LIFESPIRE, INC. AND SUBSIDIARY
(A Not-for-Profit Organization)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

LIFESPIRE, INC. AND SUBSIDIARY

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lifespire, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lifespire, Inc. and Subsidiary (the "Agency"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of 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 Agency'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 Agency'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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifespire, Inc. and Subsidiary as of June 30, 2017, and the 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.

MBAF CPAs, LLC

New York, NY
November 20, 2017

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Cash and cash equivalents	$	31,510,085
Cash and cash equivalents designated for recoupments payable		6,199,360
Cash and cash equivalents designated for self funded insurance		896,712
Cash and cash equivalents designated for health reimbursement accounts		1,577,059
Cash and cash equivalents restricted to debt service escrow		3,101,134
Cash and cash equivalents designated - other		1,162,231
Investments		4,549,481
Debt service reserve fund due from New York State		302,553
Accounts receivable, net		233,471
Accrued income receivable		12,722,044
Due from related parties		649,633
Security deposits and prepaid expenses		1,055,293
Property and equipment, net		17,219,476
Deferred rent recovery		2,475,711
TOTAL ASSETS	**$**	**83,654,243**

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$	5,730,932
Accrued payroll		2,700,164
Accrued compensated absences		3,503,150
Recoupments payable		6,199,360
Mortgages payable - DASNY		390,792
Bonds payable - DASNY, net		13,111,041
Bonds payable - IDA, net		540,000
Capital lease liability		692,358
Lines of credit		488,286
Deferred rent		2,475,711
Self funded insurance liability		959,527
Pension liability		4,746,764
Postretirement health insurance liability		5,239,218
TOTAL LIABILITIES		46,777,303
NET ASSETS		
Unrestricted:		
Undesignated		26,356,436
Residential reserve for replacement		1,030,056
Property and equipment		6,077,698
Board designated - program expansion		1,182,197
Board designated - anticipated pension contributions		1,250,000
Board designated - self funded insurance		921,712
		36,818,099
Temporarily restricted		58,841
TOTAL NET ASSETS		36,876,940
TOTAL LIABILITIES AND NET ASSETS	**$**	**83,654,243**

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

REVENUE - PROGRAM OPERATIONS	
Program service fees	$ 95,824,281
Participants' share of room and board	3,485,104
Subcontract	292,243
DASNY bond fees	571,204
	100,172,832
Net assets released from restrictions	2,757
TOTAL REVENUE - PROGRAM OPERATIONS	100,175,589
EXPENSES	
Program services	91,038,993
Management and administration	7,123,981
TOTAL EXPENSES	98,162,974
CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER REVENUE AND PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	2,012,615
OTHER REVENUE	
Investment income	50,086
Contributions and fundraising	140
Retroactive rate adjustments	3,222,104
Miscellaneous	20,296
TOTAL OTHER REVENUE	3,292,626
CHANGE IN UNRESTRICTED NET ASSETS BEFORE PENSION AND HEALTH CARE BENEFIT PLAN-RELATED CHANGES	5,305,241
Pension related change other than net periodic pension benefits (costs)	5,306,575
Post-retirement health care benefit change other than net periodic benefits (costs)	378,698
CHANGE IN UNRESTRICTED NET ASSETS	10,990,514
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	
Donors	4,980
Net assets released from restrictions	(2,757)
	2,223
CHANGE IN NET ASSETS	10,992,737
NET ASSETS - BEGINNING OF YEAR	25,884,203
NET ASSETS - END OF YEAR	**$ 36,876,940**

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	$	25,827,585
Change in unrestricted net assets		10,990,514
UNRESTRICTED NET ASSETS - END OF YEAR	$	36,818,099
TEMPORARILY RESTRICTED NET ASSETS - BEGINNING OF YEAR	$	56,618
Change in temporarily restricted net assets		2,223
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	$	58,841

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services							
	Waiver Services	Vocational Services	Residential	Mental Health	Other Programs	Total Program Services	Management and Administration	Total Expenses
Salaries	$ 16,085,547	$ 69,723	$ 19,687,675	$ 519,018	$ 3,333,324	$ 39,695,287	$ 2,586,352	$ 42,281,639
Payroll taxes and benefits	6,350,954	45,320	6,681,441	181,675	1,141,134	14,400,524	958,364	15,358,888
Total personnel costs	22,436,501	115,043	26,369,116	700,693	4,474,458	54,095,811	3,544,716	57,640,527
Professional fees and contracted services	553,475	6,645	3,693,315	65,947	1,278,134	5,597,516	521,699	6,119,215
General and professional liability insurance	366,959	11,105	263,657	25,145	37,276	704,142	628,559	1,332,701
Supplies and expenses:								
Food, household supplies and services	85,162	-	2,456,994	2,296	17,808	2,562,260	17,020	2,579,280
Rent and real estate taxes	3,517,039	36,447	2,665,917	195,467	488,652	6,903,522	675,209	7,578,731
Transportation	9,707,942	23,196	861,123	5,973	106,303	10,704,537	71,673	10,776,210
Utilities and telephone	878,492	3,768	927,522	67,063	247,130	2,123,975	203,476	2,327,451
Maintenance and repair	333,337	106	620,978	9,363	41,560	1,005,344	143,253	1,148,597
General	828,825	195,153	1,989,785	14,885	572,401	3,601,049	1,248,866	4,849,915
Total expenses before interest, fees, and bond expense, and depreciation and amortization	38,707,732	391,463	39,848,407	1,086,832	7,263,722	87,298,156	7,054,471	94,352,627
Interest, fees, and bond expense	458,437	3,723	1,539,923	-	19,056	2,021,139	17,561	2,038,700
Depreciation and amortization	639,966	72,984	928,503	10,318	67,927	1,719,698	51,949	1,771,647
TOTAL EXPENSES	$ 39,806,135	$ 468,170	$ 42,316,833	$ 1,097,150	$ 7,350,705	$ 91,038,993	$ 7,123,981	$ 98,162,974

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

LIFESPIRE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 10,992,737
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,771,647
Amortization of bond issuance costs	188,537
Unrealized loss on investments	18,633
Loss on disposal of property and equipment	5,047
Changes in operating assets and liabilities:	
Debt service reserve fund due from New York State	16,288
Accounts receivable	56,100
Accrued income receivable	887,918
Due from related parties	96,240
Security deposits and prepaid expenses	814,737
Accounts payable and accrued expenses	287,107
Accrued payroll	723,990
Accrued compensated absences	(5,303)
Recoupments payable	(1,179,841)
Self funded insurance liability	(852,053)
Pension liability	(6,775,008)
Postretirement health insurance liability	(72,881)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,973,895
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash and cash equivalents restricted to debt service escrow	43,549
Purchases of investments	(3,374,018)
Proceeds from sales of investments	3,342,466
Purchases of property and equipment	(818,745)
NET CASH USED IN INVESTING ACTIVITIES	(806,748)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from bonds payable - DASNY	2,695,000
Repayments of mortgages payable - DASNY	(504,850)
Repayments of bonds payable - DASNY	(1,230,000)
Proceeds from line of credit	553,823
Repayments of line of credit	(1,101,205)
Repayments of bonds payable - IDA	(280,000)
Payment of bond issuance costs	(154,976)
Repayments of capital lease liability	(128,410)
NET CASH USED IN FINANCING ACTIVITIES	(150,618)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,016,529
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	35,328,918
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 41,345,447
RECONCILIATION FOR UNRESTRICTED CASH & CASH EQUIVALENTS	
Cash and cash equivalents	$ 31,510,085
Cash and cash equivalents designated for recoupments payable	6,199,360
Cash and cash equivalents designated for self funded insurance	896,712
Cash and cash equivalents designated for health reimbursement accounts	1,577,059
Cash and cash equivalents designated - other	1,162,231
CASH AND CASH EQUIVALENTS - END OF YEAR, UNRESTRICTED	$ 41,345,447
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest	$ 518,909
Non-cash investing and financing activity during the period:	
Acquisition of property and equipment under capital lease obligations	$ 820,768

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. ORGANIZATION

Lifespire, Inc. and Subsidiary (collectively, the “Agency”) serves individuals with disabilities and their families through various programs which include, but are not limited to, residential, rehabilitation, and day programs. The Agency is funded through government programs, consumer contributions, and gifts. It is the Agency’s aim to provide individuals with disabilities the assistance and support necessary to achieve a level of functional behaviors and cognitive skills to enable them to maintain themselves in their community in the most integrated and independent manner possible. Lifespire Services, Inc. (“Parent”) is the sole member of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

Tax Status

The Agency, according to the Internal Revenue Service (“IRS”), was granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and under the corresponding provisions of the New York State and New York City income tax laws. Under these provisions, the Agency is exempt from federal and state income taxes and, therefore, has made no provision for income taxes in the accompanying consolidated financial statements.

The Agency follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the consolidated financial statements. It also provides guidance for de-recognition, classification, interest and penalties, disclosure and transition.

The Agency is subject to audit by tax authorities. In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. Management believes that its tax-exempt status would be sustained upon examination. Management believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

If applicable, the Agency would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Agency files federal and New York State informational returns. With few exceptions, the Agency is no longer subject to federal or state income tax examinations for fiscal years before June 30, 2014.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These classes are defined as follows:

Permanently Restricted - Net assets resulting from (a) contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Agency, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications from other classes of net assets as a consequence of donor-imposed stipulations.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Agency is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Some of these net assets are undesignated but some are designated by the Board of Directors ("Board") as set forth below:

Residential Reserve for Replacement - There is an amount of $1,030,056 as residential reserve for replacement. Such reserve was designated by the New York State Office for People with Developmental Disabilities ("OPWDD") for the reimbursement of building renovations and improvements for Agency-owned residential properties. This reimbursement mechanism does not apply to residential properties that are leased.

The Agency has the ability to utilize the residential reserve funding for all of its certified residential sites within each class of residences. These funds are not interchangeable among program types.

Property and Equipment - There is a designated amount of $6,077,698 which represents the excess of the net book value of property and equipment over the related debt.

Board Designated-Program Expansion - The Board has designated $1,182,197 for future programmatic expansion. The monies, which are not segregated, are used to alleviate the ongoing financial pressures on the Agency due to the timing of collections of government funding, the limitations on available government funding, and the limited fund-raising activities undertaken by the Agency. The Agency has minimum monthly operating cash requirements of approximately $8,736,000 to finance its program operations.

Board Designated-Anticipated Pension Contributions - The Board has designated $1,250,000 for anticipated defined benefit pension plan contributions for the year ended June 30, 2018.

Board Designated-Self Funded Insurance - The Board has designated $921,712 for payments of current and future claims related to the Agency's self funded insurance plans.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the financial activity of Lifespire, Inc. ("Lifespire") and its wholly-owned subsidiary, Manhattan Management Solutions, LLC (the "Organization"). The Organization provides consulting services to other not-for-profit organizations. Lifespire consolidates the Organization because it has both (i) an economic interest in, and (ii) control over the Organization through a majority voting interest in its governing board. Any inter-entity transactions are eliminated in consolidation.

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 and the reported amounts of revenues and expenses during the reporting period. Management has determined that estimates of program service fees and related recoupment payable (see Note 4) and self-insurance liability are subject to change in the near term. Actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated events through November 20, 2017, which is the date the consolidated financial statements were available to be issued.

Cash and Cash Equivalents

The Agency considers all highly liquid investments with an original maturity date of three months or less at the time of purchase to be cash equivalents. Restricted cash and cash equivalents as of June 30, 2017 are described in Note 5.

Investments

Investments are comprised of certificates of deposits with varying maturity dates and mutual funds. These investments are stated at fair value. Income from investments is considered unrestricted unless restricted by a donor.

Accounts Receivable, Net

All known uncollected accounts receivable have been adjusted to net realizable value as of June 30, 2017. The allowance for doubtful accounts, which amounts to $6,854 at June 30, 2017, is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts. Management generally uses 5% of total subcontract accounts receivable as the basis for the calculation of allowance for doubtful accounts based on historical experience and economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Service Fees and Accrued Income Receivable

The Agency receives a major portion of its program service fees from Medicaid in conjunction with the OPWDD, the Social Security Administration ("SSA") and directly from the OPWDD. At June 30, 2017, substantially all of the accrued income receivable of $12,722,044 is due from these governmental agencies.

The Agency recognizes revenue as services are provided. The amount is determined by the funding agencies either by a fee for service or a cost based fee. These fees are subject to periodic review and revision by the funding agencies. During the year ended June 30, 2017, the Agency collected $3,222,104 in retroactive rate adjustments.

The current third-party-payor programs, including Medicaid and Medicare, are based upon complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Office of the State Comptroller performed an audit and filed a preliminary claim against the Agency. The Agency is vigorously contesting the claim and management believes the final settlement will not be material to the consolidated financial statements.

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated, less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized in accordance with funding source guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the asset. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes individual items costing in excess of $5,000.

Impairment

The Agency reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the Agency recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2017.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $4,690 for the year ended June 30, 2017, and is included in general expenses in the accompanying consolidated statement of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent

The Agency leases program and office space whereby the various landlords provide periods of scheduled increases in the minimum amounts charged. Rent expense related to the minimum rentals is recognized on a straight-line basis over the term of the respective leases. The accompanying consolidated statement of financial position reflects a liability of $2,475,711 at June 30, 2017 relating to deferred rent. The change in this liability is reflected as a charge to rent and real estate taxes in the accompanying consolidated statement of functional expenses.

OPWDD includes in the reimbursement rate paid to service providers a component for rents paid in accordance with lease terms. The Agency recognizes such amounts, however, based upon the future stream of payments for rent that is required to be recognized under U.S. GAAP that is in excess of the cumulative rents incurred up to date. The difference between the revenue recognized and the rents incurred over their lease terms (which is the reimbursement from OPWDD) is reflected as deferred rent recovery on the consolidated statement of financial position. This deferred rent recovery represents a timing difference which will accumulate over the earlier periods of the rent expense recognition for a respective lease and will reverse during the latter periods of the rent payments. The deferred charge amounted to $2,475,711 at June 30, 2017. For the year ended June 30, 2017, the decrease in deferred rent recovery amounted to $74,509 and is reflected in the accompanying consolidated statement of activities.

Self Funded Health and Workers' Compensation Insurance

The Agency is self funded for workers' compensation insurance on all employees. At June 30, 2017, the Agency recorded a liability of $934,527 for claims that have been incurred but not paid for employees covered by the self funded workers' compensation plan.

On June 30, 2016, the Agency terminated the self funded health insurance on all employees, and purchased a full coverage health insurance effective July 1, 2016. At June 30, 2017, the Agency recorded a reserve liability of $25,000 for prior claims under the self funded health insurance that have been incurred but not paid as of termination date.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Fair Value Measurements

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.

The accounting standards codification establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs to be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about inputs that market participants would use at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Level 2 - Valuation based on quoted prices for similar assets or liabilities in active markets; for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair Value of Financial Instruments

The carrying amounts of the Agency's financial instruments (including cash and cash equivalents, receivables, accounts payable and accrued expenses, and lines of credit) approximates fair value due to the short-term nature of these instruments. Additionally, the carrying amount of the mortgages and bonds payable approximates fair value because the interest rates approximate market rates.

Adoption of Accounting Pronouncement

Effective July 1, 2016, the Agency adopted Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction on the statement of financial position from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. This ASU was applied for the year ending June 30, 2017. Bonds payable – DASNY and bonds payable – IDA as of July 1, 2016 have been adjusted to apply the new method retrospectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2017 and within that interim period. Early application is not permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current US GAAP. The Agency is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the Agency's financial condition due to the recognition a right-of-use asset and related lease liability. The Agency does not anticipate the update having a material effect on the Agency's results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2018, and interim periods within those years, with early application permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for annual periods beginning after December 15, 2017 and in interim periods in that reporting period, with early adoption permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

In January 2017, the FASB issued an accounting standards update which clarifies when a not-for-profit that is a general or limited partner should consolidate a for-profit limited partnership or similar entity. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017, with early adoption permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

In March 2017, the FASB issued an accounting standards update to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements of employers that offer defined benefit pension plans, other postretirement benefit plans, or certain other types of benefits. The update also specifies that the service cost component of net benefit cost is eligible to be capitalized. The update is effective retrospectively for presentation requirements and prospectively in terms of capitalization, for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The Agency is currently evaluating the effect the update will have on its financial statements.

3. CASH AND CASH EQUIVALENTS DESIGNATED - OTHER

Cash and cash equivalents designated – other at June 30, 2017 comprised of the following:

	Restricted Cash Amount
Temporarily restricted contributions	$ 58,841
403(b) tax sheltered annuity plan	73,334
Residential reserve for replacement	1,030,056
	$ 1,162,231

4. CASH AND CASH EQUIVALENTS DESIGNATED FOR RECOUPMENTS PAYABLE

As of June 30, 2017, the Agency designated cash and cash equivalents of $6,199,360 to settle estimated recoupments payable.

The Agency entered into contracts with OPWDD for the operation of its facilities. Typically, there are over or under payments on these contracts, resulting from rates of reimbursements being subsequently adjusted and reconciled by OPWDD. However, the reconciliation process has not been completed for some contracts in the prior years. Once these reconciliations are completed or an OPWDD program audit is initiated, a timeline and/or methodology will be established as to how and when these amounts will be recouped. It is the policy of the Agency to hold all overpayments as well as qualifying contractual expenses as a recoupment payable pursuant to these contracts until an audit has occurred, and a reconciliation or recoupment process is initiated by the Agency.

OPWDD does not recoup amounts more than seven years old. As a result, the Agency recognized a net gain of $1,179,841 resulting from the reduction of the recoupment payable, which is included in retroactive rate adjustments on the consolidated statement of activities.

As of June 30, 2017, the Agency has a recoupment payable balance of $6,199,360. These amounts are expected to be recouped in the future through designated reductions of remittance payments or by demanding payment of full amount.

The recoupment payable is related to transactions incurred as follows:

June 30,	
2017	$ 790,792
2016	497,453
2015	382,939
2014	257,370
2012 and prior	4,270,806
	$ 6,199,360

5. CASH AND CASH EQUIVALENTS RESTRICTED TO DEBT SERVICE ESCROW

The cash and cash equivalents related to debt service escrow of $3,101,134 is comprised of the following:

Debt Service Escrow:	
IDA – Bond 2002	$ 673,494
DASNY – Bond 2010	745,968
DASNY – Bond 2011	244,661
DASNY – Bond 2013	349,704
DASNY – Bond 2015	831,194
DASNY – Bond 2016	256,113
	$ 3,101,134

The Debt Service Escrow – IDA – regarding the Industrial Development Agency ("IDA") Bond 2002 represents a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreements (Note 13).

The Debt Service Escrow – DASNY - regarding the Dormitory Authority State of New York ("DASNY") Bonds 2010, 2011, 2013, 2015, and 2016 represent a portion of the loan proceeds, in addition to subsequent payments made by the Agency, that were deposited into accounts set up with the Bank of New York. The Agency's monthly payments are deposited into one of these accounts until payments to the bondholders are required to be made pursuant to the bond agreement (Note 12).

The amounts from the above earn interest and such interest is applied against the Agency's current year's bond principal pay down obligations.

6. DEBT SERVICE RESERVE FUND DUE FROM NEW YORK STATE

The debt service reserve fund due from New York State of $302,553 represents a portion of the loan proceeds retained by New York State under the terms and conditions set forth in the mortgage agreements for the properties listed in Note 10.

The monies are designated to be applied to scheduled debt service payments in the future by OPWDD.

7. INVESTMENTS

As of June 30, 2017, total investments are comprised of money market, bank certificates of deposit, and mutual funds stated at $4,549,481. Investments consisted of the following:

	Cost	Fair Value
Bank of America - money market	$ 5,553	$ 5,553
Morgan Stanley - certificates of deposit	4,111,087	4,108,076
Chase - mutual funds	467,905	435,852
Total	$ 4,584,545	$ 4,549,481

7. INVESTMENTS (CONTINUED)

Activity in investments is as follows for the year ended June 30, 2017:

Investments - beginning of year	$ 4,536,562
Investment activity:	
Purchases	3,333,145
Investment returns (reinvested)	40,873
Sales and redemptions (at cost)	(3,216,146)
Withdrawals for operations	(126,320)
	31,552
Net depreciation in fair value of investments: unrealized losses	(18,633)
Investments - end of year	$ 4,549,481

Money market, certificates of deposit, and mutual funds securities are valued at the quoted market price of shares held by the Agency at year end.

All of the investments are classified as level 1, as defined in Note 2.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties comprise the following:

Due from Related Parties

Due from related parties of $649,633 on the accompanying consolidated statement of financial position represents net amounts owed from the Parent as follows:

- An unsecured note receivable, executed on April 30, 2010 in the amount of $689,901, for funds that was previously loaned to the Parent by the Agency. The Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $27,596 on or before April 30th of each year. The outstanding balance on this note, which is non-interest bearing, amounted to $469,133 at June 30, 2017.

- An interest-only unsecured note receivable in the amount of $55,500 due from the Parent. This note accrues interest at a rate of 6% per annum. Also, on June 16, 2011, a $300,000 unsecured note was executed with the Parent, accruing interest at a rate of 6% per annum. The outstanding balance on this note amounts to $125,000 at June 30, 2017. Subsequent to the statement of financial position date, the board of directors of the Agency modified the payment terms of these notes, as well as the resolution to forgive in full the accrued interest receivable as of June 30, 2017 totaling $68,644 (see Note 25).

Board members of the Parent are also Board members of the Agency.

8. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Other Related Party Transactions

The Agency performs management services to the Agency's Housing and Urban Development ("HUD") affiliate for a fixed annual management fee of $17,814. The Agency also received $15,560 from HUD for reimbursement of certain employee benefits and insurance costs during the year ended June 30, 2017.

The Agency purchases supplies and services from ACRMD Community Mental Retardation Services Company, Inc. ("Community"), which is related because certain Agency employees are board members of Community. The Agency also receives payment from Community for the outsourced labor provided to assist with the processing and packaging of the inventory items which Community sells to the Agency as well as to other non-related entities. During the year ended June 30, 2017, purchases of supplies and services from Community totaled $604,295 and fees from Community for the provision of labor provided by the Agency totaled $89,776. At June 30, 2017, $73,436 was due to Community, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. In addition, the Agency also received approximately $20,886 from Community for reimbursement of its portion of fringe benefits and insurance costs paid on behalf of three of the Agency's employees who provide services to the not-for-profit related party. No reimbursable costs were outstanding as of June 30, 2017.

The Agency purchases document storage, messenger, landscaping, and maintenance services from ACRMD Enterprises LLC ("Enterprise"), a wholly-owned subsidiary of Community. During the year ended June 30, 2017, purchases of these services from Enterprise totaled $233,116. In addition, during the year ended June 30, 2017, the Agency also received $20,124 from Enterprise for reimbursement of insurance costs. At June 30, 2017, $26,334 was due to Enterprise, which is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Management periodically reviews the related party accounts and notes receivable amounts to determine if an allowance is necessary. At June 30, 2017, no allowance was necessary because the related party receivables from Community and Enterprise were determined to be fully collectible.

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

June 30, 2017	Cost	Estimated Useful Lives
Land	$ 4,924,267	
Construction in progress	969,666	
Buildings and improvements	28,791,914	5-20 years
Furniture and equipment	3,658,198	5 years
Vehicles	1,108,817	4 years
Leasehold improvements	9,418,504	Life of lease
	48,871,366	
Less: accumulated depreciation and amortization	(31,651,890)	
	$ 17,219,476	

9. PROPERTY AND EQUIPMENT (CONTINUED)

The above amounts include land and buildings which were donated to the Agency by the OPWDD. The Agency is subject to adherence of certain terms, conditions, and restrictions as to the use and ultimate disposition of these properties as further delineated in the disposition and subordination agreements entered into with the funding source.

Depreciation and amortization expense was $1,771,647 for the year ended June 30, 2017.

10. MORTGAGES PAYABLE – DASNY

Mortgages payable – DASNY represents self-liquidating term-notes owed to DASNY, which has OPWDD as its agent.

The mortgage notes are collateralized by (i) the real property located at each of the sites (ii) all accounts receivable generated from billings related to the respective locations, and (iii) all personal property owned by the Agency located at each of the sites. The Agency is entitled to credits in an amount equal to the past accrued interest earned on the debt service reserve fund due from New York State for some of the above-mentioned liabilities. When such credits are determined and applied to the corresponding mortgages, then those mortgage liabilities will be reduced accordingly.

Additional information for the mortgages payable - DASNY is reflected below.

Property	Maturity Date	Interest Rate	Outstanding at June 30, 2017
213-233 48th Street (Sunset I)	2/15/2018	7.34%	$ 72,660
87-21 121st Street (Queens)	2/15/2018	6.41%	219,000
Jumel	8/15/2018	6.41%	99,132
Total Mortgages Payable - DASNY			$ 390,792

The mortgage balances for the 213-233 48th Street and 87-21 121st Street locations are for the Day Habilitation Program. Since the year ended June 30, 2004, OPWDD allocates a portion of the bond (mortgage) payable to a separate Day Habilitation Medicaid Management Information System (“MMIS”) Provider number for debt recovery purposes. However, the total indebtedness does not change.

Under the terms of the mortgages payable – DASNY, the Agency is required to fulfill certain financial covenants.

11. LINES OF CREDIT

Under the terms of a line of credit agreement with Bank of America entered into on March 31, 2015, the Agency may borrow up to $5,000,000 at the bank's prime interest rate plus 0.5% (4.25% at June 30, 2017) through March 31, 2018, when the agreement expires. The Agency's property and leasehold improvements not otherwise encumbered have been pledged as collateral against any advances on the line of credit. The balance outstanding on this line of credit as of June 30, 2017 was $488,286. The Agency is required to fulfill certain financial covenants.

The Agency has a line of credit agreement with J.P. Morgan Chase for a maximum amount of $5,000,000 which expires on February 28, 2018. The proceeds of the line of credit are to be used for operating expenses. Interest is charged at the bank's floating rate of prime plus 0.5% (4.25% at June 30, 2017) and is secured by a lien on the Agency's government receivables not otherwise encumbered. The government receivables totaled $12,722,044 at June 30, 2017 and are reflected in the accompanying financial statements as accrued income receivable. There was no outstanding balance on the line of credit as of June 30, 2017.

12. BONDS PAYABLE – DASNY, NET

Bonds payable – DASNY includes the following at June 30, 2017:

Series	Due Date	Interest Rates	Principal Due
2010 A-1 and A-2	July 2028	2.10% to 5.00%	$ 3,390,000
2011 A-1 and A-2	July 2026	1.40% to 4.00%	1,315,000
2013 A-1 and A-2	July 2038	2.00% to 4.00%	3,165,000
2015 A-1 and A-2	July 2024	1.20% to 4.00%	2,800,000
2016 A-1 and A-2	July 2040	1.50% to 4.00%	585,000
2016 B-1 and B-2	July 2041	1.50% to 4.00%	2,695,000
			13,950,000
Less: unamortized debt issuance costs			(767,933)
Less: unamortized bond discounts			(71,026)
Total bonds payable - DASNY, net			$ 13,111,041

2010 A-1 and A-2

In March 2010, a bond payable – DASNY was issued in the amount of $6,125,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2010A, subseries 2010 A-1, and 2010 A-2 (the "2010 Bonds"). The Agency used the proceeds from the 2010 Bonds to pay down $5,485,795 of indebtedness on seven properties.

The interest is payable to the bondholders on a semi-annual basis commencing on August 1, 2010. The principal is payable to the bondholder on an annual basis commencing on August 1, 2011. The cost of the bond issuance amounted to $318,265 of which $170,278 was amortized as of June 30, 2017. The cost of bond discounts amounted to $78,516, of which $42,883 was amortized as of June 30, 2017.

The Agency is required to make deposits for interest and principal under the 2010 Bond loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

12. BONDS PAYABLE – DASNY, NET (CONTINUED)

2010 A-1 and A-2 (continued)

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 415,000
2018	415,000
2019	415,000
2020	410,000
2021	415,000
Thereafter	1,320,000
	$ 3,390,000

The 2010 Bonds are secured ratably by each applicable mortgage on the properties and the DASNY's security interest in the pledged program service fees revenues subject to prior pledges.

Under the terms of the bonds payable – DASNY, the Agency is required to fulfill certain financial covenants.

2011 A-1 and A-2

On August 17, 2011, a bond payable – DASNY was issued in the amount of $1,925,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2011A, subseries 2011 A-1, and subseries 2011 A-2 (the "2011 Bonds"). The Agency used the proceeds from the 2011 Bonds to pay down $1,182,262 of indebtedness on two properties.

The interest rate is not to exceed 4.125% on the Series 2011 Bonds. The interest is payable to the bondholders on an annual basis commencing on July 1, 2012. The cost of the bond issuance amounted to $166,854 of which $63,536 was amortized as of June 30, 2017. The cost of the bond discounts amounted to $12,469 of which $4,904 was amortized during the year ending June 30, 2017.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 130,000
2018	130,000
2019	130,000
2020	130,000
2021	130,000
Thereafter	665,000
	$ 1,315,000

12. BONDS PAYABLE – DASNY, NET (CONTINUED)

2011 A-1 and A-2 (continued)

The 2011 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2013 A-1 and A-2

On March 13, 2013, a bond payable – DASNY was issued in the amount of $3,665,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2013A, subseries 2013 A-1, and subseries 2013 A-2 (the “2013 Bonds”).

The interest is payable to the bondholders on an annual basis commencing on July 1, 2013. The cost of the bond issuance amounted to $301,396 of which $65,796 was amortized as of June 30, 2017. The cost of the bond discounts amounted to $33,679 of which $5,851 was amortized during the year ending June 30, 2017.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 165,000
2018	165,000
2019	170,000
2020	180,000
2021	180,000
Thereafter	2,305,000
	$ 3,165,000

The 2013 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2015 A-1 and A-2

On February 11, 2015, a bond payable – DASNY was issued in the amount of $3,450,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2015A, subseries 2015 A-1, and subseries 2015 A-2 (the “2015 Bonds”). The Agency used the proceeds from the 2015 Bonds to refinance principal due to the New York City Industrial Development Agency (“IDA”) Civic Facility Revenue Bonds, Series 2004 A and Series 2008 A.

The interest is payable to the bondholders on an annual basis commencing on July 1, 2015. The cost of the bond issuance amounted to $187,815 of which $45,685 was amortized as of June 30, 2017.

12. BONDS PAYABLE – DASNY, NET (CONTINUED)

2015 A-1 and A-2 (continued)

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 490,000
2018	480,000
2019	325,000
2020	330,000
2021	335,000
Thereafter	840,000
	$ 2,800,000

The 2015 Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2016 A-1 and A-2

On February 10, 2016, a bond payable – DASNY was issued in the amount of $605,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2016A, subseries 2016A-1, and subseries 2016 A-2 (the "2016A Bonds"). The Agency used the proceeds from the 2016A Bonds to pay down $538,118 of indebtedness on one property.

The interest is payable to the bondholders on an annual basis commencing on July 1, 2016. The cost of the bond issuance amounted to $73,347 of which $3,265 was amortized as of June 30, 2017.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 25,000
2018	15,000
2019	15,000
2020	20,000
2021	20,000
Thereafter	490,000
	$ 585,000

12. BONDS PAYABLE – DASNY, NET (CONTINUED)

2016 A-1 and A-2 (continued)

The 2016A Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

2016 B-1 and B-2

On November 29, 2016, a bond payable – DASNY was issued in the amount of $2,695,000 and is related to the DASNY InterAgency Council Pooled Loan Program Revenue Bond Resolution, Series 2016B, subseries 2016B-1, and subseries 2016 B-2 (the "2016B Bonds"). The Agency used the proceeds from the 2016B Bonds to facilitate building improvements and project costs totaling $2,499,164 on two properties.

The interest is payable to the bondholders on an annual basis commencing on July 1, 2017. The cost of the bond issuance amounted to $154,976 of which $2,906 was amortized as of June 30, 2017.

The Agency is required to make deposits for interest and principal under the loan agreement monthly on the 10th day of each month into the debt service escrow fund (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 45,000
2018	95,000
2019	95,000
2020	105,000
2021	110,000
Thereafter	2,245,000
	$ 2,695,000

The 2016B Bonds are secured by each mortgage on the properties and a lien on the furnishings and equipment located at each mortgaged property.

Under the terms of the bond payable – DASNY, the Agency is required to fulfill certain financial covenants.

13. BONDS PAYABLE - IDA

Bonds payable – IDA includes the following at June 30, 2017 :

Series	Due Date	Interest Rates	Principal Due
2002 C-1	July 1, 2017	6.50%	$ 540,000
Total Bonds Payable - IDA			$ 540,000

Bonds Payable – IDA - 2002

The Bonds payable – IDA – 2002 represents amounts owed relating to the New York City Industrial Development Agency ("IDA") Civic Facility Revenue Bonds (Special Needs Facilities Pooled Program), Series 2002 C-1.

The interest is payable to the bondholders on a semi-annual basis commencing on July 1, 2003. The principal is payable to the bondholder on an annual basis also commencing on July 1, 2003. The cost of the bond issuance amounted to $395,027, which was fully amortized as of June 30, 2017.

Deposits for interest and principal payments for the bond holders under the loan agreement are to be made monthly and deposited into the applicable debt service escrow accounts by the Agency until it comes due to pay the bondholders (Note 5).

The principal payments of the debt owed to the bondholders are as follows:

Due Date July 1,	Principal Due
2017	$ 540,000
	$ 540,000

Bonds Payable – IDA – General Terms

The Agency anticipates that, periodically, OPWDD will adjust certain program service fees to provide the Agency with the sufficient amounts to repay the debt principal, related interest, and fees. The Series 2002 C-1 bonds will be secured ratably by the IDA's security interest in certain pledged revenues, which amounted to $571,204 for the year ended June 30, 2017, as well as the amounts held in cash and cash equivalents restricted to debt service escrow (Note 5).

The underlying properties secure the respective Bonds with first liens except where otherwise noted.

14. CAPITAL LEASE LIABILITY

During the year ended June 30, 2017, the Agency leased its vehicles under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of June 30, 2017. The interest rate related to these capital lease liabilities ranged from 4.39% to 7.47% and the maturity dates ranged from April 2020 through May 2021.

June 30,		
2018	$	227,483
2019		227,483
2020		223,275
2021		71,312
Total minimum lease payments		749,553
Less: amount representing interest		(57,195)
Present value of minimum lease payments	$	692,358

15. MATURITIES OF DEBT TO THIRD PARTIES

The short-term and long-term third-party debt is comprised of the following:

June 30, 2017		
Mortgages payable – DASNY	$	390,792
Bonds payable – DASNY, net		13,111,041
Bonds payable – IDA		540,000
Capital lease liability		692,358
Line of credit		488,286
	$	15,222,477

Approximate maturities of short-term and long-term third-party debt are as follows:

June 30,		
2017	$	2,861,571
2018		1,532,704
2019		1,363,819
2020		1,244,870
2021		1,190,000
Thereafter		7,868,472
		16,061,436
Less: unamortized bond issuance costs		(767,933)
Less: unamortized bond discounts		(71,026)
	$	15,222,477

The above maturities are not reduced by the funds held in the various debt service escrow accounts (Note 5) for interest earned currently and the last year of a particular bond's obligation are utilized to reduce the Agency's payments thereon.

16. SELF FUNDED INSURANCE

All Agency employees had an option to participate in the Agency's self-funded, comprehensive medical care benefits program. The cost of medical care was paid out of employee and employer contributions and was held in a separate reserve bank account. The Agency contracted with Aetna, Inc., a third-party administrator, to provide administrative services for this health care benefits program. The health care benefits program had stop loss coverage of $150,000 per person and a total of one hundred fifty percent of claims estimated at the beginning of the policy year. Effective June 30, 2016, the Agency terminated the self-funded health insurance plan and purchased a full coverage health insurance with Oxford Health Insurance, Inc. As of June 30, 2017, the estimated liability for outstanding claims totaled $25,000, which represents estimated potential claims not paid as of June 30, 2017.

All Agency employees are covered by a self-funded worker’s compensation benefits program administered by The Hartford Financial Services Group, Inc. The workers’ compensation benefits program has a stop loss policy of $250,000 per incident, up to $1,000,000 for the current policy year. The workers’ compensation claims are paid out of employer contributions and is held in a separate reserve bank account. As of June 30, 2017, cash designated for this program totaled $896,712 and the estimated liability for outstanding claims at June 30, 2017 totaled $934,527.

The Agency is partially self-insured for its workers compensation commitments. Accordingly, the Agency has provided $2,433,696 in Letters of Credit for performance guarantees, which are secured by certificates of deposit totaling $2,820,000 on the accompanying consolidated statement of financial position.

17. DEFINED BENEFIT PENSION PLAN

The Agency has a defined benefit pension plan (the “Plan”) covering all of its eligible employees. The benefits are based on years of service and the employee's highest five years of compensation during the last ten years of employment. The Agency's funding policy is to contribute annually the required amount that should be deducted in accordance with federal income tax guidelines. The Agency's contributions for calendar year 2016 met the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”).

The Agency, as the sponsor of the Plan, froze the Plan effective December 31, 2010. Although the Plan remains frozen, the Agency has the ability to unfreeze the Plan in the future, subject to certain conditions.

The Agency is required to contribute approximately $1,250,000 to its defined benefit plan for the year ended June 30, 2017.

Under U.S. GAAP, a liability is disclosed at fiscal year-end. The pension liability is an aggregation of the excess of total benefit obligation over fair value of plan assets at the end of the year. There is a cumulative amount totaling $4,746,764 of pension liability as of June 30, 2017.

17. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The changes in the defined benefit pension obligations, plan assets and funded status for the year ended June 30, 2017 were as follows:

	Pension Benefits
Reconciliation of benefit obligation:	
Benefit obligation, beginning of year	$ 44,399,554
Service cost	-
Interest cost	1,577,936
Actuarial gain due to increase in discount rate	(2,032,895)
Benefits paid	(1,169,736)
Benefit obligation, end of year	$ 42,774,859
Reconciliation of fair value of plan assets:	
Fair value of plan assets, beginning of year	$ 32,877,782
Actual return on plan assets	4,229,809
Employer contributions	2,090,240
Benefits paid	(1,169,736)
Fair value of plan assets, end of year	$ 38,028,095
Funded status, end of year	$ (4,746,764)

Assumptions

The Agency's independent enrolled actuary certified the following significant weighted-average assumptions in order to determine benefit obligations net periodic pension cost as of June 30, 2017:

Discount rate	3.87%
Expected long-term rate of return on plan assets	6.75%
Rate of compensation increase	0.00%

Net periodic pension benefit and other amounts recognized in the statement of activities for the year ended June 30, 2017 included the following components:

Service cost	$ -
Interest cost	1,577,936
Expected return on plan assets	(2,215,386)
Amortization of net loss	1,259,257
Net periodic pension cost	$ 621,807

17. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Investment Strategies

With respect to the Plan assets, investments are to be made consistent with the safeguards and diversity to which a prudent investor would adhere to. Following is a description of the investment guidelines used for the Plan's investment funds:

Equities - General assurances by the Plan's Investment Advisor includes criteria that no more than 2% of the equity position of the entire Plan assets portfolio at cost, and 3% at market value, shall be invested in any one company, and no more than 50% of any individual Money Manager's portfolio at cost, and 60% at market value shall be invested in any one company. Investment possibilities includes 1) common stock listed on any U.S. exchange or the over-the-counter market with the requirement that such stock have, in the reasonable opinion of each of the Money Managers, adequate market liquidity relative to the size of the investment, 2) foreign ordinary securities, 3) international investments managed by an International/Global Money Manager which adhere to specific criteria, including a limitation that no more than 20% of the value of the managed international portfolio's total assets, measured at time of purchase may be invested in securities of companies in emerging securities markets throughout the world, and 4) exchange traded funds (not subject to the diversification guidelines above. Furthermore, there are several categories of securities and types of transactions that are not permissible for investments and should not be part of the portfolio, including short sales, put and call options, margin purchases, private placements, commodities, securities of the Investment Advisor or any of the Money Managers, their direct parent or their subsidiaries, penny stocks, and derivatives. In addition, the Agency may identify additional securities to be restricted.

Fixed Income - Diversification of the fund includes assurances that no more than 5% of the Plan's portfolio should be invested in bonds of any one issuer, and there shall be no limit on direct obligations of the U.S. government. The Plan should not invest in any fixed-income security carrying a rating less than BBB/Baa by either Standard & Poor or Moody's. If issues are downgraded so as to violate these guidelines, the Plan's Trustee should judiciously liquidate them. Issues within a quality high yield mutual fund are exempt from this provision. With regards to maturity, the market value weighted average maturity of the bond portfolio should not exceed 15 years, and no holding may have an absolute maturity of more than 30 years at the time of purchase. Generally, fixed income investments includes debt securities guaranteed by the U.S. government, corporate bonds, high quality and high yield mutual funds, international bond mutual funds, indexed notes, Yankee bonds, and preferred stock issues.

Corporate Bonds - Valued at the closing price reported in the active market in which the bond is traded.

Equities - Valued at the closing price reported on the major stock exchanges.

Government Securities - Valued at the closing price reported in active market in which the individual security is traded.

Mutual Funds - Valued using market value as listed in active exchange markets.

Municipal Bonds - Valued at the closing price reported in active market in which the individual security is traded.

International Bonds - Valued at the closing price reported in active market in which the individual security is traded.

17. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan 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.

The pension plan asset dollar values and fair value measurements at June 30, 2017 by asset category are as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money funds	$ 2,364,611	$ 2,364,611	$ -	$ -
Equities	7,947,568	7,947,568	-	-
Government securities	935,510	935,510	-	-
Municipal bonds	522,773	522,773	-	-
International bonds	1,248,556	1,248,556	-	-
Corporate bonds	9,415,442	9,415,442	-	-
Mutual funds	15,593,635	15,593,635	-	-
	$ 38,028,095	$ 38,028,095	$ -	$ -

Transfer Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Expected Future Benefit Payments

Benefit payments for defined benefit pension plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Pension benefits expected to be paid
2018	$ 1,362,484
2019	1,341,361
2020	1,466,245
2021	1,561,541
2022	1,642,921
2023 - 2027	9,896,134
	$ 17,270,686

18. POSTRETIREMENT HEALTH CARE BENEFIT PLAN

The Agency sponsors a defined benefit postretirement health care benefit plan.

Plan Provisions

Retired Prior to January 1, 2001

For certain long-service employees, the plan will pay the monthly premium for the participant (and eligible spouse) to continue coverage under the pre-2000 postretirement plan.

Retired January 1, 2001 and Later

For employees who retire on or after age 65 with at least 20 years of service, the Agency will enroll the retiree and eligible spouse in an AARP Medicare Supplement plan and contribute the following towards such coverage (for each retiree and eligible spouse):

-- 20 years of service	Plan E	--$130.25 per month
-- 25 years of service	Plan G	--$152.25 per month
-- 30 years of service	Plan I	--$259.00 per month

For employees who retire between ages 62 and 65, with the requisite years of service, the Agency will contribute, as per the above schedule, towards coverage under the current active employee's plan, until Medicare eligibility. At that time, the retiree will be treated in the same fashion as a post-65 retiree.

If an eligible spouse is not Medicare eligible, the Agency will contribute towards coverage under the current active employees' plan in an amount based on the retiree's service as described above.

Determination of the Net Periodic Benefit Cost for the Fiscal Year

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended June 30, 2017 included the following components:

Service cost		$ 244,282
Interest cost		192,170
Amortization:		
(a) Transition obligation	-	
(b) Prior service cost	-	
(c) (Gain) loss	(44,296)	
Net amortization		(44,296)
Net periodic benefit cost		$ 392,156

Reconciliation of Funded Status for the Fiscal Year Ended June 30, 2017

Accumulated postretirement benefit liability at June 30, 2017	$ 5,239,218
Net liability recognized at June 30, 2017	$ 5,239,218

18. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Net Amount Recognized in Consolidated Statement of Financial Position

Beginning of year	$ 5,312,099
Service cost	244,282
Interest cost	192,170
Expected return on plan assets	-
Employer contributions	(86,339)
Net gain	(422,994)
Prior service credit (cost)	-
End of year	$ 5,239,218

Assumptions

Mortality:	RP 2000 Separate Annuitants and Non-Annuitants Mortality Tables with generational projection scale AA, for males and females
Claim cost:	Monthly premium
Trend:	4.30% - 11.30% – based on the year of retirement
Funding method:	Projected Unit Credit Actuarial Cost Method

a) The discount rate was changed from 3.65% to 3.87%, which decreased the accumulated postretirement benefit liability by approximately $209,000.

b) Based upon the plan provisions, the Affordable Care Act will have an immaterial effect on the accumulated postretirement benefit obligation and the net periodic benefit cost of the Agency's postretirement health care benefit plan.

	Postretirement Benefits	
	Accumulated Postretirement Benefit Liability	Service Cost Plus Interest Cost
At trend	$ 5,239,218	$ 436,452
At trend + 1%	5,266,038	438,064
Dollar impact	26,820	1,612
Percentage impact	0.51%	0.37%
At trend – 1%	5,215,849	435,058
Dollar impact	(23,369)	(1,394)
Percentage impact	-0.45%	-0.32%

18. POSTRETIREMENT HEALTH CARE BENEFIT PLAN (CONTINUED)

Expected Future Benefit Payments

Benefit payments for postretirement health care benefit plans, which reflect expected future service, as appropriate, are expected to be paid as follows:

June 30,	Postretirement Benefits
2018	$ 99,471
2019	112,824
2020	126,984
2021	141,164
2022	158,723
2023 - 2027	1,078,656
	$ 1,717,822

19. TEMPORARILY RESTRICTED NET ASSETS

The changes in contributions, which comprise the Agency's temporarily restricted net assets for the year ended June 30, 2017, which are available for use in future years, were as follows:

	Balance at 6/30/16	Additions	Expenditures	Balance at 6/30/17
Program	$ 56,618	4,980	(2,757)	$ 58,841

The funds released from restrictions were used towards other expenses for some of the Agency's programs.

20. COMMITMENTS AND CONTINGENCIES

General

Pursuant to the Agency's contractual relationships with certain funding sources, outside agencies have the right to examine the Agency's books and records which pertain to transactions relating to these contracts. The accompanying consolidated financial statements do not include a provision for possible disallowances and reimbursements. Management believes that any actual disallowances, if any, would be immaterial. In addition, certain agreements provide that certain property and equipment owned by or on loan to the Agency (Note 9) be utilized by the Agency for its continued ownership, since the costs of such property and equipment were funded under these agreements ("Reversing Assets").

There are certain amounts of real and personal property used by the Agency in its program operations which is owned by New York State and/or other governmental sources. The Agency uses some of these real and personal properties at no cost. The value of the benefit received for use of these real and personal properties is not readily measurable, is not recorded in the accompanying consolidated financial statements, and is consistent with similar industry practices.

20. COMMITMENTS AND CONTINGENCIES (CONTINUED)

General (continued)

The Agency has a number of pending lawsuits and/or claims against them for a variety of reasons. The alleged claims are being handled by legal counsel and/or by its insurance providers. In the opinion of the Agency's legal counsel and management, there is no basis to establish a liability for any loss contingency due to lack of merit or insurance coverage exceeding expected settlement amounts.

On February 9, 2016, the Agency entered into a collective bargaining agreement with the Civil Service Employees Association, Inc. (“CSEA”). The collective bargaining agreement is set to expire on June 30, 2018. Approximately 73% of the Agency’s labor is represented by the CSEA.

Operating Leases

The Agency is obligated, pursuant to real property lease agreements, for minimum monthly rentals for its administrative and program operations as follows:

June 30,	
2018	$ 7,305,225
2019	5,797,276
2020	4,708,744
2021	4,303,385
2022	4,271,821
Thereafter	8,558,115
	$ 34,944,566

For the year ended June 30, 2017, rent expense was $7,033,929, which was generally recovered through fees for service from the funding sources.

A renewal option allows the Agency, at its sole option, the right to extend some of the leases for an additional five-year period with a predetermined rent base amount with annual rent percentage increases. Various leases have rent escalations in which various predetermined annual percentage increases exist throughout the lease periods. A clause exists whereby, in the event that real estate taxes increase during the term of some of the leases, the Agency shall pay any increases in real estate taxes over the base year.

Capital Commitments

The Agency entered into construction contracts with unrelated parties, in the amount of $1,106,077 (including change orders), for the construction or rehabilitation of various real properties. At June 30, 2017, $714,404 of such contract commitments had not yet been incurred.

21. 403(b) TAX – SHELTERED ANNUITY PLAN

The Agency offers a 403(b) tax-sheltered annuity plan for all employees who are eligible and elect to participate. The plan is governed by IRS regulations setting the limits on the amount that employees may contribute and the conditions to withdraw monies from it. The employees each own their individual annuity plan and are responsible for deciding the amount of contributions they wish to make each year (up to the maximum stipulated by the IRS) and how the funds may be invested. There are no employer contributions.

22. DEFINED CONTRIBUTION PROFIT SHARING PLAN

The Agency has established a defined contribution profit sharing plan ("401K Plan") for certain employees who satisfy age and service requirements. Participants are not allowed to contribute to the 401K Plan, and rollover contributions are not allowed in the 401K Plan. At the end of the 401K Plan year, the Agency, at the discretion of its board of directors, may make a profit sharing contribution, as defined in the 401K Plan document whereby the profit sharing contribution shall be allocated to the individual accounts of qualifying participants in the ratio that each qualifying participant's compensation for the 401K Plan year bears to the total compensation of all qualifying participants.

There were no employer contributions for the year ended June 30, 2017.

23. CONCENTRATION OF CREDIT RISK

The Agency has maintained bank balances that often exceed the limit of the Federal Depository Insurance Corporation insurance coverage. The Agency verifies, on a quarterly basis, the equity strength and profitability of the banks it uses in order to minimize the risk.

Approximately 14% of the Agency's accounts payable and accrued expenses as of June 30, 2017 were derived from one vendor.

The Agency earns its revenue and records related receivables primarily from service fees provided to individuals with developmental disabilities within the New York City area. A significant portion of all of the Agency's revenue and receivables are received from Medicaid.

24. RISKS AND UNCERTAINTIES

The Agency's pension plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated statement of financial position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the consolidated financial statements.

The Agency is subject to indemnification clauses should they cause any of the tax exempt bonds to lose their tax exempt status.

The Agency's self-funded insurance liability is based upon estimated claims at current year end. The actual claims may exceed the recorded amount.

25. SUBSEQUENT EVENTS

OPWDD has created a “Transformation Task Force,” seeking input from families and providers on the issues facing the developmental disabilities community such as, waiting list for residential opportunities, raising the minimum wage, transformation of employment, rate rationalization impact, self-directed services, housing, Developmental Disabilities Individual Support and Care Coordination Organization (“CCO”) implementation, Coordinated Assessment System (“CAS”), and value-based payment system for the preparation to transitioning to Managed Care. At this moment, Managed Care may not be implemented until later years.

On November 2, 2017, the board of directors of the Agency amended the terms of the two notes receivable from the Parent totaling $180,500. Per the resolution, effective June 30, 2017, these two notes with a total outstanding balance of $180,500 at June 30, 2017, were combined into one note totaling $296,537 (includes principal and interest at a rate of 4.25%), whereby the Parent is obligated to pay the outstanding indebtedness in twenty-five equal annual installments of $11,861 on or before July 1st of each year. Additionally, the board also resolved to forgive the $68,644 in accrued interest income receivable at June 30, 2017 relating to these two notes.

The Agency has evaluated events through November 20, 2017, which is the date the financial statements were available to be issued.