ADAPT Community Network

Combined Financial Statements and
Consolidating and Combining Information

June 30, 2017

BAKER TILLY

Candor. Insight. Results.

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BAKER TILLY

Independent Auditors' Report

Board of Directors
ADAPT Community Network

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of United Cerebral Palsy of New York City, Inc. (Doing Business As ADAPT Community Network) (the "Agency"), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Agency as of June 30, 2017, and the combined changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Consolidating and Combining Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The consolidating information presented on pages 29 and 30 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating and combining information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Baker Tilly Virchow Krause, LLP

New York, New York
November 30, 2017

Combined Statement of Financial Position
June 30, 2017

Assets

Cash and cash equivalents	$ 25,870,000
Investments (Notes 2 and 3)	147,470,000
Grants and fees receivable from governmental agencies, net of allowance for doubtful accounts of $1,272,000 (Note 13)	23,400,000
Other assets	3,127,000
Section 1307 surplus note receivable (Note 5)	7,808,000
Fixed assets, net (Note 6)	80,003,000
Assets limited as to use (Notes 7 and 9)	3,557,000
Total assets	$ 291,235,000

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$ 15,884,000
Accrued payroll and related liabilities	12,137,000
Lines of credit and term loan payable (Note 7)	6,423,000
Capital leases payable (Note 8)	968,000
Mortgages payable, net (Note 9)	60,987,000
Accrued pension liability (Note 11)	18,501,000
Deferred rent	13,849,000
Other liabilities	9,140,000
Total liabilities	137,889,000

Commitments and Contingencies (Note 13)

Net assets:	
Unrestricted	152,503,000
Temporarily restricted (Note 1)	743,000
Permanently restricted (Notes 1 and 10)	100,000
Total net assets	153,346,000
Total liabilities and net assets	$ 291,235,000

See notes to combined financial statements

ADAPT Community Network

Combined Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Support from the public:				
Contributions	$ 462,000	$ 109,000	$ -	$ 571,000
Special events	286,000	-	-	286,000
Donated services (Note 1)	607,000	-	-	607,000
Legacies and bequests	71,000	-	-	71,000
Total support from the public	1,426,000	109,000	-	1,535,000
Direct expenses of special events	(95,000)	-	-	(95,000)
Net support from the public	1,331,000	109,000	-	1,440,000
Contracts, grants and fees applicable to program and community services:				
Contracts and grants	4,790,000	-	-	4,790,000
Fees for services	218,191,000	-	-	218,191,000
Total contracts, grants and fees	222,981,000	-	-	222,981,000
Other revenue:				
Rental income	1,142,000	-	-	1,142,000
Other income (Note 12)	428,000	-	-	428,000
Investment income:				
Interest and dividends	1,691,000	-	-	1,691,000
Realized and unrealized gains on investments, net	13,192,000	-	-	13,192,000
Total other revenue	16,453,000	-	-	16,453,000
Net assets released from restrictions (Note 1)	179,000	(179,000)	-	-
Total support and revenue	240,944,000	(70,000)	-	240,874,000
Expenses				
Program services:				
Educational programs	74,289,000	-	-	74,289,000
Adult day programs	59,030,000	-	-	59,030,000
Residential programs	67,760,000	-	-	67,760,000
Family support services programs	5,648,000	-	-	5,648,000
Total program services	206,727,000	-	-	206,727,000
Supporting services:				
Management and general	24,001,000	-	-	24,001,000
Public relations and fundraising	622,000	-	-	622,000
Total supporting services	24,623,000	-	-	24,623,000
Total program and supporting services	231,350,000	-	-	231,350,000
Payments to affiliated organizations:				
National program of research, education and service	50,000	-	-	50,000
State program of education and service	76,000	-	-	76,000
Total payments to affiliated organizations	126,000	-	-	126,000
Donated services (Note 1):	607,000	-	-	607,000
Total expenses	232,083,000	-	-	232,083,000
Changes in net assets before pension related changes	8,861,000	(70,000)	-	8,791,000
Pension related changes other than net periodic Pension cost (Note 11)	3,297,000	-	-	3,297,000
Changes in net assets	12,158,000	(70,000)	-	12,088,000
Net Assets, Beginning of Year	140,345,000	813,000	100,000	141,258,000
Net Assets, End of Year	$ 152,503,000	$ 743,000	$ 100,000	$ 153,346,000

See notes to combined financial statements

ADAPT Community Network

Combined Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services					Supporting Services			Direct			
	Educational Programs	Adult Day Programs	Residential Programs	Family Services Programs	Total Program Services	Management and General	Public Relations Fundraising	Total Supporting Services	Expenses of Special Events	Payments to Affiliated Organizations	Total Donated Services	Grand Total
Salaries	$ 43,108,000	$ 23,502,000	$ 36,040,000	$ 3,141,000	$ 105,791,000	$ 7,611,000	$ 195,000	$ 7,806,000	$ -	$ -	$ -	$ 113,597,000
Payroll taxes and employee benefits	12,428,000	9,696,000	14,045,000	1,089,000	37,258,000	2,408,000	68,000	2,476,000	-	-	-	39,734,000
Occupancy, principally rent, utilities and building supplies (Note 13)	8,167,000	7,678,000	6,859,000	344,000	23,048,000	5,006,000	74,000	5,080,000	-	-	-	28,128,000
Clinical consultants and professional fees	6,003,000	3,780,000	2,101,000	78,000	11,962,000	4,435,000	168,000	4,603,000	-	-	-	16,565,000
Program transportation	-	9,153,000	104,000	78,000	9,335,000	-	-	-	-	-	-	9,335,000
Interest and bank fees (Notes 7, 8 and 9)	572,000	205,000	413,000	1,000	1,191,000	1,713,000	15,000	1,728,000	-	-	-	2,919,000
Operating supplies	784,000	793,000	873,000	314,000	2,764,000	39,000	-	39,000	-	-	-	2,803,000
Insurance	491,000	867,000	729,000	39,000	2,126,000	241,000	4,000	245,000	-	-	-	2,371,000
Expensed equipment	382,000	526,000	786,000	95,000	1,789,000	136,000	-	136,000	-	-	-	1,925,000
Equipment rental, repairs and maintenance	273,000	452,000	255,000	67,000	1,047,000	512,000	25,000	537,000	-	-	-	1,584,000
Telephone	390,000	261,000	380,000	65,000	1,096,000	128,000	1,000	129,000	-	-	-	1,225,000
Conferences, conventions and meetings	174,000	134,000	210,000	91,000	609,000	529,000	-	529,000	-	-	-	1,138,000
Food	-	-	1,110,000	-	1,110,000	-	-	-	-	-	-	1,110,000
Household supplies	-	-	1,108,000	-	1,108,000	-	-	-	-	-	-	1,108,000
Medical supplies	46,000	149,000	453,000	124,000	772,000	-	-	-	-	-	-	772,000
Office supplies	147,000	109,000	104,000	22,000	382,000	86,000	56,000	142,000	-	-	-	524,000
Publications, postage and shipping	41,000	11,000	6,000	11,000	69,000	442,000	-	442,000	-	-	-	511,000
Vehicle rental and maintenance	18,000	138,000	270,000	7,000	433,000	10,000	-	10,000	-	-	-	443,000
Purchased services	-	-	-	-	-	-	-	-	95,000	-	-	95,000
Total expenses before payments to affiliated organizations and depreciation and amortization	73,024,000	57,454,000	65,846,000	5,566,000	201,890,000	23,296,000	606,000	23,902,000	95,000	-	-	225,887,000
Donated services (Note 1)	-	-	-	-	-	-	-	-	-	-	607,000	607,000
Payments to affiliated organizations	-	-	-	-	-	-	-	-	-	126,000	-	126,000
Depreciation and amortization	1,265,000	1,576,000	1,914,000	82,000	4,837,000	705,000	16,000	721,000	-	-	-	5,558,000
Total expenses	74,289,000	59,030,000	67,760,000	5,648,000	206,727,000	24,001,000	622,000	24,623,000	95,000	126,000	607,000	232,178,000
Less direct expenses of special events	-	-	-	-	-	-	-	-	(95,000)	-	-	(95,000)
Total expenses per combined statement of activities and changes in net assets	$ 74,289,000	$ 59,030,000	$ 67,760,000	$ 5,648,000	$ 206,727,000	$ 24,001,000	$ 622,000	$ 24,623,000	$ -	$ 126,000	$ 607,000	$ 232,083,000

See notes to combined financial statements

Cash Flows from Operating Activities	
Changes in net assets	$ 12,088,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Pension related changes other than net periodic pension cost	(3,297,000)
Depreciation and amortization	5,558,000
Deferred financing costs and bond issue premium	143,000
Provision for reimbursement adjustments	80,000
Increase in deferred rent liability	1,564,000
Realized and unrealized gains on investments, net	(13,192,000)
Changes in operating assets and liabilities:	
Decrease in assets:	
Grants and fees receivable from governmental agencies	4,771,000
Other assets	480,000
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(3,442,000)
Accrued payroll and related liabilities	5,609,000
Other liabilities	3,019,000
Net cash provided by operating activities	13,381,000
Cash Flows from Investing Activities	
Increase of section1307 surplus note	(7,808,000)
Purchases of fixed assets	(11,182,000)
Purchases of investments	(117,266,000)
Redemption of investments	129,635,000
Net decrease in assets limited as to use	258,000
Net cash used in investing activities	(6,363,000)
Cash Flows from Financing Activities	
Principal payments on capital lease obligations	(404,000)
Principal payments on mortgages payable	(2,418,000)
Proceeds of new mortgages	97,000
Proceeds of draw down on lines of credit and term loan payable	4,474,000
Repayments of draw down on lines of credit and term loan payable	(5,670,000)
Net cash used in financing activities	(3,921,000)
Net increase in cash and cash equivalents	3,097,000
Cash and Cash Equivalents, Beginning of year	22,773,000
Cash And Cash Equivalents, End of Year	$ 25,870,000
Supplemental Disclosures of Cash Flow Information:	
Cash paid during the year for interest	$ 2,278,000
Noncash Investing and Financing Activities	
Assets acquired under capital leases	$ 246,000

See notes to combined financial statements

1. Description of Organization and Summary of Significant Accounting Policies

Nature of Organization

United Cerebral Palsy of New York City, Inc. (Doing Business As ADAPT Community Network) (the "Agency") is a not-for-profit organization, formed under the Not-for-Profit Corporation Law of the State of New York, founded in 1946 by parents of children with disabilities. The mission of the Agency is empowering people through innovative solutions, one person at a time.

The accompanying combined financial statements include the accounts of the Agency, United Cerebral Palsy of New York City Community Mental Retardation Services Company, Inc., the New York City Foundation for Cerebral Palsy, Inc. (the "Foundation"), Human First, Inc. ("Human First"), The New York League for Early Learning, Inc. ("NYLEL"), and the United Cerebral Palsy Housing Development Fund Corporation, Inc. ("Housing") (together the "Companies"). All corporations except the Foundation, NYLEL, and Human First are under common board of directors' control. The Agency is the sole member of the Foundation, Human First (effective August 2016) and NYLEL (effective November 2016).

Currently, approximately 23,100 individuals receive services annually from the Companies. These services include preschool and school-age programs, residential programs, day programs, vocational programs as well as medical and support services.

Currently, approximately 53% of the Agency's employees are covered under collective bargaining arrangements with the United Federation of Teachers which expires June 2018 and District Council 1707 which expires May 2018.

Principles of consolidation and combination

All intercompany account balances and transactions have been eliminated in consolidation and combination.

Basis of Accounting

The combined financial statements have been prepared on the accrual basis of accounting.

Revenue Recognition

Revenues are recorded when earned as services are provided through residential, educational, adult day program, family support services, and outpatient clinical facilities. Substantially all programs are funded through New York State reimbursement and Medicaid funding. Revenues from the aforementioned sources are subject to audit and possible adjustment by third-party payors.

Housing receives rent supplement assistance payments for tenants, pursuant to Section 8 of the National Housing Act, from the United States Department of Housing and Urban Development ("HUD").

Donor-Imposed Restrictions

The Companies report gifts of cash and other assets as restricted assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets as net assets released from restrictions. As of June 30, 2017, approximately $743,000, have been restricted for specific purposes.

During the year ended June 30, 2017, temporarily restricted net assets of approximately $179,000, were expended, satisfying the restrictions stipulated by the donors and, accordingly, were released from restrictions.

Permanently Restricted Net Assets - This represents net assets subject to donor-imposed stipulations that they be maintained by NYLEL. Generally, the donors of these assets permit the NYLEL to use all or part of the income earned for unrestricted or donor-specified purposes. NYLEL's permanently restricted net assets amounted to $100,000 as of June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid financial instruments with original maturity dates of three months or less from the date purchased, other than those held as part of the investment portfolio or assets limited as to use.

As of June 30, 2017, the Companies had cash balances in financial institutions that exceeded federal depository insurance limits. Approximately 74% of the Companies' cash and cash equivalents are on deposit in various accounts with one financial institution as of June 30, 2017. Management believes that credit risk related to these deposits is minimal.

Investments

Investments in marketable equity securities with readily determinable fair values and all debt securities are stated at quoted market prices. Investments subject to the provisions of Accounting Standards Update ("ASU") 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share*, with no readily determinable fair values are recorded at net asset value per share as a practical expedient to estimating fair value. Donated marketable securities are recorded at fair value at the date of donation. Realized and unrealized gains or losses on investments are reported in the combined statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Fair Value

Under authoritative guidance, fair value refers to the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Companies must determine whether their assets and liabilities recorded at fair value are valued based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements.

Grants and Fees Receivable from Governmental Agencies

As of June 30, 2017, grants and fees receivable from governmental agencies was approximately $23,400,000, of which, approximately 97% has been collected as of the date the combined financial statements were available to be issued.

Allowance for Doubtful Accounts

Periodically, the grants and fees receivable from governmental agencies balances are reviewed and evaluated as to their collectibility. An allowance is then set up based on these evaluations.

NYLEL has an allowance for doubtful accounts set up for amounts due from Manhattan Star Academy (“MSA”). An allowance for the entire amount due from MSA has been recorded as of June 30, 2017 in the amount of $1,011,000. Related bad debt of approximately $304,000 was written off in the current year.

Assets Limited as to Use

Assets limited as to use consist principally of cash and cash equivalents and are on deposit with three financial institutions. Assets limited as to use are stated at fair value which approximates their cost.

Fixed Assets, Net

Fixed assets are carried at cost, net of accumulated depreciation and amortization. The carrying amounts of fixed assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is recorded in the combined statement of activities and changes in net assets. The Companies' policy is to capitalize all purchases in excess of $5,000. Depreciation of fixed assets is recorded using the straight-line method over the estimated useful lives of the assets, and amortization on leasehold improvements is calculated using the straight-line method over the shorter of the asset's useful life or estimated lease term. The useful lives of the fixed assets are as follows: buildings and improvements - 15 to 25 years; furniture and fixtures - 10 to 15 years; computer equipment and software 3 to 5 years; and heating, ventilation and air conditioning equipment - 10 to 20 years. Depreciation and amortization of fixed assets also includes amortization of assets under capital leases.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on various allocation factors.

Deferred Rent

For accounting purposes, the total rent payable over the life of the lease, which escalates over time, is recognized on the straight-line basis. Actual rent payments differ from these reported amounts; actual rent paid is less than reported amounts in the early years of the lease and exceeds the reported amounts in the later years. Deferred rent reflects the difference between the straight-line calculation reported and the actual rent expense paid.

Donated Services

During the year ended June 30, 2017, donated services of approximately $607,000, have been included on the combined statement of functional expenses for advertising services pertaining to the rebranding of the Agency. Other donated services are not included as there is no objective basis available to measure the value of such services and these services would not otherwise be purchased for fundraising events.

Tax Status

The Companies are Section 501(c)(3) not-for-profit organizations exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code"). They are classified as publicly supported charitable organizations under Section 509(a)(1) of the Code and qualify for the maximum charitable deduction by donors. They are also exempt from state and local income taxes.

Uncertain Tax Positions

The Companies follow the provisions of *Accounting for Uncertainty in Income Taxes*. *Accounting for Uncertainty in Income Taxes* prescribes recognition thresholds that must be met before a tax position is recognized in the combined financial statements and provides guidance on de-recognition, classification, interest and penalties, disclosure, and transition. Under *Accounting for Uncertainty in Income Taxes*, an entity may only recognize or continue to recognize tax positions that meet a "more-likely-than-not" threshold. The Companies have evaluated their tax positions for the year ended June 30, 2017, and do not believe they have any uncertain tax positions that would qualify for either recognition or disclosure in the accompanying combined financial statements.

Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 requires recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of ASU 2014-09 on the Companies' combined financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The core principle of ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 defines the term substantial doubt and requires an assessment for a period of one year after the date the financial statements are issued (or available to be issued). ASU 2014-15 was effective for fiscal years ending after December 15, 2016. Management has adopted the provisions of this new standard. The adoption of ASU 2014-15 did not have a material impact on the Companies' combined financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The guidance requires that debt issuance costs related to a recognized debt liability be reported on the statement of financial position as a direct deduction from the carrying amount of that debt liability. Management has adopted ASU 2015-03 and has reclassified debt issuance costs related to existing debt liabilities from assets to liabilities on the statement of financial position, and the related amortization expense to interest expense on the statement of functional expenses. The adoption of ASU 2015-03 did not have a material impact on the Companies' combined financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value practical expedient in Accounting Standards Codification 820. ASU 2015-07 requires retrospective application and is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management has elected to early adopt the provisions of this new standard. Accordingly, the standard was retrospectively applied. The adoption of ASU 2015-07 did not have a material impact on the Companies' combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2016-02 on the Companies' combined financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-14 on the Companies' combined financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018. ASU 2016-18 is to be applied retroactively with transition provisions. Management is currently evaluating the impact of ASU 2016-18 on the Companies' combined financial statements.

Subsequent Events

The Companies have evaluated events and transactions that occurred between July 1, 2017 and November 30, 2017, which is the date the combined financial statements were available to be issued, for possible disclosure and recognition in the combined financial statements. See Note 14 for events or transactions, which were identified during this period that required disclosure or recognition.

2. Investments

The cost and fair value of investments are as follows as of June 30, 2017:

	Cost	Fair Value
Certificates of deposit	$ 488,000	$ 488,000
Cash equivalents	106,000	106,000
Alternative investments	60,827,000	67,188,000
Fixed income funds	8,571,000	8,555,000
Mutual funds	43,376,000	45,945,000
Pooled collective funds	22,536,000	25,024,000
Equity securities	154,000	162,000
Bonds	2,000	2,000
Total investments	$ 136,060,000	$ 147,470,000

3. Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. The Agency must determine whether its assets and liabilities recorded at fair value were based on Level 1 (valued based on quoted prices in an active market for identical assets), Level 2 (valued based on significant other observable inputs) or Level 3 (valued based on significant unobservable inputs) measurements within the fair value hierarchy.

The asset's 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 following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017:

Alternative investments - These funds do not make known nor do they advertise their value and their performance data is not readily available. They do not have a readily determinable fair value and are valued at the Agency's proportionate interest in the underlying fund's net asset value.

Fixed income funds - Publicly traded quotes in active markets.

Mutual funds - These funds are registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940. The value of these funds is primarily based on quoted market prices of the underlying assets from independent sources. The funds have ticker symbols and the values of the funds are published on the NASDAQ. However, the funds are of a class that is not available for sale to the general public and availability is limited to certain institutional investors.

Pooled collective funds - These funds are not actively traded and are recorded at the Agency's proportionate interest in the underlying fund's respective net asset value.

Equity securities - Publicly traded quotes in active markets.

Bonds - Publicly traded quotes in active markets.

The methods 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 Agency believes its valuation methods are 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.

Investments are exposed to various risks, such as interest rate, market and credit risks.

The following tables represent the fair value hierarchy for the Agency's financial assets measured at fair value on a recurring basis as of June 30, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Fixed income funds	$ 8,555,000	$ -	$ 8,555,000
Mutual funds	-	45,945,000	45,945,000
Equity securities	162,000	-	162,000
Bonds	2,000	-	2,000
Total assets in the fair value hierarchy	$ 8,719,000	$ 45,945,000	54,664,000
Investments measured at net asset value (a)			92,212,000
Total investments, net of cash			$ 146,876,000

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the combined statement of financial position. The strategy of these investments is as follows: within a prudent level of risk, generate a total return that will provide a sustainable funding source for the Foundation while preserving the Portfolio's purchasing power over the long-run.

The following table summarize investments for which fair value is measured using NAV per share practical expedient as of June 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Alternative investments	$ 67,188,000	$5,500,000	Ranging from Daily to Quarterly	Ranging from 3 to 90 days
Pooled collective funds	25,024,000	None	Daily	None

4. Investment in a Limited Partnership

The Agency has a 33.34% interest in SA Properties LLC ("SA") which maintains three restaurant properties throughout California and Washington. Based on the information available from SA, the cost method is used to account for this investment. Management believes that any difference between the equity method and cost method would be immaterial. This investment's value is undeterminable as of June 30, 2017. Distributions are recorded as income when received. During the year ended June 30, 2017, distributions approximated $145,000.

5. Section 1307 Surplus Note Receivable

In November 2016, the Agency entered into an agreement and transferred approximately $7,708,000 to Partners Health Plan ("PHP") for capital commitment for PHP to meet its reserve requirements established by the New York State Department of Financial Services ("NYSDFS") and funding other pre-operational, start-up or working capital expenditures. In addition, approximately $2,291,000 is available and committed to PHP for subsequent investment. This agreement is structured as a Section 1307 Surplus loan. Section 1307 surplus loans are regulated by NYSDFS under Section 1307 of the New York State Insurance Law. Interest and principal payments on Section 1307 loans can be repaid upon the occurrence of: (1) the prior written approval of the Commissioner of the New York State Department of Health; (2) the voluntary dissolution of PHP; or (3) the liquidation of PHP. Interest accrues quarterly at 2% of total outstanding balance and is approximately $100,000 for year ended June 30, 2017. As of June 30, 2017, total receivable due from PHP was approximately $7,808,000 representing both principal and interest amounts.

6. Fixed Assets, Net

Fixed assets, net, consists of the following as of June 30, 2017:

Land	$ 4,878,000
Buildings	34,888,000
Building improvements	20,575,000
Furniture and fixtures	27,105,000
Leasehold improvements	52,081,000
Construction in progress	8,319,000
	147,846,000
Less accumulated depreciation and amortization	67,843,000
	$ 80,003,000

Included in construction in progress is approximately $21,000 of capitalized interest for the year ended June 30, 2017.

7. Lines of Credit Payable and Term Loan Payable

The Agency has an $8,000,000 bridge loan with TD Bank, N.A. for the purposes of providing interim financing for acquisition and renovations of residential properties. This bridge loan matures on November 30, 2019. Interest on outstanding amounts under this agreement is at the adjusted LIBOR rate (1.74% at June 30, 2017). As of June 30, 2017, the Agency had an outstanding balance under this line of credit of $4,474,000. Interest expense is included in capitalized interest in construction in progress (see note 6).

The Agency also has an $8,000,000 revolving line of credit with TD Bank, N.A. for general operations. The line of credit expires on November 30, 2017. Interest on outstanding amounts under this agreement is at the adjusted LIBOR rate (1.74% at June 30, 2017). As of June 30, 2017, the Agency had no amount outstanding under this line of credit.

The agreements for the lines of credits contain covenants requiring the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

Human First obtained a $1,000,000 line of credit facility with TD Bank, N.A, to be used for general operations. The line of credit expires on March 31, 2018. As of June 30, 2017, there was no amount outstanding on the line of credit. Interest on the outstanding balance accrues at a variable rate equal to the prime rate (4.25% at June 30, 2017), plus .50% per annum and is payable monthly.

In October 2015, a NYLEL line of credit was converted to a term loan with a bank in the amount of approximately $3,549,000. The loan matures on September 30, 2018 and the terms include a monthly principal payment of $100,000 plus interest. The interest rate is the bank's prime rate plus 3.5% per annum (amounting to an interest rate of 7.75% at June 30, 2017). The outstanding balance of the loan was approximately $1,949,000 as of June 30, 2017. Interest expense is approximately $181,000 for the year ended June 30, 2017. The loan is collateralized by NYLEL's accounts receivable.

8. Capital Leases Payable

The Agency and Human First own certain motor vehicles under capital leases. These leases have terms of 60 months and contain bargain purchase options.

As of June 30, 2017, the costs of the fixed assets recorded under the capital leases were approximately $2,509,000. The net book values were approximately $893,000 as of June 30, 2017.

Future minimum payments under the lease agreements, by year and in the aggregate, consisted approximately of the following:

Years ending June 30:	
2018	$ 415,000
2019	312,000
2020	252,000
2021	125,000
2022	13,000
Total minimum lease payments	1,117,000
Less amounts representing interest	149,000
Net minimum lease payments	968,000
Less current portion	267,000
Long-term portion of capital leases included in capital leases payable	$ 701,000

Interest expense on the capital leases for the year ended June 30, 2017 was approximately $55,000.

9. Mortgages Payable

A summary of mortgages payable is as follows as of June 30, 2017:

Insured mortgage with the Dormitory Authority of the State of New York ("Dormitory Authority") on various individual residential alternatives properties payable in annual installments ranging from approximately $114,000 to $242,000 through June 30, 2021, including interest at the rate of 5.1% per annum at June 30, 2017. Includes bond premium of approximately $8,000 at June 30, 2017. (a)	$	608,000
Mortgage on the Joseph Belsky Apartment House, 140 Lawrence Avenue, Brooklyn, New York, payable in full on February 1, 2032, including interest at 1.0% per annum. (b)		2,689,000
Mortgage with the New York State Housing Trust Fund Corporation on the Joseph Belsky Apartment House, 140 Lawrence Avenue, Brooklyn, New York, payable in full on March 1, 2044, is non-interest bearing. (c)		2,029,000
Mortgage with Office for People With Developmental Disabilities ("OPWDD") on Lake Street Intermediate Care Facility, Brooklyn, New York, scheduled payments in semi-annual installments of approximately $120,000 through February 15, 2019, including interest at 6.4% per annum. (d)		324,000
Mortgage with the Dormitory Authority on the Stillwell Avenue IRA, Bronx, New York, payable in annual installments ranging from approximately $39,000 to $182,000 through June 30, 2024, including interest at the rates of 2.75% per annum at June 30, 2017. (e)		805,000
Mortgage with JPMorgan Chase Bank on the Avenue D IRA, Manhattan, New York, payable in monthly installments of $9,432, through May 2021, including interest at 7.5% per annum. (f)		376,000
Mortgage with the Dormitory Authority on 251 W. 154th Street, Manhattan, New York, payable in annual installments ranging from approximately $302,000 to $486,000 through June 30, 2026, including interest at the rates of 1.4% per annum at June 30, 2017. Includes bond premium of approximately $107,000 at June 30, 2017. (g)		3,007,000
Mortgage with the Israel Discount Bank of New York on the Hearst Building in Brooklyn, New York, and the Staten Island Rehabilitation Center, payable in annual installments ranging from approximately $644,000 to $649,000 through July 1, 2024, including interest at 3.2% per annum. (h)		4,500,000
Mortgage with TD Bank, N.A. on 80 West End Avenue, Manhattan, New York, payable in monthly installments ranging from approximately $75,000 to $164,000 through June 1, 2046, including interest at 3.285%. (i)		44,176,000

Mortgage with TD Bank, N.A. on Queens Village, NY, payable in monthly installments of $9,000 through 2030, including interest at 5.21% per annum. (j)	$ 967,000
Mortgage with TD Bank, N.A. on Queens Village, NY, payable in monthly installments of $9,000 through 2030, including interest at 5.16% per annum. (j)	1,026,000
Mortgage with TD Bank, N.A. on Queens Village, NY, payable in monthly installments of $9,000 through 2029, including interest at 6.40% per annum. (j)	913,000
Mortgage with TD Bank, N.A. in Astoria, NY, payable in monthly installments of $4,000 through 2022, including interest at 4.6% per annum. (j)	127,000
Mortgage with TD Bank, N.A. on Queens Village, NY, payable in monthly installments of $10,000 through 2029, including interest at 5.89% per annum (j)	981,000
Mortgages Payable	62,528,000
Less unamortized debt issuance costs	1,541,000
Total Mortgages Payable, net	$ 60,987,000

Land, buildings and improvements with an aggregate net book value of approximately $30,768,000 as of June 30, 2017, are subject to the above mortgages.

(a) In April 2002, the Agency became a participant in the Dormitory Authority's New York United Cerebral Palsy Affiliates Pooled Loan Program No.1 Insured Revenue Bonds, consisting of Series 2002A and Series 2002B (the "Pooled Bonds"). The aggregate amount of this issue was $16,520,000, of which $1,430,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit (see Note 7), to fund the cost of issuance of these bonds, and to make a deposit into a Debt Service Reserve Fund. Repayment of the Pooled Bonds is insured under the provisions of the Dormitory Authority's Master Insured Revenue Bond Resolution. As of June 30, 2017, approximately $124,000, was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statement of financial position.

As a condition of this borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulates amounts necessary to make annual principal and semi-annual interest payments. Payments are made on January 1 and July 1. As of June 30, 2017, approximately $101,000 was on deposit in the Debt Service Fund and has been included in assets limited as to use in the accompanying combined statement of financial position. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

The Pooled Bonds are secured by the gross receipts of the Agency in an amount equal in each Bond Year to the greatest amount required in any bond year to pay the interest on the Outstanding Bonds payable during such year and the principal and Sinking Fund Installments of Outstanding Bonds payable on July 1 of such bond year.

(b) In January 2002, the Joseph Belsky Apartment House mortgage was restructured under the Mark-to-Market Program of the Office of Multifamily Housing Assistance Restructuring. The property is secured by two mortgage loans. The balance of principal and interest is due at the Maturity Date of February 1, 2032 (the "Maturity Date"). The first mortgage is a Restructuring Loan for approximately $996,000. This mortgage requires annual payments of interest in the amount of 1% of the outstanding principal balance. Principal and interest payments are based upon a calculation of cash on hand. Through June 30, 2017, a total of $71,000 has been paid towards the principal amounts. The second mortgage, which is subordinate to the first, is a Contingent Repayment Note (the "Note") for approximately $1,764,000. No payments are due on the Note until the Maturity Date. This Note bears interest at the rate of 1% per annum.

In accordance with the terms of the Joseph Belsky Apartment House mortgage, amounts equal to a fixed percentage of the original mortgage balance are restricted each year for replacement of the related building and improvements. Such amounts aggregated approximately $145,000 as of June 30, 2017. These amounts are included in assets limited as to use in the accompanying combined statement of financial position. The mortgage is collateralized by the Joseph Belsky Apartment House building and improvements and is insured by HUD.

(c) In February 2014, the Agency entered into a mortgage with the New York State Housing Trust Fund Corporation for Joseph Belsky Apartment House for a total of $2,162,000 for the purposes of renovating the building, of which approximately $2,029,000 was utilized as of June 30, 2017. The mortgage has a Maturity Date of March 1, 2044. During the year ended June 30, 2017, approximately $50,000 of the proceeds received have been included in assets limited as to use in the accompanying combined statement of financial position in conjunction with this mortgage for the purpose of construction costs associated with the approved renovation projects. The mortgage is collateralized by the Joseph Belsky Apartment House building and improvements and is subordinate to the two mortgages insured by HUD. See (b).

(d) During fiscal 1994, the Agency entered into a mortgage agreement with OPWDD to provide long-term financing for the Lake Street Intermediate Care Facility. The funds were provided to OPWDD by the New York State Medical Care Facilities Finance Agency from the sale of Facilities Improvement Revenue Bonds, 1991 Series D and 1992 Series F. During fiscal 1998, the mortgage loan agreement was amended to increase the principal balance due to OPWDD based upon an advance to the Agency of approximately $113,000 for the Lake Street Intermediate Care Facility. In addition to the Lake Street Intermediate Care Facility, this mortgage loan is collateralized by all accounts receivable and proceeds thereof, including any amounts paid or payable by the State of New York to the Agency with respect to the property. As a condition of this borrowing, the Agency is required to maintain debt service reserve funds aggregating approximately $183,000 as of June 30, 2017. These funds have been included in assets limited as to use in the accompanying combined statement of financial position as of June 30, 2017.

Reduction of the principal as well as payment of interest and financing costs related to the mortgaged property is achieved through an agreement with OPWDD whereby, reimbursement of future program expenditures is reduced based upon OPWDD mortgage repayment schedules. Such schedules do not correspond with the repayment schedules found in the original mortgage agreements. The cumulative principal and interest liability to OPWDD as of June 30, 2017 is approximately $235,000 greater than what the principal and interest liability would have been had OPWDD deducted principal and interest payments in accordance with the terms of the repayment schedules found in the original mortgage agreements.

(e) In June 2010, the Agency became a participant in the Dormitory Authority's New York Interagency Council's Pooled Loan Program Revenue Bonds, consisting of Series 2010A-1 and Series 2010A-2 (the "Pooled Bonds"). The aggregate amount of this issue was $29,670,000, of which $1,540,000 benefits the Agency. Proceeds were used to pay down monies previously borrowed from a revolving line of credit, to fund the cost of issuance of these bonds, and to make a deposit into a Debt Service Reserve Fund. As of June 30, 2017, approximately $205,000 was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statement of financial position.

As a condition of the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulated amounts necessary to make principal and interest payments semi-annually. Payments are made on January 1 and July 1. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

(f) In March 2010, the Agency entered into a mortgage agreement with JPMorgan Chase Bank to refinance the Agency's condominium apartments at Avenue D, Manhattan, New York. The mortgage is secured by the apartments at Avenue D. The debt agreement for the mortgage contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

(g) In March 2012, the Agency became a participant in the Dormitory Authority's New York Interagency Council's Pooled Loan Program Revenue Bonds, consisting of Series 2012A-1 and Series 2012A-2 (the "Pooled Bonds"). The aggregate amount of this issue was $12,745,000, of which $4,266,000 benefits the Agency, of which $168,000 represented a bond issue premium. The Bond Premium will be amortized over the duration of the bond and for the year ended June 30, 2017 amounted to approximately $107,000. Proceeds were used to pay down monies previously borrowed from a revolving line of credit, to fund the cost of issuance of these bonds, and to make a deposit into a Debt Service Reserve Fund. As of June 30, 2017, approximately $563,000 was on deposit in the Debt Service Reserve Fund and has been included in assets limited as to use in the accompanying combined statement of financial position.

As a condition of the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulated amounts necessary to make principal and interest payments annually. Payments are made on July 1. The debt agreement for the Pooled Bonds contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

(h) In April 2013, Build New York City ("NYC") Resource Corporation issued $5,995,000 of Build NYC Resource Corporation Revenue Bonds which were purchased by the Israel Discount Bank of New York. Build NYC Resource Corporation simultaneously loaned the bond proceeds to the Agency. The bond proceeds were used to pay off the remaining balance of the Series 1996 Revenue Bonds. As of June 30, 2017, approximately $518,000 was on deposit in the Debt Service Fund and has been included in assets limited as to use in the accompanying combined statement of financial position.

As a condition of the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund. The fund accumulated amounts necessary to make principal payments annually and interest payments monthly. Principal payments are made on July 1. The loan agreement contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017.

(i) In June 2016, Build NYC Resource Corporation issued $45,000,000 of Build NYC Resource Corporation Revenue Bonds which were purchased by TD Bank, N.A. Build NYC Resource Corporation simultaneously loaned the bond proceeds to the Agency. The bond proceeds were used to pay off a portion of the balance of a line of credit.

As a condition of the borrowing, the Agency is required to make monthly deposits into a Debt Service Fund, which began July 2016. The fund will accumulate amounts necessary to make principal and interest payments monthly. The loan agreement contains covenants requiring, among other restrictions, the maintenance of certain financial ratios. The Agency was in compliance with these covenants at June 30, 2017. The Foundation has guaranteed this borrowing.

(j) Human First financed the purchase of properties with TD Bank, N.A. All mortgages are secured by the property.

Interest expense on the mortgages payable for the year ended June 30, 2017 approximated $2,009,000.

Scheduled future principal payments on mortgages payable are approximately as follows:

Years ending June 30:	
2018	$ 2,516,000
2019	2,604,000
2020	2,337,000
2021	2,473,000
2022	2,615,000
Thereafter	49,983,000
Total	$ 62,528,000

10. Endowment Fund

Endowment net assets consist of a donor-restricted fund. As required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), net assets associated with endowment funds are classified and reported based on existence or absence of donor imposed restrictions.

NYLEL adheres to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYLEL recognizes that NYPMIFA permits the Board of Directors to appropriate for expenditure all earnings of endowment funds (both realized and unrealized) with a presumption of prudence to a ceiling of 7% annually of the fair value of the endowment funds. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected in temporarily restricted until appropriated.

NYLEL's Board has interpreted NYPMIFA as allowing NYLEL to appropriate for expenditure or accumulate so much of an endowment fund as NYLEL determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The objective of NYLEL is to maintain the principal of its endowment fund at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk investments that will provide a predictable stream of funding. Even though the donor did not restrict the earnings of the endowment, NYLEL records earnings as temporarily restricted until appropriated by the Board for expenditure as required by U.S. GAAP.

In accordance with U.S. GAAP, organizations are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organizations to retain in perpetuity. NYLEL has not incurred such deficiencies in its endowment fund as of June 30, 2017.

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 100,000	$ 100,000
Interest income	10	-	10
Board appropriation	(10)	-	(10)
Endowment net assets, end of year	$ -	$ 100,000	$ 100,000

11. Pension Plans

Defined Benefit Plan

The Agency sponsors a qualified noncontributory Pension Trust Plan (the "Plan") covering employees 21 years and older who have been employed by the Agency for at least one year. Plan benefits are paid directly from the Plan's assets. The Agency's policy is to satisfy annual minimum funding requirements as set forth by the Employee Retirement Income Security Act of 1974. The Plan's actuary performed the computations required for financial statement disclosure as of June 30, 2017. Employee data as of July 1, 2016 was projected forward to the June 30, 2017 measurement date. Effective June 30, 2007, the Plan was frozen.

The following sets forth the Plan's funded status and amounts recognized in the combined financial statements as of and for the year ended June 30, 2017:

Reconciliation of projected benefit obligation:	
Projected benefit obligation, beginning of year	$ 67,692,000
Interest cost	2,772,000
Change due to assumption changes	2,789,000
Actuarial loss	344,000
Benefits disbursed	(2,482,000)
Projected benefit obligation, end of year	71,115,000
Funded status:	
Fair value of plan assets, consisting principally of stocks and bonds, at beginning of year	49,490,000
Actual return on plan assets	5,773,000
Employer contributions	-
Benefits disbursed from plan assets (including expense charges)	(2,649,000)
Fair value of plan assets, end of year	52,614,000
Projected benefit obligation in excess of plan assets	18,501,000
Accumulated benefit obligation, end of year	$ 71,115,000

Weighted-average assumptions used to measure benefit obligations are as follows as of June 30, 2017:

Discount rate	4.00 %

Weighted-average assumptions used to measure net periodic pension cost are as follows for the year ended June 30, 2017:

Discount rate	4.00 %
Expected long-term rate of return on Plan assets	6.00 %

The fair value hierarchy of the Plan's assets is as follows as of June 30, 2017:

	Level 2	Total
Assets:		
Separate investment accounts:		
S&P 500 Index Fund	$ 18,216,000	$ 18,216,000
Fixed income funds	34,398,000	34,398,000
	$ 52,614,000	$ 52,614,000

The Agency's investment policy during the year ended June 30, 2017 is to invest approximately 65% and 35% of plan assets in equity and fixed income instruments, respectively. Plan assets consist primarily of mutual funds managed by the Plan's trustee that are invested in equities and debt obligation instruments. The expected long-term rate of return on plan assets assumption of 6.0% was selected based on guidelines set forth in Actuarial Standards Board in *Actuarial Standard of Practice No. 27 - Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the Agency's investment policy for the Plan in effect as of the beginning of the fiscal year, and financial models taking in to account capital market assumptions for expected returns and risk by assets class, and inflation, a best estimate range of 3.3% to 9.7% was determined. A rate of 6.0%, which is near the midpoint of the best estimate range, was selected.

Net periodic pension cost includes the following for the year ended June 30, 2017:

Service cost, benefits earned during the year	$ -
Interest cost on projected benefit obligation	2,772,000
Expected return on Plan assets	(2,879,000)
Amortization of net loss	3,702,000
Net periodic pension cost	$ 3,595,000

As of June 30, 2017, unamortized net loss of approximately $19,174,000 was included in unrestricted net assets.

The percentages of fair value of total plan assets by asset category are as follows as of June 30, 2017:

Equity	34.6 %
Fixed income funds	65.4
	100.0 %

The following benefits, which reflect expected future service, have been valued using the same assumptions adopted for valuing the projected benefit obligation and are expected to be paid as follows:

Years ending June 30:	
2018	$ 3,466,000
2019	3,591,000
2020	3,738,000
2021	3,901,000
2022	4,065,000
2023 - 2026	20,973,000

The Agency anticipates contributing approximately $676,000 to the Plan during the year ending June 30, 2018.

Defined Contribution Pension Plans

Effective July 1, 2007, the Agency established a defined contribution plan for all employees, with the exception of hourly and contracted employees, who have worked one year, worked at least 1,000 hours, and have attained the age of 21. Annual base contributions to the plan are based on 5% of each eligible participant's compensation, plus an additional contribution as determined by a fixed percentage depending upon the years of service and the description of the title of the employee, subject to approval by the board of directors. Pension expense for the year ended June 30, 2017 approximated $3,012,000.

NYLEL has discretionary defined contribution retirement plans covering substantially all of its employees. To be eligible, employees must complete 12 months of service and 1,000 hours. Contributions and costs of these plans are based on amounts determined in accordance with Section 415 of the Code on an annual basis. Such amounts are included in accounts payable and accrued expenses on the combined statement of financial position.

Tax-Deferred Annuity Plan

The Agency maintains a tax-deferred annuity plan as defined under Section 403(b) of the Code. Investments are self-directed by employees and are maintained by a major insurance company.

NYLEL maintains a tax-deferred annuity plan as defined under Section 403(b) of the Code. Investments are self-directed by employees and are maintained by a major insurance company.

Human First maintains a 403(b) retirement plan which covers all eligible employees. Employees may elect to defer compensation and make contributions to the plan. The employer may also make a discretionary contribution to the plan each year. Employees fully vest in the plan after six years of service. Human First has decided not to make a discretionary contribution for the year ended June 30, 2017. The discretionary contribution of approximately $262,000 for the year 2016 is outstanding as of June 30, 2017. Human First intends to fund the plan as soon as possible.

12. Related Party Transactions

During the year ended June 30, 2017, the Agency provided services related to administrative functions for NYLEL and Human First. The Agency has recognized approximately $4,899,000 in revenue under this agreement, which is included in other income as well as a corresponding $4,899,000 in expenses, which is included in management and general expenses for the year ended June 30, 2017. As of June 30, 2017, the Agency owes approximately $85,000 to NYLEL and Human First has an outstanding balance of approximately $757,000 as of June 30, 2017 due to the Agency. These intercompany transactions are eliminated through consolidation.

13. Commitments and Contingencies

Reimbursement of Expenditures

Contracts, grants and fees applicable to program and community services are reported in the year earned at net realizable amounts for services rendered under contracts and reimbursement agreements. Certain contracts and grants provide for reimbursement rates that are subject to potential changes based on periodic reviews by the funding agencies. Such rates are either adjusted prospectively through future reimbursement rates or are adjusted retroactively. Prospective rate adjustments are generally insignificant and are reflected in the revenues of the future periods based on when the adjusted reimbursement rates are determined. Retroactive rate adjustments are recorded as adjustments to revenues in the period that the amounts are determinable and are reasonably measurable.

Some of the Companies' contracts and grants do not provide for rate adjustments although they may be subject to audits. It has been the experience of the Companies that adjustments as a result of audits have been insignificant. Management of the Companies is not aware of any potential material liabilities as of June 30, 2017 resulting from any audits.

NYLEL was audited by the New York Office of State Comptroller ("OSC"), related to the expenses submitted by NYLEL to the New York State Education Department ("SED") for purposes of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments. The audit covered the three-year period of July 1, 2011 through June 30, 2014. The audit focused on whether the costs and other required data submitted by NYLEL to SED on its Consolidated Fiscal Report ("CFR") for purposes of rate-setting and State reimbursement were properly calculated, adequately documented and allowable under the SED's guidelines, including the SED reimbursable cost manual. SED’s final calculation recommended disallowances in the amount of $4,580,000 over the three audited years.

Medicaid and other programs in which the Agency and Human First participate are based on a set of complex laws and regulations. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, fines, penalties, and exclusion from such programs. Management of the Companies is not aware of any allegations of noncompliance that could have a material effect on the accompanying combined financial statements and believes the Agency and Human First are in compliance with all applicable laws and regulations.

The Companies have established specific reserves against revenues of $1,272,000 at June 30, 2017, for potential denied claims for reimbursement. Denied claims arise principally due to unresolved participant eligibility issues. It is the opinion of management that denied claims, if any, in excess of the reserve for reimbursement adjustments would not have a material effect on the combined financial position of the Companies.

Going Concern of NYLEL

NYLEL had a decrease in unrestricted net assets of approximately $112,000 for the year ended June 30, 2017. After subtracting the unrestricted net assets that relate to the debt forgiveness of approximately $1,299,000 which the Agency provided for NYLEL, NYLEL has an unrestricted operational deficit of approximately $1,411,000 for the year ended June 30, 2017. NYLEL is taking numerous steps to eliminate the unrestricted operational net asset deficit over time. These steps include management plans to reduce operational costs, review of the financial viability of all of its programs, and working towards revenue streams that could produce net income in the future. If the future operating costs are not sufficiently reduced, it is at least reasonably possible that NYLEL will be unable to sustain its operations. Additionally, the outcome of NYLEL’s dispute on the OSC audit findings of $4,580,000, and the possibility that MSA could default on the $1,680,000 construction loan that NYLEL currently guarantees, could have a material impact on NYLEL's ability to continue as a going concern.

Operating Leases

The Companies have noncancelable operating leases with remaining terms of 1 year or more, some of which have escalation clauses. Future minimum payments under these operating leases, net of sublease proceeds, are approximately as follows:

Years ending June 30:	
2018	$ 15,297,000
2019	13,663,000
2020	13,233,000
2021	12,461,000
2022	11,285,000
Thereafter	171,326,000
Total	$ 237,265,000

Gross rent expense on real property was approximately $19,377,000 for the year ended June 30, 2017. At June 30, 2016, the Agency entered into an agreement to sell shares in a leasehold condominium with a New York not-for-profit organization pertaining to five floors in the aforementioned lease. This agreement includes a provision of cross default.

Rent expense on equipment for the year ended June 30, 2017 was approximately $354,000.

NYLEL reflects assets whose use is limited in the accompanying combined statement of financial position representing cash which is a required collateral by a bank since the NYLEL is the guarantor of a construction loan for MSA in the amount of $1,680,000 as of June 30, 2017. This guarantor agreement requires NYLEL to set aside 105% of MSA's outstanding principal balance, and has been included in assets limited as to use in the accompanying combined statement of financial position. MSA is not in default on this loan.

Litigation

There are various lawsuits and claims pending against the Companies which arose in the ordinary course of business. In the opinion of the Companies' management, these lawsuits are either without merit, or are covered by insurance, and will not result in any material adverse effect on the Companies' combined financial position or changes in net assets.

14. Subsequent Events

In July 2017 NYLEL brought an action against the New York State Comptroller Thomas P. DiNapoli, SED and the New York State Division of the Budget disputing the audit findings by OSC (Note 13). This legal action is pending as of the date the combined financial statements were available to be issued.

Subsequent to the year ended June 30, 2017, the Agency closed on a tax exempt bond with DASNY for construction projects previously funded with the TD Bridge Loan (Note 7) totaling approximately $6,325,000 with a premium of approximately $223,000. The bond’s average interest rate is 3.25% and monthly installments are due through June 2037 ranging from $21,000 to $22,000.

CONSOLIDATING AND COMBINING INFORMATION

ADAPT Community Network

Consolidating and Combining Statement of Financial Position

June 30, 2017

	Combined Totals	Intercompany Transactions' Eliminations	ADAPT *	Foundation	NYLEL	Human First
Assets						
Assets:						
Cash and cash equivalents	**$ 25,870,000**	$ -	$ 21,029,000	$ 110,000	$ 3,967,000	$ 764,000
Investments (Notes 2 and 3)	**147,470,000**	-	22,060,000	125,410,000	-	-
Grants and fees receivable from governmental agencies, net of allowance for doubtful accounts of $1,272,000 (Note 13)	**23,400,000**	-	15,808,000	-	5,174,000	2,418,000
Other Assets	**3,127,000**	-	2,432,000	-	468,000	227,000
Section 1307 surplus note receivable (Note 5)	**7,808,000**	-	7,808,000	-	-	-
Due from affiliates	**-**	(879,000)	794,000	-	85,000	-
Fixed assets, net (Note 6)	**80,003,000**	-	71,279,000	-	3,402,000	5,322,000
Assets limited as to use (Notes 7 and 9)	**3,557,000**	-	1,933,000	-	1,624,000	-
Total assets	**$ 291,235,000**	$ (879,000)	$ 143,143,000	$ 125,520,000	$ 14,720,000	$ 8,731,000
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	**$ 15,884,000**	$ -	$ 12,743,000	$ 56,000	$ 2,306,000	$ 779,000
Accrued payroll and related liabilities	**12,137,000**	-	7,305,000	-	4,137,000	695,000
Due to affiliates	**-**	(879,000)	85,000	37,000	-	757,000
Lines of credit and term loan payable (Note 7)	**6,423,000**	-	4,474,000	-	1,949,000	-
Capital leases payable (Note 8)	**968,000**	-	774,000	-	-	194,000
Mortgages payable, net (Note 9)	**60,987,000**	-	56,973,000	-	-	4,014,000
Accrued pension Liability (Note 11)	**18,501,000**	-	18,501,000	-	-	-
Deferred rent	**13,849,000**	-	13,097,000	-	752,000	-
Other liabilities	**9,140,000**	-	6,683,000	-	2,340,000	117,000
Total liabilities	**137,889,000**	(879,000)	120,635,000	93,000	11,484,000	6,556,000
Commitments and Contingencies (Note 13)						
Net Assets:						
Unrestricted	**152,503,000**	-	21,765,000	125,427,000	3,136,000	2,175,000
Temporarily restricted (Note 1)	**743,000**	-	743,000	-	-	-
Permanently restricted (Notes 1 and 10)	**100,000**	-	-	-	100,000	-
Total net assets	**153,346,000**	-	22,508,000	125,427,000	3,236,000	2,175,000
Total liabilities and net assets	**$ 291,235,000**	$ (879,000)	$ 143,143,000	$ 125,520,000	$ 14,720,000	$ 8,731,000

***This column includes the accounts of ADAPT, HDFC and CMRS**

See independent auditors' report

ADAPT Community Network

Consolidating and Combining Statement of Activities and Changes in Net Assets

Year Ended June 30, 2017

	Combined Totals	Intercompany Transactions' Eliminations	ADAPT *	Foundation	NYLEL	Human First
Support and Revenue						
Support from the public:						
Contributions	**$ 571,000**	$ -	$ 514,000	$ -	$ 57,000	$ -
Special events	**286,000**	-	283,000	-	-	3,000
Donated services (Note 1)	**607,000**	-	607,000	-	-	-
Legacies and bequests	**71,000**	-	71,000	-	-	-
Direct expenses of special events	**(95,000)**	-	(95,000)	-	-	-
Net support from the public	**1,440,000**	-	1,380,000	-	57,000	3,000
Contracts, grants and fees applicable to program and community services:						
Contracts and grants	**4,790,000**	-	3,790,000	-	1,000,000	-
Fees for services	**218,191,000**	-	145,550,000	-	50,179,000	22,462,000
Total contracts, grants and fees	**222,981,000**	-	149,340,000	-	51,179,000	22,462,000
Other revenue:						
Rental income	**1,142,000**	-	1,142,000	-	-	-
Other income (Note 12)	**428,000**	(4,899,000)	5,230,000	-	87,000	10,000
Investment income:						
Interest and dividends	**1,691,000**	-	859,000	830,000	2,000	-
Realized and unrealized gains on investments, net	**13,192,000**	-	1,030,000	12,162,000	-	-
Total other revenue	**16,453,000**	(4,899,000)	8,261,000	12,992,000	89,000	10,000
Total support and revenue	**240,874,000**	(4,899,000)	158,981,000	12,992,000	51,325,000	22,475,000
Expenses:						
Program services:						
Educational programs	**74,289,000**	-	27,914,000	-	46,375,000	-
Adult day programs	**59,030,000**	-	48,437,000	-	-	10,593,000
Residential programs	**67,760,000**	-	60,578,000	-	-	7,182,000
Family support services programs	**5,648,000**	-	3,095,000	-	-	2,553,000
Total program services	**206,727,000**	-	140,024,000	-	46,375,000	20,328,000
Supporting services:						
Management and general	**24,001,000**	(4,899,000)	18,978,000	333,000	6,357,000	3,232,000
Public relations and fundraising	**622,000**	-	615,000	-	4,000	3,000
Total supporting services	**24,623,000**	(4,899,000)	19,593,000	333,000	6,361,000	3,235,000
Payments to affiliated organizations:						
National program of research, education and service	**50,000**	-	50,000	-	-	-
State program of education and service	**76,000**	-	76,000	-	-	-
Total payments to affiliated organizations	**126,000**	-	126,000	-	-	-
Donated services (Note 1)	**607,000**	-	607,000	-	-	-
Total expenses	**232,083,000**	(4,899,000)	160,350,000	333,000	52,736,000	23,563,000
Changes in net assets before adjustments	**8,791,000**	-	(1,369,000)	12,659,000	(1,411,000)	(1,088,000)
Debt forgiveness	**-**	-	(1,299,000)	-	1,299,000	-
Pension related changes other than net periodic pension cost (Note 11)	**3,297,000**	-	3,297,000	-	-	-
Changes in net assets	**12,088,000**	-	629,000	12,659,000	(112,000)	(1,088,000)
Net Assets, Beginning of Year	**141,258,000**	-	21,879,000	112,768,000	3,348,000	3,263,000
Net Assets, End of Year	**$ 153,346,000**	$ -	$ 22,508,000	$ 125,427,000	$ 3,236,000	$ 2,175,000

***This column includes the accounts of ADAPT, HDFC and CMRS**

See independent auditors' report