LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Lutheran Social Services of New York, Inc. and Related Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Social Services of New York, Inc. and Related Entities (the "Consolidated Group"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net (deficit), functional expenses and cash flows for the year 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.

Auditors' 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 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 auditors' 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.

MARCUMGROUP
MEMBER

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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 Lutheran Social Services of New York, Inc. and Related Entities at June 30, 2016 and the changes in its net (deficit) and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Consolidated Financial Statements

The consolidated financial statements of Lutheran Social Services of New York, Inc. and Related Entities as of June 30, 2015, were audited by other auditors whose report dated February 29, 2016, expressed an unmodified opinion on those statements.

Marcum LLP

Hartford, CT
January 23, 2017

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Assets		
Current Assets		
Cash	$ 1,900,071	$ 3,130,153
Investments	--	103,887
Restricted cash-tenant security deposits	75,028	79,813
Accounts receivable, net	6,348,374	5,176,692
Prepaid expenses and other current assets	319,119	407,456
Due from affiliates	315,066	25,604
Total Current Assets	8,957,658	8,923,605
Cash surrender value of life insurance contract	1,307,028	1,278,243
Restricted funds-operating reserve	600,488	600,488
Restricted funds-replacement reserve	112,921	112,921
Due from affiliates	--	64,154
Property and equipment, net	29,801,511	30,625,844
Deferred financing cost, net	628,293	655,185
Total Assets	$ 41,407,899	$ 42,260,440

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
Liabilities and Net (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,702,618	$ 2,639,868
Accrued compensation	1,725,546	1,875,382
Advances from government agencies	209,707	230,485
Tenant security deposits	75,028	79,813
Deferred revenue	3,796	--
Due to government agencies, current portion	5,433,706	1,049,084
Loans and notes payable, current portion	346,104	330,408
Total Current Liabilities	10,496,505	6,205,040
Accrued interest payable	682,514	577,338
Loans and notes payable, net of current portion	29,569,840	29,921,494
Construction loan payable	240,300	141,928
Due to government agencies, net of current portion	3,971,813	9,709,382
Total Liabilities	44,960,972	46,555,182
Net Assets (Deficit)		
Unrestricted	(3,591,573)	(4,333,242)
Temporarily restricted	38,500	38,500
Total Net (Deficit)	(3,553,073)	(4,294,742)
Total Liabilities and Net (Deficit)	$ 41,407,899	$ 42,260,440

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET (DEFICIT)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Activities						
Support and revenue						
Government grants and contracts	$ 33,964,074	$ --	$ 33,964,074	$ 32,863,830	$ --	$ 32,863,830
Medical assurance and life care clinic fees	1,958,968	--	1,958,968	2,000,303	--	2,000,303
Tuition fees	6,148,039	--	6,148,039	5,817,650	--	5,817,650
Management fees	--	--	--	14,847	--	14,847
Parent fees	1,064,431	--	1,064,431	952,273	--	952,273
Contributions	625,029	--	625,029	1,113,029	--	1,113,029
Special events income	--	--	--	74,806	--	74,806
Rental income	2,928,585	--	2,928,585	2,300,474	--	2,300,474
Other income	1,898,139	--	1,898,139	231,324	--	231,324
Net assets released from restrictions	--	--	--	195,169	(195,169)	--
Total Support and Revenue	48,587,265	--	48,587,265	45,563,705	(195,169)	45,368,536
Expenses						
Program services						
Early childhood services	17,449,093	--	17,449,093	16,656,532	--	16,656,532
Foster care and children's services	6,192,185	--	6,192,185	5,818,693	--	5,818,693
Clinical services	1,540,799	--	1,540,799	1,447,863	--	1,447,863
Residential services	6,030,430	--	6,030,430	6,182,154	--	6,182,154
Educational services	6,046,838	--	6,046,838	5,323,734	--	5,323,734
Community services and other programs	4,702,340	--	4,702,340	4,534,197	--	4,534,197
Total Program Services	41,961,685	--	41,961,685	39,963,173	--	39,963,173
Management and general	5,912,696	--	5,912,696	5,157,795	--	5,157,795
Fundraising-direct costs of special events	--	--	--	48,275	--	48,275
Total Expenses	47,874,381	--	47,874,381	45,169,243	--	45,169,243
Change in Net Assets (Deficit) From Operations	$ 712,884	$ --	$ 712,884	$ 394,462	$ (195,169)	$ 199,293

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET (DEFICIT) (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Nonoperating Activities						
Unrealized gain on investments and cash surrender value of life insurance contract	$ 28,785	$ --	$ 28,785	$ 35,072	$ --	$ 35,072
Interest income-operating and capital reserve	--	--	--	2,200	--	2,200
Total Nonoperating Activities	28,785	--	28,785	37,272	--	37,272
Change in Net Assets (Deficit)	741,669	--	741,669	431,734	(195,169)	236,565
Net Assets (Deficit) - Beginning	(4,333,242)	38,500	(4,294,742)	(4,764,976)	233,669	(4,531,307)
Net Assets (Deficit) - Ending	$ (3,591,573)	$ 38,500	$ (3,553,073)	$ (4,333,242)	$ 38,500	$ (4,294,742)

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising- Direct Costs of Special Events	Total
Salaries and wages	$ 20,773,824	$ 2,730,933	$ --	$ 23,504,757
Fringe benefits	4,841,205	604,728	--	5,445,933
Consultants and contractual services	926,223	201,947	--	1,128,170
Professional fees	313,140	324,697	--	637,837
Consumable supplies	1,800,714	31,113	--	1,831,827
Occupancy costs	2,009,139	298,652	--	2,307,791
Insurance	762,365	19,420	--	781,785
Equipment, leases and rental	312,065	100,024	--	412,089
Repairs and maintenance	577,277	12,228	--	589,505
Telephone	262,614	55,905	--	318,519
Travel, conferences and meetings	194,775	86,501	--	281,276
Interest and bank charges	105,176	496,408	--	601,584
Bad debt expense	48,107	--	--	48,107
Client expenses	7,596,119	29,628	--	7,625,747
Depreciation and amortization	422,073	469,472	--	891,545
Other expenses	1,016,869	451,040	--	1,467,909
Total Expenses	$ 41,961,685	$ 5,912,696	$ --	$ 47,874,381

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising-Direct Costs of Special Events	Total
Salaries and wages	$ 20,758,079	$ 2,178,577	$ --	$ 22,936,656
Fringe benefits	4,572,484	447,913	--	5,020,397
Consultants and contractual services	453,416	307,386	--	760,802
Professional fees	464,956	496,110	--	961,066
Consumable supplies	1,085,828	91,880	--	1,177,708
Occupancy costs	1,459,837	264,966	--	1,724,803
Insurance	563,039	59,313	--	622,352
Equipment, leases and rental	641,051	41,456	--	682,507
Repairs and maintenance	438,857	16,105	--	454,962
Telephone	338,800	77,489	--	416,289
Travel, conferences and meetings	276,250	36,205	--	312,455
Interest and bank charges	19,550	572,298	--	591,848
Bad debt expense	164,413	--	--	164,413
Client expenses	8,063,378	16,107	--	8,079,485
Catering and rental	--	--	48,275	48,275
Depreciation and amortization	420,950	469,666	--	890,616
Other expenses	242,285	82,324	--	324,609
Total Expenses	$ 39,963,173	$ 5,157,795	$ 48,275	$ 45,169,243

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net (deficit) assets	$ 741,669	$ 236,565
Adjustments to reconcile change in net (deficit) assets to net cash (used in) provided by operating activities:		
Unrealized gain on investments and cash surrender value of life insurance contract	(28,785)	(35,072)
Depreciation and amortization	891,545	890,616
Bad debt expense	48,107	164,413
Changes in assets (increase) decrease:		
Accounts receivable	(1,219,789)	(179,600)
Prepaid expenses and other current assets	88,337	(35,832)
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	62,750	717,429
Accrued compensation	(149,836)	650,030
Advances from government agencies	(20,778)	(449,345)
Deferred revenue	3,796	--
Accrued interest payable	105,176	112,760
Due to government agencies	(1,352,947)	(52,128)
Net Cash (Used in) Provided by Operating Activities	(830,755)	2,019,836
Cash Flows From Investing Activities		
Purchase of property and equipment	(40,320)	(598,474)
Purchase of investments	--	(97,332)
Sale of investments	103,887	--
Loans to affiliates	(225,308)	(14,779)
Deposits to operating and capital reserve	--	(1,183)
Net Cash Used in Investing Activities	$ (161,741)	$ (711,768)

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Financing Activities		
Proceeds from construction loan payable	$ 110,223	$ 141,928
Principal payments on construction loan payable	(11,851)	--
Principal payments on loan payable	(335,958)	(309,853)
Net Cash Used in Financing Activities	(237,586)	(167,925)
Net (Decrease) Increase in Cash	(1,230,082)	1,140,143
Cash - Beginning	3,130,153	1,990,010
Cash - Ending	$ 1,900,071	$ 3,130,153

Supplemental Cash Flow Information

	2016	2015
Cash paid for interest	$ 601,584	$ 572,225

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

NOTE 1 - NATURE OF ORGANIZATION

Lutheran Social Services of New York, Inc. ("LSSNY") was formed to bring the gospel and the ministrations of Christian love and charity to those who come within or in contact with its sphere of service; to establish and operate social services and to provide assistance in identifying needs and resources, and setting of goals and sorting out priorities, for indigent individuals and persons in need of humanitarian assistance, including children, young people, families, the elderly, persons with special needs, immigrants and refugees, all of a charitable nature; and to afford services, in particular, administrative services, and to provide assistance, including the solicitation of funds for, and the making of gifts, grants, contributions or otherwise to other domestic and foreign corporations, funds and foundations that are organized and operated exclusively for charitable purposes. LSSNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is exempt from federal income taxes.

Lutheran Social Services of Metropolitan New York, Inc. ("LSSMNY") is a social services agency that, among other things, provides homes and case management services for children and families with intensive needs through kinship and family foster care, supportive maternity/infant foster care, preventive family services, and group care programs, provides immigration legal services; case management, shelter and foster boarding homes to immigrant minors; disaster relief case management; and a hunger prevention program, and provides early childhood education through ten preschools and a network of family daycare homes which promote learning, development and educational readiness. LSSMNY is supported primarily by government fees and contracts. LSSMNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

Lutheran Family and Community Services, Inc. ("LFCS") was incorporated under the laws of the State of New York. It is a related entity of LSSMNY and shares a common Board of Directors. In addition, LFCS's programs are funded and directed by LSSMNY. LFCS is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

Lutheran Disaster Response of New York, Inc. ("LDRNY") was incorporated under the laws of the State of New York. It is a related entity of LSSMNY and shares a common Board of Directors. In addition, LDRNY's programs are funded and directed by LSSMNY. LDRNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)

Muhlenberg Community Housing Development Fund Corporation ("Muhlenberg") was formed as a New York State not-for-profit corporation for the purpose of developing and operating housing projects for persons with low income, the mentally ill and chronically homeless. The project is located in Brooklyn, New York and is supported primarily by government grants and contracts. Muhlenberg is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

334-336 Bergen Street Housing Development Fund Corporation ("Bergen") is a New York State not-for-profit corporation that operates a low-income supportive housing project consisting of residential units (and common areas) that are leased to low income persons who are mentally ill and formerly chronically homeless. The project is located in Brooklyn, New York and is supported primarily by government grants, contracts and rental income. Bergen is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

The New LIFE School (the "School") provides needed educational services to school-age students with disabilities in Grades 5 through 12. The School began operations in October 2005. The School is primarily supported by tuition fees and government grants. The School is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Code.

St. John's Community Housing Development Fund Corporation ("St. John's") is a New York State not-for-profit corporation that operates a low-income supportive housing project with residential units (and common areas) that are leased to low income persons who are formerly chronically homeless, some of whom are mentally ill. The project is located in the Bronx, New York and is supported primarily by government grants, contracts and rental income. St. John's is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

Ammerman Center For Creative Aging ("ACCA") was organized to provide information and training to churches and other not-for-profit organizations in the development of outreach programs that engage older adults in retirement and life planning processes, to collect, exchange and disseminate research and information concerning the exploration of personal growth and purposeful activity in later life. Finally, ACCA was organized to create and coordinate a network of faith-based and not-for-profit social service programs that will make available opportunities for volunteerism among older adults. ACCA is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes, and is primarily funded through contributions.

NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)

Center for Urban Education Ministries, Inc. ("CUEM") began operations in 2015 to seed the development of innovative and effective faith-based and other not-for profit education ministries and programs that nurture health and hope in their communities and to assist schools (Pre K-12) to become or remain competitive and viable (1) through identifying, developing, and promoting educational models that would establish and promote best practices in serving children and their families in the context of their communities, (2) through identifying, developing, and promoting financial models of sustainability that would support a long-term viable school, and (3) through recruiting, training, connecting, and assisting community. CUEM is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes. CUEM is supported primarily by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of LSSNY and the accounts of related entities (the "Consolidated Group") for which members of LSSNY's Board of Directors have direct control. Such affiliates include LSSMNY, Bergen, Muhlenberg, the New LIFE School, St. John's, ACCA, CUEM, NTPO, LFCS and LDRNY. Inter-entity transactions and balances have been eliminated in consolidation.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Consolidated Group's programs and supporting services. The Consolidated Group presents its consolidated financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE AND REVENUE

The Consolidated Group records receivables and revenue when earned based on established rates multiplied by the number of units of service provided. The Consolidated Group records rental property receivable and revenue based on terms contained in written tenant lease agreements. The Consolidated Group leases space to tenants under cancellable leases that are renewed annually. Government grants are recorded as receivables and revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to the allowance for doubtful accounts when they are determined to be uncollectable based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end. The Consolidated Group has established an allowance for doubtful accounts for accounts receivable of $159,409 and $111,302 at June 30, 2016 and 2015, respectively. Interest is not accrued or recorded on outstanding receivables.

CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACT

Muhlenberg invests in an annuity contract, which is reflected at its cash surrender value in the accompanying consolidated statements of financial position. The full cash surrender value of the contract is available for withdrawal. The annuity contract earns income based on a fixed rate of 2.5%, adjustable annually on the anniversary date of the contract. This current rate is guaranteed through March 9, 2017. See Note 6 for further details.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Consolidated Group follows the guidance set forth by the Financial Accounting Standards Board ("FASB") in section Accounting Standards Codification 820, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identified assets or liabilities (Level 1) and the lowest priority to unobservable outputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Consolidated Group has the ability to access.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Refer to Note 5 – Fair Value Measurements for assets measured at fair value.

INVESTMENTS

Investments are stated at fair value. All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities and changes in net (deficit) as increases or decreases in unrestricted net assets.

OPERATING AND REPLACEMENT RESERVES

The operating and replacement reserves were established upon transfer of the loans further described in Note 9 and 10 pursuant to a loan agreement between Muhlenberg and New York City Department of Housing Preservation and Development (“HPD”). These reserves are held by New York City Housing Development Corporation (“HDC”) on behalf of Muhlenberg in bank demand money market fund deposit accounts and are recorded at fair value. The reserves must be maintained throughout the terms of the loans, unless fully expensed for eligible purposes, upon prior written consent by HPD. Muhlenberg is required to make an annual contribution to the replacement reserve held by HDC of $50,250 beginning at completion of construction (see Note 10) and every anniversary thereafter. The required reserve contribution will increase by 3% each year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT, NET

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over 3 to 10 years, leasehold improvements are amortized over the shorter of the remaining lease term or the lease term, buildings are depreciated over 40 years, and vehicles are depreciated over 7 years. The Consolidated Group capitalizes construction, insurance, interest, and other direct costs during the period of construction. Depreciation expense is not recorded for items included in construction-in-progress until they are placed into service. The Consolidated Group capitalizes all purchases of property and equipment in excess of $5,000 with a useful life of two or more years.

DEFERRED FINANCING COSTS

The Consolidated Group amortizes bond financing costs over the term of the bond using the straight-line method. The Consolidated Group amortizes building acquisition costs over the term of the loan using the straight-line method.

CONTRIBUTIONS

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net (deficit) as net assets released from restrictions.

FINANCIAL STATEMENT PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL STATEMENT PRESENTATION (CONTINUED)

These classes are defined as follows:

- Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Consolidated Group is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Consolidated Group. The Consolidated Group has no permanently restricted net assets at June 30, 2016 and 2015.

- Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Consolidated Group is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Consolidated Group 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 consolidated statements of activities and changes in net (deficit). The Consolidated Group has $38,500 in temporarily restricted net assets at June 30, 2016 and 2015.

- Unrestricted - The portion of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

FUNCTIONAL EXPENSES

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

OPERATING AND NONOPERATING ACTIVITIES

Operating revenues and expenses reflect activities in which the Consolidated Group engages in order to fulfill its mission. Nonoperating activities relate to expenses incurred and revenues received outside the program activities. Unrealized gains on investments and cash surrender value of life insurance contract and interest income - operating and capital reserve are considered to be nonoperating.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IN-KIND CONTRIBUTIONS

LSSMNY receives donated goods and services, including legal and consulting services. In accordance with U.S. GAAP, LSSMNY records donated goods and services that meet the criteria for recognition as revenue and expense in the accompanying consolidated financial statements. For the years ended June 30, 2016 and 2015, revenue of $154,858 and $191,519, respectively was recognized for in-kind contributions.

OPERATING LEASES

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

INCOME TAXES

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Consolidated Group is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

RECLASSIFICATIONS

Certain amounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications had no effect on net assets.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Consolidated Group maintains cash balances in several financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, the Consolidated Group's balances may exceed these limits. However, the Consolidated Group has not experienced any losses to date.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable, net consisted of the following at June 30, 2016 and 2015:

	2016	2015
New York City Administration for Children's Services ("ACS")	$3,674,031	$2,570,750
New York State Office of Children and Family Services	--	178,581
New York City Department of Health and Mental Hygiene	81,666	202,852
New York City Department of Youth & Community Development	--	24,969
New York City Department of Homeless Services	90,582	32,460
U.S. Department of Housing and Urban Development	313,322	162,552
New York State Education Department	956,859	262,304
Parent Fees	270,446	--
New York City Board of Education	--	159,988
LDR Project Life	6,966	673,017
Medicaid	142,746	199,147
Tenant rent receivables	20,747	31,971
Other receivables	950,418	789,403
	6,507,783	5,287,994
Less: Allowance for doubtful accounts	159,409	111,302
Total	$6,348,374	$5,176,692

NOTE 5 - FAIR VALUE MEASUREMENTS

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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, 2016 and 2015.

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

RESTRICTED FUNDS – MONEY MARKET

Restricted funds – Money market are valued on the net asset value basis.

CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACT

Cash surrender value of life insurance contract are valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Because the participants transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology, the Investment Committee evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

The following table presents the Consolidated Group's assets that are measured at fair value basis at June 30, 2016 and 2015:

June 30, 2016	Total	Level 1	Level 2	Level 3
Investment:				
Cash surrender value of life insurance contract	$1,307,028	$ --	$ --	$1,307,028
Restricted funds – money market	713,409	713,409	--	--
Total Assets Measured at Fair Value	$2,020,437	$713,409	$ --	$1,307,028

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

June 30, 2015	Total	Level 1	Level 2	Level 3
Investment:				
Cash surrender value of life insurance contract	$1,278,243	$ --	$ --	$1,278,243
Restricted funds – money market	713,409	713,409	--	--
Total Assets Measured at Fair Value	$1,991,652	$713,409	$ --	$1,278,243

There were no transfers between levels of investments during the years ended June 30, 2016 and 2015.

The following table provides a summary of changes in the fair value of the Consolidated Group's Level 3investments for the year ended June 30, 2016:

	Level 3 Assets Year Ended June 30, 2016
Balance, July 1, 2015	$1,278,243
Change in unrealized appreciation	28,785
Balance, June 30, 2016	$1,307,028

Unrealized gains/(losses) from the guaranteed investment contract are not included in the statement of changes in net assets available for benefits as the contract is recorded at contract value for purposes of the net assets available for benefits.

QUANTITATIVE INFORMATION ABOUT SIGNIFICANT UNOBSERVABLE INPUTS USED IN LEVEL 3 FAIR VALUE MEASUREMENTS

The following table represents the Consolidated Group's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Cash surrender value of life insurance contract	$1,307,028	Discounted Cash Flow	Payout Date Payout Percentage	3/10/16 – 3/9/17 100%	2.25%

NOTE 6 - CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACT

Included in the consolidated financial statements is a key officer life insurance contract valued at its actual cash value of $1,307,028 and $1,278,243 at June 30, 2016 and 2015, respectively.

Unrealized gain on investments and cash surrender value of life insurance contract amounted to $28,785 and $35,072 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 - DEFERRED FINANCING COSTS

Deferred financing costs consist of mortgage financing costs and bond issue costs. Mortgage financing costs consist of costs incurred in obtaining financing for buildings, whereas deferred financing costs consist of costs incurred in obtaining financing through the Public Finance Authority. These costs are being amortized over the term of the respective intangible using the straight-line method which approximates the interest rate method.

	2016	2015
Mortgage and bond issue costs	$649,852	$649,852
Building acquisition cost	80,452	80,452
	730,304	730,304
Less: Accumulated amortization	102,011	75,119
Total	$628,293	$655,185

Amortization expense was $26,892 and $23,673 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land	$ 5,174,334	$ 5,174,332
Building and building improvements	29,074,589	29,037,313
Leasehold improvements	2,302,201	2,302,201
Furniture and equipment	654,910	651,868
Construction in progress	255,151	255,151
Vehicles	24,319	24,319
	37,485,504	37,445,184
Less: Accumulated depreciation and amortization	7,683,993	6,819,340
Total	$29,801,511	$30,625,844

Depreciation and amortization expense related to property and equipment amounted to $869,883 and $866,943 for the years ended June 30, 2016 and 2015, respectively

NOTE 9 - LOANS AND NOTES PAYABLE

LSSMNY

Loans payable to Mission Investment Fund were renegotiated by LSSMNY during March 2012. The new terms of the loan stated the principal balance of the loan outstanding at March 13, 2012 at $1,076,648. The loan has a 30-year term, secured by the land and building with a net book value of $1,072,626 as of June 30, 2016, maturing in February 2042. Interest is 3.07% and resets quarterly based on the bond issue rate at Stern Brothers & Co., with a floor of 3.00%. Payments are interest-only through November 2014, at which time the monthly payment was re-amortized based on the remaining payment period of the loan. The balance outstanding at June 30, 2016 and 2015 was $1,001,919 and $1,053,981, respectively.

LSSMNY entered into loan agreements on February 1, 2012 with the Public Finance Authority, a body corporate and public of the State of Wisconsin, and UMB Bank, N.A., as trustee. The terms of the agreement were to satisfy certain loans payable with the Mission Investment Fund and to finance the School project. The principal amount shall bear interest at a variable rate as set forth in the agreement and shall be payable in semiannual installments until the maturity date of February 1, 2042. The interest rate at June 30, 2016 and 2015 was 0.12%. The debt is secured by the land and building with a net book value of $16,130,840 as

NOTE 9 - LOANS AND NOTES PAYABLE (CONTINUED)

LSSMNY (CONTINUED)

of June 30, 2016, as detailed in the agreement. The agreement required interest-only payments through January 31, 2015. The agreement further required interest and principal payments to begin February 1, 2015. The balance outstanding at June 30, 2016 and 2015 was $15,726,246 and $16,010,142, respectively. In the event that LSSMNY defaults on the loan, the School has unconditionally guaranteed payment.

ST. JOHN'S

St. John's entered into a building loan agreement with The City of New York, acting through the HPD for a maximum of $1,946,790. At June 30, 2016 and 2015, $1,903,847 and $1,903,847, respectively has been drawn down under the building loan agreement and expended for acquisition, renovations and rehabilitation. The building loan is secured by a mortgage on the premises and the improvements set forth in the building loan contract. No principal payments have been made at June 30, 2016 and 2015. The loan will bear interest at the rate of 1% per annum computed from the first day of the first month following the completion date (certificate of completion of the project), which was in 1993. Such interest shall accrue for a term of thirty years. No interest payments have been made at June 30, 2016 and 2015.

Scheduled payments of principal and accrued interest will only be made from surplus funds when requested by HPD. The City of New York shall reduce St. John's building loan payable and any accrued unpaid interest in equal annual decrements of twenty percent for five years commencing July 1, 2019, the twenty-sixth year after the initial occupancy date of the premises, provided that St. John's continues to utilize the premises as originally agreed upon with The City of New York.

MUHLENBERG

Muhlenberg assumed two notes from New York City ("NYC") agencies in connection with the acquisition of the building formerly owned by Halle. The notes are secured by the building and property at 510 Atlantic Avenue, Brooklyn, New York and do not require any payments of principal until January 1, 2046.

The loan with NYC Housing Development Corporation ("HDC") has an outstanding balance of $484,205 at June 30, 2016 and 2015. The note has a stated interest rate of 0% per annum.

NOTE 9 - LOANS AND NOTES PAYABLE (CONTINUED)

MUHLENBERG (CONTINUED)

The loan with NYC Preservation and Development ("HPD") has an outstanding balance of $10,799,727 at June 30, 2016 and 2015. The note has a stated interest rate of 0.85% per annum.

Interest expense for the Consolidated Group relating to loans and notes payable amounted to $591,142 and $591,848 for the years ended June 30, 2016 and 2015, respectively.

Future maturities of loans and notes payable are as follows:

For the Years Ending June 30,	Amount
2017	$ 346,104
2018	367,680
2019	383,522
2020	780,081
2021	796,050
Thereafter	27,242,507
Total	$29,915,944

NOTE 10 - CONSTRUCTION LOAN PAYABLE

On June 30, 2014, Muhlenberg entered into a construction loan agreement with HPD to fund rehabilitation work at the acquired building at 510 Atlantic Avenue, Brooklyn, New York. A construction work plan was approved by HPD for the maximum amount funded of $1,000,291. During 2015, Muhlenberg began construction and has spent a total of $240,300 and $141,928, as of June 30, 2016 and 2015, respectively for renovations. Pursuant to a loan agreement with HPD, the loan will be converted to a permanent loan with an interest rate of 0.85% per annum upon completion of the construction loan period, which is 18 months from the loan closing date, which was extended to 2017. No payments are due until the maturity date. The loan is secured by the building and property at 510 Atlantic Avenue, Brooklyn, New York and matures on January 1, 2046.

NOTE 11 - RETIREMENT PLAN

LSSMNY sponsors a defined-contribution retirement plan (the "Plan") under Section 403(b) of the Code. The Plan covers LSSMNY and certain related organizations. The Plan covers all full-time employees who have completed two years of service as defined by the Plan. Participants are immediately fully vested in employer contributions. The employer contribution is 5% of eligible wages as determined by the Plan. Total employer contribution by the Consolidated Group under the Plan were $712,794 and $553,602 for the years ended June 30, 2016 and 2015, respectively.

NOTE 12 - NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are available for specific donor restricted purposes as follows:

	2016	2015
The Crumb Family Library	$38,500	$38,500
Total	$38,500	$38,500

Net assets were released from restrictions during the year ended June 30, 2015 due to expenditures being incurred satisfying the following donor-restricted purposes:

	2015
McCormick Foundation-Disaster Relief	$ 52,474
Catholic Charities-Direct Client Service	90,732
United Way of Long Island-Hurricane Sandy Relief	41,371
United Way of New York-Immigration Legal Services	10,592
Total	$195,169

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Consolidated Group has contracted with various funding agencies to perform services and receive reimbursements from state and city governments. Reimbursements received under these contracts and payments are subject to audit by the city and state governments. Upon audit, if discrepancies are discovered, the Consolidated Group could be held responsible for refunding the amounts in question. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. These amounts are adjusted in future periods as adjustments become finalized or as the years are no longer subject to such audits, reviews, and investigations. The grant and contract provisions for the programs that the Consolidated Group participates in are complex and 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.

Laws and regulations governing Medicaid and the other programs that the Consolidated Group participates in are complex and 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.

LSSMNY and the School are committed under various noncancellable operating leases for office and program space. The leases include provisions for escalations in rent and optional renewal periods. In addition, LSSMNY has various renewable leases, with terms of less than one year or that are cancellable with notice. Rent expense for both cancellable and noncancellable leases for the years ended June 30, 2016 and 2015 was $1,091,246 and $1,039,350, respectively.

The noncancellable leases expire at various dates through June 2031 and provide for minimum annual rental payments as follows:

For the Years Ending June 30,	Amount
2017	$ 825,175
2018	749,521
2019	720,425
2020	416,795
2021	247,604
Thereafter	886,000
Total	$3,845,520

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

St. John's entered into an agreement to fund operational deficits of St. John's II, LP. St. John's has guaranteed to fund operating deficit contributions in an amount necessary for general partner to make required operating deficit contributions and fund an outside reserve contribution up to $35,000.

The Consolidated Group is involved in various legal proceedings and litigation arising in the ordinary course of business. Potential damages, if any, are undeterminable at June 30, 2016.

NOTE 14 - DUE TO GOVERNMENT AGENCIES

LSSMNY

At June 30, 2016 and 2015, LSSMNY had a total liability of $2,939,670 and $3,430,057, respectively to ACS, representing net overpayments received by LSSMNY for ACS programs from audit years 1993 through 2014, along with an estimate of potential overpayments for years 2015 through 2016, yet to be audited. There is no formal repayment arrangement, although ACS was recouping for settlements through 2014, in increments of $12,500 per month. Based on a request by LSSMNY, these payments were suspended. Starting July 2015, ACS began recouping $2,000 per month based on ongoing negotiations between ACS and LSSMNY. LSSMNY and ACS are still having ongoing discussions regarding final settlement of the outstanding amount for years 1993 through 2014, and a formal installment agreement for repayments to be made on a long-term basis. The years 2015 through 2016 are still subject to review and audit. An appropriate estimate of overpayments or underpayments for these years has been made, reflecting amount owed from ACS similar to the audit results for the fiscal years 2012 through 2014. The current portion of this liability at June 30, 2016 and 2015 was $24,000 and $24,000, respectively.

The New York State Department of Health ("DOH") performed a reconciliation with respect to its child care Medicaid program. The reconciliation resulted in a negative retroactive rate adjustment effective March 2014. As a result of the reconciliation, LSSMNY must repay the overpayment to New York State Department of Health totaling $4,513,488 and $5,256,584, at June 30, 2016 and 2015, respectively. This amount is being negotiated with DOH to reach a final settlement. The current portion of this liability at June 30, 2016 and 2015 was $4,513,488 and $384,000, respectively.

NOTE 14 - DUE TO GOVERNMENT AGENCIES *(CONTINUED)*

THE SCHOOL

The School owes the New York State Education Department amounts incurred in the normal course of business for years 2007 through 2015. During 2014, the School received a letter from the funding source, settling amounts due from the School for fiscal years 2007 to 2012. The School has agreed to repay $844,035 to the New York City Department of Education ("NYC DOE") in thirty-six equal monthly installments of $21,101 for three years, with a 10% initial payment of $84,404 made in January 2014. Payments will be made on the first day of each month beginning on January 1, 2014. During 2015, the School received a letter from the funding source, settling the amount due from the School for fiscal year 2013. The School has agreed to repay $353,425 to the NYC DOE in a subsequent period as a settlement for 2013.

Fiscal years 2014, 2015 and 2016 are still subject to reconciliation. An estimate reconciliation amount has been recorded for these years.

The due to government agencies for the Consolidated Group has the following future minimum principal payments:

For the Years Ending June 30	Amount
2017	$5,433,706
2018	3,645,966
2019	325,847
Total	$9,405,519

NOTE 15 - SUBSEQUENT EVENTS

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2016 through the date of these consolidated financial statements, which is the date that the consolidated financial statements were available to be issued. During this period, there were no other subsequent events requiring disclosure or accrual.