



National Development and Research Institutes, Inc.

***FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2010 AND 2009***

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
National Development and Research Institutes, Inc.  
New York, New York

We have audited the accompanying statements of financial position of National Development and Research Institutes, Inc. as of March 31, 2010 and 2009, and the related statements of activities, and cash flows for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Development and Research Institutes, Inc. as of March 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Dorfman Abrams Music, LLC*

Saddle Brook, New Jersey

May 5, 2011



NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	March 31,	
	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 911,934	\$ 1,326,921
Grants and contracts receivable	470,653	268,133
Unbilled receivables	1,295,611	1,045,942
Receivables		140,998
Refundable advances		1,677
Due from related party	42,997	53,110
Security deposits	249,695	316,878
Prepaid expenses		14,873
Property and equipment, net	<u>1,303,346</u>	<u>1,515,213</u>
 Total assets	 <u>\$ 4,274,236</u>	 <u>\$ 4,683,745</u>

LIABILITIES AND NET ASSETS

<b>Liabilities:</b>		
Accounts payable	\$ 1,002,304	\$ 563,659
Advance for expenses, related organizations	529,806	593,212
Accrued expenses and payroll taxes	778,338	1,037,289
Deferred revenue	330,883	302,508
Deferred rent	233,239	164,417
Security deposit, sublease	<u>157,761</u>	<u>156,625</u>
 Total liabilities	 3,032,331	 2,817,710
 <b>Net assets:</b>		
Unrestricted net assets	<u>1,241,905</u>	<u>1,866,035</u>
 Total liabilities and net assets	 <u>\$ 4,274,236</u>	 <u>\$ 4,683,745</u>

The accompanying notes are an integral part  
of these financial statements.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

STATEMENTS OF ACTIVITIES

	Year ended March 31,	
	<u>2010</u>	<u>2009</u>
Support and revenue:		
Grant and contract revenue	\$ 12,822,203	\$ 14,290,269
Interest income		11,821
Rental income	574,923	344,232
Management fee income	173,329	246,581
Miscellaneous income	<u>87,534</u>	<u>14,861</u>
Total support and revenue	<u>13,657,989</u>	<u>14,907,764</u>
Expenses:		
Program services	9,331,200	10,037,149
Support services	<u>4,950,919</u>	<u>4,906,640</u>
Total expenses	<u>14,282,119</u>	<u>14,943,789</u>
Change in net assets	(624,130)	(36,025)
Net assets, beginning of year	<u>1,866,035</u>	<u>1,902,060</u>
Net assets, end of year	<u>\$ 1,241,905</u>	<u>\$ 1,866,035</u>

The accompanying notes are an integral part  
of these financial statements.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

STATEMENTS OF CASH FLOWS

	Year ended March 31,	
	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (624,130)	\$ (36,025)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	211,867	202,474
Deferred rent	68,822	(65,770)
Allowance for doubtful accounts	(205,416)	
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Grants and contracts receivable	(76,264)	(186,802)
Unbilled receivables	(249,669)	(31,129)
Receivables	140,998	126,157
Due from/to related organizations	89,273	27,344
Refundable advances	1,677	(477)
Security deposit	67,183	87
Prepaid expenses	14,873	(14,873)
Increase (decrease) in liabilities:		
Account payable	438,645	70,451
Advance for expenses, related organizations	(63,406)	382,224
Accrued expenses and payroll taxes	(258,951)	(97,787)
Postretirement benefit costs		(122,276)
Deferred revenue	28,375	(209,972)
Security deposit, sublease	1,136	131,625
Net cash provided (used) by operating activities	<u>(414,987)</u>	<u>175,251</u>
Cash flows from investing activities:		
Proceeds from sale of equipment		<u>16,051</u>
Net cash provided by investing activities		<u>16,051</u>
Increase (decrease) in cash	(414,987)	191,302
Cash and cash equivalents, beginning of year	<u>1,326,921</u>	<u>1,135,619</u>
Cash and cash equivalents, end of year	<u>\$ 911,934</u>	<u>\$ 1,326,921</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

1. Summary of significant accounting policies

This summary of significant accounting policies of National Development and Research Institutes, Inc. (NDRI) (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in FASB Accounting Standards Codification, and have been consistently applied in the preparation of the financial statements.

Nature of the Organization

NDRI was established in 1967 as a nonprofit organization devoted to domestic and international research, training and prevention projects that examine and address individual, social and cultural determinants and risk factors associated with a wide range of urban health problems, including substance use and abuse, mental health and co-occurring disorders, HIV/AIDS and other related infectious diseases, and physical health conditions of adults and adolescents. The organizational structure includes topic-focused centers and institutes, and includes a training institute that develops, delivers and assesses training throughout New York State and nationally. NDRI receives funding from grants and contracts, predominantly with the National Institutes of Health, private foundations, and New York State.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets as of March 31, 2010 and 2009.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted assets as of March 31, 2010 and 2009.

Lease expense

The Organization recognizes lease expense based on a straight-line basis for operating leases with significant escalation clauses. The difference between the actual payment and the expense calculated on a straight-line basis is reported as an increase or decrease to deferred rent.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

1. Summary of significant accounting policies (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Allowance for doubtful accounts

The Organization uses the allowance method to account for uncollectible grant and contract receivables. The allowance for doubtful accounts is based on prior years' experience and management's analysis of possible bad debts. Based on such analysis, the balance of allowance for doubtful accounts at March 31, 2010 and 2009 is \$140,899 and \$267,155, respectively.

NDRI abandoned its interest in SSIC, a related company on April 1, 2006 (see Note 3). NDRI had provided and continues to provide SSIC with administrative, programmatic, and other support services. At March 31, 2010 and 2009, SSIC owed NDRI \$335,307 and \$424,580, respectively. Based on an evaluation of SSIC's financial condition, its repayment history and other factors, management has concluded that \$292,310 and \$371,470 as of March 31, 2010 and 2009, respectively, should continue to be reserved against the balance due.

Deferred income

Deferred income represents funds received or receivable before such income is earned.

Property and equipment

Property and equipment are carried at cost. All expenditures for property and equipment over \$5,000 are capitalized. Depreciation is provided on the straight-line method over the useful lives of the assets. Maintenance, repairs and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains and losses on disposition of property and equipment are included in income as incurred.

Income taxes

The Organization is a not-for-profit corporation that has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in these financial statements. The Organization is also exempt from state income tax.

Refundable advances and deferred income

Refundable advances represent amounts received under cost reimbursable contracts that will be expended in the next fiscal year in accordance with the contract terms and conditions.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

1. Summary of significant accounting policies (continued)

Uncertain tax positions

The Organization adopted the uncertainty in income taxes guidance as described in the Codification April 1, 2009. The adoption of that guidance resulted in no change to financial statements of prior periods. As of March 31, 2010 and 2009, management believes that based on evaluation of the Organization's tax positions that any additional liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the Organization's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax provision. Income tax returns are filed in the U.S. federal jurisdiction, and state jurisdictions. U.S. federal and state income tax returns prior to fiscal year 2007 are closed.

2. Risks, uncertainties and concentrations

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, and contracts receivable. The Organization maintains its cash in bank deposit accounts, the balance of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. Concentration of credit risk with respect to contracts receivable is reduced due to the fact that contracts are received from governmental agencies.

The Organization receives substantially all of its support from revenue and federal research grants. Changes in funding arrangements and methodology of these programs could have a material impact on the Organization.

3. Related party transactions

The Organization shares management personnel with NDRI-STATE, Inc. and NDRI-USA, Inc., nonprofit corporations that conduct AIDS prevention and intervention services and related activities in the fields of substance abuse and other public health areas such as HIV-AIDS, mental health, and related social and medical problems.

On April 1, 1990, the Organization entered into an agreement with both NDRI-STATE, Inc. and NDRI-USA, Inc., whereby NDRI agreed to provide those organizations with personnel, facilities, and other resources for the organizations to adequately perform its obligations to funding agencies. In addition, NDRI agreed to comply with all provisions of any contract or grant for which NDRI-STATE, Inc. and NDRI-USA, Inc. entered into. Term of the agreement is one year and automatically renews unless affirmatively terminated.

Transactions for program and operating expenses pursuant to these agreements for the years ended March 31, 2010 and 2009 were \$827,336 and \$2,611,554, respectively, for NDRI-STATE, Inc., and \$355,596 and \$490,237, respectively, for NDRI-USA, Inc.

At March 31, 2010 and 2009, NDRI had received advances from NDRI-STATE, Inc., \$470,488 and \$420,730, respectively, and from NDRI-USA, Inc., \$59,318 and \$172,481, respectively, for program and operating expenses.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

3. Related party transactions (continued)

On April 1, 2006, the Organization abandoned its interest in Social Sciences Innovations Corp. (SSIC). A majority of the Organization's members of the board of directors are also present shareholders of SSIC. The Organization entered into a service agreement with SSIC whereby National Research and Development Institutes, Inc. provides personnel, facilities, administrative support and other resources. The Organization has agreed to comply with all provisions of any contract or grant between SSIC and its funding sources. SSIC is required to reimburse National Research and Development Institutes, Inc. for all expenditures as soon as practicable after receipt of claims for services from the Organization. At March 31, 2010 and 2009, SSIC owed the Organization \$42,997 and \$53,110, net of allowance for doubtful accounts of \$292,310 and \$371,440, respectively.

Under the terms of the service agreement, SSIC is also required to retire its obligation to the Organization arising from services provided to the company prior to the effective date of the agreement (December 7, 2006). The agreement calls for the following payment schedule:

1. In any calendar year in which SSIC shows a profit of \$50,000 or less, it will repay National Research and Development Institutes, Inc. for amounts owed, at least 25% of SSIC's net profit;
2. In any calendar year in which SSIC shows a profit of between \$51,000 and \$200,000, it will repay National Research and Development Institutes, Inc. for amounts owed, at least 50% of SSIC's net profit;
3. In any calendar year in which SSIC shows a profit of more than \$200,000, it will pay National Research and Development Institutes, Inc. for amounts owed, at least 75% of SSIC's net profit;
4. Beginning in any calendar year in which SSIC shows a profit of more than \$200,000, it shall pay interest on any amounts owed at a rate of 5% per year.

The term of the agreement is one year and automatically renews each December 7<sup>th</sup> unless affirmatively terminated. Either party shall give written notice to the other of its intention not to renew, sixty days prior to the renewal date.

Transactions for program and operating expenses pursuant to these agreements for the years ended March 31, 2010 and 2009 were \$739,101 and \$950,716, respectively, for SSIC.

4. Property and equipment

Property and equipment consists of the following at March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	\$1,860,466	\$1,860,466
Leasehold improvements	1,433,349	1,433,349
Library	<u>93,825</u>	<u>93,825</u>
	3,387,640	3,387,640
Less accumulated depreciation	<u>2,084,294</u>	<u>1,872,427</u>
	<u>\$1,303,346</u>	<u>\$1,515,213</u>

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

5. Commitments

Offices

The Organization conducts its operations in several locations, leased under several agreements that expire at various dates from 2009 through 2018. Rent expense under these leases at March 31, 2010 and 2009 was \$2,096,162 and \$2,179,058, respectively.

Future minimum lease payments under these agreements are as follows:

Year ending March 31:	
2011	\$2,029,244
2012	1,630,196
2013	1,097,007
2014	475,738
2015	59,190
Thereafter	<u>139,574</u>
	<u>\$5,430,949</u>

Deferred rent

Rent expense for leases with significant escalation charges are accounted for on the straight-line basis. Rent payments exceeded rent expense on a straight-line basis by \$68,822 and \$65,767 for the years ended March 31, 2010 and 2009, respectively. The total deferred rent as of March 31, 2010 and 2009 was \$233,239 and \$164,417, respectively.

Subleases

The Organization has entered into lease agreements with two subtenants for space and equipment in its primary location. In addition to monthly rent, the subtenants are responsible to pay National Development and Research Institutes, Inc. for certain common area charges. The future minimum rental income under these operating agreements is as follows:

Year ending March 31:	
2011	\$ 778,076
2012	<u>296,861</u>
	<u>\$1,074,937</u>

Vehicles

The Organization leases five vehicles from Ford Motor Credit Company. Monthly lease payments range from \$399 to \$460 and the leases expire between January 2009 and April 2009. Lease expense for the vehicles totaled \$25,136 for the year ended March 31, 2009.

The vehicles were used by NDRI-STATE, Inc. and the expense was included in the allocation of expenses pursuant to the agreement discussed in Note 3. The leases were paid in full as of March 31, 2009.

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

6. Pension plan

The Organization maintains a defined contribution pension plan for all eligible employees. Contributions are 12% of gross salary. Pension expense for the years ended March 31, 2010 and 2009 was \$801,577 and \$1,086,141, respectively.

7. Future grants

The Organization has confirmed grants through 2013 of \$26,196,536. These grants and contracts are subject to revision by the funding agencies.

8. Grants, contracts, and unbilled receivables

As of March 31, 2010 and 2009, grants and contracts receivable billed and unbilled net of the allowance for doubtful accounts was composed of:

	<u>2010</u>	<u>2009</u>
U.S. Department of Health and Human Services	\$ 831,846	\$ 631,721
Beth Israel Hospital	20,579	31,240
North Carolina State University	51,829	176,941
University of Houston		5,786
MHRA	221	221
Beth Israel Medical Center - Arriba subcontract		714
Coastal Horizons - improving co-occurring		16,505
FCMHA - needs assessment		75,056
Emory University	4,923	7,378
Prescription drugs	5,158	26,683
New York State Department of Health - LGBT	98,846	84,070
Western Michigan University	82,460	35,881
Healthism, Inc. - STTR	4,140	6,695
Colorado Department of Corrections		27,223
DSG - Minority Fellowship Program	35,877	3,853
Beth Israel Medical Center - Meta Analysis		25,818
Cultural Proficiency Training Program	15,714	63,126
National Study of Syringe		130
New York State Department of Health - Training	87,961	127,508
Duke University	4	219,333
Columbia University	4,372	
New York University	49,212	
NIAT Collaboration	2,255	
FEMA - Fire Safety	272,057	
Public Health Solutions - NHBS	214,148	14,535
University of Rochester	40,883	
Drexel University	49,479	
Universidad de Puerto Rico	30,746	
8 <sup>th</sup> Judicial District	3,870	
Miscellaneous training	<u>583</u>	<u>813</u>
	1,907,163	1,581,230
Allowance for doubtful accounts	<u>140,899</u>	<u>267,155</u>
	<u>\$1,766,264</u>	<u>\$1,314,075</u>

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010 and 2009

9. Reimbursement of support service expenses

The Organization entered into agreements with the federal government for the reimbursement of indirect costs and fringe benefits associated with federal grants. National Development and Research Institutes, Inc. agreements provide for a fixed indirect cost recovery rate and a fixed rate for fringe benefits for the years ended March 31, 2010 and 2009. The rates are based on an estimate of costs to be incurred during the period and are not subject to adjustment. For the year beginning April 1, 2009 until amended, the government has approved provisional rates for both indirect costs and fringe benefits. A provisional rate is temporary until a final rate is established.

The rates covered by the agreement are as follows:

<u>Type</u>	<u>From/To</u>	<u>Indirect rate</u>	<u>Location</u>
Fixed	April 1, 2008 - March 31, 2009	51.0%	On-site
Fixed	April 1, 2008 - March 31, 2009	28.0%	Off-site
Provisional	April 1, 2009 - until amended	50.3%	On-site
Provisional	April 1, 2009 - until amended	25.6%	Off-site

<u>Type</u>	<u>From/To</u>	<u>Fringe benefit rate</u>	<u>Employees</u>
Fixed	April 1, 2008 - March 31, 2009	38.3%	All
Provisional	April 1, 2009 - until amended	36.8%	All

10. Subsequent events

Subsequent events have been evaluated through May 5, 2011, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

NATIONAL DEVELOPMENT AND RESEARCH INSTITUTES, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended March 31, 2010 and 2009

	Program services		Support services		Total	
	2010	2009	2010	2009	2010	2009
Personnel	\$ 6,903,192	\$ 7,676,952	\$ 2,027,022	\$ 1,904,541	\$ 8,930,214	\$ 9,581,493
Occupancy			2,048,365	2,099,908	2,048,365	2,099,908
Subcontracts	1,000,257	1,154,347			1,000,257	1,154,347
Consultants	526,759	314,428	457,431	322,395	984,190	636,823
Field site expenses	210,718	228,436	20,030	3,044	230,748	231,480
Client/interview expenses	277,803	283,279	1,150		278,953	283,279
Travel	121,974	196,579	17,452	3,872	139,426	200,451
Supplies	207,785	76,433	84,812	63,580	292,597	140,013
Miscellaneous	28,979	30,607	36,930	43,960	65,909	74,567
Telecommunications	18,676	23,292	49,477	47,150	68,153	70,442
Insurance			91,355	127,124	91,355	127,124
Library/references	20,939	11,550	23,623	20,503	44,562	32,053
Postage/delivery services	6,794	17,014	12,172	11,961	18,966	28,975
Photocopies	2,845	9,026	41,813	31,705	44,658	40,731
Equipment lease and maintenance	4,479	15,206	37,674	24,423	42,153	39,629
Bad debt expense			(205,416)		(205,416)	
Depreciation			207,029	202,474	207,029	202,474
	<u>\$ 9,331,200</u>	<u>\$ 10,037,149</u>	<u>\$ 4,950,919</u>	<u>\$ 4,906,640</u>	<u>\$ 14,282,119</u>	<u>\$ 14,943,789</u>