

Developmental Disabilities Institute, Inc. and Affiliate

**Combined Financial Statements
and Supplemental Material
Year Ended December 31, 2010**

**Developmental Disabilities
Institute, Inc. and Affiliate**

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and Supplemental Material
Year Ended December 31, 2010

Developmental Disabilities Institute, Inc. and Affiliate

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Independent Auditors' Report

Board of Directors
Developmental Disabilities Institute, Inc.
and Affiliate
Smithtown, New York

We have audited the accompanying combined statement of financial position of Developmental Disabilities Institute, Inc. and Affiliate as of December 31, 2010, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended December 31, 2009 is presented for comparative purposes only and was extracted from the financial statements of Developmental Disabilities Institute, Inc. and Affiliate for that year, on which we expressed an unqualified opinion, dated July 22, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Developmental Disabilities Institute, Inc. and Affiliate as of December 31, 2010, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

June 21, 2011

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Financial Position (with comparative totals for 2009)

<i>December 31,</i>	2010	2009
Assets		
Current:		
Cash and cash equivalents (Note 3)	\$ 2,265,233	\$ 388,145
Cash - restricted (Note 3)	2,185,810	1,630,142
Investments, at fair value (Note 3)	4,322	3,887
Accounts receivable, net (Note 3)	17,459,308	18,684,468
Government and other grants receivable (Note 3)	1,107,209	1,318,498
Contributions and pledges receivable, net (Notes 3 and 4)	402,248	363,478
Prepaid expenses and other assets	965,565	837,092
Total Current Assets	24,389,695	23,225,710
Deferred Costs, Net (Note 3)	658,567	796,836
Assets Limited to Use (Note 6)	1,487,293	1,450,300
Fixed Assets, Net (Notes 3, 5, 11 and 12)	20,055,521	19,737,089
	\$46,591,076	\$45,209,935
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,514,061	\$ 1,816,123
Accrued interest payable	345,693	346,426
Accrued payroll and related benefits	3,583,929	3,398,697
Accrued pension payable (Note 7)	1,325,683	803,488
Deferred revenue	797,462	574,202
Capital lease obligations (Note 10)	221,720	295,517
Mortgages and loans payable (Note 12)	510,099	756,168
Bonds payable (Note 13)	1,099,000	1,030,000
Due to governmental agencies (Notes 3, 9 and 18)	1,335,506	456,240
Total Current Liabilities	10,733,153	9,476,861
Deferred Revenue, Less Current Portion	926,479	1,050,616
Capital Lease Obligations, Less Current Maturities (Note 10)	713,513	254,404
Mortgages and Loans Payable, Less Current Maturities (Note 12)	2,299,943	2,423,058
Bonds Payable, Less Current Maturities (Note 13)	16,445,000	17,544,000
Due to Governmental Agencies, Less Current Portion (Notes 3 and 9)	2,296,593	2,726,909
Total Liabilities	33,414,681	33,475,848
Commitments and Contingencies (Notes 3, 4, 8, 10, 11, 12, 13 and 14)		
Net Assets:		
Unrestricted net assets (Note 3)	12,274,554	11,017,395
Temporarily restricted net assets (Notes 3 and 17)	901,841	716,692
Total Net Assets	13,176,395	11,734,087
	\$46,591,076	\$45,209,935

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Activities and Net Assets (with comparative totals for 2009)

Year ended December 31,

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
Program Revenues:				
Fees for services	\$84,126,704	\$ -	\$84,126,704	\$81,371,610
Government and other grants	447,404	-	447,404	1,328,987
Clinic revenue	7,439,028	-	7,439,028	7,997,194
Other program revenues	1,299,244	-	1,299,244	2,097,436
Net assets released from restrictions (Note 16)	9,222	(9,222)	-	-
Total Program Revenues	93,321,602	(9,222)	93,312,380	92,795,227
Expenses:				
Program services:				
Education services	30,477,606	-	30,477,606	29,103,994
Clinic services	8,190,337	-	8,190,337	8,231,008
Adult day services	15,958,192	-	15,958,192	16,347,601
Children's residential services	6,456,656	-	6,456,656	6,578,986
Adult residential services	24,875,188	-	24,875,188	22,872,702
Total Program Services	85,957,979	-	85,957,979	83,134,291
Supporting services:				
Management and general	5,385,441	-	5,385,441	5,359,258
Fundraising	232,595	-	232,595	265,397
Total Supporting Services	5,618,036	-	5,618,036	5,624,655
Total Expenses	91,576,015	-	91,576,015	88,758,946
Change in Net Assets Before Nonoperating Revenues and Expenses	1,745,587	(9,222)	1,736,365	4,036,281
Nonoperating Revenues and Expenses:				
Capital campaign income	51,668	181,287	232,955	758,715
Capital campaign expenses	(51,668)	-	(51,668)	(95,140)
Net Revenues From Capital Campaign	-	181,287	181,287	663,575
Special events revenues	288,956	-	288,956	337,483
Direct cost to donors	(116,376)	-	(116,376)	(130,856)
Net Revenues From Special Events	172,580	-	172,580	206,627
Contributions	41,930	13,084	55,014	98,000
Gain on sale of fixed assets	50,805	-	50,805	44,283
Unrealized gains (losses) on investments	435	-	435	(991)
Interest income	27,519	-	27,519	8,727
Total Nonoperating Revenues and Expenses	293,269	194,371	487,640	1,020,221
Change in Net Assets Before Medicaid Settlement	2,038,856	185,149	2,224,005	5,056,502
Medicaid Settlement (Note 18)	(781,697)	-	(781,697)	-
Change In Net Assets	1,257,159	185,149	1,442,308	5,056,502
Net Assets, Beginning of Year	11,017,395	716,692	11,734,087	6,677,585
Net Assets, End of Year	\$12,274,554	\$901,841	\$13,176,395	\$11,734,087

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Functional Expenses (with comparative totals for 2009)

Year ended December 31,

	Program Services					Supporting Services				Total	
	Education Services	Clinic Services	Adult Day Services	Children's Residential Services	Adult Residential Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	2010	2009
	Salaries and Related Expenses:										
Salaries	\$ 20,443,053	\$ 4,855,644	\$ 9,270,608	\$ 3,539,671	\$ 14,927,244	\$ 53,036,220	\$ 3,223,436	\$ 143,756	\$ 3,367,192	\$56,403,412	\$54,597,042
Payroll taxes and employee benefits	7,190,136	1,239,658	3,152,162	1,207,142	5,203,841	17,992,939	819,286	40,655	859,941	18,852,880	16,510,608
Total Salaries and Related Expenses	27,633,189	6,095,302	12,422,770	4,746,813	20,131,085	71,029,159	4,042,722	184,411	4,227,133	75,256,292	71,107,650
Other Expenses:											
Fee-for-services professionals	37,012	206,465	5,878	40,153	164,955	454,463	140,340	1,750	142,090	596,553	825,513
Building occupancy	475,577	202,123	785,550	8	147	1,463,405	17,209	-	17,209	1,480,614	1,442,911
Telephone	82,972	48,843	108,425	22,517	97,114	359,871	15,875	2,154	18,029	377,900	380,130
Travel	66,290	12,521	82,762	1,731	31,709	195,013	8,646	3,053	11,699	206,712	197,608
Supplies	322,271	196,818	205,255	157,650	377,825	1,259,819	13,961	397	14,358	1,274,177	1,396,594
Food and household	1,515	328	58,953	282,429	862,895	1,206,120	3,032	-	3,032	1,209,152	1,289,135
Office expense	99,536	39,698	58,293	16,360	35,041	248,928	65,585	22,062	87,647	336,575	340,058
Dues and subscriptions	9,821	1,244	2,226	106	1,251	14,648	40,266	695	40,961	55,609	54,587
Postage	12,042	5,173	2,243	1,723	738	21,919	53,513	5,083	58,596	80,515	82,511
Meetings and conferences	28,051	10,234	16,385	14,509	16,761	85,940	45,759	4,880	50,639	136,579	132,650
Employee training and recruitment	54,612	3,965	54,253	21,606	31,451	165,887	81,268	1,048	82,316	248,203	344,730
Legal and accounting	-	21,361	-	-	3,606	24,967	324,407	-	324,407	349,374	294,653
Utilities	356,910	127,549	203,844	111,890	338,058	1,138,251	32,754	574	33,328	1,171,579	1,137,250
Operating leases	20,890	-	35,039	1,749	2,084	59,762	28,232	-	28,232	87,994	99,619
Repairs and maintenance	256,070	213,002	270,591	72,784	284,935	1,097,382	104,046	253	104,299	1,201,681	1,118,573
Equipment and furniture	61,173	6,586	28,826	20,465	43,210	160,260	20,857	3,521	24,378	184,638	161,357
Interest	316,108	534,991	210,409	131,532	346,579	1,539,619	6,450	119	6,569	1,546,188	1,607,680
Insurance	313,920	167,023	407,748	87,024	428,945	1,404,660	68,103	2,233	70,336	1,474,996	1,496,549
Medicaid assessment taxes	-	-	-	401,867	368,392	770,259	-	-	-	770,259	863,969
Amortization of debt issuance costs	5,248	13,800	4,336	16,698	88,409	128,491	9,778	-	9,778	138,269	140,256
Debt-related expenses	-	-	-	-	-	-	12,443	-	12,443	12,443	12,848
Transportation service subcontracting fees	-	-	-	-	-	-	-	-	-	-	895,684
Vehicle expense	70,612	1,929	614,727	29,627	360,960	1,077,855	7,155	194	7,349	1,085,204	931,581
Bad debt expense	-	18,765	-	-	-	18,765	-	-	-	18,765	178,982
Total Expenses Before Depreciation and Amortization	30,223,819	7,927,720	15,578,513	6,179,241	24,016,150	83,925,443	5,142,401	232,427	5,374,828	89,300,271	86,533,078
Depreciation and Amortization	253,787	262,617	379,679	277,415	859,038	2,032,536	243,040	168	243,208	2,275,744	2,225,868
Total Expenses	\$30,477,606	\$8,190,337	\$15,958,192	\$6,456,656	\$24,875,188	\$85,957,979	\$5,385,441	\$232,595	\$5,618,036	\$91,576,015	\$88,758,946

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Cash Flows (with comparative totals for 2009)

<i>Year ended December 31,</i>	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,442,308	\$ 5,056,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,275,744	2,225,868
Amortization of deferred costs	138,269	140,259
Gain on sale of fixed assets	(50,805)	(44,283)
Provision for bad debt	18,765	178,982
Unrealized (gains) losses on investments	(435)	991
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,206,395	(4,107,122)
Contributions and pledges receivable	(38,770)	114,885
Government and other grants receivable	211,289	(186,632)
Prepaid expenses and other assets	(128,473)	(122,308)
Increase (decrease) in:		
Accounts payable and accrued expenses	(302,062)	380,724
Accrued interest payable	(733)	(6,885)
Accrued payroll and related benefits	185,232	(134,493)
Accrued pension payable	522,195	(168,389)
Deferred revenue	99,123	381,893
Due to governmental agencies	448,950	(323,010)
Net Cash Provided By Operating Activities	6,026,992	3,386,982
Cash Flows From Investing Activities:		
Purchases of fixed assets	(1,864,637)	(1,393,119)
Proceeds from sale of fixed assets	52,567	44,283
Additions of debt issuance costs	-	(4,274)
Cash - restricted	(555,668)	47,238
Assets limited to use	(36,993)	(76,035)
Net Cash Used In Investing Activities	(2,404,731)	(1,381,907)
Cash Flows From Financing Activities:		
Proceeds from lines of credit	-	14,425,456
Payments on lines of credit	-	(14,425,456)
Proceeds from mortgages and loans payable	237,744	311,679
Repayments on capital lease obligations	(345,989)	(283,706)
Principal payments on mortgages and loans payable	(606,928)	(703,388)
Principal payments on bonds payable	(1,030,000)	(973,000)
Net Cash Used In Financing Activities	(1,745,173)	(1,648,415)
Net Increase in Cash and Cash Equivalents	1,877,088	356,660
Cash and Cash Equivalents, Beginning of Year	388,145	31,485
Cash and Cash Equivalents, End of Year	\$ 2,265,233	\$ 388,145
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 1,545,455	\$ 1,607,680
Noncash transaction related to capital leases	731,301	316,135

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

1. Principles of Combination

The accompanying combined financial statements include the accounts of Developmental Disabilities Institute, Inc. (the "Institute") and DDI Foundation, Inc. (the "Foundation") (collectively, the "Institute and Affiliate"), which are related by certain common members of the Board of Directors and identical management.

All intercompany balances and transactions have been eliminated in combination.

2. Nature of the Organizations

(a) The Institute is a New York State not-for-profit corporation which operates health, education and residential facilities for the therapeutic education, guidance and training of developmentally disabled children, adults and their families. The Institute also operates Diagnostic and Treatment Centers, which are licensed by the New York State Department of Health under Article 28 of the Public Health Law to provide rehabilitative, therapeutic, medical and dental services primarily for developmentally disabled children and adults. The Institute is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying combined financial statements. In addition, the Institute has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended December 31, 2010.

(b) The Foundation is a New York State not-for-profit corporation that was established May 31, 1988 and began operations October 1, 1990. The Foundation is organized and operated exclusively for charitable, scientific and educational purposes. Consistent with the foregoing, its specific purpose is to promote and support the activities of the Institute. The Foundation maintains certain common board members with the Institute. The Foundation is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Code, and therefore has made no provision for income taxes in the accompanying combined financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended December 31, 2010.

3. Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements of the Institute are prepared on the accrual basis of accounting. On January 1, 2009, the Plan adopted the Accounting Standards Codification ("Codification" or "ASC") ASC 105, "Generally Accepted Accounting Principles", as issued by the Financial Accounting Standards Board (the "FASB") (formerly Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"). The Codification became the single source of authoritative accounting principles generally accepted in the United States ("GAAP"). Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates ("ASU").

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(b) Financial Statement Presentation

The classification of the Institute's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

- (i) Permanently Restricted* - Net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institute.
- (ii) Temporarily Restricted* - Net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.
- (iii) Unrestricted* - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

The Institute and Affiliate consider all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(d) Cash-Restricted

Restricted cash consists of cash held in banks for future contributions to the pension plan and future workers compensation claims.

(e) Provision for Doubtful Accounts

The Institute and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectibility. As of December 31, 2010, the total allowance for doubtful accounts is \$463,520.

(f) Investment Valuation and Income Recognition

ASC 820-10, "Fair Value Measurements and Disclosures", formerly SFAS No. 157, "Fair Value Measurements", defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. ASC 820-10 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 in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable. ASC 820-10 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability,

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Institute and Affiliate classify fair value balances based on the fair value hierarchy defined by ASC 820-10 as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment income is recognized when earned and consists of interest and dividends. Dividends are recorded on the ex-dividend date. Purchases and sales are recorded on a trade-date basis.

(g) Income Taxes

The Institute and Affiliate were incorporated in the State of New York and is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore have made no provision for income taxes in the accompanying financial statements. In addition, the Institute and Affiliate have been determined by the Internal Revenue Service not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended December 31, 2010.

The Institute and Affiliate adopted the provisions of ASC 740, "Income Taxes" (relevant portions of which were previously addressed in FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), on January 1, 2009. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The implementation of ASC 740 had no impact on the financial statements. The Institute and Affiliate do not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. The Institute and Affiliate have filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, the Institute and Affiliate have filed Internal Revenue Service Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. No interest or penalties were accrued as of January 1, 2009 as a result of the adoption of ASC 740. For the year ended December 31, 2010, there was no interest or penalties recorded or included in the combined statement of activities.

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Notes to Combined Financial Statements

(h) Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Years
Buildings	18-40
Building improvements	5-40
Furniture and fixtures	4-20
Equipment and vehicles	3-15

(i) Contributions and Pledges Receivable

Contributions and pledges receivable, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Promises to give are recorded at the present value of estimated future cash flows, based on an appropriate discount rate at the time of the gift. Amortization of the discount in subsequent years is included in contribution revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions for capital projects are reported as nonoperating revenues. Conditional contributions, including conditional promises to give, are not recognized until the conditions are substantially met.

Unconditional promises to give are recorded in the combined financial statements at present value using a discount rate of 2.5% which represents risk-free interest rates applicable to the years in which promises are received.

Contributions receivable consist of \$346,291 for the capital campaign and \$55,957 for pledges receivable at December 31, 2010.

The capital campaign represents funds donated to the Institute and Affiliate for the purpose of renovations of the Little Plains School located in Huntington, New York and expenses related to the capital campaign.

(j) Deferred Costs

Deferred costs consist of debt issuance costs and deferred start-up costs. Debt issuance costs are deferred and amortized using the straight-line method over the term of the related debt. Deferred start-up costs are amortized using the straight-line method over a five-year term. As of December 31, 2010, the total accumulated amortization is \$1,343,311 and \$38,929, respectively.

(k) Third-party Reimbursements and Revenue Recognition

The Institute receives substantially all of its revenue for services provided to approved clients from third-party reimbursement agencies; primarily the Office for People With Developmental Disabilities ("OPWDD"), Department of Health and the State Education Department of New York. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

Revenue is recognized as earned from third parties and when received or pledged for contributions, special events and fundraising activities.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(l) Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management.

(m) Concentration of Credit Risk

Financial instruments which potentially subject the Institute and Affiliate to concentration of credit risk consist primarily of cash and cash equivalents. At various times, the Institute and Affiliate have cash deposits at financial institutions, which exceed the Federal Depository Insurance Corporation insurance limits.

(n) Use of Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(o) Comparative Financial Information

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Institute and Affiliate's financial statements for the year ended December 31, 2009, from which the summarized information was derived in total but not by net asset class.

(p) Effect of Recently Issued Technical Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures", which amends ASC 820-10, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. ASU 2010-06 is effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The adoption of the ASU did not have a material effect on the combined financial statements.

(q) Reclassifications

Certain prior year balances have been reclassified to be consistent with the current year financial statement presentation.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

4. Contributions and Pledges Receivable, Net

At December 31, 2010, the net present value of contributions and pledges receivable is \$402,248. The net present value of pledges receivable was calculated using a discount rate of 2.5%.

Net present value of pledges receivable at December 31, 2010 is summarized below:

December 31, 2010

Total contributions receivable	\$412,712
Discount at 2.5%	(10,464)
Net present value of contributions receivable	\$402,248

Amount due in:

One year	\$132,887
Two to five years	269,361
	\$402,248

5. Fixed Assets, Net

Fixed assets, net, including equipment under capital leases, consists of the following:

December 31, 2010

Land	\$ 4,612,783
Buildings and building improvements	26,854,206
Furniture, fixtures and office equipment	7,302,487
Vehicles under capital lease obligations	4,869,930
Machinery and equipment	220,402
IT equipment	1,894,193
Leasehold improvements	2,009,040
	47,763,041
Less: Accumulated depreciation and amortization	(28,594,145)
Construction-in-progress	886,625
	\$ 20,055,521

The estimated cost to complete the construction-in-progress is approximately \$8.6 million.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

6. Fair Value Measurements and Disclosures and Assets Limited to Use

The following table shows, by level within the fair value hierarchy, the Institute and Affiliate's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2010. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Institute and Affiliate's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

Level 1:	
1993 Civic Facility Revenue Bonds:	
First American Treasury Obligation	\$ 490,742
1998 Civic Facility Revenue Bonds:	
Federal Treasury Obligations Fund	157,509
1999 A-B Civic Facility Revenue Bonds:	
Federal Treasury Obligations Fund	101,173
2000 A-C Civic Facility Revenue Bonds:	
Federal Treasury Obligations Fund	5,000
2004 A-B Civic Facility Revenue Bonds:	
Federal Treasury Obligations Fund	49,363
2004 A-C Civic Facility Revenue Bonds:	
Federal Treasury Obligations Fund	20,937
2005 A-B Civic Facility Revenue Bonds;	
Federal Treasury Obligations Fund	117,254
2006 A-B Civic Facility Revenue Bonds;	
Federal Treasury Obligations Fund	297,208
Facilities Development Corporation ("FDC") mortgages payable - debt service reserve fund (various investments made by the trustee)	200,560
Cash - funded depreciation	47,547
<hr/>	
Total	\$1,487,293

The Institute and Affiliate's holdings in stocks and publicly-traded mutual funds consist principally of debt and equity securities carried at their aggregate market value that is determined by quoted market prices. Each of the above investments can be liquidated daily. The valuation of the above is based on Level 1 inputs within the hierarchy used in measuring fair value.

7. Pension Plans

(a) Active Plan

The Institute is the sponsor of a 403(b) tax deferred annuity plan that covers all Institute and Affiliate employees meeting eligibility requirements. Employee contributions are immediately vested. The Institute also makes a discretionary contribution based upon a percentage of an employee's salary, which will become 100% vested after three or five years depending on date of hire. Pension contributions for the year ended December 31, 2010 were \$1,328,683 plus administration fees of \$7,290. Accrued pension payable for the year ended December 31, 2010 was \$1,325,683.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(b) Frozen Plan

The Institute and Affiliate had a defined contribution pension plan for all salaried employees who completed one year of service. Contributions were based on a percentage of employees' salaries and vesting occurred after five years. The plan was frozen as of April 6, 2001.

8. Workers' Compensation Reserve

To date, the Institute has recorded a liability for workers' compensation claims. The liability was established to offset future assessments of workers' compensation claims for the periods the Institute participated in a group self-insured workers' compensation trust, which was from July 2006 to September 2010. The balance at December 31, 2010 was \$1,124,982 and is included in accrued payroll and related benefits on the accompanying combined statement of financial position.

9. Due to Governmental Agencies

Due to governmental agencies consists of the following:

December 31, 2010

Advances by funding sources to be recouped in future years	\$3,632,099
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10. Capital Lease Obligations

Capital lease obligations consisted of the following:

December 31, 2010

The Institute financed the cost of vehicles with notes payable in various monthly installments through 2014. The interest rates on these leases range from 5.37% to 6.23%.	\$ 935,233
Less: Current maturities	(221,720)
	<hr/> \$ 713,513

Future minimum principal payments and the present value of net minimum principal payments are as follows:

December 31,

2011	\$ 275,897
2012	275,897
2013	275,897
2014	221,152
Thereafter	-
Total minimum lease payments	1,048,843
Less: Interest	(113,610)
Present value of net minimum lease payments	<hr/> \$ 935,233

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

11. Lines of Credit

(a) The Institute has a revolving line of credit with a bank of up to \$7,000,000 which expires September 30, 2011. Interest is charged at the greater of 4% per annum or the adjusted LIBOR rate plus 275 basis points or the prime rate plus 50 basis points. There were no amounts outstanding at December 31, 2010. This line was secured by outstanding accounts receivable excluding any receivables subject to subordination agreements.

(b) The Institute has a nonrevolving line of credit with a bank for one capital project in Smithtown, NY which was converted to permanent in February 2011.

12. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

December 31, 2010

Mortgage payable to FDC, due August 2015, payable in semi-annual debt service payments ranging from \$10,931 to \$11,197, including interest at 7.78% per annum; secured by real estate located in Selden, New York.	\$ 71,100
Mortgage payable to FDC, due August 2017, payable in semi-annual debt service payments ranging from \$24,430 to \$24,837, including interest at 7.95% per annum; secured by real estate located in Plainview, New York.	254,475
Mortgage payable to FDC, due August 2018, payable in semi-annual debt service payments ranging from \$22,544 to \$22,880, including interest at 6.76% per annum; secured by real estate located in Greenlawn, New York.	229,150
Mortgage payable to FDC, due February 2021, payable in semi-annual debt service payments ranging from \$8,066 to \$11,242, including interest at 5.61% per annum; secured by real estate located in Mt. Sinai, New York.	166,588
Mortgage payable to FDC, due February 2011, payable in semi-annual debt service payments ranging from \$18,513 to \$37,870, including interest at 5.44% per annum; secured by real estate located in Miller Place, New York.	4,500
Mortgage payable to FDC, due February 2011, payable in semi-annual debt service payments ranging from \$24,067 to \$36,877, including interest at 5.44% per annum; secured by real estate located in Mt. Sinai, New York.	5,850
Various loans payable, due from February 2010 to May 2013, payable in current monthly installments ranging from \$188 to \$4,833, including interest from 5% to 10%; secured by related vehicles, land and buildings (Note 11(b))	2,078,379
	2,810,042
Less: Current maturities	(510,099)
	<hr/> \$2,299,943

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

Mortgages and loans payable mature as follows:

<i>December 31,</i>	
2011	\$ 510,099
2012	401,695
2013	207,966
2014	177,503
2015	166,127
Thereafter	1,346,652
	<hr/>
	\$2,810,042

13. Bonds Payable

(a) On March 22, 1993, the Institute obtained financing of \$10,925,000 through Suffolk County Industrial Development Agency's ("SCIDA") issuance of fixed rate 1993 Civic Facility Revenue Bonds due March 1, 2023. At December 31, 2010, \$7,905,000 remains outstanding. The bonds, which require interest payments on March 1 and September 1, bear interest at 8.75%. Bond proceeds received in prior years were used to refinance a \$1,847,500 Meadow Glen building loan and to finance the development of the Institute's Diagnostic and Treatment Centers. On September 13, 2002, \$500,000 in principal amount of the allowed State Bank and Trust Company of Connecticut claim was waived and such waiver was implemented by a \$100,000 reduction in the annual principal repayments due on the first day of March in each of the years 2003-2007.

In accordance with the terms of the bond agreement, the Institute transferred to SCIDA the titles of the Hollywood Drive Campus and Meadow Glen facility, including the land and improvements thereon, and all tangible and intangible assets acquired with the bond proceeds. Moreover, the Institute granted SCIDA a leasehold interest in the facilities that were developed with the bond proceeds. The Institute immediately leased back these facilities and other assets at a rate and term equivalent to the debt service requirements of the bonds. SCIDA is prohibited from selling the facilities and other assets without the express consent of the Institute. Moreover, all the facilities and other assets will be returned to the Institute on March 1, 2023 or at such time that the bond obligations have been fully satisfied. The accompanying combined financial statements reflect the historical costs of all facilities and other assets acquired by SCIDA because the Institute retains substantially all incidents of ownership. Payment of the 1993 Civic Facility Revenue Bonds' principal, interest and trustee's fees is fully guaranteed by the Foundation.

(b) The Institute acquired the land and building for the Little Plains School in 1989 with long-term financing of \$4,700,000 from SCIDA's issuance of variable rate seven-day demand Civic Facility Revenue Bonds. On December 22, 1998, the remaining outstanding balance of \$3,100,000 was refinanced through SCIDA's issuance of \$6,775,000 fixed rate 1998 Civic Facility Revenue Bonds due March 1, 2024. The remaining bond proceeds were used in 1998 to refinance two mortgage notes and to purchase an educational facility in 1999. At December 31, 2010, \$4,830,000 remains outstanding. The bonds, which require quarterly interest payments, bear interest at 7.25%.

(c) On June 16, 1999, the Institute obtained financing of \$2,085,000 through SCIDA's issuance of fixed rate 1999 Civic Facility Revenue Bonds due June 1, 2014. At December 31, 2010, \$655,000 remains outstanding. The bonds, which require quarterly interest payments, bear interest at 6.375%.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(d) On September 21, 2000, the Institute obtained financing of \$1,465,000 through SCIDA's issuance of fixed rate 2000 Civic Facility Revenue Bonds due September 1, 2015. At December 31, 2010, \$120,000 remains outstanding. The bonds, which require quarterly interest payments, bear interest at 7.50%.

(e) On December 1, 2004, the Institute obtained financing of \$265,000 of Civic Facility Revenue bonds through SCIDA for the renovation and equipping of a facility located in Medford, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2010, \$185,000 remains outstanding:

(f) On January 21, 2005 the Institute obtained financing of \$163,000 of Civic Facility Revenue bonds through the Nassau County Industrial Development Agency ("NCIDA") for the renovation and equipping of a facility located in Bellmore, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2010, \$105,000 remains outstanding.

(g) On October 1, 2005, the Institute obtained financing of \$1,091,000 of Civic Facility Revenue Bonds through SCIDA for the renovation and equipping of a facility located in East Patchogue, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2010, \$800,000 remains outstanding.

(h) On September 26, 2006, the Institute obtained financing of \$3,857,000 of Civic Facility Revenue Bonds through SCIDA to renovate properties located in Nesconset, NY, Commack, NY, Babylon, NY, Smithtown, NY and Bohemia, NY, and for acquisitions and renovations of properties located in Ridge, NY and Yaphank, NY. The bonds, which require quarterly interest payments, bear interest at 5.95% (\$2,915,000) and 7.25% (\$29,000). At December 31, 2010, \$2,944,000 remains outstanding.

The aggregate principal maturities for the years ending December 31 are as follows:

December 31,

2011	\$ 1,099,000
2012	1,130,000
2013	1,220,000
2014	1,200,000
2015	1,140,000
Thereafter	11,755,000
	<hr/>
	\$17,544,000

All bonds are secured by the related properties.

Interest expense related to the bonds for the year ended December 31, 2010 was \$674,576.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

14. Operating Leases

Pursuant to several lease agreements, the Institute and Affiliate are obligated for minimum annual rentals payable to nonrelated entities, as indicated below. The Institute is obligated for certain operating costs at these sites. The future minimum commitments to all nonrelated parties are as follows:

<i>December 31,</i>	
2011	\$1,226,057
2012	1,276,530
2013	1,211,056
2014	1,141,116
2015	689,676
Thereafter	1,603,349
<hr/>	
Total minimum lease payments	\$7,147,784

Total rental expense under noncancellable operating leases amounted to \$1,480,614 for the year ended December 31, 2010.

15. Commitments and Contingencies

(a) The Institute has received capital grants from OPWDD to partially fund construction costs related to certain residential programs. According to the terms of the grants, the Institute was obligated to operate the programs for a period of 20 years from completion of construction. At December 31, 2010, the requirements were satisfied. In 2010, the Institute has been operating the programs for the 20-year term and thus has satisfied its obligation to OPWDD under the terms of the capital grant.

(b) In conjunction with the operation of its Diagnostic and Treatment Centers, the Institute maintains occurrence-basis malpractice insurance policies for certain medical and dental personnel. Management is not aware of any outstanding individual or aggregate malpractice claims that could potentially exceed the existing coverage limitations.

(c) For the year ended December 31, 2010, revenues from Medicare and Medicaid programs accounted for a significant portion of the Institute's revenues. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Institute believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. In the event noncompliance is determined, the Institute would be subject to regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

(d) Additionally, the Institute is involved in certain disputes arising from the normal course of its businesses. In the opinion of management and on the advice of legal counsel, the expected outcome of such disputes, in the aggregate, will not have a material adverse effect on the Institute's financial position.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(e) The Institute has a standby letter of credit with a bank for an operating lease at one of its day program sites. The current amount available is \$208,000 and expires September 11, 2011. Interest is charged at 2.25%.

(f) The Institute is subject to periodic audits and inquiries by regulatory agencies. Presently, the Institute is undergoing an audit with a regulatory agency. At this time, an estimate as to the outcome cannot be made.

16. Net Assets Released from Restrictions

During 2010, temporarily restricted net assets that were released from donor restrictions by incurring expenses satisfying the restricted purpose are as follows:

School supplies and book fair	\$9,222
	\$9,222

17. Temporarily Restricted Net Assets

Donor restricted contributions held for specific purposes are as follows:

December 31, 2010

School supplies and book fair	\$ 20,718
Memorial	36,261
Capital campaign	844,862
	\$901,841

18. Subsequent Events

In March 2011, the Institute and Affiliate reached a verbal understanding with the Medicaid Fraud Control Unit ("MFCU") to settle an outstanding audit that the MFCU began in 2009 for dental services provided between 2004 and 2008. As of March 29, 2011, the settlement amounted to approximately \$782,000 which includes interest through March 25, 2011 and is accrued in due to governmental agencies on the accompanying combined statement of financial position.

The Institute and Affiliate's management has performed subsequent events procedures through June 21, 2011, which is the date the combined financial statements were available to be issued and there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.

Independent Auditors' Report on Supplemental Material

Our audit of the basic combined financial statements included in the preceding section of this report was made for the purpose of forming an opinion on those statements taken as a whole. The supplemental material in the following section of this report 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 audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants

New York, New York

June 21, 2011

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Financial Position (with comparative totals for 2009)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total	
				2010	2009
Assets					
Current:					
Cash and cash equivalents	\$ 2,044,798	\$ 220,435	\$ -	\$ 2,265,233	\$ 388,145
Cash - restricted	2,185,810	-	-	2,185,810	1,630,142
Investments, at fair value	-	4,322	-	4,322	3,887
Accounts receivable, net	17,383,231	76,077	-	17,459,308	18,684,468
Government and other grants receivable	792,209	315,000	-	1,107,209	1,318,498
Contributions and pledges receivable	-	402,248	-	402,248	363,478
Prepaid expenses and other assets	958,616	6,949	-	965,565	837,092
Total Current Assets	23,364,664	1,025,031	-	24,389,695	23,225,710
Due From Affiliates	113,463	-	(113,463)	-	-
Deferred Costs, Net	658,567	-	-	658,567	796,836
Assets Limited to Use	1,487,293	-	-	1,487,293	1,450,300
Fixed Assets, Net	20,055,521	-	-	20,055,521	19,737,089
	\$45,679,508	\$1,025,031	\$(113,463)	\$46,591,076	\$45,209,935

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Financial Position (with comparative totals for 2009)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total	
				2010	2009
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,513,250	\$ 811	\$ -	\$ 1,514,061	\$ 1,816,123
Accrued interest payable	345,693	-	-	345,693	346,426
Accrued payroll and related benefits	3,583,929	-	-	3,583,929	3,398,697
Accrued pension payable	1,325,683	-	-	1,325,683	803,488
Due to affiliate	-	113,463	(113,463)	-	-
Deferred revenue	797,462	-	-	797,462	574,202
Capital lease obligations	221,720	-	-	221,720	295,517
Mortgages and loans payable	510,099	-	-	510,099	756,168
Bonds payable	1,099,000	-	-	1,099,000	1,030,000
Due to governmental agencies	1,335,506	-	-	1,335,506	456,240
Total Current Liabilities	10,732,342	114,274	(113,463)	10,733,153	9,476,861
Deferred Revenue, Less Current Portion	926,479			926,479	1,050,616
Capital Lease Obligations, Less Current Maturities	713,513	-	-	713,513	254,404
Mortgages and Loans Payable, Less Current Maturities	2,299,943	-	-	2,299,943	2,423,058
Bonds Payable, Less Current Maturities	16,445,000	-	-	16,445,000	17,544,000
Due to Governmental Agencies, Less Current Portion	2,296,593	-	-	2,296,593	2,726,909
Total Liabilities	33,413,870	114,274	(113,463)	33,414,681	33,475,848
Net Assets:					
Unrestricted net assets	12,265,638	8,916	-	12,274,554	11,017,395
Temporarily restricted net assets	-	901,841	-	901,841	716,692
Total Net Assets	12,265,638	910,757	-	13,176,395	11,734,087
	\$45,679,508	\$1,025,031	\$(113,463)	\$46,591,076	\$45,209,935

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Activities and Net Assets (with comparative totals for 2009)

Year ended December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.			Combined Total	
	Unrestricted	Unrestricted	Temporarily Restricted	Total	2010	2009
Program Revenues:						
Fees for services	\$ 84,126,704	\$ -	\$ -	\$ -	\$84,126,704	\$81,371,610
Government and other grants	447,404	-	-	-	447,404	1,328,987
Net patient service revenues	7,439,028	-	-	-	7,439,028	7,997,194
Other program revenues	1,299,244	-	-	-	1,299,244	2,097,436
Net assets released from restrictions	-	9,222	(9,222)	-	-	-
Total Program Revenues	93,312,380	9,222	(9,222)	-	93,312,380	92,795,227
Expenses:						
Program services:						
Education services	30,477,606	-	-	-	30,477,606	29,103,994
Clinic services	8,190,337	-	-	-	8,190,337	8,231,008
Adult day services	15,958,192	-	-	-	15,958,192	16,347,601
Children's residential services	6,456,656	-	-	-	6,456,656	6,578,986
Adult residential services	24,875,188	-	-	-	24,875,188	22,872,702
Total Program Services	85,957,979	-	-	-	85,957,979	83,134,291
Supporting services:						
Management and general	5,385,441	-	-	-	5,385,441	5,359,258
Fundraising	-	232,595	-	232,595	232,595	265,397
Total Supporting Services	5,385,441	232,595	-	232,595	5,618,036	5,624,655
Total Expenses	91,343,420	232,595	-	232,595	91,576,015	88,758,946
Change in Net Assets Before Nonoperating Revenues and Expenses	1,968,960	(223,373)	(9,222)	(232,595)	1,736,365	4,036,281
Nonoperating Revenues and Expenses:						
Capital campaign income	-	51,668	181,287	232,955	232,955	758,715
Capital campaign expenses	-	(51,668)	-	(51,668)	(51,668)	(95,140)
Net Revenues From Capital Campaign	-	-	181,287	181,287	181,287	663,575
Special events revenues	-	288,956	-	288,956	288,956	337,483
Direct cost to donors	-	(116,376)	-	(116,376)	(116,376)	(130,856)
Net Revenues From Special Events	-	172,580	-	172,580	172,580	206,627
Contributions	9,585	32,345	13,084	45,429	55,014	98,000
Contributions from affiliates	-	-	-	-	-	-
Gain on sale of fixed assets	50,805	-	-	-	50,805	44,283
Unrealized gains (losses) on investments	-	435	-	435	435	(991)
Interest income	27,162	357	-	357	27,519	8,727
Total Nonoperating Revenues and Expenses	87,552	205,717	194,371	400,088	487,640	1,020,221
Change in Net Assets Before Medicaid Settlement	2,056,512	(17,656)	185,149	167,493	2,224,005	5,056,502
Medicaid Settlement	(781,697)	-	-	-	(781,697)	-
Change in Net Assets	1,274,815	(17,656)	185,149	167,493	1,442,308	5,056,502
Net Assets, Beginning of Year	10,990,823	26,572	716,692	743,264	11,734,087	6,677,585
Net Assets, End of Year	\$12,265,638	\$ 8,916	\$901,841	\$910,757	\$13,176,395	\$11,734,087