



**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, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

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. (as of July 1, 2008); and Henry Viscardi School (collectively, the Organization) as of June 30, 2009 and 2008, 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.; (as of July 1, 2008); and Henry Viscardi School as of June 30, 2009 and 2008, and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the combined financial statements, the Organization adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, and Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, in 2009.



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 19, 2009

**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, 2009 and 2008

Assets	2009	2008
Assets:		
Cash and cash equivalents	\$ 6,012,975	9,339,998
Investments (notes 3 and 4)	22,096,278	30,165,054
Receivables (less allowances of \$960,971 in 2009 and \$946,000 in 2008):		
Government agencies	1,666,574	1,192,405
Contributions and pledges (note 5)	736,148	1,363,481
Other	100,340	920,067
Prepaid expenses and other assets	174,417	154,942
Beneficial interest in split-interest agreements (note 3)	1,710,297	1,983,785
Property, plant, and equipment, net (note 6)	6,328,368	6,654,731
Total assets	\$ 38,825,397	51,774,463
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities	\$ 1,929,976	1,959,000
Accrued payroll and employee benefits (note 9)	5,728,684	5,376,705
Note payable (note 7)	—	62,194
Asset retirement obligation (note 14)	168,861	169,346
Deferred revenue	151,425	3,377,991
Total liabilities	7,978,946	10,945,236
Net assets:		
Unrestricted	19,978,708	27,365,377
Temporarily restricted (note 8)	2,954,692	5,125,799
Permanently restricted (note 8)	7,913,051	8,338,051
Total net assets	30,846,451	40,829,227
Total liabilities and net assets	\$ 38,825,397	51,774,463

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, 2009 and 2008

	2009				2008			
	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	\$ 14,404,110	—	—	14,404,110	13,975,346	—	—	13,975,346
Federal grants	919,459	—	—	919,459	2,015,937	—	—	2,015,937
New York State fees for programs for the disabled	2,120,051	—	—	2,120,051	1,793,807	—	—	1,793,807
New York City fees for programs for the disabled	—	—	—	—	2,914,395	—	—	2,914,395
Other fees for programs for the disabled	2,031,962	—	—	2,031,962	2,043,501	—	—	2,043,501
Miscellaneous	403,029	—	—	403,029	829,985	—	—	829,985
Net assets released from restriction for programs and related expenses (note 8)	1,008,542	(1,008,542)	—	—	1,210,852	(1,210,852)	—	—
Total program support and revenue	<u>20,887,153</u>	<u>(1,008,542)</u>	<u>—</u>	<u>19,878,611</u>	<u>24,783,823</u>	<u>(1,210,852)</u>	<u>—</u>	<u>23,572,971</u>
Program expenses:								
Henry Viscardi School	14,807,699	—	—	14,807,699	14,166,041	—	—	14,166,041
Abilities, Inc.	6,057,403	—	—	6,057,403	11,085,497	—	—	11,085,497
National Business and Disability Council	569,363	—	—	569,363	510,722	—	—	510,722
Just One Break – Placement program	406,987	—	—	406,987	—	—	—	—
Research and Training Institute	467,757	—	—	467,757	369,311	—	—	369,311
Innovation and expansion	643,508	—	—	643,508	885,677	—	—	885,677
Total program expenses	<u>22,952,717</u>	<u>—</u>	<u>—</u>	<u>22,952,717</u>	<u>27,017,248</u>	<u>—</u>	<u>—</u>	<u>27,017,248</u>
Net program operating loss	<u>(2,065,564)</u>	<u>(1,008,542)</u>	<u>—</u>	<u>(3,074,106)</u>	<u>(2,233,425)</u>	<u>(1,210,852)</u>	<u>—</u>	<u>(3,444,277)</u>
Supporting and other activities:								
Supporting and other revenue:								
Contributions and pledges	1,529,424	448,409	—	1,977,833	1,912,312	1,848,748	—	3,761,060
Change in value of split-interest agreements	—	(273,488)	—	(273,488)	—	437,535	—	437,535
Investment (loss) income, net (note 4)	(5,607,947)	35,961	—	(5,571,986)	(2,149,220)	84,699	—	(2,064,521)
Net assets released from restriction for capital (note 8)	744,210	(744,210)	—	—	130,274	(130,274)	—	—
Donor-designated reclassification of net assets	—	25,000	(25,000)	—	—	—	—	—
Total supporting and other revenue	<u>(3,334,313)</u>	<u>(508,328)</u>	<u>(25,000)</u>	<u>(3,867,641)</u>	<u>(106,634)</u>	<u>2,240,708</u>	<u>—</u>	<u>2,134,074</u>
Supporting and other expenses:								
Management and general	1,657,069	—	—	1,657,069	1,706,488	—	—	1,706,488
Fund-raising and external relations	1,294,687	—	—	1,294,687	1,467,482	—	—	1,467,482
Total supporting and other expenses	<u>2,951,756</u>	<u>—</u>	<u>—</u>	<u>2,951,756</u>	<u>3,173,970</u>	<u>—</u>	<u>—</u>	<u>3,173,970</u>
Net supporting and other activities (deficit) surplus	<u>(6,286,069)</u>	<u>(508,328)</u>	<u>(25,000)</u>	<u>(6,819,397)</u>	<u>(3,280,604)</u>	<u>2,240,708</u>	<u>—</u>	<u>(1,039,896)</u>
Decrease in net assets before other changes	<u>(8,351,633)</u>	<u>(1,516,870)</u>	<u>(25,000)</u>	<u>(9,893,503)</u>	<u>(5,514,029)</u>	<u>1,029,856</u>	<u>—</u>	<u>(4,484,173)</u>
Other changes:								
Pension-related changes other than net periodic pension cost (note 9)	29,137	—	—	29,137	(90,751)	—	—	(90,751)
Extraordinary investment loss (note 4)	(155,279)	(659,237)	(400,000)	(1,214,516)	—	—	—	—
Transfer of net assets – Just One Break, Inc. (note 1)	1,091,106	5,000	—	1,096,106	—	—	—	—
Decrease in net assets	<u>(7,386,669)</u>	<u>(2,171,107)</u>	<u>(425,000)</u>	<u>(9,982,776)</u>	<u>(5,604,780)</u>	<u>1,029,856</u>	<u>—</u>	<u>(4,574,924)</u>
Net assets at beginning of year	<u>27,365,377</u>	<u>5,125,799</u>	<u>8,338,051</u>	<u>40,829,227</u>	<u>32,970,157</u>	<u>4,095,943</u>	<u>8,338,051</u>	<u>45,404,151</u>
Net assets at end of year	<u>\$ 19,978,708</u>	<u>2,954,692</u>	<u>7,913,051</u>	<u>30,846,451</u>	<u>27,365,377</u>	<u>5,125,799</u>	<u>8,338,051</u>	<u>40,829,227</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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	\$ (9,982,776)	(4,574,924)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Pension-related changes other than net periodic pension cost	(29,137)	90,751
Change in value of split-interest agreements	273,488	(437,535)
Depreciation expense	1,407,852	1,554,513
Bad debt expense	120,190	805,164
Extraordinary investment loss	1,214,516	—
Unrealized losses on investments	4,089,525	4,478,485
Realized losses (gains) on investments, net	1,883,462	(1,797,448)
Contributions restricted for capital and long-term purposes	(159,922)	(730,000)
Investment income on restricted contributions	(35,961)	(84,699)
Changes in assets and liabilities:		
Receivables	852,701	(680,499)
Prepaid expenses and other assets	(19,475)	88,105
Accounts payable, accrued expenses, and other liabilities	(29,024)	616,498
Accrued payroll and employee benefits	381,116	402,614
Asset retirement obligation	(485)	(4,695)
Deferred revenue	(3,226,566)	46,557
Net cash used in operating activities	(3,260,496)	(227,113)
Cash flows from investing activities:		
Purchases of investment securities	(18,137,454)	(65,924,108)
Proceeds from redemption and sales of investment securities	19,018,727	65,071,339
Acquisition of property and equipment, net	(1,081,489)	(679,626)
Net cash used in investing activities	(200,216)	(1,532,395)
Cash flows from financing activities:		
Contributions restricted for capital and long-term purposes	159,922	730,000
Investment income on restricted contributions	35,961	84,699
Principal payments on note payable	(62,194)	(118,219)
Net cash provided by financing activities	133,689	696,480
Decrease in cash and cash equivalents	(3,327,023)	(1,063,028)
Cash and cash equivalents at beginning of year	9,339,998	10,403,026
Cash and cash equivalents at end of year	\$ 6,012,975	9,339,998

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, 2009 and 2008

(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 83% and 67% of the Organization's program revenue for the years ended June 30, 2009 and 2008, respectively.

Effective July 1, 2008, the Center acquired 100% of the net assets in JOB through a modification of JOB's bylaws. As further discussed in note 13, prior to the acquisition, the Center had provided certain administrative and management services to JOB, which terminated on June 30, 2008. The following is a summary of the assets, liabilities, and net assets, which were combined with the Center on July 1, 2008, prior to eliminations:

	Amount
Category:	
Assets	\$ 1,281,890
Liabilities	185,784
Unrestricted net assets	1,091,106
Temporarily restricted net assets	5,000

Assets at July 1, 2008 consisted principally of cash and investments, at fair value, approximating \$1.1 million. Liabilities at July 1, 2008 consisted principally of amounts due to the Center of approximately \$118,000.

(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.

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

June 30, 2009 and 2008

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management of the Organization to make a number of estimates and assumptions relating to the reporting 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.

(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. 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 statements of activities.

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Notes to Combined Financial Statements

June 30, 2009 and 2008

(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 statement of activities as released from restriction.

(h) Contributions

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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Notes to Combined Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, program revenue was increased by approximately \$98,000 and \$187,000, respectively, related to adjustments to grant appropriations for prior years.

The Center's subcontract to provide services under the Temporary Assistance for Needy Families-Wellness Comprehensive Assessment Rehabilitation and Employment (WeCARE) program expired as of December 31, 2007 and was not renewed. The WeCARE program accounted for \$2,914,395 of program support and revenue in the accompanying combined 2008 statement of activities.

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

Effective July 1, 2008, the Organization adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

In conjunction with the adoption of SFAS No. 157, the Organization elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values. Its guidance amends SFAS No. 157 and allows for the estimation of fair value of investment companies for which the investment does not have a readily determinable fair value, using net asset per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to SFAS No. 157.

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June 30, 2009 and 2008

Effective July 1, 2008, the Organization adopted Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires disclosures about endowment funds. As of June 30, 2009, New York State had not enacted the provisions of UPMIFA and accordingly, the impact of FSP 117-1 has been limited to additional disclosures regarding the Organization's endowment funds.

(1) Recently Issued Accounting Standard Not Yet Adopted

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN No. 48 also requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. The Organization has elected to defer adoption of FIN No. 48 in accordance with FASB Staff Position No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the effective date of FIN No. 48 for nonpublic entities included within its scope to annual financials statements for years beginning after December 15, 2008. The Organization is currently evaluating the impact that FIN No. 48 will have on its 2010 financial statements upon adoption; however, the effects are not expected to have a material impact.

(3) Fair Value Measurements

As of June 30, 2009 and 2008, the carrying values of the Organization's cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities, deferred revenue, and asset retirement obligation approximated their fair values.

Under SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable inputs for 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, 2009 and 2008

The Organization's assets at June 30, 2009 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 177,883	394,611	—	572,494
Fixed income securities	4,040,354	255,475	—	4,295,829
U.S. equity securities	4,155,914	—	—	4,155,914
International equities	365,901	3,602,550	—	3,968,451
Global asset allocation funds	1,851,362	2,732,543	—	4,583,905
Commodities fund	—	928,571	—	928,571
Hedge funds of funds	—	1,643,275	1,947,839	3,591,114
	<u>10,591,414</u>	<u>9,557,025</u>	<u>1,947,839</u>	<u>22,096,278</u>
Beneficial interests in split-interest agreements				
	<u>1,672,830</u>	<u>37,467</u>	<u>—</u>	<u>1,710,297</u>
	<u>\$ 12,264,244</u>	<u>9,594,492</u>	<u>1,947,839</u>	<u>23,806,575</u>

The following table represents the Organization's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157:

Fair value at June 30, 2008	\$ 2,241,569
Unrealized losses on investments	<u>(293,730)</u>
Fair value at June 30, 2009	<u>\$ 1,947,839</u>

(4) Investments

Investments consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 572,494	606,526
Fixed income securities	4,295,829	4,818,831
U.S. equity securities	4,155,914	6,280,846
International equities	3,968,451	5,583,771
Global asset allocation funds	4,583,905	6,816,379
Commodities fund	928,571	—
Hedge funds of funds	3,591,114	6,058,701
	<u>\$ 22,096,278</u>	<u>30,165,054</u>

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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 2010 fiscal year.

Operating investment income for 2009 and 2008 comprises the following:

	2009	2008
Interest and dividend income	\$ 601,383	944,254
Realized (losses) gains on sales of securities, net	(1,883,462)	1,797,448
Unrealized losses on securities	(4,089,525)	(4,478,485)
Investment advisory fees	(200,382)	(327,738)
	\$ (5,571,986)	(2,064,521)

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 statement of activities.

(5) 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, 2009 and 2008:

	2009	2008
Total contributions receivable	\$ 820,616	1,470,123
Less:		
Allowance for uncollectible receivables	21,700	7,700
Discounted at rates ranging from 3.3% to 6.0%	62,768	98,942
	\$ 736,148	1,363,481

Contributions receivable as of June 30, 2009 are expected to be collected as follows:

Less than one year	\$ 415,751
One to five years	349,865
Greater than five years	55,000
	\$ 820,616

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- (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 \$312,264 and \$618,443 in fiscal 2009 and 2008, respectively. The School received approximately \$36,000 and \$33,000 in fiscal 2009 and 2008, respectively, in donated services predominantly from volunteers assisting in the classroom, which appropriately has not been reflected in the accompanying combined financial statements.

(6) Property and Equipment

The components of property and equipment and accumulated depreciation as of June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 1,938,754	1,893,398
Buildings and improvements	24,240,097	23,481,708
Furniture, fixtures, and computer and other equipment	7,716,000	7,468,281
Vehicles	363,408	326,908
Purchased computer software	711,439	675,220
	<u>34,969,698</u>	<u>33,845,515</u>
Less accumulated depreciation	<u>28,641,330</u>	<u>27,190,784</u>
Property and equipment, net	<u>\$ 6,328,368</u>	<u>6,654,731</u>

Depreciation expense amounted to \$1,407,852 and \$1,554,513 in fiscal 2009 and 2008, respectively.

On April 1, 1997, the Center executed an agreement to lease 9,040 square feet of its facility to St. Charles Hospital (St. Charles). Rental payments under this lease agreement were \$325,866 and \$319,957 for the years ended June 30, 2009 and 2008, 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 \$325,381 and \$245,861 for fiscal 2010 and 2011, respectively.

(7) Note Payable and Line of Credit

The note payable represents a three-year loan from a financial institution payable in monthly installments of \$10,573, including interest at 6.82% per annum. This loan financed the purchase and installation of new inclusive technology within the School and is secured by such equipment. Interest expense amounted to \$1,243 and \$8,654 for the years ended June 30, 2009 and 2008, respectively. The loan was paid in full on its maturity date of December 31, 2008.

In October 2009, the Center was approved for a working capital line of credit of \$2 million with a financial institution. The line expires on January 31, 2010 and bears interest at the London Interbank Offered Rate (LIBOR) plus 3.0%. The line is secured by the Organization's fixed income investments with the financial institution.

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(b) Composition

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
New Jersey laboratory project	\$ 34,341	34,836
Universal design project	46,792	36,792
Inclusive technology program	35,174	90,829
Kornreich Technology Center	354,083	360,868
Skills development area	105,221	28,525
Learn and Earn program	104,279	332,515
National Business and Disability Council	123,298	74,646
Fine arts program	47,244	55,582
Laboratory renovation	20,209	90,000
Gym renovation	20,036	20,036
After school programs	22,176	57,879
Career Readiness and Testing Center	13,410	60,021
Medical suite renovation	51,261	600,000
Henry Viscardi Museum	24,525	—
Time restricted pledges	12,857	189,441
To be designated by donor	—	559,237
Beneficial interest in remainder trusts	1,710,297	1,983,785
All other purposes	229,489	550,807
	<u>\$ 2,954,692</u>	<u>5,125,799</u>

Permanently restricted net assets at June 30, 2009 and 2008 are restricted to investment in perpetuity, with the accumulated investment income available to support the following purposes:

	<u>2009</u>	<u>2008</u>
General – Center	\$ 4,091,103	4,091,103
General education – School	1,577,197	1,977,197
Kornreich Technology Center	1,000,000	1,000,000
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	103,861	128,861
Career and Employment Institute	50,000	50,000
All other purposes	270,890	270,890
	<u>\$ 7,913,051</u>	<u>8,338,051</u>

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(c) *Endowment Funds*

The Organization's endowments consist of approximately 19 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. generally accepted accounting principles (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 management of the Organization has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 to the extent the donor-restricted income earned on such endowments to a particular purpose or time, and in all other cases is classified as unrestricted net assets. Such amounts recorded as temporarily restricted net assets are released from restriction when the donor stipulated purpose has been fulfilled and/or the required time period has elapsed.

The following represents the net asset classes of the Organization's endowment funds at June 30, 2009 and 2008:

		2009			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	(275,208)	374,888	7,913,051	8,012,731
Quasi (Board designated)		7,236,403	—	—	7,236,403
		\$ 6,961,195	374,888	7,913,051	15,249,134
		2008			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	194,146	1,076,486	8,338,051	9,608,683
Quasi (Board designated)		10,745,750	—	—	10,745,750
		\$ 10,939,896	1,076,486	8,338,051	20,354,433

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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.

(9) 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, 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 \$1,091,557 and \$1,137,129 in fiscal 2009 and 2008, respectively. The Organization also maintains a defined benefit supplemental executive retirement plan (SERP). The SERP is a nonqualified plan under the Internal Revenue Code.
- (b) Under the provisions of a Collective Bargaining Agreement (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.

The following table summarizes the Organization's unfunded status and accrued benefit costs associated with its postretirement plans at June 30, 2009 and 2008:

	2009			
	SERP	Medical plan	Unused sick/ personal days	Total
Reconciliation of the benefit obligations:				
Benefit obligations at beginning of year	\$ 1,481,786	2,308,492	222,716	4,012,994
Service cost	59,474	142,384	18,810	220,668
Interest cost	98,952	135,907	12,511	247,370
Change in assumptions	107,854	—	—	107,854
Actuarial loss (gain)	84,337	15,683	(5,786)	94,234
Benefits paid	—	(85,985)	(2,197)	(88,182)
Benefit obligations at end of year	<u>\$ 1,832,403</u>	<u>2,516,481</u>	<u>246,054</u>	<u>4,594,938</u>

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2008				
	SERP	Medical plan	Unused sick/ personal days	Total
Reconciliation of the benefit obligations:				
Benefit obligations at beginning of year	\$ 1,236,027	2,107,111	177,558	3,520,696
Service cost	42,464	119,026	15,317	176,807
Interest cost	75,398	130,632	13,843	219,873
Change in plan provisions	223,306	—	—	223,306
Change in assumptions	(49,206)	—	—	(49,206)
Actuarial loss (gain)	(46,203)	55,567	87,013	96,377
Benefits paid	—	(103,844)	(71,015)	(174,859)
Benefit obligations at end of year	\$ 1,481,786	2,308,492	222,716	4,012,994

As of June 30, 2009, the items not yet recognized as a component of net periodic postretirement benefit cost are as follows:

	SERP	Medical plan	Unused sick/ personal days	Total
Prior service cost	\$ 157,015	450,396	19,550	626,961
Net actuarial loss	360,285	272,693	114,617	747,595
	\$ 517,300	723,089	134,167	1,374,556

The following table provides the components of the net periodic benefit costs for the years ended June 30:

2009				
	SERP	Medical plan	Unused sick/ personal days	Total
Service cost	\$ 59,108	142,384	18,810	220,302
Interest cost	98,952	135,907	12,987	247,846
Amortization of prior service cost	86,076	32,033	9,523	127,632
Amortization of actuarial loss	85,659	11,644	6,179	103,482
Net postretirement expense	\$ 329,795	321,968	47,499	699,262

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2008					
		SERP	Medical plan	Unused sick/ personal days	Total
Service cost	\$	42,464	119,026	15,317	176,807
Interest cost		75,398	130,452	13,843	219,693
Amortization of prior service cost		11,641	32,033	9,523	53,197
Amortization of actuarial loss		112,596	9,032	5,081	126,709
Net postretirement expense	\$	242,099	290,543	43,764	576,406

In addition to service and interest costs, the components of projected net periodic postretirement benefit costs for fiscal 2009 will include the following:

		SERP	Medical plan	Unused sick/ personal days	Total
Amortization of prior service costs	\$	82,579	32,033	9,523	124,135
Amortization of net actuarial loss		172,000	—	—	172,000
	\$	254,579	32,033	9,523	296,135

	2009	2008
Weighted average assumptions as of June 30:		
Discount rate – benefit obligation – SERP	6.00%	6.00%
Discount rate – benefit obligation – other plans	5.78	6.00
Discount rate – net periodic benefit cost – SERP	6.00	6.10
Discount rate – net periodic benefit cost – other plans	6.00	6.00
Rate compensation increase – SERP	6.00	6.00
Rate compensation increase – other plans	4.00	4.00

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2009. The rate was assumed to decrease gradually to 5% for 2012 and remain at that level thereafter.

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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>	2009	
	<u>1% increase</u>	<u>1% decrease</u>
Effect on total of service cost and interest	\$ 76,535	(42,338)
Effect on accumulated postretirement benefit obligation	388,238	(317,200)

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>
2010	\$ —	117,006	57,516	174,522
2011	—	119,913	61,029	180,942
2012	153,830	131,431	62,772	348,033
2013	153,830	139,884	68,659	362,373
2014	153,830	142,878	65,963	362,671
2015 – 2019	769,150	802,802	305,781	1,877,733
	<u>\$ 1,230,640</u>	<u>1,453,914</u>	<u>621,720</u>	<u>3,306,274</u>

(10) 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 \$3,344,177 and \$3,443,813 in fiscal 2009 and 2008, respectively, have been allocated among the Center's and School's programs.

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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, 2009 and 2008:

	2009	2008
Henry Viscardi School	\$ 2,278,234	2,176,870
Abilities, Inc.	723,962	901,938
Research and Training Institute	72,335	55,846
National Business and Disability Council	63,143	68,925
JOB Placement program	18,848	—
Innovation and expansion	67,734	105,082
Fundraising and external relations	119,921	135,152
Total program and supporting service overhead	\$ 3,344,177	3,443,813

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.

(11) 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.

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, 2009 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, 2007. 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, 2009.

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(12) Commitments

At June 30, 2009, the Organization was obligated for minimum annual rental payments under noncancelable operating leases for equipment and facilities as follows:

Year ending June 30:		
2010	\$	39,221
2011		36,161
2012		22,394
2013		19,616
2014		11,442
		<hr/>
	\$	<u>128,834</u>

Rental expenses under leases approximated \$65,242 and \$565,000 for the years ended June 30, 2009 and 2008, respectively.

(13) Administrative Services Agreement

Effective February 2006, the Center entered into an affiliation agreement with JOB, where the Center provides certain administrative and management services to JOB. The purpose of the affiliation is to promote the goodwill of both organizations, statewide and nationally, and to increase referrals and placements for workers with disabilities in New York City. The fees charged by the Center for its services in fiscal 2008 amounted to \$66,667. As described in note 1, the Center became the sole member of JOB, effective July 1, 2008.

(14) 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 \$168,861 and \$169,346 as of June 30 2009 and 2008, respectively. Accretion expense is recognized annually using the effective interest method. The Organization remediated \$8,050 of asbestos in the current year.

(15) Subsequent Events

Effective June 30, 2009, the Organization adopted SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The Organization evaluated events subsequent to June 30, 2009 and through November 19, 2009, the date on which the financial statements were approved for issuance.

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Combining Schedule of Functional Expenses

Year ended June 30, 2009

(with comparative totals for the year ended June 30, 2008)

	Program expenses						Supporting and other expenses					2009 Total expenses	2008 Total expenses
	Henry Viscardi School	Abilities, Inc.	National Business & Disability Council	JOB Placement Program	Research and Training Institute	Innovation and expansion	Total program services	Management and general	Fund-raising and external relations	Total supporting services			
Salaries	\$ 9,531,636	3,299,502	285,704	92,201	281,920	396,117	13,887,080	705,870	534,804	1,240,674	15,127,754	16,478,015	
Health and retirement benefits, payroll taxes, etc.	3,310,260	1,064,718	96,970	29,509	84,105	117,419	4,702,981	295,185	170,390	465,575	5,168,556	5,396,137	
Total salaries and related expenses	12,841,896	4,364,220	382,674	121,710	366,025	513,536	18,590,061	1,001,055	705,194	1,706,249	20,296,310	21,874,152	
Contracted medical, educational, and vocational services	75,330	227,640	13	4	14	26,361	329,362	299	97,927	98,226	427,588	966,367	
Professional services and fees	425,933	96,757	7,973	17,511	5,100	10,571	563,845	105,477	14,579	120,056	683,901	713,282	
Program and fund-raising supplies	270,938	60,188	7,796	1,203	3,371	1,790	345,286	6,134	109,598	115,732	461,018	505,236	
Other supplies and printing	74,103	28,647	16,701	1,855	2,437	2,930	126,673	6,134	37,123	43,257	169,930	227,810	
Property and equipment rentals	52,173	42,607	34,090	109,611	10,782	318	249,581	3,291	19,528	22,819	272,400	965,275	
Donated services and in-kind gifts	1,038	102,713	4,460	—	—	—	108,211	—	79,691	79,691	187,902	556,811	
Conferences and travel	37,391	86,239	6,949	1,527	4,185	5,077	141,368	2,244	9,578	11,822	153,190	217,596	
Transportation of program participants	18,155	160,867	6	2	7	315	179,352	150	12	162	179,514	149,195	
Postage	18,794	15,360	2,402	3,786	1,148	1,194	42,684	4,040	8,714	12,754	55,438	62,675	
Telephone	38,462	39,668	6,924	22,309	9,229	2,463	119,055	5,536	4,393	9,929	128,984	184,927	
Insurance	141,602	50,240	3,706	7,172	4,246	3,976	210,942	87,822	7,039	94,861	305,803	352,450	
Repairs and maintenance – equipment and building	196,595	63,465	4,464	4,775	6,670	4,789	280,758	105,776	9,280	115,056	395,814	449,593	
Heat, light, and power	257,788	79,781	6,958	18,668	7,971	7,464	378,630	164,873	13,215	178,088	556,718	529,383	
Bad debt expense	5,860	25,729	28,167	37,437	948	—	98,141	—	22,049	22,049	120,190	805,164	
Miscellaneous	21,592	24,941	779	19,887	192	222	67,613	3,291	31,017	34,308	101,921	76,789	
Total functional expenses before depreciation	14,477,650	5,469,062	514,062	367,457	422,325	581,006	21,831,562	1,496,122	1,168,937	2,665,059	24,496,621	28,636,705	
Depreciation	330,049	588,341	55,301	39,530	45,432	62,502	1,121,155	160,947	125,750	286,697	1,407,852	1,554,513	
Total functional expenses	\$ 14,807,699	6,057,403	569,363	406,987	467,757	643,508	22,952,717	1,657,069	1,294,687	2,951,756	25,904,473	30,191,218	

See accompanying independent auditors' report.