AABR FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

AABR FOUNDATION, INC. AND AFFILIATE

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Consolidated Statement of Financial Position

B - Consolidated Statement of Activities

C - Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

Schedule

1 - Consolidating Schedule of Functional Expenses

LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
AABR Foundation, Inc. and Affiliate

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AABR Foundation, Inc. and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016, and the related consolidated statement of activities and the consolidated statement of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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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 financial position of AABR Foundation, Inc. and Affiliate as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As described in Notes 2 and 9 to the financial statements, AABR Foundation, Inc. and Affiliate implemented Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The financial statements for 2016 have been reclassified for this change in accounting principle. Our opinion is not modified with regard to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in the consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Loeb & Troper LLP

November 29, 2017

AABR FOUNDATION, INC. AND AFFILIATE **EXHIBIT A**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	AABR Foundation, Inc.	AABR, Inc.	Eliminations	Total 2017	Total 2016
ASSETS					
Current assets					
Cash and cash equivalents	$ 1,395,593	$ 391,916		$ 1,787,509	$ 1,949,609
Investments at fair value (Note 3)	2,280,669			2,280,669	2,043,035
Accounts receivable from third-party payors		4,925,689		4,925,689	6,396,454
Prepaid expenses and other assets	862	579,426		580,288	210,774
Total current assets	3,677,124	5,897,031		9,574,155	10,599,872
Due from AABR Foundation, Inc. - net	4,634,203		$ (4,634,203)		
Consumer funds		131,582		131,582	233,888
Fixed assets - net (Note 5)		6,428,138		6,428,138	7,136,684
Debt service reserve fund (Note 4)		395,763		395,763	395,028
Total assets	$ 8,311,327	$ 12,852,514	$ (4,634,203)	$ 16,529,638	$ 18,365,472
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and accrued expenses	$ 13,866	$ 586,825		$ 600,691	$ 627,572
Accrued payroll and related liabilities		3,190,995		3,190,995	3,444,471
Due to governmental agencies (Note 6)		1,473,294		1,473,294	2,134,328
Current portion of accrued pension obligation (Note 10)		502,489		502,489	180,000
Current portion of mortgages payable (Note 7)		359,349		359,349	342,000
Current portion of capital lease obligation (Note 8)		2,790		2,790	11,514
Current portion of bonds payable - net (Note 9)		330,000		330,000	320,000
Total current liabilities	13,866	6,445,742		6,459,608	7,059,885

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AABR FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	AABR Foundation, Inc.	AABR, Inc.	Eliminations	Total 2017	Total 2016
LIABILITIES AND NET ASSETS (continued)					
Long-term liabilities					
Due to AABR Foundation, Inc. - net		$ 4,634,203	$ (4,634,203)		
Consumer funds		131,582		$ 131,582	$ 233,888
Accrued pension obligation (Note 10)		3,352,443		3,352,443	5,113,157
Mortgages payable (Note 7)		1,735,402		1,735,402	2,099,082
Capital lease obligation (Note 8)		3,270		3,270	6,234
Bonds payable - net (Note 9)		402,212		402,212	725,277
Total long-term liabilities		10,259,112	(4,634,203)	5,624,909	8,177,638
Total liabilities	$ 13,866	16,704,854	(4,634,203)	12,084,517	15,237,523
Net assets (deficit) (Exhibit B)					
Unrestricted	8,172,543	(3,852,340)		4,320,203	2,949,695
Temporarily restricted (Note 13)	69,102			69,102	122,438
Permanently restricted (Note 14)	55,816			55,816	55,816
Total net assets (deficit)	8,297,461	(3,852,340)		4,445,121	3,127,949
Total liabilities and net assets	$ 8,311,327	$ 12,852,514	$ (4,634,203)	$ 16,529,638	$ 18,365,472

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AABR FOUNDATION, INC. AND AFFILIATE

EXHIBIT B

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

		Unrestricted			AABR Foundation, Inc.	AABR Foundation, Inc.		Total	
		AABR Foundation, Inc.	AABR, Inc.	Total	Temporarily Restricted	Permanently Restricted	Eliminations	2017	2016
Revenues									
Third-party payors									
Medicaid			$ 30,856,951	$ 30,856,951				$ 30,856,951	$ 32,140,858
New York State Office for People With Developmental Disabilities			673,268	673,268				673,268	894,515
New York State Education Department			1,588,505	1,588,505				1,588,505	1,596,721
Food stamp revenue			185,043	185,043				185,043	76,980
Supplemental Security Income and Social Security Administration			966,427	966,427				966,427	968,354
Special events income	$ 344,338								
Direct cost to donors	(206,268)	$ 138,070		138,070				138,070	68,841
Contributions		309,267		309,267	$ 25,958			335,225	419,328
Dividend and interest income		108,309		108,309	2,076			110,385	169,288
Net realized and unrealized gains (losses) on investments		240,452		240,452	4,619			245,071	(644,209)
Management fee income from AABR Foundation, Inc.			185,788	185,788			$ (185,788)		
Other income			311,427	311,427			(88,318)	223,109	69,899
Write-off of liability									655,014
Net assets released from restrictions (Note 13)		85,989		85,989	(85,989)				
Total revenues		882,087	34,767,409	35,649,496	(53,336)		(274,106)	35,322,054	36,415,589
Expenses (Schedule 1) (includes interest expense of $171,985 and $210,603 in 2017 and 2016, respectively)									
Program services									
Day services			11,190,831	11,190,831				11,190,831	11,605,965
Intermediate care facilities			7,688,090	7,688,090				7,688,090	8,085,993
Individualized residential alternatives			10,145,542	10,145,542				10,145,542	9,785,516
Education			1,749,741	1,749,741				1,749,741	2,058,637
Medicaid service coordination			880,710	880,710				880,710	970,597
Community habilitation			380,729	380,729				380,729	378,571
Other programs			155,408	155,408				155,408	266,082
Educational support		119,001		119,001			(88,318)	30,683	23,450
Total program services		119,001	32,191,051	32,310,052			(88,318)	32,221,734	33,174,811

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AABR FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	Unrestricted			AABR Foundation, Inc.	AABR Foundation, Inc.		Total	
	AABR Foundation, Inc.	AABR, Inc.	Total	Temporarily Restricted	Permanently Restricted	Eliminations	2017	2016
Expenses (Schedule 1) (continued)								
Supporting services								
Management and general	$ 63,731	$ 3,415,388	$ 3,479,119			$ (30,813)	$ 3,448,306	$ 3,393,513
Fundraising	211,781		211,781			(154,975)	56,806	49,447
Total supporting services	275,512	3,415,388	3,690,900			(185,788)	3,505,112	3,442,960
Total expenses	394,513	35,606,439	36,000,952			(274,106)	35,726,846	36,617,771
Change in net assets from current-year operations before gain on fair value of interest rate swap and pension adjustments	487,574	(839,030)	(351,456)	$ (53,336)			(404,792)	(202,182)
Gain on fair value of interest rate swap (Note 12)								2,235
Pension adjustments (Note 10)		1,721,964	1,721,964				1,721,964	(3,302,591)
Change in net assets (Exhibit C)	487,574	882,934	1,370,508	(53,336)			1,317,172	(3,502,538)
Net assets (deficit) - beginning of year	7,684,969	(4,735,274)	2,949,695	122,438	$ 55,816		3,127,949	6,630,487
Net assets (deficit) - end of year (Exhibit A)	$ 8,172,543	$ (3,852,340)	$ 4,320,203	$ 69,102	$ 55,816	$ -	$ 4,445,121	$ 3,127,949

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

AABR FOUNDATION, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 1,317,172	$ (3,502,538)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	746,840	809,830
Amortization of debt issuance cost (included in interest expense)	27,008	27,010
Amortization of bond premium	(20,073)	(20,072)
Gain in fair value of interest rate swap		(2,235)
Realized and unrealized loss on investments	(245,071)	644,209
Decrease (increase) in assets		
Accounts receivable from third-party payors	1,470,765	804,872
Prepaid expenses and other assets	(369,514)	(11,977)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(26,881)	(170,690)
Accrued payroll and related liabilities	(253,476)	(714,223)
Accrued pension obligation	(1,438,225)	3,280,497
Due to governmental agencies	(661,034)	(4,327,493)
Net cash provided (used) by operating activities	547,511	(3,182,810)
Cash flows from investing activities		
Purchases of fixed assets	(38,294)	(288,951)
Purchases of investments	(221,657)	(780,975)
Proceeds from sale/redemption of investments	229,094	3,289,960
Increase in debt service reserve fund	(735)	(201)
Net cash provided (used) by investing activities	(31,592)	2,219,833
Cash flows from financing activities		
Principal payments on capital lease	(11,688)	(8,143)
Principal payments of long-term debt	(666,331)	(734,952)
Net cash used by financing activities	(678,019)	(743,095)
Net change in cash and cash equivalents	(162,100)	(1,706,072)
Cash and cash equivalents - beginning of year	1,949,609	3,655,681
Cash and cash equivalents - end of year	$ 1,787,509	$ 1,949,609
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 144,977	$ 183,593
Fixed asset acquisition through financing		$ 8,504

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF ORGANIZATIONS

(a) AABR Foundation, Inc. (the "Foundation") is a nonprofit corporation formed under the laws of the State of New York to provide support for specialized educational opportunities, community support and facilities for children who experience difficulties due to damage to or dysfunction or deficiency of the nervous or biochemical systems. Additionally, the Foundation solicits and raises funds to be used to support and achieve the foregoing goals and objectives. The Foundation is a not-for-profit organization exempt for federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation is supported primarily through revenues from special events, contributions and investment income.

(b) AABR, Inc. ("AABR") is a voluntary nonprofit corporation. AABR provides services for people with developmental disabilities including autism. AABR operates two five-day per week Day Habilitation Centers, eight Intermediate Care Facilities, and fourteen Individualized Residential Alternatives under contract with the New York State Office for People With Developmental Disabilities ("OPWDD"). In addition, AABR provides Medicaid service coordination, day and residential habilitation services, respite and individualized support services. AABR also operates a preschool and school-age program for children with autism. AABR is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. AABR is supported primarily through revenues from state and local government agencies.

AABR Foundation, Inc. is the parent of AABR, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements of the Foundation and its Affiliate have been prepared on the accrual basis of accounting.

Basis of consolidation - All material intercompany transactions and balances are eliminated in the consolidation.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include instruments with maturities of three months or less when acquired.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable and allowance for doubtful accounts - The Foundation and its Affiliate record receivables based on established rates or contracts for services provided. Bad debt expense is charged if the receivable is determined to be uncollectible based on periodic review 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. No interest is charged on outstanding receivables. As of June 30, 2017 and 2016, no allowance for doubtful accounts was deemed necessary.

Investments - Investments are stated at fair value. The Foundation 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 investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could affect the Foundation's financial statements.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation and its Affiliate have the ability to access. Level 2 inputs to the valuation methodology include:

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Common stock and exchange-traded funds - Valued at the closing price reported on the active market on which the individual securities are traded.

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

Consumer funds - Consumer funds consist of cash deposits held by AABR on behalf of its residents for the consumers' personal use.

Fixed assets - Fixed assets are stated at cost. Acquisitions with a cost of $5,000 or more and an estimated useful life of more than one year are capitalized. Depreciation and amortization are determined using the straight-line method over the estimated useful lives of the assets, 5 to 25 years for buildings and improvements and 3 to 10 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the estimated useful lives or the remaining term of the lease.

Debt issuance costs - Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized on the straight-line basis over the life of the associated debt. Amortization of debt issuance costs is included in interest expense.

Net assets - Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and its Affiliate are classified and reported as follows:

Unrestricted - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily restricted - Net assets that are subject to donor-imposed stipulations that will be met by either the actions of the Foundation and its Affiliate and/or the passage of time.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted - Net assets that have been restricted by donors to be maintained in perpetuity. Investment income earned in relation to permanently restricted endowments is initially classified as temporarily restricted net assets and is recorded as unrestricted upon expenditure for the program for which the endowment fund was established.

Government support and revenue - Government support and revenue are accounted for at established billing rates for service units rendered. Such reimbursement rates are subject to change and retroactive adjustment on the basis of review by the government agencies responsible for such funding. Provisions for settlements are accrued on an estimated basis in the period in which the related services are rendered. For the New York State Education Department programs, final determination of reimbursement rates is subject to audit and review. Any differences between estimated reimbursement and any subsequent revisions thereto are included in operations in the year of such review or settlement. As of June 30, 2017 and 2016, the Foundation and its Affiliate have recorded a liability to government agencies for amounts due back to funding sources as part of the program's reimbursement methodologies.

The current third-party-payor programs, including Medicaid, are based upon extremely complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Foundation and its Affiliate are not aware of any allegations of noncompliance that could have a material adverse effect on the Foundation and its Affiliate's change in net assets or financial position and believe that they are substantially in compliance with all applicable laws and regulations.

Contributions - Unconditional contributions, including promises to give cash and other assets, are recorded at fair value at the date the contribution is received. The Foundation and its Affiliate report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Operating leases - Operating leases are recorded on the straight-line method over the term of the lease. Deferred assets and liabilities are recorded where material differences exist.

Measure of operations -The measure of operations includes all revenues and expenses directly related to consumer care.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising - Advertising costs are expensed as incurred. The expense for the year ended June 30, 2017 and 2016 was $640 and $3,237, respectively.

Grant expenses - Grant expenses are recorded in the period that they are awarded.

Functional allocation of expenses - The costs of providing the Foundation and its Affiliate's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Uncertainty in income taxes - The Foundation and its Affiliate have determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending June 30, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 29, 2017, which is the date the consolidated financial statements were available to be issued.

New accounting pronouncement - In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03 - *Simplifying the Presentation of Debt Issuance Costs*. This update was issued as part of an initiative to reduce complexity in accounting standards. This amendment updates Subtopic 835-30 - *Interest - Imputation of Interest* and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments to this update are effective for financial statements issued for fiscal years beginning after December 15, 2015 and applied retrospectively.

NOTE 3 - INVESTMENTS

The following table shows the Foundation and its Affiliate's investments as of June 30, 2017 and 2016:

	2017	2016
	Level 1	**Level 1**
Common stock - domestic	$ 2,280,669	$ 2,043,035

NOTE 4 - DEBT SERVICE RESERVE FUND

The debt service reserve fund represented funds held by OPWDD to be applied to the last payment required on the mortgage with the Facilities Development Corporation. In 2004, the cash used to fund the Debt Service Reserve Fund was replaced by a surety bond. As such, the restricted cash was converted to a receivable from New York State. The balance as of June 30, 2017 and 2016 are both $210,024.

AABR also maintains a debt service reserve fund for the Dormitory Authority of the State of New York (DASNY) bonds, one-twelfth of the annual principal payment and one-sixth of the semiannual interest payment are paid monthly into a repayment fund. The debt service schedule (term of loan) for each facility coincides with its reimbursement commitment from OPWDD. See Note 9, Bonds Payable, for more information regarding the bonds.

NOTE 5 - FIXED ASSETS

Fixed assets, stated at cost, net of accumulated depreciation and amortization, consists of the following:

	2017	2016
Land	$ 2,680,004	$ 2,680,004
Leasehold improvements	1,873,651	1,873,651
Buildings	10,310,969	10,310,969
Building improvements	7,913,070	7,831,670
Equipment	1,067,027	1,067,027
Furniture and fixtures	315,759	309,765
Construction in progress		49,100
Total fixed assets	24,160,480	24,122,186
Less: Accumulated depreciation and amortization	(17,732,342)	(16,985,502)
Fixed assets, net	$ 6,428,138	$ 7,136,684

Depreciation and amortization expense on fixed assets for the years ended June 30, 2017 and 2016 was $746,840 and $809,830, respectively.

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NOTE 6 - DUE TO GOVERNMENTAL AGENCIES

Laws and regulations governing governmental programs are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the government programs. Governmental and third-party funders will make adjustments to amounts billed and amounts paid based on the application of regulations by these entities. The Foundation and its Affiliate have made estimates and adjusted revenue based on historical estimates that may be adjusted in both the short and long term, given the actions of the governmental and third-party funders.

The Foundation and its Affiliate are responsible to register, report and be licensed by various third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of Attorney General (AG), the Internal Revenue Service, the New York State Department of Charities Registration, the Office of Inspector General and the Office of Medicaid Inspector General (OMIG) have the right to audit the Foundation and its Affiliate. These agencies have the right to audit fiscal as well as programmatic compliance and clinical documentation and physical certifications, among other compliance requirements. The audits may result in disallowances of previously recorded revenues. Currently, there are no unresolved audits.

In 2016, OPWDD conducted an audit of AABR's Home and Community Based Services (HCBS) waiver services, provided via an Option for People Through Services (OPTS) contract for their services provided from January 1, 2013 through December 31, 2014. As a result of the audit, AABR may be subject to disallowances. The amount of the final disallowance, if any, has not been determined; therefore, no provision is made for these potential liabilities. Management is in continued discussion with OPWDD in regard to these potential disallowances.

AABR have entered into contracts with OPWDD for the operation of their facilities. As part of the agreement, OPWDD advances funds to the AABR for pre-operational start-up costs, facility acquisitions and facility improvements. The Foundation has recorded a liability for any overpayments and rate change adjustments that have not yet been recouped by the above agencies.

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AABR FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 7 - MORTGAGES PAYABLE

	2017	2016
1. Mortgage due DASNY payable in semi-annual principal and administrative fee payments ranging from \$5,714 to \$155,456, plus interest at an average annual coupon rate of 5.9801%. The mortgage matures August 15, 2021 and is secured by all real and personal property and pledged revenues for the St. Albans facility.	\$ 933,975	\$ 1,164,025
2. Mortgage originally due in May 2016 with an interest rate of 7.09% per annum. The balance due was refinanced in 2017 and is due in monthly installments of \$1,504 through May 2026, including interest at 4.02% per annum. The mortgage is secured by related property located in Queens, New York.	191,538	201,560
3. Mortgage due to a bank due April 2024 payable in monthly installments of \$7,635, including interest at 4.92% per annum. The loan is secured by related property located in the Bronx, New York.	529,392	592,861
4. Mortgage due to a bank, in monthly installments of \$5,453 through August 2025, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.	439,846	482,636
	\$ 2,094,751	\$ 2,441,082

Principal payments over the next five years and thereafter are as follows:

2018	\$ 359,349
2019	382,985
2020	403,957
2021	313,238
2022	148,040
Thereafter	487,182
	\$ 2,094,751

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NOTE 8 - CAPITAL LEASE OBLIGATION

AABR, Inc. obtained financing pursuant to capital leases to finance a new phone system and equipment. Principal and interest are paid monthly. The total assets acquired through capital leases was \$55,359. The accumulated amortization as of June 30, 2017 and 2016 is \$49,299 and \$37,611, respectively. The outstanding principal balance on the lease as of June 30, 2017 and 2016 was \$6,060 and \$17,748, respectively. The maturity dates are between December 31, 2016 and June 1, 2019. The interest rates are between 1.04% to 1.18%. Interest expense for 2017 and 2016 was \$1,252 and \$2,562, respectively.

Future minimum obligations under the new terms are as follows:

	Principal	Interest	Total
2018	\$ 2,790	\$ 587	\$ 3,377
2019	3,270	218	3,488
	\$ 6,060	\$ 805	\$ 6,865

NOTE 9 - BONDS PAYABLE

Series 2013A-1 and Series 2013A-2

On May 9, 2013, DASNY issued Series 2013 A-1 and Series 2013 A-2 Bonds aggregating \$2,020,000 for the purpose of the financing and refinancing of costs incurred in connection with (a) 158 Cromwell Ave., Staten Island for \$165,000; (b) 67-60 Sound Ave., Mattituck for \$210,000; (c) 172-54 Highland Ave. Jamaica Estates for \$300,000; (d) 33-15 153rd St. Flushing for \$440,000; (e) 9-06 119th St. College Point for \$280,000; (f) 119-64 Sixth Ave. College Point for \$425,000; and (g) 130 Water St. 1st Fl/164 Pearl St. Apt MB for \$200,000. The bonds were issued at a premium of \$118,750 which is being amortized on the straight-line basis over the term of the bonds.

One-twelfth of the annual principal payment and one sixth of the semiannual interest payment are paid monthly into a repayment fund. The debt service schedule (term of loan) for each facility coincides with its reimbursement commitment from OPWDD.

The DASNY bonds are secured by a second mortgage lien on each Facility and a subordinate lien on the Public Funds attributable to the Facilities secured by a Stand-by Intercept Agreement with OPWDD. At June 30, 2017 and 2016, the amount held in the debt service reserve fund was \$185,739 and \$185,004, respectively. These amounts are reflected as assets limited as to use on the accompanying statement of financial position. The rate of interest on the bonds ranges from 1.43% to 3.25%.

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NOTE 9 - BONDS PAYABLE (continued)

Series 2013A-1 and Series 2013A-2 (continued)

At June 30, 2017 and 2016, the unamortized bond premium was $36,783 and $56,856, respectively. The principal balance outstanding on the Series 2013 A-1 at June 30, 2017 and 2016 was $755,000 and $1,075,000, respectively, and principal balance on the Series 2013 A-2 was paid off in 2015.

Change in Accounting Principle

In 2017, AABR adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The effect of the change for 2017 was to decrease deferred charges by $59,571, net them against bonds payable and to record interest expense of $27,008, instead of amortization expense. The effect of the change for 2016 was to decrease deferred charges by $86,579, net them against bonds payable and to record interest expense of $27,010, instead of amortization expense. The change does not impact net assets.

Interest expense on long-term debt, including amortization of debt issuance cost, for the years ended June 30, 2017 and 2016 was $171,978 and $210,555, respectively.

Annual debt service amounts payable during the next five years and thereafter are as follows:

2018	$ 330,000
2019	225,000
2020	30,000
2021	35,000
2022	35,000
Thereafter	100,000
	755,000
Unamortized debt issuance cost	(59,571)
Unamortized premium	36,783
Total	$ 732,212

NOTE 10 - RETIREMENT PLANS

A. Union

AABR, Inc.'s union employees are covered by a union-managed pension plan. AABR, Inc.'s union pension expense for 2017 and 2016 was 108,158 and $106,774, respectively.

The following information applies to the Foundation and its Affiliate's union-managed pension plan:

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement*
		2017	2016	Pending/ Implemented	2017	2016		
Local 840 Pension Fund	EIN 13-6304568 Plan No. 001	Red	Red	Implemented	$108,158	$106,774	Yes	June 2016

* AABR, Inc. is in negotiations with the union for the collective bargaining agreement and no agreement was signed as of the date of this report.

The plan was certified by its actuary to be in "red zone" status - critical or endangered status for the years beginning January 1, 2016 and January 1, 2017.

The plan was certified by its actuary to be in "critical" status in 2008. The plan continued to be in "critical" status in subsequent years because the plan had accumulated funding deficiencies in each subsequent year. In an effort to improve the plan's funding situation, the Trustees adopted a rehabilitation plan on November 25, 2008, and updated it in 2010. The rehabilitation period began on April 1, 2009.

The law requires that all contributing employers pay to the Fund a surcharge to help correct the Fund's financial situation. The amount of the surcharge is equal to a percentage of the amount an employer is otherwise required to contribute to the Fund under the applicable collective bargaining agreement. A 5% surcharge was applicable in the initial critical year (2008), starting with contributions due for May 2008. Based on an update to the Rehabilitation Plan in 2010, the required increase is an eighth of a percent per year over the previous year's contributions.

As of the date the financial statements were issued, the latest Form 5500 available was for the plan year ending December 31, 2016.

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NOTE 10 - RETIREMENT PLANS (continued)

B. Nonunion

Tax-Deferred Annuity Plans

AABR, Inc. has a defined contribution 403(b) plan for all employees. AABR, Inc. makes monthly contributions, which varied from .5% to 6.5% of employees' salaries in 2017 and 2016. Pension expense for 2017 and 2016 was $307,731 and $404,767, respectively. AABR, Inc. has a second 403(b) plan for voluntary employee contributions. There are no eligibility requirements for the purpose of making salary deferrals to the Plan. Employees are eligible to enter immediately and their salary deferral election will be effective on the first of the month.

To be eligible to participate in the Employer's Non-Elective contribution portion of the Plan, employees must have attained age 21 and have completed one year of service. Once an employee has met these requirements, an employee can enter the Plan on the first day of each calendar month of the Plan year, coincident with or following the effective date of his or her salary deferral agreement.

Defined Benefit Pension Plan

AABR had a Defined Benefit Pension Plan (the "Plan") for all non-union employees who had attained the age of twenty-one by the end of the initial plan year and had completed one year of service. For years after the initial plan year, non-union employees must have worked and been paid a minimum of 1,000 hours during the plan year to be eligible. Effective June 30, 2007 the Plan was frozen for remaining eligible employees.

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NOTE 10 - RETIREMENT PLANS (continued)

B. Nonunion (continued)

The following sets forth the plan's funded status and amounts recognized in the balance sheet:

	2017	2016
Projected benefit obligation	$ (10,991,989)	$ (11,890,491)
Fair value of plan assets	7,137,057	6,597,334
Funded status	$ (3,854,932)	$ (5,293,157)
Weighted average assumptions		
Discount rate	3.90%	3.75%
Expected return on plan assets	7.5%	7.5%
Rate of compensation increase	0.00%	0.00%
Mortality	RP 2014 at 2006/MP 2016	RP 2014 at 2006/MP 2015
Benefit cost	$ 518,055	$ 157,906
Actual return on plan assets	769,018	324,173
Contributions	234,316	180,000

Plan Assets

The Plan assets shall be managed with a long-term asset mix guideline of 50% equity alternatives and 50% fixed-income alternatives. The investment objective for Plan assets shall be to achieve an average annual rate of return over a three-year to five-year period which exceeds the average annual rate of return that would have been achieved in the same period by a composite market index comprised of the S&P 500 Composite Stock Price Index, the Lehman Aggregate Bond Index and 90-day U.S. Treasury Bills.

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NOTE 10 - RETIREMENT PLANS (continued)

B. Nonunion (continued)

Defined Benefit Pension Plan (continued)

Plan assets as of June 30, 2017 and 2016 broken out by fair value hierarchy described in Note 2:

Asset Category	2017 Level 1		2016 Level 1	
Common stock				
Technology	$ 818,936		$ 519,090	
Consumer goods	473,718		446,204	
Entertainment services	318,149		286,369	
Basic materials	159,100		164,159	
Utilities	140,058		79,818	
Industrial goods	187,007		195,700	
Services	755,311		634,680	
Real estate	144,126		118,582	
Healthcare	329,931		118,707	
Financial services	2,766,901		2,791,233	
Total common stock	6,093,237	85%	5,354,542	81%
Exchange-traded funds				
Large value	69,281		62,668	
Real estate	44,525		39,419	
Total exchange-traded funds	113,806	2%	102,087	2%
Total investments at fair value	6,207,043		5,456,629	
Cash and equivalents	930,014	13%	1,140,705	17%
Total plan assets	$ 7,137,057	100%	$ 6,597,334	100%

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NOTE 10 - RETIREMENT PLANS (continued)

B. Nonunion (continued)

Defined Benefit Pension Plan (continued)

Contributions

Employer contributions expected to be paid in fiscal year ending June 30, 2017 are $502,489.

Estimated Future Benefits

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30	
2018	$ 398,324
2019	412,744
2020	1,092,372
2021	474,484
2022	642,226
2023-2027	3,082,552
Total	$ 6,102,702

NOTE 11 - RENTALS UNDER OPERATING LEASES

AABR leases various facilities from unrelated parties under leases classified as operating leases. AABR is obligated for certain other operating costs at these sites. Lease agreements for these facilities extend through June 2020. The future minimum commitments to all nonrelated parties are as follows:

2018	$ 381,370
2019	374,988
2020	386,232
	$ 1,142,590

Rent expense for the years ended June 30, 2017 and 2016 was $567,909 and $652,953, respectively.

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NOTE 12 - DERIVATIVE FINANCIAL INSTRUMENTS

AABR, Inc. entered into an interest rate swap agreement with Bank of America to limit the effects of increases in interest rates on a variable rate mortgage owed by the Holding Corporation. The differential is accrued as interest rates change and is recorded in interest expense. The mortgage and the swap agreement matured on April 2016.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose at June 30, 2017 and 2016:

	2017	2016
Education Program	$ 50,351	$ 100,385
Recreational Program	18,747	12,053
Residential Program	4	10,000
	$ 69,102	$ 122,438

Net assets were released from restriction as follows:

	2017	2016
Education Program	$ 75,992	$ 96,522
Residential Program	9,997	
	$ 85,989	$ 96,522

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

General

The Foundation has an endowment fund which consists of two individual donor-restricted funds restricted in perpetuity, with income available for recreational services. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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AABR FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Interpretation of Relevant Law

The Board of Directors of the Foundation adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Foundation is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Foundation is to generate revenues to support programs, as defined above, while maintaining the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. Restricted interest earned and expended in the same fiscal year is reflected as unrestricted revenue.

Funds with Deficiencies

The Foundation does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund as of June 30, 2017 and 2016

The endowment net asset composition of $55,816 consists of permanently donor-restricted funds as of June 30, 2017 and 2016.

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AABR FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS (continued)

Changes in Endowment Net Assets for the Years Ended June 30, 2017 and 2016

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,053	$ 55,816	$ 67,869
Dividends and interest	2,076		2,076
Unrealized and realized gains on investments	4,619		4,619
Appropriation of endowment assets for expenditure			
Endowment net assets, end of year	$ 18,748	$ 55,816	$ 74,564

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 15,424	$ 55,816	$ 71,240
Dividends and interest	1,202		1,202
Unrealized and realized losses on investments	(4,573)		(4,573)
Appropriation of endowment assets for expenditure			
Endowment net assets, end of year	$ 12,053	$ 55,816	$ 67,869

Permanently restricted net assets are available to support the following at June 30, 2017 and 2016:

Recreational services	$ 55,816

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AABR FOUNDATION, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 15 - CONTINGENCIES

(a) Litigation

AABR is involved in various lawsuits which it is defending vigorously. The ultimate outcomes of the matters cannot be determined at this time. Management and legal counsel have estimated that the outcomes would have an immaterial effect on the financial statements at June 30, 2017. Accordingly, no provision for any liability that may result has been made in these financial statements.

(b) Concentrations

As of June 30, 2017, the Foundation and Affiliate have cash deposits which exceeded the FDIC insurance limit in place at various financial institutions.

Substantially all of AABR's accounts receivable are from OPWDD, Medicaid and the New York State Education Department.

NOTE 16 - FUNCTIONAL EXPENSES

The Foundation and Affiliate provides program services along with support services to its clients. Expenses related to providing these services are as follows:

Program services	$ 32,221,734
Management and general	3,448,306
Fundraising	56,806
Direct cost of special events	206,268
	$ 35,933,114

CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 AND 2016

	2017															2016
	Program Services									Supporting Services						
	Day Services	Intermediate Care Facilities	Individualized Residential Alternatives	Education	Medicaid Service Coordination	Community Habilitation	Other Programs	Educational Support	Total	Management and General	Fund-raising	Direct Cost to Donors	Total	Eliminations	Total	Total
Salaries and wages	$ 5,380,421	$ 4,453,035	$ 5,881,287	$ 1,123,250	$ 604,120	$ 286,530	$ 88,103		$ 17,826,746	$ 1,668,704			$ 1,668,704		$ 19,495,450	$ 20,267,257
Payroll taxes and employment benefits	2,323,942	1,442,978	2,011,510	334,940	216,582	86,017	17,779		6,433,748	702,156			702,156		7,135,904	7,020,941
Total salaries and related expenses	7,704,363	5,936,013	7,892,797	1,458,190	820,702	372,547	105,882		24,260,494	2,370,860			2,370,860		26,631,354	27,288,198
Professional fees		1,925							1,925	225,125	$ 36,076		261,201		263,126	298,737
Contracted services	18,414	170,818	424,816	8,458					622,506	165,243			165,243		787,749	369,401
Insurance	95,160	53,117	83,018	11,075	8,981	1,227	1,104		253,682	209,571			209,571		463,253	388,302
Utilities	194,888	132,942	190,654	16,015	1		9,453		543,953	65,700			65,700		609,653	617,471
Telephone	71,190	22,454	38,954	2,737	17,182	808	1,905		155,230	19,314			19,314		174,544	179,632
Transportation	1,914,899	35,583	51,204	4,511	13,629	4,181			2,024,007	7,668			7,668		2,031,675	2,056,825
Supplies	109,024	39,870	65,557	15,097	1		173		229,722	895	3,334		4,229		233,951	294,038
Office expense	27,301	105,443	135,237	41,156	2,503	140	582		312,362	127,079			127,079		439,441	694,906
Data processing										86,150			86,150		86,150	80,814
Clothing and incidentals	8,654	20,180	30,072	29		505	1,205		60,645						60,645	58,635
Food	17,839	284,748	310,743	4,089		82	3,527		621,028	379			379		621,407	636,620
Staff recruitment	4,196	10,413	10,422	2,212	815	626	49		28,733	875			875		29,608	31,635
Advertising	59	146	141		11	2	1		360	280			280		640	3,237
Repairs and maintenance	291,295	105,308	177,779	46,809	1,246	75	5,111		627,623	24,759			24,759		652,382	844,287
Vehicle and equipment rentals	97,253	80,961	123,401	13,321	13,706	341	383		329,346	29,584			29,584		358,930	330,727
Facility rental	353,460	164,045	72,791	103,472				$ 3,600	697,368			$ 9,323	9,323		706,691	742,384
Interest expense	66,950	5,222	91,647	24	34	7	8,031		171,915	70			70		171,985	210,603
Facility tax expense		483,729							483,729						483,729	495,854
Investment fees										8,539			8,539		8,539	25,103
Management fee expense										30,813	154,975		185,788	$ (185,788)		
Bad debt expense										41,449			41,449		41,449	122,095
Grant expense								107,501	107,501					(88,318)	19,183	10,824
Consumer recreation								7,900	7,900						7,900	12,626
Catering and entertainment												196,945	196,945		196,945	113,938
Printing											17,396		17,396		17,396	14,870
Miscellaneous	28,954	17,896	4,910	1,583	1,013	69	8,943		63,368	24,581			24,581		87,949	68,057
Total expenses before depreciation and amortization	11,003,899	7,640,813	9,704,143	1,728,778	879,824	380,610	146,329	119,001	31,603,397	3,438,934	211,781	206,268	3,856,983	(274,106)	35,186,274	35,989,959
Depreciation and amortization	186,932	47,277	441,399	20,963	886	119	9,079		706,655	40,185			40,185		746,840	809,830
Total expenses	11,190,831	7,688,090	10,145,542	1,749,741	880,710	380,729	155,408	119,001	32,310,052	3,479,119	211,781	206,268	3,897,168	(274,106)	35,933,114	36,799,789
Less direct costs to donors												(206,268)	(206,268)		(206,268)	(182,018)
Total expenses by function	$ 11,190,831	$ 7,688,090	$ 10,145,542	$ 1,749,741	$ 880,710	$ 380,729	$ 155,408	$ 119,001	$ 32,310,052	$ 3,479,119	$ 211,781	$ -	$ 3,690,900	$ (274,106)	$ 35,726,846	$ 36,617,771