

**NYSARC, INC. STATE OFFICE, CHAPTERS
AND THEIR AFFILIATES**

**Combined Financial Statements as of
December 31, 2009
Together with
Accountants' Compilation Report**

Bonadio & Co., LLP
Certified Public Accountants

ACCOUNTANTS' COMPILATION REPORT

October 26, 2010

To the Board of Governors of
NYSARC, Inc.:

We have compiled the accompanying combined balance sheet of NYSARC, Inc. (State Office, Chapters and their affiliates) as of December 31, 2009, and the related combined statements of activities and change in net assets and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying combined financial statements and accordingly, do not express an opinion or any other form of assurance on them.

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NYSARC, INC. STATE OFFICE, CHAPTERS AND THEIR AFFILIATES

COMBINED BALANCE SHEET

DECEMBER 31, 2009

(See Accountants' Compilation Report)

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$	141,282,993
Investments		112,931,155
Restricted deposits and funded reserves		1,720,650
Government receivables, net		249,335,005
Other receivables, net		12,600,164
Inventories		10,091,739
Prepaid expenses and other assets		11,760,289
Deposits		<u>127,421</u>

Total current assets 539,849,416

PROPERTY, PLANT AND EQUIPMENT:

Land		51,408,194
Buildings and leasehold improvements		680,414,954
Furniture, fixtures, and equipment		154,720,863
Vehicles		82,084,675
Construction-in-progress		<u>14,029,509</u>

982,658,195

Less: Accumulated depreciation (507,678,754)

Total property, plant and equipment 474,979,441

OTHER ASSETS:

Restricted deposits and funded reserves		26,865,862
Deferred charges		6,985,031
Participant funds and other noncurrent assets		12,573,517
Financing fees, net		3,452,452
Net investments in affiliates		<u>16,756,527</u>

Total other assets 66,633,389

\$ 1,081,462,246

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Current installments of long-term debt	\$	42,318,059
Notes payable		26,993,034
Accounts payable		61,290,338
Accrued expenses and taxes		141,085,416
Current portion of amounts due to governmental agencies		22,013,632
Current portion of deferred revenue and refundable advances		7,789,736
Other current liabilities		<u>18,749,922</u>

Total current liabilities 320,240,137

LONG-TERM DEBT, net of current portion 283,745,112

OTHER NONCURRENT LIABILITIES:

Due to governmental agencies, net of current portion		13,266,404
Deferred revenue and refundable advances, net of current portion		900,027
Participant funds and other noncurrent liabilities		<u>25,414,506</u>

Total other noncurrent liabilities 39,580,937

Total liabilities 643,566,186

NET ASSETS:

Unrestricted		419,065,746
Temporary restricted		16,542,586
Permanently restricted		<u>2,287,728</u>

Total net assets 437,896,060

\$ 1,081,462,246

The accompanying notes are an integral part of these statements.

NYSARC, INC. STATE OFFICE, CHAPTERS AND THEIR AFFILIATES

COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2009

(See Accountants' Compilation Report)

UNRESTRICTED NET ASSETS:

Revenue and support -	
Program revenue	\$ 1,694,176,797
Non-program revenue	31,531,762
Fundraising	5,787,930
Other support	3,510,881
Capital additions revenue	734,840
Realized and unrealized gain on investments, net	8,464,927
Net assets released from restrictions	<u>2,293,911</u>

Total revenue and support 1,746,501,048

Expenses -

Program services	1,543,831,862
Management and general	138,818,198
Fundraising	3,365,340
Other operating expenses	<u>6,376,248</u>

Total expenses 1,692,391,648

Increase in unrestricted net assets 54,109,400

TEMPORARILY RESTRICTED NET ASSETS:

Contributions, grants, etc.	2,606,075
Interest income	87,379
Other	757,544
Net assets released from restrictions	<u>(2,293,911)</u>

Increase in temporarily restricted net assets 1,157,087

PERMANENTLY RESTRICTED NET ASSETS:

Contributions	84,848
Other	<u>17,137</u>

Increase in permanently restricted net assets 101,985

CHANGE IN NET ASSETS 55,368,472

NET ASSETS - beginning of year 382,527,588

NET ASSETS - end of year \$ 437,896,060

The accompanying notes are an integral part of these statements.

NYSARC, INC. STATE OFFICE, CHAPTERS AND THEIR AFFILIATES

COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

(See Accountants' Compilation Report)

CASH FLOW FROM OPERATING ACTIVITIES:

Change in net assets	\$ 55,368,472
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Depreciation and amortization	53,997,282
Realized and unrealized gain on investments, net	(8,464,927)
Gain on sales or dispositions of assets, net	(1,348,299)
Bad debt expense	2,382,732
Other	(1,779,360)
Changes in:	
Receivables	8,006,766
Inventories	2,170,525
Prepaid expenses and other assets	(914,205)
Deposits	571,390
Deferred charges	771,045
Accounts payable	8,569,353
Accrued expenses and taxes	10,576,267
Due to governmental agencies	1,676,862
Deferred revenue, refundable advances and other liabilities	2,558,043
Net cash flow from operating activities	<u>134,141,946</u>

CASH FLOW FROM INVESTING ACTIVITIES:

Proceeds from the sale of property, plant and equipment	1,407,838
Expenditures for property, plant and equipment	(50,522,642)
Purchase of investments	(67,692,736)
Proceeds from sales of investments	48,898,830
Change in limited use reserves and deposits refunded	(1,800,932)
Other investing activities	528,075
Net cash flow from investing activities	<u>(69,181,567)</u>

CASH FLOW FROM FINANCING ACTIVITIES:

Proceeds from long-term debt	71,710,353
Repayment of long-term debt	(63,628,977)
Proceeds from notes payable	68,322,806
Repayment of notes payable	(87,081,863)
Change in deferred charges	79,668
Other financing activities	(1,977,098)
Net cash flow from financing activities	<u>(12,575,111)</u>

CHANGE IN CASH AND EQUIVALENTS 52,385,268

CASH AND EQUIVALENTS - beginning of year 88,897,725

CASH AND EQUIVALENTS - end of year \$ 141,282,993

The accompanying notes are an integral part of these statements.

NYSARC, INC. STATE OFFICE, CHAPTERS AND THEIR AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009

1. THE ORGANIZATION

NYSARC, Inc. (NYSARC) is a membership corporation composed of 49 Community Chapters and their affiliates and 6 Developmental Center Chapters (the Chapters) located throughout New York State. NYSARC is governed by a Board of Governors that consists of at least one Governor per Chapter to a maximum of six based on NYSARC membership in the Chapter. The Chapters are unincorporated divisions of NYSARC granted geographic jurisdiction and operating authority by the Board of Governors that provide assistance to persons with intellectual and other developmental disabilities through program services, education and guardianship. NYSARC also fosters research and helps individuals and organizations working with persons with intellectual and other developmental disabilities, while disseminating information to develop a better understanding of and opportunities for persons with intellectual and other developmental disabilities.

NYSARC, Inc. State Office (State Office) is NYSARC's central office that provides oversight responsibilities, on behalf of NYSARC's Board of Governors. The State Office provides the Chapters with technical and financing assistance and advocates on their behalf with New York State funding sources and legislative bodies. The State Office receives the majority of its support from administrative charges assessed on the Chapters.

The Chapters operate programs providing services that include, but are not limited to, sheltered workshop, residential, day treatment, family support, transportation, and respite programs. Developmental Centers advocate for persons that reside or formerly resided in State institutions.

The Chapters receive their revenues primarily by providing the services outlined above through licensed programs certified by New York State Office for People With Developmental Disabilities (OPWDD), Office of Mental Health, State Education Department, and Department of Health.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the separate financial statements of the State Office and the Community Chapters and their affiliates. On a combined basis, the entities included in these financial statements are referred to as "NYSARC." The 6 Developmental Center Chapters are not included because they do not provide program services. All intercompany accounts and transactions between the State Office and the Chapters and between the Chapters and their affiliates have been eliminated. Substantially all of the components of NYSARC maintain their books and records on a calendar year, except for the State Office whose year end is May 31 and the New York City Chapter and its affiliates whose year end is June 30. The State Office and the New York City Chapter and its affiliates have been included in the combined financial statements utilizing their financial statements for their respective fiscal years ended in 2009.

Basis of Accounting

The financial statements of NYSARC have been prepared in conformity with accounting principles generally accepted in the United States (GAAP).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting

NYSARC reports its activities and related net assets using the following net asset categories:

- **Unrestricted**

Unrestricted net assets include resources available for the support of NYSARC's operating activities. In addition, they include NYSARC's net investment in fixed assets and other sources designated by the Board of Governors for specific purposes.

- **Temporarily Restricted**

Temporarily restricted net assets include resources that have been donated to NYSARC subject to restrictions as defined by the donor. These assets are restricted for use in various programs as of December 31, 2009.

- **Permanently Restricted**

Permanently restricted net assets have been contributed to NYSARC with the stipulation by the donor that the principal is to remain in perpetuity.

Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Section 820 defines fair value 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 and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Level 2 inputs consist of other observable inputs other than active markets.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methodology used for the State Office's investments in money market funds, equity mutual funds, and fixed income bond funds is to value them at quoted market prices of the investments on the last business day of the fiscal year. Investments in government obligations and corporate bonds are estimated based on quoted market prices of securities with similar characteristics.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the State Office believes their valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Endowment

Some of the Chapters have endowment funds that were established by the contributions from donors and consist entirely of permanently restricted investments, as well as endowment funds that were established by the Boards of those Chapters. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The governing board of NYSARC has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on permanently restricted endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income (interest and dividends).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Program revenues are recognized at approved rates when services are rendered. These rates are primarily cost based as determined by allowable expenditures in rate-setting periods. Costs are subject to audit by third-party payers and changes, if any, are recognized in the year known. Contract sales are recognized as goods are shipped or as services are performed. Participant fees represent the participants' personal contribution towards the cost of goods and services provided by the Chapters. These charges are regulated by Federal and State law.

Cash and Equivalents

Cash and equivalents consist of bank demand deposit accounts and money market accounts which, at times, may exceed federally insured limits. NYSARC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash and equivalents.

Government and Other Receivables

NYSARC provides services that are paid for by third-party payers. Accounts for which no payments have been received for several months are considered delinquent and the account is written-off when customary collection efforts are exhausted. NYSARC records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts at December 31, 2009 is approximately \$10,000,000 and is based on NYSARC's past experience and a periodic review of outstanding accounts.

Investments

Substantially all investments are stated at fair value based upon quoted market prices. NYSARC invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying financial statements.

Inventories

Inventories are valued at the lower of cost, determined using the first-in, first-out method, or market.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost if purchased or the fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from one (1) to fifty (50) years. Depreciation expense was approximately \$53,600,000 for the year ended December 31, 2009.

Financing Fees

Financing fees consist of loan issuance costs associated with various mortgage closings that are being amortized on a straight-line basis over the terms of the related debt agreements. Accumulated amortization was approximately \$5,400,000 at December 31, 2009. Amortization of financing fees was approximately \$400,000 for the year ended December 31, 2009.

Net Investments in Affiliates

NYSARC has recognized 100% of its equity interest in the net assets of its affiliates, which are separately incorporated entities, whose purpose is to promote and support the activities of the respective Chapters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

NYSARC is a New York not-for-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. NYSARC has also been classified by the Internal Revenue Code as an entity that is not a private foundation. The Chapters' affiliates are exempt from income taxes under Section 501(c)(3) or 501(c)(2) of the Internal Revenue Code.

At June 30, 2009, an affiliate of the New York City Chapter had Federal and New York State net operating loss carryforwards from unrelated business activities of approximately \$1,900,000 that expire at various dates through 2028. A valuation allowance has been established to offset the potential tax benefit associated with the operating loss carryforwards and all other temporary differences, as it is uncertain if the future tax benefit will be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 is now known as ASC Section 740. This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. ASC Section 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. NYSARC adopted the provisions of ASC Section 740 in 2009 and there was no impact on NYSARC's financial statements. At the date of adoption and as of December 31, 2009, NYSARC does not have a liability for unrecognized tax benefits. The Chapters and the State Office file informational tax returns in the U.S. federal jurisdiction and New York State. The tax years that remain subject to examination by taxing authorities are generally the previous three years.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. FAIR VALUE MEASUREMENTS

The following are measured at fair value on a recurring basis at December 31, 2009:

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
Cash and equivalents	\$ 12,037,422	\$ 6,109,315	\$ -	\$ 18,146,737
Mutual funds	44,618,428	610,520	-	45,228,948
U.S. government obligations	9,074,745	1,966,129	-	11,040,874
Bonds	11,967,559	10,354,667	-	22,322,226
Stock	18,048,489	-	-	18,048,489
Limited liability company	-	-	12,381	12,381
Property	-	-	6,500	6,500
	<u>\$ 95,746,643</u>	<u>\$19,040,631</u>	<u>\$ 18,881</u>	<u>\$ 114,806,155</u>

3. FAIR VALUE MEASUREMENTS (Continued)

The measurement of the fair value of the investments listed above using Level 1 inputs considered observable data that is based on the quoted market prices of the shares held at year-end. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified as Level 2. The value of the investment using level 3 inputs equals the equity balance in a limited liability company.

The valuation methodologies described previously may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the NYSARC believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at December 31, 2009.

There were no changes in the valuation techniques during 2009.

The fair value of the Plan's level 3 assets changed as follows for the year ended December 31, 2009:

	Limited Liability Company	Property
Equity balance at January 1, 2009	\$ 14,703	\$ -
Contributions	-	6,500
Share of income items	3,650	-
Share of other deductions	(193)	-
Capital contribution	1,000	-
Cash distributions received	<u>(6,779)</u>	<u>-</u>
Equity balance at December 31, 2009	<u>\$ 12,381</u>	<u>\$ 6,500</u>

4. INVESTMENTS

Investments consist of the following at December 31, 2009:

Cash and equivalents	\$ 18,146,737
Mutual funds	45,228,948
U.S. government obligations	11,040,874
Bonds	22,322,226
Stock	18,048,489
Limited liability company	12,381
Property	<u>6,500</u>
	114,806,155
Less: Restricted deposits	<u>(1,875,000)</u>
	<u>\$ 112,931,155</u>

4. INVESTMENTS (Continued)

Net investment income is included in non-program revenue and realized and unrealized gains in the accompanying combined statement of activities and change in net assets and consisted of the following for the year ended December 31, 2009:

Interest and dividends	\$ 3,511,880
Realized and unrealized gains, net	<u>8,464,927</u>
	<u>\$ 11,976,807</u>

Investment fees of approximately \$154,000 are recorded as an expense in the accompanying combined statement of activities and change in net assets.

5. ENDOWMENT

Endowment net asset composition as of December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 2,499,940	\$ 188,095	\$ 2,185,743	\$ 4,873,778
Contributions	443,591	2,564	84,848	531,003
Investment income	503,957	1,739	17,137	522,833
Appropriated for expenditure	<u>(93,453)</u>	<u>-</u>	<u>-</u>	<u>(93,453)</u>
Endowment net assets end of year	<u>\$ 3,354,035</u>	<u>\$ 192,398</u>	<u>\$ 2,287,728</u>	<u>\$ 5,834,161</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor requires NYSARC to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies reported as of December 31, 2009.

Return Objectives, Risk Parameters, Spending Policy and Strategies Employed for Achieving Objectives

Each individual Chapter of NYSARC, which has an endowment fund, has established its own investment policy for endowment funds. These investment policies may include the establishment of a risk return objective, risk parameters, a spending policy or a strategy for achieving long-term rate objectives.

6. AFFILIATED ORGANIZATIONS

NYSARC, through its Nassau County Chapter, is associated with Community Services for the Mentally Retarded, Inc. (CSMR); Nassau County Association for the Help of Retarded Citizens, inc. (Citizens), and Nassau County AHRC Foundation, Inc. Certain officers and board members of the Nassau County Chapter are also officers and board members of these organizations.

6. AFFILIATED ORGANIZATIONS (Continued)

Included in participant funds and other assets at December 31, 2009, are amounts due from Nassau County Chapter's affiliated organizations as follows:

Nassau County Association for the Help of Retarded Citizens, Inc.	\$ 318,000
Nassau County AHRC Foundation, Inc.	<u>(10,000)</u>
	<u>\$ 308,000</u>

The Nassau County Chapter received management fees for administrative services from CSMR, Citizens, and Nassau County AHRC Foundation, Inc. of \$194,000 during the year ended December 31, 2009. Further, the Nassau County Chapter's programs utilize various facilities and residential sites owned by CSMR. For the year ended December 31, 2009, rent expense for facilities owned by CSMR approximated \$4,900,000.

7. FINANCING ARRANGEMENTS

Long-Term Debt

Mortgages and other financing arrangements with state and local government agencies including, but not limited to, the Medical Care Facilities Finance Agency, Local Industrial Development Agencies, New York State Urban Development Corporation, and the New York State Dormitory Authority, payable in monthly and semi-annual installments, including interest from 0% to 8.67%, maturing at various dates through 2028, collateralized by specific real property, accounts receivable and revenues related to the real property. \$ 191,574,065

Mortgages due to United States Department of Housing and Urban Development, payable in monthly installments, including interest from 8.375% to 9.25%, maturing at various dates through 2032, collateralized by specific real property. 5,367,515

Mortgages due to various banks and other lending institutions, payable in monthly and semi-annual installments including interest from 0.5% to 7%, maturing at various dates through 2021, collateralized by specific real property. 95,377,948

Other term loans due to various banks and other lending institutions, payable in monthly installments, including interest from 0% to 10.63%, maturing at various dates through 2014, collateralized by equipment, vehicles and other specific assets. 33,743,643

\$ 326,063,171

7. FINANCING ARRANGEMENTS (Continued)

Maturities of long-term debt are as follows:

2010	\$ 42,318,059
2011	35,073,128
2012	31,033,468
2013	25,787,159
2014	29,610,879
Thereafter	<u>162,240,478</u>
	<u>\$ 326,063,171</u>

Notes Payable

NYSARC has agreements with various banks for lines-of-credit. Interest on the lines range from less than prime rate to prime plus 2.5%. The lines are secured by receivables and other assets. The total potential borrowing under these lines-of-credit is approximately \$180,800,000 of which approximately \$19,300,000 is outstanding at December 31, 2009. Notes payable also includes loans of approximately \$7,700,000, for the purpose of purchasing real property, payable to a bank, with interest rates ranging from 2.0% to 3.19% in monthly interest installments only.

Debt Covenants

In connection with its financing arrangements, NYSARC and the Chapters are subject to various debt covenants. As of December 31, 2009, NYSARC and the Chapters were in compliance with these covenants.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid during 2009 under the terms of all financing arrangements and interest expense for the year ended December 31, 2009 was approximately \$ 16,800,000 and \$16,900,000, respectively.

9. OPERATING LEASES

NYSARC leases vehicles, equipment and facilities under noncancellable lease agreements. Rent expense under these leases was approximately \$37,500,000 during 2009. Future minimum rental payments under these lease agreements are as follows:

2010	\$ 29,167,007
2011	23,538,155
2012	18,829,044
2013	14,928,391
2014	12,212,795
Thereafter	<u>43,365,848</u>
	<u>\$ 142,041,240</u>

10. RETIREMENT PLANS

NYSARC has adopted numerous retirement plans covering its employees. These plans include defined contribution, defined benefit and tax deferred annuity plans. Total pension expense incurred by the State Office and the Chapters was approximately \$31,300,000 for the year ended December 31, 2009.

11. POST EMPLOYMENT BENEFIT PLANS

NYSARC has several post employment benefit plans. The total post employment benefit expense incurred by the State Office and the Chapters was approximately \$1,100,000 for the year ended December 31, 2009.

12. COMMITMENTS AND CONTINGENCIES

Service providers that are funded by Medicaid and OPWDD have become the subject of increased scrutiny with respect to reimbursements they have received for service provision. Specific areas often reviewed by Medicaid and OPWDD auditors include appropriate billing practices, technical regulatory compliance, etc. The stated purpose for these reviews is to recover inappropriate reimbursements. The Chapters are subject to these reviews and rate adjustments that may have an effect on the revenues and net asset balances of the Chapters. Management of the Chapters does not expect these adjustments, if any, to have a material effect on these or their individual financial statements.

Some of the Chapters are involved in lawsuits related to employment issues and injuries sustained on Chapter program properties. All such lawsuits appear to be adequately covered by insurance; however, the amount of awards and judgments cannot be determined at this time.

NYSARC by virtue of its corporate structure and relationship to the Chapters, holds title as nominee to various Chapter assets and is directly obligated under certain of the related Chapter mortgage agreements and, accordingly, NYSARC, including the State Office, could be contingently liable in the event of default. Additionally, many of the Chapters have established holding companies, which hold title to property. Some of these affiliates, but not all, have related mortgage and lease obligations to which NYSARC could also be contingently liable in the event of default on those mortgages.

Several Chapters are or have been participants in self-insurance trusts (Trusts) with other unrelated not-for-profit organizations that provide workers' compensation benefits. Under the terms of the Trusts, the Chapters makes annual contributions to the Trusts based on reported wages paid to the employees, using a rate-based formula. Based on actual claim experience, the Chapters could receive refunds or be assessed additional amounts related to workers compensation premiums. Under the Trust agreements, each participating organization has joint and several liability for Trust obligations.

Several Chapters have entered into contracts and committed resources to the acquisition of property for program services. This is part of the on-going program development in which the Chapters are engaged.

Two Chapters of NYSARC filed complaints seeking separation from NYSARC while retaining assets held in the title of NYSARC. In a decision, dated June 9, 2009, the Supreme Court of Chautauqua County dismissed the claims of one Chapter and granted NYSARC's motion for partial summary judgment. In a decision dated June 11, 2010, the Appellate Division, Fourth Department of the Supreme Court denied the Chapter's appeal and affirmed the lower Court's order granting partial summary judgment. The time within which permission to appeal to the Court of Appeals could have been sought has expired. In a decision dated August 19, 2010, the Supreme Court of Chenango County dismissed the other Chapter's complaint. The Chapter has filed a notice of appeal preserving its appeal rights.

12. COMMITMENTS AND CONTINGENCIES (Continued)

Several Chapters are participants in the Dormitory Authority of the State of New York (DASNY) bond program. Prior to the 2009A series bonds, security for the tax exempt bonds was the pledged revenue of the participating Chapters and for individual loans in excess of \$3 million a mortgage on the financed property was given. For the 2009A series bonds, in addition to pledging revenues, participating Chapters were required to mortgage all real property associated with the financed projects. Pledged revenues consist of all public funds, payable to NYSARC and its participating Chapters, by the federal government, receipts, revenues, income, gifts, grants, assistance, bequests, and other monies; whether now owned or to be received in the future while these bonds are outstanding; excluding any gifts, grants, or bequests received subject to restrictions upon the use that is inconsistent with the pledging of said amounts as collateral.

Furthermore, on behalf of the participating chapters, NYSARC has entered into an agreement with DASNY to permit DASNY to execute a certificate of Medicaid receipts intercept with OPWDD in the event of default on the bonds. As of December 31, 2009, DASNY has not issued such a Certificate to OPWDD.

13. SUBSEQUENT EVENTS

Subsequent to year-end, New York Not-for-Profit Corporation Law was amended to add a new article known as the "Prudent Management of Institutional Funds Act," which became effective in September 2010. NYSARC is currently assessing the impact of this legislation. However, it is possible that implementing it may result in a reclassification of previously reported net asset balances between unrestricted, temporarily restricted and/or permanently restricted net assets.

Subsequent events have been evaluated through October 26, 2010, which is the date the financial statements were issued.