



**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Combined Financial Statements and Schedule

June 30, 2014 and 2013

(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
The Viscardi Center, Inc.;
its subsidiaries, Abilities, Inc. and Just One Break, Inc.;
and Henry Viscardi School:

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Viscardi Center, Inc.; its subsidiaries, Abilities, Inc. and Just One Break, Inc.; and Henry Viscardi School (collectively, the Organization), which comprises the combined statements of financial position as of June 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 combined financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Viscardi Center, Inc.; its subsidiaries, Abilities, Inc. and Just One Break, Inc.; and Henry Viscardi School as of June 30, 2014 and 2013, and changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the accompanying schedule is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

November 24, 2014

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Combined Statements of Financial Position

June 30, 2014 and 2013

Assets	2014	2013
Assets:		
Cash and cash equivalents	\$ 953,254	600,603
Receivables (less allowances of \$713,363 in 2014 and \$801,445 in 2013):		
Government agencies	3,161,319	1,881,806
Contributions and pledges (note 4)	274,202	518,415
Other	103,640	137,301
Prepaid expenses and other assets	351,065	200,663
Investments (note 3)	27,367,664	25,772,629
Beneficial interest in split-interest agreements (note 3)	2,317,263	2,377,763
Property, plant, and equipment, net (note 5)	3,513,724	3,665,371
Total assets	\$ 38,042,131	35,154,551
Liabilities and Net Assets		
Liabilities:		
Accounts payable, accrued expenses, and other liabilities	\$ 1,470,303	1,488,992
Accrued payroll and employee benefits	1,255,215	1,132,396
Line of credit (note 6)	3,450,000	1,660,000
Accrued postretirement benefits (note 8)	5,043,459	4,177,329
Asset retirement obligation (note 12)	222,823	210,211
Deferred revenue	347,821	266,162
Total liabilities	11,789,621	8,935,090
Net assets:		
Unrestricted	11,242,437	11,931,313
Temporarily restricted (note 7)	6,696,297	5,981,372
Permanently restricted (note 7)	8,313,776	8,306,776
Total net assets	26,252,510	26,219,461
Total liabilities and net assets	\$ 38,042,131	35,154,551

See accompanying notes to combined financial statements.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Combined Statements of Activities
Years ended June 30, 2014 and 2013

	2014				2013			
	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	\$ 13,250,264	—	—	13,250,264	13,213,270	—	—	13,213,270
Federal grants	338,170	—	—	338,170	231,803	—	—	231,803
New York State fees for programs for the disabled	1,277,331	—	—	1,277,331	1,328,234	—	—	1,328,234
Other fees for programs for the disabled	2,479,211	—	—	2,479,211	2,614,888	—	—	2,614,888
Investment income appropriated for expenditure (notes 3 and 7)	1,344,822	—	—	1,344,822	1,050,000	—	—	1,050,000
Miscellaneous (note 5)	261,955	—	—	261,955	402,877	—	—	402,877
Net assets released from restriction for programs and related expenses (note 7)	711,051	(711,051)	—	—	526,624	(526,624)	—	—
Total program support and revenue	19,662,804	(711,051)	—	18,951,753	19,367,696	(526,624)	—	18,841,072
Program expenses (note 9):								
Henry Viscardi School	14,194,842	—	—	14,194,842	14,009,247	—	—	14,009,247
Abilities, Inc.	4,328,979	—	—	4,328,979	4,401,760	—	—	4,401,760
Just One Break, Inc.	515,157	—	—	515,157	559,230	—	—	559,230
Technology Centers	297,513	—	—	297,513	363,351	—	—	363,351
Innovation and expansion	168,664	—	—	168,664	236,545	—	—	236,545
Total program expenses	19,505,155	—	—	19,505,155	19,570,133	—	—	19,570,133
Net program operating surplus (loss)	157,649	(711,051)	—	(553,402)	(202,437)	(526,624)	—	(729,061)
Supporting and other activities:								
Supporting and other revenue:								
Contributions and pledges	1,579,062	590,743	7,000	2,176,805	1,383,066	721,542	6,725	2,111,333
Change in value of split-interest agreements	—	(52,432)	—	(52,432)	—	127,063	—	127,063
Investment income, net of amounts appropriated for expenditure (note 3)	611,742	1,322,860	—	1,934,602	104,483	692,322	—	796,805
Net assets released from restriction for capital (note 7)	435,195	(435,195)	—	—	143,019	(143,019)	—	—
Total supporting and other revenue	2,625,999	1,425,976	7,000	4,058,975	1,630,568	1,397,908	6,725	3,035,201
Supporting and other expenses:								
Management and general	1,634,775	—	—	1,634,775	1,716,794	—	—	1,716,794
Fund-raising and external relations (note 9)	1,331,189	—	—	1,331,189	1,401,492	—	—	1,401,492
Total supporting and other expenses	2,965,964	—	—	2,965,964	3,118,286	—	—	3,118,286
Net supporting and other activities surplus (loss)	(339,965)	1,425,976	7,000	1,093,011	(1,487,718)	1,397,908	6,725	(83,085)
Increase (decrease) in net assets before other changes	(182,316)	714,925	7,000	539,609	(1,690,155)	871,284	6,725	(812,146)
Other changes:								
Postretirement-related changes other than net periodic benefit cost (note 8)	(506,560)	—	—	(506,560)	324,394	—	—	324,394
Total other changes	(506,560)	—	—	(506,560)	324,394	—	—	324,394
Increase (decrease) in net assets	(688,876)	714,925	7,000	33,049	(1,365,761)	871,284	6,725	(487,752)
Net assets at beginning of year	11,931,313	5,981,372	8,306,776	26,219,461	13,297,074	5,110,088	8,300,051	26,707,213
Net assets at end of year	\$ 11,242,437	6,696,297	8,313,776	26,252,510	11,931,313	5,981,372	8,306,776	26,219,461

See accompanying notes to combined financial statements.

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JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Combined Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 33,049	(487,752)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Pension-related changes other than net periodic pension cost	506,560	(324,394)
Change in value of split-interest agreements	52,432	(127,063)
Depreciation expense	704,526	816,131
Gain on sale of property and equipment	—	(5,601)
Bad debt expense	46,457	119,515
Net realized and unrealized gains on investments	(2,859,943)	(1,426,519)
Contributions restricted for capital and endowment	(21,500)	(122,010)
Changes in assets and liabilities:		
Receivables	(1,048,096)	(578,548)
Prepaid expenses and other assets	(150,402)	(64,680)
Accounts payable, accrued expenses, and other liabilities	(18,689)	118,535
Accrued payroll and employee benefits	482,389	255,383
Asset retirement obligation	12,612	11,899
Deferred revenue	81,659	160,621
Net cash used in operating activities	(2,178,946)	(1,654,483)
Cash flows from investing activities:		
Purchases of investment securities	(15,508,892)	(10,770,275)
Proceeds from redemption and sales of investment securities	16,773,800	11,456,928
Acquisition of property and equipment, net	(552,879)	(195,600)
Proceeds from sale of property and equipment	—	9,250
Proceeds from split-interest agreements	8,068	—
Net cash provided by investing activities	720,097	500,303
Cash flows from financing activities:		
Contributions restricted for capital and endowment	21,500	122,010
Proceeds from line of credit	7,555,000	4,620,000
Principal payments on line of credit	(5,765,000)	(4,690,000)
Net cash provided by financing activities	1,811,500	52,010
Increase (decrease) in cash and cash equivalents	352,651	(1,102,170)
Cash and cash equivalents at beginning of year	600,603	1,702,773
Cash and cash equivalents at end of year	\$ 953,254	600,603
Supplemental disclosure:		
Interest paid	\$ 96,946	98,983

See accompanying notes to combined financial statements.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
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Notes to Combined Financial Statements

June 30, 2014 and 2013

(1) Organization

The Viscardi Center, Inc. (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. During the year ended June 30, 2014, the Center changed its legal name to The Viscardi Center, Inc. effective April 5, 2013, from the previous name, National Center for Disability Services. The Center conducts its work through Abilities, which provides evaluation, training, counseling, and job placement services for over 1,500 adults with disabilities; the National Business and Disability Council (NBDC), which, along with other companies, conducts training seminars, programs, conferences, and technical assistance to facilitate the employment of persons with disabilities; and the Technology Centers, which includes the Kornreich Technology Center and the Viscardi Multimedia Learning Center. NBDC is a division of JOB and the Technology Centers are divisions of the Center. The School provides tuition-free education for approximately 165 children with disabilities through its early childhood, elementary, and secondary educational programs.

During fiscal year 2014, the board of directors of both Abilities and JOB deemed it advisable and in their best interests that JOB merge with and into Abilities pursuant to the provisions of the New York Not-for-Profit Corporation Law. Once approved by the New York Attorney General's office, all of the assets and liabilities of JOB shall be vested in the surviving corporation, Abilities. No decision has yet been rendered by New York State on the proposed merger.

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 77% of the Organization's program revenue for the years ended June 30, 2014 and 2013.

(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

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

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. 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.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(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) *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

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JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

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, 2014 and 2013, there were no adjustments related to grant appropriations for prior years.

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.

(j) 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. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for 2014 and 2013 as there were no activities that were not related to its exempt purpose.

(3) Investments and Fair Value Measurements

Investment income, net, for 2014 and 2013 was comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 705,787	613,772
Net realized and unrealized gains on investments	2,859,943	1,426,519
Investment advisory fees	(286,306)	(193,486)
	<u>\$ 3,279,424</u>	<u>1,846,805</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

Investment income, net, for 2014 and 2013 is reported in the combined statements of activities as follows:

	2014	2013
Unrestricted:		
Investment income appropriated for expenditure	\$ 1,344,822	1,050,000
Investment income, net of amount appropriated for expenditure	611,742	104,483
Total	1,956,564	1,154,483
Temporarily restricted:		
Investment income, net	1,322,860	692,322
Total investment income, net	\$ 3,279,424	1,846,805

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. FASB Accounting Standards Codification (ASC) Topic 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.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

The Organization's assets at June 30, 2014 and 2013 that are reported at fair value are summarized in the following tables by their fair value hierarchy:

		2014			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and cash equivalents	\$	653,824	42,919	—	696,743
Domestic fixed income		2,362,273	—	—	2,362,273
Domestic equities		5,745,148	—	1,120,251	6,865,399
International fixed income		819,091	—	—	819,091
International equities		1,686,509	2,784,333	—	4,470,842
Global asset allocation funds		12,153,316	—	—	12,153,316
Total investments	\$	<u>23,420,161</u>	<u>2,827,252</u>	<u>1,120,251</u>	<u>27,367,664</u>
Beneficial interests in					
split-interest agreements	\$	—	2,317,263	—	2,317,263
		2013			
		Level 1	Level 2	Level 3	Total
Investments:					
Cash and cash equivalents	\$	253,778	98,404	—	352,182
Domestic fixed income		3,175,327	—	—	3,175,327
Domestic equities		5,810,376	—	1,517,758	7,328,134
International fixed income		2,045,606	—	—	2,045,606
International equities		1,465,406	2,484,946	—	3,950,352
Global asset allocation funds		8,921,028	—	—	8,921,028
Total investments	\$	<u>21,671,521</u>	<u>2,583,350</u>	<u>1,517,758</u>	<u>25,772,629</u>
Beneficial interests in					
split-interest agreements	\$	—	2,377,763	—	2,377,763

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DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

The following table presents the Organization's activity for the fiscal year ended June 30, 2014 for Level 3 investments measured at fair value on a recurring basis using significant unobservable inputs:

		<u>Domestic equities</u>
Fair value at July 1	\$	1,517,758
Realized gains on investments		320,517
Unrealized losses on investments		(3,024)
Withdrawals		<u>(715,000)</u>
Fair value at June 30	\$	<u><u>1,120,251</u></u>

The following table presents the Organization's activity for the fiscal year ended June 30, 2013 for Level 3 investments measured at fair value on a recurring basis using significant unobservable inputs:

		<u>Domestic equities</u>	<u>Hedge fund of funds</u>	<u>Total</u>
Fair value at July 1	\$	1,377,433	2,261,393	3,638,826
Realized gains on investments		32,322	60,651	92,973
Unrealized gains (losses) on investments		258,003	(11,393)	246,610
Withdrawals		<u>(150,000)</u>	<u>(2,310,651)</u>	<u>(2,460,651)</u>
Fair value at June 30	\$	<u><u>1,517,758</u></u>	<u><u>—</u></u>	<u><u>1,517,758</u></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 2015 fiscal year.

The Organization's alternative investments contain redemption restrictions with required written notice ranging from 30 to 95 days. As of June 30, 2014, the following table summarizes the composition of alternative investments at the net asset value of such investments by the various redemption provisions:

		<u>International equity</u>	<u>Domestic equities</u>	<u>Total amount</u>
Redemption frequency:				
Monthly	\$	2,784,333	—	2,784,333
Annual (as of December 31, 2013)		<u>—</u>	<u>1,120,251</u>	<u>1,120,251</u>
Total	\$	<u><u>2,784,333</u></u>	<u><u>1,120,251</u></u>	<u><u>3,904,584</u></u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(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, 2014 and 2013:

	2014	2013
Total contributions receivable	\$ 311,435	562,414
Less:		
Allowance for uncollectible receivables	33,600	34,550
Discounted at rates ranging from 2.2% to 6.0%	3,633	9,449
	\$ 274,202	518,415

Contributions receivable as of June 30, 2014 are expected to be collected as follows:

Less than one year	\$ 304,101
One to five years	7,334
	\$ 311,435

- (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 \$5,594 and \$25,669 in fiscal 2014 and 2013, respectively.

(5) Property and Equipment

The components of property and equipment and accumulated depreciation as of June 30, 2014 and 2013 consisted of the following:

	2014	2013
Land and improvements	\$ 2,014,358	1,985,874
Buildings and improvements	24,453,341	24,437,829
Furniture, fixtures, and computer and other equipment	6,866,647	6,569,532
Vehicles	344,495	344,495
Purchased computer software	742,713	737,015
	34,421,554	34,074,745
Less accumulated depreciation	30,907,830	30,409,374
Property and equipment, net	\$ 3,513,724	3,665,371

Depreciation expense amounted to \$704,526 and \$816,131 in fiscal 2014 and 2013, respectively.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

In April 1997, the Center executed an agreement, which is set to expire in March 2015, to lease 9,040 square feet of its facility to St. Charles Hospital (St. Charles). Rental payments under this lease agreement were \$342,626 and \$337,558 for the years ended June 30, 2014 and 2013, 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 \$258,358 for fiscal 2015.

(6) Line of Credit

The Center has an approved working capital line of credit of \$6 million with a financial institution. As of June 30, 2014 and 2013, there was \$3,450,000 and \$1,660,000, respectively, outstanding under this line. The line expires on January 31, 2015 and bears interest at the London Interbank Offered Rate (LIBOR) Daily Floating Rate plus 2%. The line is secured by the Organization's investments with the financial institution.

(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 2014 and 2013:

	2014		
	Programs and related expenses	Capital	Total
Inclusive technology program	\$ 61,127	23,718	84,845
Kornreich Technology Center	17,548	13,448	30,996
Skills development area	53,350	—	53,350
Transition services	4,910	—	4,910
National Business and Disability Council	102,321	—	102,321
Fine arts program	89,317	—	89,317
Viscardi Multimedia Learning Center Renovation	943	323,710	324,653
After-school programs	137,399	—	137,399
Career Readiness and Testing Center	26,408	—	26,408
Brace and wheelchair clinic	20,892	—	20,892
Communication system	—	53,000	53,000
All other purposes	196,836	21,319	218,155
	<u>\$ 711,051</u>	<u>435,195</u>	<u>1,146,246</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

	2013		
	Programs and related expenses	Capital	Total
Inclusive technology program	\$ 8,894	—	8,894
Universal design project	—	19,273	19,273
Kornreich Technology Center	18,717	5,385	24,102
Skills development area	1,382	—	1,382
Transition services	30,213	—	30,213
Prosper program	2,113	—	2,113
National Business and Disability Council	137,054	—	137,054
Fine arts program	39,335	—	39,335
Gym renovation	—	20,036	20,036
After-school programs	145,968	9,000	154,968
Career Readiness and Testing Center	21,077	—	21,077
Henry Viscardi School computer upgrade	—	48,000	48,000
Brace and wheelchair clinic	25,000	—	25,000
All other purposes	96,871	41,325	138,196
	\$ 526,624	143,019	669,643

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(b) Composition

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Abilities, Inc. computer upgrade	\$ 29,351	—
Inclusive technology program	92,699	70,802
Kornreich Technology Center	340,372	615,361
Skills development area	20,638	23,638
Transition services	13,311	8,220
PROSPER program	—	550
National Business and Disability Council	142,728	185,704
Fine arts program	74,368	100,434
Henry Viscardi School computer upgrade	10,446	—
Communication system	—	53,000
After-school programs	48,091	44,863
New Jersey laboratory project	34,341	34,341
Career Readiness and Testing Center	12,535	13,942
General purpose endowment income	3,155,507	2,118,982
Beneficial interest in remainder trusts	2,325,331	2,377,763
All other purposes	396,579	333,772
	<u>\$ 6,696,297</u>	<u>5,981,372</u>

Permanently restricted net assets at June 30, 2014 and 2013 are restricted to investment in perpetuity, with the accumulated investment income available to support the following purposes:

	<u>2014</u>	<u>2013</u>
General – Center	\$ 4,091,103	4,091,103
General education – School	1,577,197	1,577,197
Kornreich Technology Center	1,104,586	1,097,586
To be designated by donor – School	400,000	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
Career and Employment Institute	50,000	50,000
All other purposes	270,890	270,890
	<u>\$ 8,313,776</u>	<u>8,306,776</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(c) **Endowment Funds**

The Organization's endowments consist of 24 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 is subject to the provisions of New York Prudent Management of Institutional Funds Act (NYPMIFA) and 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.

The following tables present the net asset classes of the Organization's endowment funds at June 30, 2014 and 2013:

		2014			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	—	3,722,815	8,313,776	12,036,591
Quasi (board -designated)		14,642,472	—	—	14,642,472
	\$	<u>14,642,472</u>	<u>3,722,815</u>	<u>8,313,776</u>	<u>26,679,063</u>
		2013			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	(55,418)	2,845,620	8,306,776	11,096,978
Quasi (board-designated)		14,089,232	—	—	14,089,232
	\$	<u>14,033,814</u>	<u>2,845,620</u>	<u>8,306,776</u>	<u>25,186,210</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013 were as follows:

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2013	\$ 14,033,814	2,845,620	8,306,776	25,186,210
Investment income, net	1,953,480	1,322,860	—	3,276,340
Additions	—	—	7,000	7,000
Appropriation of endowment assets for expenditure	(1,344,822)	—	—	(1,344,822)
Reclassification of donor intent	—	(360,328)	—	(360,328)
Other distributions	—	(85,337)	—	(85,337)
Net assets at June 30, 2014	\$ <u>14,642,472</u>	<u>3,722,815</u>	<u>8,313,776</u>	<u>26,679,063</u>
	2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2012	\$ 13,818,100	2,184,787	8,300,051	24,302,938
Investment income, net	1,154,177	692,322	—	1,846,499
Additions	111,537	109,216	6,725	227,478
Appropriation of endowment assets for expenditure	(1,050,000)	—	—	(1,050,000)
Other distributions	—	(140,705)	—	(140,705)
Net assets at June 30, 2013	\$ <u>14,033,814</u>	<u>2,845,620</u>	<u>8,306,776</u>	<u>25,186,210</u>

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, 2013 of \$55,418. There were no such deficiencies as of June 30, 2014.

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 value, after deducting for 3%

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

inflation and 1% in fees, on the endowment funds for spending unless otherwise explicitly stipulated by the donor. In 2014 and 2013, the board of trustees authorized appropriations of \$1,344,822 and \$1,050,000, respectively, 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 \$1,069,560 and \$1,040,672 in fiscal 2014 and 2013, respectively.

In fiscal year 2012, the Center implemented a deferred compensation plan under Section 457(b) of the Internal Revenue Code in which the Center will contribute 4% of the base salary of certain eligible employees and up to 3% of the base salary that other designated eligible employees contribute to the plan on a pretax basis. For the years ended June 30, 2014 and 2013, the Center contributed \$22,347 and \$23,547, respectively, to the plan.

- (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 School 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. Employees hired after September 1, 2013 will not be eligible for the postretirement healthcare benefits.

The following tables summarize the School's unfunded status and accrued benefit costs associated with its postretirement plans at June 30, 2014 and 2013:

	2014		
	Medical plan	Unused sick/ personal days	Total
Reconciliation of the benefit obligations:			
Benefit obligation at beginning of year	\$ 3,766,089	411,240	4,177,329
Service cost	156,262	24,435	180,697
Interest cost	173,537	15,419	188,956
Actuarial loss	611,833	18,020	629,853
Benefits paid	(129,425)	(3,951)	(133,376)
Benefit obligation at end of year	<u>\$ 4,578,296</u>	<u>465,163</u>	<u>5,043,459</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

				2013		
				Medical plan	Unused sick/ personal days	Total
Reconciliation of the benefit obligations:						
Benefit obligation at beginning of year	\$	3,814,809		463,134		4,277,943
Service cost		146,432		26,496		172,928
Interest cost		132,070		15,169		147,239
Actuarial gain		(206,401)		(14,701)		(221,102)
Benefits paid		(120,821)		(78,858)		(199,679)
Benefit obligation at end of year	\$	<u>3,766,089</u>		<u>411,240</u>		<u>4,177,329</u>

As of June 30, 2014, the items not yet recognized as a component of net periodic postretirement benefit cost are as follows:

				Medical plan	Unused sick/ personal days	Total
Prior service cost	\$	290,231		—		290,231
Net actuarial loss		1,202,972		189,993		1,392,965
	\$	<u>1,493,203</u>		<u>189,993</u>		<u>1,683,196</u>

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

				2014		
				Medical plan	Unused sick/ personal days	Total
Service cost	\$	156,262		24,435		180,697
Interest cost		173,537		15,419		188,956
Amortization of prior service cost		32,033		—		32,033
Amortization of actuarial loss		76,876		14,384		91,260
Net postretirement expense	\$	<u>438,708</u>		<u>54,238</u>		<u>492,946</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

		2013		
		Medical plan	Unused sick/ personal days	Total
Service cost	\$	146,432	26,496	172,928
Interest cost		132,070	15,169	147,239
Amortization of prior service cost		32,033	—	32,033
Amortization of actuarial loss		55,877	15,382	71,259
Net postretirement expense	\$	366,412	57,047	423,459

In addition to service and interest costs, the components of projected net periodic postretirement benefit costs for fiscal 2015 will include the following:

		Medical plan	Unused sick/ personal days	Total
Amortization of prior service costs	\$	32,033	—	32,033
Amortization of a net loss		88,389	15,800	104,189

		2014	2013
Weighted average assumptions as of June 30:			
Discount rate – benefit obligation		3.89%	4.24%
Discount rate – net periodic benefit cost		4.24	3.58
Rate compensation increase		4.00	4.00

For measurement purposes, a 5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2014 and 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:

		2014	
Effect of change in medical cost trend rate		1% increase	1% decrease
Effect on total of service cost and interest	\$	51,000	(44,000)
Effect on accumulated postretirement benefit obligation		383,000	(351,000)

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

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

	<u>Medical plan</u>	<u>Unused sick/ personal days</u>	<u>Total</u>
2015	\$ 199,062	46,994	246,056
2016	205,852	37,933	243,785
2017	218,590	59,163	277,753
2018	225,504	43,624	269,128
2019	230,086	56,910	286,996
2020–2024	<u>1,213,936</u>	<u>162,228</u>	<u>1,376,164</u>
	<u>\$ 2,293,030</u>	<u>406,852</u>	<u>2,699,882</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 \$2,670,582 and \$2,718,708 in fiscal 2014 and 2013, respectively, have been allocated among the Organization’s programs.

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.

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Henry Viscardi School	\$ 1,878,200	1,901,627
Abilities, Inc.	557,330	571,344
Technology Centers	40,090	43,467
Just One Break, Inc.	32,934	34,274
Innovation and expansion	60,912	64,918
Fundraising and external relations	<u>101,116</u>	<u>103,078</u>
Total program and supporting service overhead	<u>\$ 2,670,582</u>	<u>2,718,708</u>

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(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.

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, 2014 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, 2013. 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, 2014.

(11) Commitments

At June 30, 2014, the Organization was obligated for minimum annual rental payments under noncancelable operating leases for equipment and facilities as follows:

Year ending June 30:	
2015	\$ 77,820
2016	57,807
2017	26,635
2018	25,969
2019	<u>6,785</u>
	<u>\$ 195,016</u>

Rental expenses under leases approximated \$113,398 and \$187,075 for the years ended June 30, 2014 and 2013, 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 \$222,823 and \$210,211 as of June 30, 2014 and 2013, respectively. Accretion expense is recognized annually using the effective interest method. There was no remediation of asbestos during fiscal 2014 and 2013.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Notes to Combined Financial Statements

June 30, 2014 and 2013

(13) Subsequent Events

The Organization evaluated events subsequent to June 30, 2014 and through November 24, 2014, the date on which the combined financial statements were issued and concluded that no additional disclosures are required.

In September 2014, the Center was awarded a U.S. Department of Labor, Office of Disability Employment Policy grant of \$1,848,350 for the period September 30, 2014 through September 29, 2015. The Viscardi Center will take the lead in operating the National Employer Policy, Research and Technical Assistance Center. The site provides technical support to help employers recruit, hire, retain and promote workers with disabilities. The award is for a 12 month period and is renewable based on performance and available funding.

**THE VISCARDI CENTER, INC. (FORMERLY NATIONAL CENTER FOR
DISABILITY SERVICES); ITS SUBSIDIARIES, ABILITIES, INC. AND
JUST ONE BREAK, INC.; AND HENRY VISCARDI SCHOOL**

Combining Schedule of Functional Expenses

Year ended June 30, 2014

(with comparative totals for the year ended June 30, 2013)

	Program expenses					Supporting and other expenses					
	Henry Viscardi School	Abilities, Inc.	Just One Break, Inc.	Technology Centers	Innovation and expansion	Total program services	Management and general	Fund-raising and external relations	Total supporting services	2014 Total expenses	2013 Total expenses
Salaries	\$ 8,596,813	2,672,171	191,365	159,471	29,091	11,648,911	733,722	510,939	1,244,661	12,893,572	12,865,012
Health and retirement benefits, payroll taxes, etc.	3,581,088	755,644	61,726	38,812	6,566	4,443,836	165,610	135,860	301,470	4,745,306	4,720,759
Total salaries and related expenses	12,177,901	3,427,815	253,091	198,283	35,657	16,092,747	899,332	646,799	1,546,131	17,638,878	17,585,771
Contracted medical, educational, and vocational services	68,829	2,358	110,447	37,149	20,024	238,807	615	270,817	271,432	510,239	332,841
Professional services and fees	454,742	90,053	17,673	3,564	47,501	613,533	136,574	31,215	167,789	781,322	1,004,700
Program and fund-raising supplies	414,816	84,411	3,063	4,791	3,236	510,317	43,784	103,392	147,176	657,493	605,723
Other supplies and printing	61,723	32,966	2,260	1,340	996	99,285	4,302	43,461	47,763	147,048	179,293
Property and equipment rentals	55,084	23,295	30,819	13,750	3,819	126,767	26,424	55,574	81,998	208,765	269,317
Donated services and in-kind gifts	833	7,277	—	—	—	8,110	—	4,761	4,761	12,871	25,669
Conferences and travel	50,575	86,816	3,721	985	525	142,622	11,522	7,510	19,032	161,654	141,266
Transportation of program participants	37,383	79,384	—	—	—	116,767	—	1,445	1,445	118,212	130,550
Postage	11,342	7,721	164	366	128	19,721	3,226	9,335	12,561	32,282	38,240
Telephone	36,916	30,355	35,668	4,855	268	108,062	6,760	6,819	13,579	121,641	124,409
Insurance	111,068	37,335	1,890	2,301	3,496	156,090	88,182	5,804	93,986	250,076	249,842
Repairs and maintenance – equipment and building	180,745	58,760	2,829	3,518	35,522	281,374	131,965	8,991	140,956	422,330	379,983
Heat, light, and power	225,901	64,260	3,797	4,622	7,023	305,603	177,132	11,659	188,791	494,394	499,438
Bad debt expense	12,736	5,919	15,208	3,894	—	37,757	—	8,700	8,700	46,457	119,515
Miscellaneous	88,417	29,407	3,486	168	306	121,784	6,452	34,695	41,147	162,931	185,731
Total functional expenses before depreciation	13,989,011	4,068,132	484,116	279,586	158,501	18,979,346	1,536,270	1,250,977	2,787,247	21,766,593	21,872,288
Depreciation	205,831	260,847	31,041	17,927	10,163	525,809	98,505	80,212	178,717	704,526	816,131
Total functional expenses	\$ 14,194,842	4,328,979	515,157	297,513	168,664	19,505,155	1,634,775	1,331,189	2,965,964	22,471,119	22,688,419

See accompanying independent auditors' report.