QSAC, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2016)

QSAC, INC.

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
QSAC, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying statement of financial position of QSAC, Inc. ("QSAC") at June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 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 auditor's 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.

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Opinion

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

Report on Summarized Comparative Information

We have previously audited QSAC, Inc.'s 2016 financial statements, and our report dated November 18, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein at and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

During the year ended June 30, 2017, QSAC changed its method of accounting in adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-03. This simplified the presentation of debt issuance costs, and required debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Previously, such costs were shown as an asset. In accordance with this ASU, QSAC has retroactively applied this accounting principle. Our opinion is not modified with respect to this matter.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
November 27, 2017

QSAC, INC.
STATEMENT OF FINANCIAL POSTION
JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS AT JUNE 30, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 5,526,619	$ 5,753,392
Certificates of deposit	1,522,245	-
Program services receivable, net	8,592,010	8,281,853
Prepaid expenses and other assets	5,327,262	4,954,043
Debt service reserve funds	164,525	164,525
Property and equipment, net	11,516,935	11,512,931
TOTAL ASSETS	$ 32,649,596	$ 30,666,744
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 4,139,512	$ 3,479,329
Accrued salaries and related benefits	7,855,936	8,188,793
Due to governmental agencies	1,933,769	1,603,644
Deferred rent payable	2,779,154	1,873,237
Loans payable, net	6,620,543	7,352,705
Capital lease obligations, net	1,134,749	1,315,025
TOTAL LIABILITIES	24,463,663	23,812,733
Commitments and contingencies		
Net assets:		
Unrestricted	7,863,841	6,592,949
Temporarily restricted	322,092	261,062
TOTAL NET ASSETS	8,185,933	6,854,011
TOTAL LIABILITIES AND NET ASSETS	$ 32,649,596	$ 30,666,744

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

QSAC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

		2017			2016
		Unrestricted	Temporarily Restricted	Total	Total
REVENUES, GAINS AND OTHER SUPPORT:					
Program service fees		$ 71,086,658	$ -	$ 71,086,658	$ 64,705,940
Government grants and contracts		3,299,521	-	3,299,521	3,103,340
Contributions		1,157,567	175,919	1,333,486	973,996
Other revenue		698,892	-	698,892	461,570
Special events	$ 529,982				
Less: Costs of direct benefits of special events	139,731	390,251	-	390,251	612,143
Net assets released from donor restrictions		114,889	(114,889)	-	-
Total Revenues, Gains and Other Support		76,747,778	61,030	76,808,808	69,856,989
EXPENSES:					
Program services:					
Educational services		6,926,574	-	6,926,574	6,435,356
Service coordination and other services		4,623,576	-	4,623,576	3,894,286
Residential services		26,401,450	-	26,401,450	23,531,502
Habilitation services		29,304,715	-	29,304,715	26,228,022
Supporting services:					
Management and general		7,826,322	-	7,826,322	7,758,700
Fundraising		394,249	-	394,249	581,579
Total Expenses		75,476,886	-	75,476,886	68,429,445
CHANGE IN NET ASSETS		1,270,892	61,030	1,331,922	1,427,544
NET ASSETS, BEGINNING OF YEAR		6,592,949	261,062	6,854,011	5,426,467
NET ASSETS, END OF YEAR		$ 7,863,841	$ 322,092	$ 8,185,933	$ 6,854,011

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

QSAC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Program Services					Supporting Services					
	Educational Services	Service Coordination and Other Services	Residential Services	Habilitation Services	Total	Management and General	Fundraising	Cost of Direct Benefts of Special Events	Total	2017 Total	2016 Total
Salaries	$ 4,391,062	$ 2,935,848	$ 14,756,304	$ 17,066,217	$ 39,149,431	$ 4,194,116	$ 261,565	$ -	$ 4,455,681	$ 43,605,112	$ 40,283,881
Fringe benefits	1,266,299	791,242	4,412,089	4,989,575	11,459,205	1,869,763	83,467	-	1,953,230	13,412,435	11,649,352
Grants and other assistance to individuals	-	344,487	437,090	-	781,577	-	-	-	-	781,577	721,548
Consultant fees	126,537	18,224	311,713	413,719	870,193	103,550	-	-	103,550	973,743	514,032
Audit and accounting fees	-	-	-	-	-	101,664	-	-	101,664	101,664	92,851
Legal fees	7,050	-	2,943	6,891	16,884	32,400	-	-	32,400	49,284	60,905
Fingerprinting	4,248	621	11,484	15,579	31,932	493	-	-	493	32,425	32,231
Medical supplies	4,956	1,889	68,987	7,772	83,604	86	-	-	86	83,690	82,825
Occupancy	781,195	221,163	2,135,014	3,251,106	6,388,478	680,556	-	-	680,556	7,069,034	5,185,087
Office expenses	105,279	140,857	587,697	536,354	1,370,187	379,863	17,004	-	396,867	1,767,054	2,153,632
Travel	595	32,675	502,436	570,326	1,106,032	35,416	103	-	35,519	1,141,551	1,059,516
Conferences, conventions and meetings	12,026	1,834	7,676	9,295	30,831	4,232	-	-	4,232	35,063	21,405
Catering, rental and food	-	-	-	-	-	-	-	139,731	139,731	139,731	346,243
Insurance	20,734	71,292	1,175,274	1,024,432	2,291,732	134,276	2,160	-	136,436	2,428,168	2,868,293
Information technology	46,561	45,151	254,635	181,694	528,041	103,771	12,693	-	116,464	644,505	545,645
Advertising, dues and subscriptions	13,529	6,570	28,540	45,471	94,110	101,108	16,901	-	118,009	212,119	151,730
Consumer-related expenses	57,010	8,410	837,959	969,054	1,872,433	11,128	-	-	11,128	1,883,561	1,718,561
Interest	-	-	282,815	5,358	288,173	38,512	-	-	38,512	326,685	353,339
Bad debt expense	-	-	-	-	-	-	-	-	-	-	47,789
Miscellaneous expenses	71,253	696	22,611	69,165	163,725	19,758	-	-	19,758	183,483	241,956
	6,908,334	4,620,959	25,835,267	29,162,008	66,526,568	7,810,692	393,893	139,731	8,344,316	74,870,884	68,130,821
Depreciation and amortization	18,240	2,617	566,183	142,707	729,747	15,630	356	-	15,986	745,733	637,645
Total expenses	6,926,574	4,623,576	26,401,450	29,304,715	67,256,315	7,826,322	394,249	139,731	8,360,302	75,616,617	68,768,466
Cost of direct benefits of special events	-	-	-	-	-	-	-	(139,731)	(139,731)	(139,731)	(339,021)
Total expenses reported by function on the statement of activities	$ 6,926,574	$ 4,623,576	$ 26,401,450	$ 29,304,715	$ 67,256,315	$ 7,826,322	$ 394,249	$ -	$ 8,220,571	$ 75,476,886	$ 68,429,445

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from program services	$ 72,417,862	$ 65,230,510
Cash received from government grants and contracts	3,399,075	3,211,456
Cash received from contributions	1,333,486	973,996
Cash received from other revenue	463,233	461,570
Cash received from special events	529,982	951,164
Cash Provided By Operating Activities	78,143,638	70,828,696
Cash paid for personnel costs	(56,684,690)	(52,856,347)
Cash paid for other than personnel costs	(18,004,010)	(15,825,937)
Cash paid for special events	(139,731)	(339,021)
Cash paid for interest	(326,685)	(353,339)
Cash Disbursed For Operating Activities	(75,155,116)	(69,374,644)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,988,522	1,454,052
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase) proceeds of certificates of deposit	(1,522,245)	1,739,417
Purchase of property and equipment	(749,097)	(762,847)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(2,271,342)	976,570
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	38,520	1,330,982
Payments of line of credit	-	(697,523)
Payments of deferred debt issuance costs	-	(56,649)
Payments of capital lease obligation	(140,000)	(140,000)
Payments of loans payable	(842,473)	(759,303)
Cash Disbursed For Financing Activities	(982,473)	(1,653,475)
NET CASH USED IN FINANCING ACTIVITIES	(943,953)	(322,493)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(226,773)	2,108,129
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,753,392	3,645,263
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,526,619	$ 5,753,392

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

QSAC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,331,922	$ 1,427,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	-	47,789
Depreciation and amortization	745,733	637,645
Loss on disposal of fixed assets	30,875	71,800
Deferred rent	905,917	239,195
Changes in assets (increase) decrease:		
Program services receivable	(310,157)	(789,427)
Prepaid expenses and other assets	(373,219)	(330,949)
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	660,183	(663,707)
Accrued salaries and related benefits	(332,857)	923,114
Due to governmental agencies	330,125	(108,952)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,988,522	$ 1,454,052
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Property acquired through long-term financing	$ 38,520	$ -

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

Note 1 - Nature of Organization

QSAC, Inc. ("QSAC") is an award-winning nonprofit organization dedicated to providing services to persons with autism spectrum throughout New York City and Long Island. QSAC was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). QSAC's primary source of revenue is program services and education fees.

Note 2 - Summary of Significant Accounting Policies

Summarized Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with QSAC's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Basis of Accounting

The financial statements are prepared on the accrual basis in conformity with U.S. GAAP.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting QSAC's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

At June 30, 2017, the cost basis of QSAC's financial instruments, including cash and cash equivalents, program services receivable, debt service reserve funds, accounts payable and accrued expenses, accrued salaries and related benefits, and due to governmental agencies, approximated fair value due to the short maturity of these instruments.

Refer to Note 4 - Fair Value Measurements for assets measured at fair value.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*.

Revenues, Program Services Receivable, Allowance for Doubtful Accounts and Due to Governmental Agencies

Revenues and accounts receivable from the New York State Office for Persons with Developmental Disabilities ("OPWDD") and New York State Education Department ("SED") program services are recognized when earned. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, QSAC records due to governmental agencies. At the beginning of each school year, QSAC is granted a provisional rate for its students funded by SED. This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by QSAC subsequent to year-end. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end. Interest income is not accrued or recorded on accounts receivable. At June 30, 2017, QSAC had established an allowance for doubtful receivables of approximately $109,000.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Prepaid Expenses

Prepaid expenses result from expenditures for goods and services before the goods are used or services are received. Prepaid expenses are deferred and charged to operations as the goods are used or services received.

Debt Service Reserve Funds

These amounts represent cash which is set aside under the terms of the bond agreement.

Debt Issuance Costs

During the year ended June 30, 2017, QSAC adopted FASB Accounting Standards Update ("ASU") No. 2015-03, which simplifies the presentation of debt issuance costs and requires debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Previously, such costs were shown as an asset. Debt issuance costs are being amortized over the term of the debt. QSAC reflects the amortization of debt issuance costs within interest expense, in accordance with the new guidance. The June 30, 2016 amounts on the statement of financial position have been reclassified to reflect the current year's presentation. There was no impact on the statement of activities.

Property and Equipment

Property and equipment is recorded at cost, except for donated assets which are recorded at fair market value at the date of donation. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. QSAC capitalizes all purchases of property and equipment equal to or in excess of $5,000. Repairs and maintenance are charged to expense in the period incurred.

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	45 years
Leasehold improvements	5 to 15 years
Building improvements	10 to 15 years
Furniture and equipment	5 years
Vehicles	5 years

Long-Lived Assets

QSAC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. There was no such impairment loss during the year ended June 30, 2017.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those net assets that are restricted by the donors for specific purposes.

Contributions

Contributions received and unconditional promises to give are recorded as contributions at fair value in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. QSAC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g. buildings and improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired or constructed, it is QSAC's policy to reflect the contribution or donation of the long-lived asset in its unrestricted net assets through a reclassification of net assets.

Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, or require special skills and are provided by individuals possessing such special skills and would typically need to be purchased by QSAC if they had not been donated.

Operating Leases

Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounting for Uncertainty in Income Taxes

QSAC assesses tax positions in accordance with FASB ASC Topic 740 and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. QSAC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. QSAC believes it is no longer subject to income tax examinations prior to 2014.

New Accounting Pronouncements

ASU No. 2016-18

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).* This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. Current guidance does not specify how to present restricted cash and restricted cash equivalents in the statement of cash flows, thus there is diversity in practice.

The amendments in ASU No. 2016-18 should be applied using a retrospective transition method to each period presented and are effective for nonpublic entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period.

ASU No. 2016-14

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is a result of the recommendations developed by FASB's Not-for-Profit Advisory Committee and FASB's ongoing review of Generally Accepted Accounting Principles (GAAP) standards to improve existing standards to meet the evolving needs of a dynamic financial reporting environment.

The ASU provides for changes in financial statement presentation that effect classification of net assets, presentation of expenses, investment returns and presentation of operating cash flows. It also calls for enhanced disclosures of board designated funds, underwater endowment funds, methods used to allocate costs among functions, and liquidity and availability of resources. The ASU affects all not-for-profit organizations including charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

The amendments of ASU No. 2016-14 are effective for annual financial statements issued for periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements (cont'd.)

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted for all entities.

ASU No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

Step 1: Identify the contract with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic entities, the amendments of ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted under certain circumstances.

QSAC has not yet determined if these ASUs will have a material effect on its financial statements.

Note 3 - Concentration of Credit Risk

QSAC maintains cash and certificate of deposit balances in several financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, QSAC's balances may exceed these limits.

Note 4 - Fair Value Measurements

QSAC measures its marketable securities at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

Fair Value Hierarchy

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect QSAC's own assumptions of market participant valuation (unobservable inputs).

QSAC's investments in mutual funds and unit investment trusts were valued using Level 1 inputs consisting of quoted market prices of identical securities. Investments categorized as Level 2 are comprised of corporate bonds and are valued based on quoted prices from brokers for similar assets.

Items Measured at Fair Value on a Recurring Basis

The following table presents QSAC's assets that are measured at fair value on a recurring basis at June 30, 2017:

	Total	Level 1	Level 2	Level 3
Mutual Funds:				
Equities	$ 2,339,197	$ 2,339,197	$ -	$ -
Fixed income securities	592,655	-	592,655	-
Alternative investments	40,562	-	40,562	-
Total assets measured at fair value	$ 2,972,414	$ 2,339,197	$ 633,217	$ -

These amounts are included in prepaid expenses and other assets and relate to the 403(b)/457(b)/457(f) Plans, further detailed in Note 11.

Note 5 - Debt Service Reserve Funds

QSAC has debt service reserve funds in connection with the New York City Industrial Development Agency ("NYCIDA") and with Nassau County Industrial Development Agency ("NCIDA") bond issuances (see Note 9). These balances are limited to use under terms of debt indentures. Interest earned on these reserve funds will be used to reduce QSAC's payment obligation under the mortgages. The balance at June 30, 2017 is $164,525.

Note 6 - Property and Equipment

Property and equipment, net, at cost, consists of the following at June 30, 2017:

Land	$ 1,133,374
Buildings	7,819,105
Leasehold improvements	2,796,811
Building improvements	5,033,389
Furniture and equipment	1,604,071
Vehicles	1,228,429
	19,615,179
Less: Accumulated depreciation and amortization	8,098,244
	$11,516,935

Depreciation and amortization expense relating to property and equipment amounted to $714,217 for the year ended June 30, 2017.

Note 7 - Lines of Credit

QSAC has executed a line of credit for $5,500,000 from a financial institution during the year ended June 30, 2017. The line of credit expires December 31, 2017 and is subject to annual renewal and review. The agreement requires interest to be charged at a rate equal to the prime rate plus 0.25%, which totaled 4.5% at June 30, 2017. This debt is collateralized with a general lien on QSAC's assets. No amount was outstanding at June 30, 2017.

QSAC has executed a line of credit for $2,500,000 from a financial institution during the year ended June 30, 2017 related to acquisition and renovation of property. The line of credit expires December 31, 2017 and is subject to annual renewal and review. The agreement requires interest to be charged at a rate equal to the prime rate plus 0.5%, which totaled 4.75% at June 30, 2017. This debt is collateralized by the related property. No amount was outstanding at June 30, 2017.

Note 8 - Loans Payable

Loans payable consist of the following at June 30, 2017:

Vehicle loans payable to a financing agency, maturing through February 2020, payable in monthly installments ranging from $509 to $879 including interest at rates ranging from 3.75% to 6.89% per annum. The loans are secured by the related vehicles with a net book value of approximately $89,000.	$	100,724
Mortgage loans payable to a financial institution, maturing from August 1, 2017 through January 3, 2029, payable in monthly installments ranging from $1,500 to $21,498, including interest at rates ranging from 2.65% to 4.00% per annum. Two of these loans, having a maturity date of August 2, 2024, include balloon payments at the end of the loan terms of $492,651 and $488,463, respectively. The loans are secured by mortgage and security agreements on the related premises with a net book value of approximately $6,615,000.		6,684,755
		6,785,479
Less: Unamortized debt issuance costs		164,936
Total Loans Payable	$	6,620,543

The aggregate amounts of principal payments on the loans payable during each of the five years following June 30, 2017 and thereafter are as follows:

Years Ending June 30:		
2018	$	593,377
2019		581,697
2020		523,934
2021		522,971
2022		538,805
Thereafter		4,024,695
	$	6,785,479

Unamortized debt issuance costs consist of:

Closing costs	$	236,727
Less: Accumulated amortization		71,791
	$	164,936

Note 9 - Capital Lease Obligations

Capital lease obligations consist of the following at June 30, 2017:

Capital lease obligations to New York City Industrial Development Agency, maturing on July 1, 2019, payable in monthly installments of principal ranging from $2,667 to $5,833, plus interest at a rate ranging from 5.25% to 6.80% per annum. The obligation is secured by the related property and equipment.	$	91,281
Capital lease obligations to Nassau County Industrial Development Agency, maturing on July 1, 2020, payable in monthly installments of principal ranging from $3,750 to $5,000, plus interest at a rate ranging from 4.40% to 4.90% per annum. The obligation is secured by the related property and equipment.		270,000
Capital lease obligations to Nassau County Industrial Development Agency, maturing on July 1, 2029, payable in monthly installments of principal ranging from $3,333 to $6,667, plus interest at a rate ranging from 1.14% to 6.84% per annum. The obligation is secured by the related property and equipment.		838,620
		1,199,901
Less: Unamortized debt issuance costs		65,152
Total Bonds Outstanding	$	1,134,749

These capital leases are secured by the related property and equipment with a gross amount of approximately $1,996,000 and net book value of approximately $1,663,000. Amortization of assets held under capital leases is included in depreciation and amortization expense.

The aggregate amounts of principal payments on the bonds payable during each of the five years following June 30, 2017 and thereafter are as follows:

Years Ending June 30:		
2018	$	186,610
2019		227,700
2020		243,795
2021		78,900
2022		81,500
Thereafter		622,817
		1,441,322
Less: Amount representing interest		241,421
Present value of net minimum payments	$	1,199,901

Note 9 - Capital Lease Obligations (cont'd.)

Unamortized debt issuance costs consist of:

Closing costs	$	160,442
Less: Accumulated amortization		95,290
	$	65,152

Pursuant to the various bond indentures noted above, QSAC has money on deposit in a debt service reserve fund held by a trustee. Deposits in the debt service fund are to be used to pay any deficiency with respect to principal and interest payments pertaining to the related bonds payable if, and to the extent, QSAC defaults on such payments at the time such payments are due and payable. Assuming QSAC fully complies with all requirements of the bond indenture, the debt service reserve fund will either be returned to QSAC or credited by the trustee against the final payments due. At June 30, 2017, the balance of the debt service reserve fund was $164,525.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2017:

Scholarships	$	1,340
Educational/residential and other programs		320,752
	$	322,092

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows at June 30, 2017:

Educational/residential and other programs	$	114,889

Note 11 - 403(b)/457(b)/457(f) Plans

QSAC had a federally qualified defined contribution plan covering substantially all employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. The plan expense amounted to $636,707 for the year ended June 30, 2017. On July 1, 2006, QSAC established an Internal Revenue Code ("IRC") Section 457(f) plan. The plan provides deferred compensation benefits for management and directors, in excess of other QSAC plans and has no contribution limits. The expense for this plan amounted to $910,148 for the year ended June 30, 2017. At June 30, 2017, QSAC has set aside $2,545,786 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits. In 2007, QSAC established an IRS Section 457(b) plan. The plan provides deferred compensation benefits for management. The maximum level of the deferrals and employer contributions which may be credited on behalf of any participant in any taxable year under the plan shall not exceed the lesser of 100% of the participant's includible compensation for the taxable year or the IRC limit of $18,000 for the taxable year 2017. The expense for this plan amounted to $36,000 for the year ended June 30, 2017. At June 30, 2017, QSAC has set aside $498,952 of cash and cash equivalents and investments, for this plan. A liability of the same amount is recorded in accrued salaries and related benefits.

Note 12 - Commitments and Contingencies

QSAC has leased twenty-three properties for program and administrative space under various noncancellable operating agreements expiring at various dates through 2039, and requiring various minimum annual rental payments. Future minimum lease payments for the five years following June 30, 2017 and thereafter are as follows:

Years Ending June 30:	
2018	$ 4,903,444
2019	4,873,456
2020	4,576,922
2021	4,406,711
2022	4,282,859
Thereafter	31,342,015
	$54,385,407

Rent expense was $5,330,564 for the year ended June 30, 2017. During the year ended June 30, 2017, funds expended to rent totaled $4,424,647.

QSAC's program costs are subject to audit by various government agencies. In the opinion of QSAC management, any liabilities that might be incurred would not have a material effect on QSAC's financial position or results of operations.

As of June 30, 2017, QSAC is party to various litigations which, in the opinion of management and legal counsel, will not have a material adverse impact on the financial position of QSAC.

Note 13 - Donated Services, Facilities and Materials

QSAC received donated transportation services for consumers in its programs, with an estimated fair market value of $566,222 for the year ended June 30, 2017 from the New York City Department of Education. In addition, QSAC received various donated services and materials from other sources with an estimated fair market value of $111,014 for the year ended June 30, 2017. Donated services, facilities and materials have been recognized as revenue and expense in the statement of activities. As indicated in the statement of functional expenses, the related expenses have been allocated in accordance with the function benefited.

Note 14 - Related Party Transactions

One member of QSAC's board of directors is a board member and partial owner of a financial institution where QSAC maintains a money market account of approximately $1,341,000 at June 30, 2017. QSAC earned $13,640 of investment income relating to this account.

Note 15 - Subsequent Events

QSAC has evaluated all events or transactions that occurred after June 30, 2017 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.