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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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

CONTENTS

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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net (deficit), functional expenses and 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.

Auditors' 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 audits 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.

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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, 2017 and 2016 and the changes in its net (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
December 22, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current Assets		
Cash	$ 4,889,472	$ 1,900,071
Restricted cash-tenant security deposits	78,159	75,028
Accounts receivable, net	4,708,716	6,348,374
Prepaid expenses and other current assets	228,858	319,119
Due from affiliates	329,781	315,066
Total Current Assets	10,234,986	8,957,658
Cash surrender value of annuity contract	1,336,436	1,307,028
Restricted funds-operating reserve	610,317	600,488
Restricted funds-replacement reserve	326,201	112,921
Property and equipment, net	29,718,565	29,801,511
Total Assets	$ 42,226,505	$ 40,779,606

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 (CONTINUED)

JUNE 30, 2017 AND 2016

	2017	2016
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,385,150	$ 2,702,618
Accrued compensation	1,673,960	1,725,546
Advances from government agencies	1,968,361	209,707
Tenant security deposits	78,159	75,028
Deferred revenue	52,500	3,796
Due to government agencies, current portion	1,607,943	5,433,706
Loans and notes payable, current portion	205,148	346,104
Total Current Liabilities	7,971,221	10,496,505
Accrued interest payable	788,603	682,514
Loans and notes payable, net of current portion	30,045,600	29,181,847
Due to government agencies, net of current portion	6,712,737	3,971,813
Total Liabilities	45,518,161	44,332,679
Net Assets (Deficit)		
Unrestricted	(3,330,156)	(3,591,573)
Temporarily restricted	38,500	38,500
Total Net Deficit	(3,291,656)	(3,553,073)
Total Liabilities and Net Deficit	$ 42,226,505	$ 40,779,606

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, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Activities						
Support and revenue						
Government grants and contracts	$ 35,089,944	$ --	$ 35,089,944	$ 33,964,074	$ --	$ 33,964,074
Medical assurance and life care clinic fees	1,387,917	--	1,387,917	1,958,968	--	1,958,968
Tuition fees	5,772,923	--	5,772,923	6,148,039	--	6,148,039
Parent fees	1,141,803	--	1,141,803	1,064,431	--	1,064,431
Contributions	536,830	--	536,830	625,029	--	625,029
Rental income	3,106,655	--	3,106,655	2,928,585	--	2,928,585
Other income	3,877,808	--	3,877,808	1,898,139	--	1,898,139
Total Support and Revenue	50,913,880	--	50,913,880	48,587,265	--	48,587,265
Expenses						
Program services						
Early childhood services	20,348,104	--	20,348,104	17,449,093	--	17,449,093
Foster care and children's services	5,019,818	--	5,019,818	6,192,185	--	6,192,185
Clinical services	1,804,700	--	1,804,700	1,540,799	--	1,540,799
Residential services	6,592,027	--	6,592,027	6,030,430	--	6,030,430
Educational services	5,917,700	--	5,917,700	6,046,838	--	6,046,838
Community services and other programs	4,114,567	--	4,114,567	4,702,340	--	4,702,340
Total Program Services	43,796,916	--	43,796,916	41,961,685	--	41,961,685
Management and general	6,351,536	--	6,351,536	5,912,696	--	5,912,696
Total Expenses	50,148,452	--	50,148,452	47,874,381	--	47,874,381
Change in Net Assets (Deficit) From Operations	765,428	--	765,428	712,884	--	712,884

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, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Nonoperating Activities						
Unrealized gain on investments and cash surrender value of annuity contract	$ 29,408	$ --	$ 29,408	$ 28,785	$ --	$ 28,785
Loss on extinguishment of debt	(533,419)	--	(533,419)	--	--	--
Total Nonoperating Activities	(504,011)	--	(504,011)	28,785	--	28,785
Change in Net Assets (Deficit)	261,417	--	261,417	741,669	--	741,669
Net Assets (Deficit) - Beginning	(3,591,573)	38,500	(3,553,073)	(4,333,242)	38,500	(4,294,742)
Net Assets (Deficit) - Ending	$ (3,330,156)	$ 38,500	$ (3,291,656)	$ (3,591,573)	$ 38,500	$ (3,553,073)

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, 2017

	Program Services	Management and General	Total
Salaries and wages	$ 21,232,491	$ 2,915,436	$ 24,147,927
Fringe benefits and payroll taxes	4,599,858	820,036	5,419,894
Consultants and contractual services	1,097,996	134,991	1,232,987
Professional fees	101,468	346,974	448,442
Consumable supplies	1,697,650	20,452	1,718,102
Occupancy costs	2,187,430	318,282	2,505,712
Insurance	469,716	14,819	484,535
Equipment, leases and rental	358,408	76,397	434,805
Repairs and maintenance	421,815	11,385	433,200
Telephone	346,465	55,161	401,626
Travel, conferences and meetings	32,285	95,078	127,363
Interest and bank charges	106,089	575,121	681,210
Bad debt expense	1,478	--	1,478
Client expenses	9,334,074	26,173	9,360,247
Depreciation and amortization	425,663	468,593	894,256
Other expenses	1,384,030	472,638	1,856,668
Total Expenses	$ 43,796,916	$ 6,351,536	$ 50,148,452

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	Total
Salaries and wages	$ 20,773,824	$ 2,730,933	$ 23,504,757
Fringe benefits and payroll taxes	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 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities		
Change in net (deficit) assets	$ (48,583)	$ 741,669
Adjustments to reconcile change in net (deficit) assets to net cash provided by (used in) operating activities:		
Unrealized gain on investments and cash surrender value of annuity contract	(29,408)	(28,785)
Depreciation and amortization	893,452	891,545
Amortization of debt issuance costs	--	--
Loss on extinguishment of debt	533,419	--
Bad debt expense	311,478	48,107
Changes in assets (increase) decrease:		
Accounts receivable	1,638,180	(1,219,789)
Prepaid expenses and other current assets	107,243	88,337
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	(306,762)	62,750
Accrued compensation	(62,292)	(149,836)
Advances from government agencies	1,758,654	(20,778)
Deferred revenue	48,704	3,796
Accrued interest payable	106,089	105,176
Due to government agencies	(1,084,838)	(1,352,947)
Net Cash Provided by (Used in) Operating Activities	3,865,336	(830,755)
Cash Flows From Investing Activities		
Purchase of property and equipment	(787,745)	(40,320)
Sale of investments	--	103,887
Loans to affiliates	(31,697)	(225,308)
Deposits to operating and capital reserve	(223,109)	--
Net Cash Used in Investing Activities	(1,042,551)	(161,741)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Financing Activities		
Proceeds from construction loan payable	$ 601,453	$ 110,223
Principal payments on construction loan payable	--	(11,851)
Payment of debt issuance costs	(96,956)	--
Principal payments on loan payable	(337,881)	(335,958)
Net Cash Provided by (Used in) Financing Activities	166,616	(237,586)
Net Increase (Decrease) in Cash	2,989,401	(1,230,082)
Cash - Beginning	1,900,071	3,130,153
Cash - Ending	$ 4,889,472	$ 1,900,071
Supplemental Cash Flow Information		
Cash paid for interest	$ 36,578	$ 20,081

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 (GAAP) 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 $135,546 and $159,409 at June 30, 2017 and 2016, respectively. Interest is not accrued or recorded on outstanding receivables.

CASH SURRENDER VALUE OF ANNUITY CONTRACT

Muhlenberg invests in an annuity contract, which is recorded 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, 2018. See Note 5 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 (ASC) 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.

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.

OPERATING AND REPLACEMENT RESERVES

The operating and replacement reserves were established upon transfer of the loans further described in Note 7 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 7) 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.

IMPAIRMENT OF LONG-LIVED ASSETS

If there is an event or a change in circumstances adversely impacting the recoverability of long-lived assets, the Consolidated Group's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the asset over its remaining useful life, on an undiscounted basis, to the carrying amount of the asset. Such carrying amounts would be adjusted, if necessary, to reflect an impairment in the value of the assets. If the operation is determined to be unable to recover the carrying amount of its assets, the long-lived assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. There were no impairment losses in 2017 or 2016.

DEBT ISSUANCE COSTS

Debt issuance cost, presented as a direct reduction from the carrying amount of the related debt, consists of direct costs incurred in connection with the loans discussed in Note 7. Debt issuance costs totaled $177,408 at the dates of the loan closings and are being amortized over the life of the loans using the straight line method which approximates the interest rate method, which is 30 years. Accumulated amortization related to these debt issuance costs was $8,341 in 2017 and $7,241 in 2016. Amortization of debt issuance costs was $1,100 in 2017 and $5,230 in 2016. In connection with the debt refinancing discussed in Note 7, LSSMNY wrote off $533,419 of debt issuance costs associated with the old debt. Such amount is included in loss on extinguishment of debt in the accompanying statement of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2017 and 2016.

- 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, 2017 and 2016.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, cash surrender value of annuity contract and the loss on debt extinguishment are considered to be nonoperating.

IN-KIND CONTRIBUTIONS

LSSMNY receives donated goods and services, including legal and consulting services. In accordance with 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, 2017 and 2016, revenue and expenses of $1,705,590 and $154,858, 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

GAAP requires 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, 2017, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHANGE IN ACCOUNTING PRINCIPLE

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for interim and annual reporting periods beginning after December 15, 2015. The application of this standard had no effect to net assets or changes in net assets as of and for the year ended June 30, 2016. The application of this standard resulted in a decrease in 2016 total assets and total liabilities of $628,293 due to the change in presentation in 2016 from an asset to a contra-liability as required by the standard.

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:

	2017	2016
New York City Administration for Children's Services ("ACS")	$ 2,259,485	$ 3,674,031
New York City Department of Health and Mental Hygiene	130,618	81,666
New York City Department of Homeless Services	108,420	90,582
U.S. Department of Housing and Urban Development	148,127	313,322
New York State Education Department	971,733	956,859
Parent fees	360,359	270,446
LDR Project Life	--	6,966
Medicaid	245,415	142,746
Tenant rent receivables	20,393	20,747
Other receivables	599,712	950,418
	4,844,262	6,507,783
Less allowance for doubtful accounts	135,546	159,409
	$ 4,708,716	$ 6,348,374

NOTE 5 - FAIR VALUE MEASUREMENTS

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.

RESTRICTED FUNDS – MONEY MARKET

Restricted funds – Money market accounts are valued at one dollar per share due to the highly liquid nature of the investment.

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

CASH SURRENDER VALUE OF ANNUITY CONTRACT

The cash surrender value of annuity contract is 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 investors transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology, management 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 on a recurring basis at June 30:

June 30, 2017	Total	Level 1	Level 2	Level 3
Investment				
Cash surrender value of annuity contract	$ 1,336,436	$ --	$ --	$ 1,336,436
Restricted funds - money market	936,518	936,518	--	--
Total Assets Measured at Fair Value	$ 2,272,954	$ 936,518	$ --	$ 1,336,436

June 30, 2016	Total	Level 1	Level 2	Level 3
Investment				
Cash surrender value of annuity 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)

There were no transfers between levels of investments during the years ended June 30, 2017 and 2016.

The following table provides a summary of changes in the fair value of the Consolidated Group's Level 3 investments for the years ended June 30, 2017 and 2016:

Balance, July 1, 2015	$ 1,278,243
Change in unrealized appreciation	28,785
Balance, June 30, 2016	1,307,028
Change in unrealized appreciation	29,408
Balance, June 30, 2017	$ 1,336,436

Unrealized gains from the annuity contract are included in non-operating activities on the statement of changes in net assets available for benefits in the accompanying financial statements.

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 2017	Fair Value 2016	Principal Valuation Technique	Unobserable Inputs	Range of Significant Input Values	Weighted Average
Cash surrender value of annuity contract	$ 1,336,436	$ 1,307,028	Discounted Cash Flow	Payout Date Payout Percentage	3/10/17 - 3/9/18 100%	2.25%

NOTE 6 - PROPERTY AND EQUIPMENT, NET

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

	2017	2016
Land	$ 5,174,334	$ 5,174,334
Building and building improvements	30,027,034	29,069,357
Leasehold improvements	2,302,202	2,302,202
Furniture and equipment	733,957	654,912
Construction in progress	6,975	255,151
Vehicles	24,319	24,319
	38,268,821	37,480,275
Less accumulated amortization	8,550,256	7,678,764
	$ 29,718,565	$ 29,801,511

Depreciation and amortization expense related to property and equipment amounted to $872,298 and $869,883 for the years ended June 30, 2017 and 2016, respectively

NOTE 7 - LOANS AND NOTES PAYABLE

Loans and notes payable consisted of the following at June 30:

	2017		
	Principal	Unamortized Debt Issuance Cost	Total
Note payable, Lutheran Church Extension Fund	$ 15,384,803	$ (96,660)	$ 15,288,143
Note payable, Mission Investment Fund	1,005,481	--	1,005,481
Building Loan, Department of Housing Preservation and Development	1,903,847	--	1,903,847
Note payable, NYC Housing Development Corporation	484,205	--	484,205
Note payable, Department of Housing Preservation and Development	10,799,727	(72,407)	10,727,320
Construction loan payable, Department of Housing Preservation and Development	841,752	--	841,752
	$ 30,419,815	$ (169,067)	$ 30,250,748

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

	2016		
	Principal	Unamortized Debt Issuance Cost	Total
Note payable, Public Finance Authority	$ 15,700,000	$ (555,082)	$ 15,144,918
Note payable, Mission Investment Fund	1,028,165	--	1,028,165
Building Loan, Department of Housing Preservation and Development	1,903,847	--	1,903,847
Note payable, NYC Housing Development Corporation	484,205	--	484,205
Note payable, Department of Housing Preservation and Development	10,799,727	(73,211)	10,726,516
Construction loan payable, Department of Housing Preservation and Development	240,300	--	240,300
	$ 30,156,244	$ (628,293)	$ 29,527,951

LSSMNY

Note Payable - Lutheran Church Extension Fund

During 2017, LSSMNY refinanced its existing obligations with Public Finance Authority and entered into loan agreements on March 16, 2017 with the Lutheran Church Extension Fund-Missouri Synod (LCEF) including a promissory note payable for $15,400,000 (the Note) and a $1,000,000 line of credit (LOC) (Note 8).

The Note bears interest at a fixed rate of 3.375% for the first 5 years of the term at which point a variable rate as set forth in the agreement will be assessed on the fifth, tenth and fifteenth anniversaries of the loan. Principal and interest on the Note shall be payable in monthly installments (currently $58,509) through the maturity of the loan on May 16, 2047. The Note's interest rate at June 30, 2017 was 3.375%.

The Note and LOC are secured by land and building with a net book value of $15,867,107 as of June 30, 2017, as detailed in the agreement, and contain certain financial and restrictive covenants. LSSNY is listed as Co-Borrower on the Note and LOC.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

LSSMNY (CONTINUED)

Note Payable - Mission Investment Fund

In March 2012, LSSMNY entered into a 30-year note payable with Mission Investment Fund in the amount of $1,076,648. The loan bears interest at a variable rate that resets quarterly based on the bond issue rate at Stern Brothers & Co., with a floor of 3.00% (3.00% at June 30, 2017). Payments on the note were 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, 2017 and 2016 was $1,005,481 and $1,028,165, respectively.

Note Payable - Public Finance Authority

LSSMNY was party to a loan agreement with the Public Finance Authority, a corporate body of the State of Wisconsin, and UMB Bank, N.A., as trustee. The loan bore interest at a variable rate as set forth in the agreement through its maturity date of February 2, 2042. The interest rate at June 30, 2016 was 0.12%. The loan was secured by the land and building as detailed in the agreement. The balance outstanding at June 30, 2016 was $15,700,000. During the year ended June 30, 2016, the loan was paid in full when LSSMNY refinance this debt with the LCEF.

ST. JOHN'S

St. John's entered into a building loan agreement in March 1992 with The City of New York, acting through the Department of Housing Preservation and Development (HPD) for a maximum of $1,946,790. At June 30, 2017 and 2016, $1,903,847 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 on the loan at June 30, 2017 and 2016, which matures on January 1, 2023.

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, 2017 and 2016. Scheduled payments of principal and accrued interest will only be made from surplus funds when requested by HPD. Accrued unpaid interest on the loan was $508,613 and $496,313 at June 30, 2017 and 2016, respectively.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

ST. JOHN'S (CONTINUED)

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 in March 2018, 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 as set forth in the mortgage.

Future expected forgiveness of principal on the aforementioned loan payable is as follows:

Years ending June 30,		
2018	$	126,923
2019		380,769
2020		380,769
2021		380,769
2022		380,769
Thereafter		253,848
	$	1,903,847

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 loans are as follows:

- The loan with NYC Housing Development Corporation (HDC) has an outstanding balance of $484,205 at June 30, 2017 and 2016. The note has a stated interest rate of 0% per annum.

- The loan with NYC Preservation and Development (HPD) has an outstanding balance of $10,799,727 at June 30, 2017 and 2016. The note has a stated interest rate of 0.85% per annum.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

MUHLENBERG (CONTINUED)

On June 30, 2014, Muhlenberg entered into a construction loan agreement with HPD to fund rehabilitation work at the acquired building. A construction work plan was approved by HPD for the maximum amount funded of $1,000,291. Muhlenberg began construction and spent $240,300 in 2016 and $601,452 in 2017 for renovations. Pursuant to a loan agreement with HPD, the loan will be converted to a permanent loan with an interest rate of 1.00% per annum upon completion of the construction loan period, which was 18 months from the loan closing date, which has been extended through 2017. No payments are due until the January 1, 2046 maturity date. The loan is secured by the building and property at 510 Atlantic Avenue, Brooklyn, New York. The balance outstanding was $841,752 at June 30, 2017 and $240,300 at June 30, 2016.

Interest expense for Muhlenberg relating to loans and notes payable amounted to $93,789 and $92,876 for the years ended June 30, 2017 and 2016, respectively.

Future maturities of loans and notes payable for the Consolidated Group are as follows:

Years ending June 30,	
2018	$ 205,148
2019	211,587
2020	218,839
2021	226,545
2022	239,110
Thereafter	27,414,740
	$ 28,515,969

NOTE 8 - LINE OF CREDIT

In connection with the debt refinancing discussed in Note 7, LSSMNY entered into a $1,000,000 LOC with LCEF. The LOC bears interest at a variable rate as defined in the agreement. Interest on the LOC is payable in monthly installments with any accrued and unpaid accrued interest and principal due on the maturity date of May 16, 2018. LSSMNY did not draw any amounts under the LOC during the year ended June 30, 2017

NOTE 9 - RETIREMENT PLAN

Each entity in the Consolidated Group participates in the ELCA Master Institutional Retirement Plan (the Plan) intended to meet the requirements of a retirement income account within the meaning of the Internal Revenue Code (Code) Section 403(b)(9). The Plan is exempt from the Employee Retirement Income Securities Act (ERISA) because it meets the requirements of a church plan within the meaning of Code Section 414(e) and ERISA Section 3(33). 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 contributions by the Consolidated Group under the Plan were $736,181 and $712,794 for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 - NET ASSETS

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

	2017	2016
The Crumb Family Library	$ 38,500	$ 38,500

NOTE 11 - 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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Laws and regulations governing Medicaid and the other programs that LSSMNY 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.

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, 2017.

LSSMNY

LSSMNY is 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, 2017 and 2016 was $830,784 and $796,222, respectively. The noncancellable leases expire at various dates through June 2020 and provide for minimum annual rental payments as follows:

Years ending June 30,	
2018	$ 557,676
2019	436,051
2020	182,749
	$ 1,176,476

Certain lease agreements that LSSMNY is party to include provisions for cancellation with notice periods ranging from 60-180 days. These leases have been excluded from the table above.

LSSMNY is involved in various legal proceedings and litigation arising in the ordinary course of business. LSSMNY is vigorously defending these matters. Potential damages, if any, are undeterminable at June 30, 2017.

ST. JOHN'S

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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

NEW LIFE SCHOOL

The School leases two real estate properties in the Bronx, New York from LSSMNY. Rent expense for the years ended June 30, 2017 and 2016 amounted to $745,789 and $623,119, respectively. The lease term, which expired on September 30, 2015 is tied into the debt service payments of the obligation that LSSMNY has on the property, and is currently on a month-to-month basis.

NOTE 12 - DUE TO GOVERNMENT AGENCIES

Due to government agencies consisted of the following at June 30:

	2017	2016
City of New York Administration for Children's Services	$ 2,406,165	$ 2,939,670
New York State Department of Health	4,381,433	4,513,488
New York State Education Department	1,410,282	1,756,588
Other	122,800	195,773
	$ 8,320,680	$ 9,405,519

LSSMNY

At June 30, 2017 and 2016, LSSMNY had a total liability of $2,406,165 and $2,939,670, respectively to ACS, representing net overpayments received by LSSMNY for ACS programs from audit years 1993 through 2014, along with an estimate of potential underpayments for years 2015 through 2017, yet to be audited. As a result of ongoing negotiations, starting July 2015, ACS began recouping $2,000 per month as stated in a recoupment letter received from ACS. 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 2017 are still subject to review and audit. An appropriate estimate of 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, 2017 and 2016 was $542,445 and $24,000, respectively.

NOTE 12 - DUE TO GOVERNMENT AGENCIES (CONTINUED)

LSSMNY (CONTINUED)

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 $4,381,433 and $4,513,488, at June 30, 2017 and 2016, respectively. This amount is being negotiated with DOH to reach a final settlement. The current portion of this liability at June 30, 2017 and 2016 was $533,721and $4,513,488, respectively.

NEW LIFE SCHOOL

Due to government agencies for New Life School consists of either estimated or accrued rate overpayments from SED in the normal course of business for years 2007 through 2017. During 2015, the School received a letter from its primary funding source, settling the amounts due from the School for fiscal years 2007 through 2013 with the School agreeing to repay $759,618 in 24 installments with 2% annual interest at $32,314 per month. Fiscal years 2014 through 2017 remain subject to reconciliation. The estimated reconciliation amount for these years total $1,099,885 at June 30, 2017. Total amounts due to government agencies totaled $1,410,282 and $1,756,588 at June 30, 2017 and 2016, respectively.

NOTE 13 - SUBSEQUENT EVENTS

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2017 through December 22, 2017, which is the date that the consolidated financial statements were available to be issued. No events requiring recognition or disclosure in the consolidated financial statements were identified.