	317,176	4,698	97,031	101,729	418,905	456,370
Other supplies and printing	64,275	33,407	3,456	4,668	2,025	107,831	3,824	43,842	47,666	155,497	157,574
Property and equipment rentals	32,295	21,310	151,706	10,567	32,879	248,757	7,061	13,342	20,403	269,160	252,854
Donated services and in-kind gifts	2,000	7,347	—	—	—	9,347	—	31,524	31,524	40,871	58,856
Conferences and travel	30,863	63,097	8,794	2,661	4,787	110,202	9,194	7,750	16,944	127,146	120,144
Transportation of program participants	6,750	103,059	—	—	—	109,809	—	2,635	2,635	112,444	160,110
Postage	11,574	15,308	3,121	330	816	31,149	3,059	4,852	7,911	39,060	43,313
Telephone	40,797	32,271	23,982	9,187	2,805	109,042	5,354	7,032	12,386	121,428	126,952
Insurance	130,636	45,081	2,061	4,666	3,594	186,038	74,724	5,978	80,702	266,740	286,459
Repairs and maintenance – equipment and building	184,583	56,109	6,323	6,554	4,728	258,297	111,559	8,495	120,054	378,351	365,281
Heat, light, and power	230,783	67,477	20,918	8,451	6,509	334,138	131,397	10,827	142,224	476,362	491,242
Audit disallowance and bad debt expense	425,815	32,694	7,500	294	—	466,303	—	12,500	12,500	478,803	49,921
Miscellaneous	18,575	20,103	19,524	291	5,252	63,745	53,560	15,226	68,786	132,531	155,416
Total functional expenses before depreciation	14,330,795	4,253,584	571,337	436,094	665,760	20,257,570	1,802,676	1,134,275	2,936,951	23,194,521	23,135,664
Depreciation	227,899	359,302	48,261	36,837	56,237	728,536	152,272	95,813	248,085	976,621	1,126,551
Total functional expenses	\$ 14,558,694	4,612,886	619,598	472,931	721,997	20,986,106	1,954,948	1,230,088	3,185,036	24,171,142	24,262,215

See accompanying independent auditors' report.