

**LUTHERAN SOCIAL SERVICES OF
NEW YORK, INC. AND RELATED ENTITIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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

CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1-2
<u>Consolidated Financial Statements</u>	
Consolidated Statements of Financial Position at June 30, 2015 and 2014	3
Consolidated Statements of Activities for the Years Ended June 30, 2015 and 2014	4
Consolidated Statements of Functional Expenses for the Years Ended June 30, 2015 and 2014	5-6
Consolidated Statements of Cash Flows for the Years Ended June 30, 2015 and 2014	7
Notes to Consolidated Financial Statements	8-26



INDEPENDENT AUDITORS' REPORT

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

Report on the 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 at June 30, 2015 and 2014, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the net assets of the organization were restated to properly reflect partnership interest transfer, to properly reflect government grants and contracts revenue and due to government agencies for the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
March 21, 2016

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>(Restated) 2014</u>
CURRENT ASSETS:		
Cash	\$ 3,130,153	\$ 1,990,010
Investments	103,887	-
Restricted cash - tenant security deposits	79,813	90,066
Accounts receivable, net	5,176,692	5,161,505
Prepaid expenses and other current assets	407,456	371,624
Due from affiliates	25,604	11,255
Total Current Assets	<u>8,923,605</u>	<u>7,624,460</u>
Cash surrender value of life insurance	1,278,243	1,250,139
Restricted cash - operating reserve	600,488	598,923
Restricted cash - capital reserve	112,921	112,890
Due from affiliates	64,154	63,735
Fixed assets, net	30,625,844	30,894,313
Deferred financing costs, net	655,185	678,858
TOTAL ASSETS	<u><u>\$ 42,260,440</u></u>	<u><u>\$ 41,223,318</u></u>

LIABILITIES AND NET ASSETS (DEFICIENCY)

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 2,639,868	\$ 1,922,450
Accrued compensation	1,875,382	1,225,352
Advances from government agencies	230,485	679,830
Tenant security deposits	79,813	90,066
Due to government agencies	1,049,084	2,519,457
Loans and notes payable	330,408	309,995
Total Current Liabilities	<u>6,205,040</u>	<u>6,747,150</u>
Accrued interest payable	577,338	464,578
Loans and notes payable, net of current portion	29,921,494	30,251,760
Construction loan payable	141,928	-
Due to government agencies, net of current portion	9,709,382	8,291,137
TOTAL LIABILITIES	<u>46,555,182</u>	<u>45,754,625</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS (DEFICIENCY):		
Unrestricted	(4,333,242)	(4,764,976)
Temporarily restricted	38,500	233,669
Total Net Assets (Deficiency)	<u>(4,294,742)</u>	<u>(4,531,307)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u><u>\$ 42,260,440</u></u>	<u><u>\$ 41,223,318</u></u>

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
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014 (Restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING ACTIVITIES:						
Support and Revenue:						
Government grants and contracts	\$ 32,863,830	\$ -	\$ 32,863,830	\$ 29,656,894	\$ -	\$ 29,656,894
Medical assurance and life care clinic fees	2,000,303	-	2,000,303	641,308	-	641,308
Tuition fees	5,817,650	-	5,817,650	4,748,118	-	4,748,118
Management fees	14,847	-	14,847	440,961	-	440,961
Parent fees	952,273	-	952,273	581,584	-	581,584
Contributions	1,113,029	-	1,113,029	656,714	242,646	899,360
Special events income	74,806	-	74,806	70,521	-	70,521
Rental income	2,300,474	-	2,300,474	751,027	-	751,027
Other income	231,324	-	231,324	259,120	-	259,120
Net assets released from restrictions	195,169	(195,169)	-	141,773	(141,773)	-
Total Support and Revenue	45,563,705	(195,169)	45,368,536	37,948,020	100,873	38,048,893
Expenses:						
Program services						
Early Childhood Services	16,656,532	-	16,656,532	15,299,180	-	15,299,180
Foster Care and Children's Services	5,818,693	-	5,818,693	5,723,553	-	5,723,553
Clinical Services	1,447,863	-	1,447,863	1,046,312	-	1,046,312
Residential Services	6,182,154	-	6,182,154	4,399,676	-	4,399,676
Educational Services	5,323,734	-	5,323,734	5,359,393	-	5,359,393
Community services and other programs	4,534,197	-	4,534,197	3,484,806	-	3,484,806
Total program services	39,963,173	-	39,963,173	35,312,920	-	35,312,920
Management and general	5,157,795	-	5,157,795	5,558,074	-	5,558,074
Fundraising - direct costs of special events	48,275	-	48,275	54,520	-	54,520
Total Expenses	45,169,243	-	45,169,243	40,925,514	-	40,925,514
Change in net assets (deficiency) from operations	394,462	(195,169)	199,293	(2,977,494)	100,873	(2,876,621)
NONOPERATING ACTIVITIES:						
Unrealized gain on investments and cash surrender value of life insurance	35,072	-	35,072	27,509	-	27,509
Interest income - operating and capital reserve	2,200	-	2,200	-	-	-
Excess of assets acquired over liabilities assumed in the donation of Halle Housing Associates, L.P.	-	-	-	1,427,282	-	1,427,282
Total Nonoperating Activities	37,272	-	37,272	1,454,791	-	1,454,791
CHANGE IN NET ASSETS (DEFICIENCY)	431,734	(195,169)	236,565	(1,522,703)	100,873	(1,421,830)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	(4,764,976)	233,669	(4,531,307)	(3,242,273)	132,796	(3,109,477)
NET ASSETS (DEFICIENCY), END OF YEAR	\$ (4,333,242)	\$ 38,500	\$ (4,294,742)	\$ (4,764,976)	\$ 233,669	\$ (4,531,307)

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	418,939	448,004	-	866,943
Amortization of deferred financing costs	2,011	21,662	-	23,673
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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising - Direct Costs of Special Events	Total
Salaries and wages	\$ 18,762,628	\$ 2,318,075	\$ -	\$ 21,080,703
Fringe benefits	3,622,952	456,241	-	4,079,193
Consultants and contractual services	801,798	513,377	-	1,315,175
Professional fees	480,182	525,572	-	1,005,754
Consumable supplies	427,178	106,640	-	533,818
Management fees	-	189,701	-	189,701
Occupancy costs	881,953	328,898	-	1,210,851
Insurance	357,583	49,674	-	407,257
Equipment, leases and rental	434,361	41,639	-	476,000
Repairs and maintenance	657,543	28,872	-	686,415
Telephone	314,889	59,097	-	373,986
Travel, conferences and meetings	98,314	75,076	-	173,390
Interest and bank charges	19,990	503,057	-	523,047
Bad debt expense	85,004	-	-	85,004
Client expenses	7,582,800	7,418	-	7,590,218
Catering and rental	14,660	-	54,520	69,180
Depreciation and amortization	550,574	217,047	-	767,621
Amortization of deferred financing costs	-	21,662	-	21,662
Other expenses	220,511	116,028	-	336,539
Total Expenses	\$ 35,312,920	\$ 5,558,074	\$ 54,520	\$ 40,925,514

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, 2015 AND 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	2015	(Restated) 2014
Change in net assets (deficiency)	\$ 236,565	\$ (1,421,830)
Adjustments to reconcile change in net assets (deficiency) to net cash provided by operating activities:		
Unrealized gain on investments and cash surrender value of life insurance	(35,072)	(27,509)
Depreciation and amortization	866,943	767,621
Amortization of deferred financing costs	23,673	21,662
Bad debt expense	164,413	85,004
Excess of assets acquired over liabilities assumed in the donation of Halle Housing Associates, L.P.	-	(1,427,282)
Changes in assets (increase) decrease:	-	-
Restricted cash - tenant security deposits	10,253	(53,188)
Accounts receivable	(179,600)	(1,735,894)
Prepaid expenses and other current assets	(35,832)	(270,187)
Increase in due to/from affiliates	(14,779)	(1,953)
Changes in liabilities increase (decrease):	-	-
Accounts payable and accrued expenses	717,429	360,241
Accrued compensation	650,030	(38,040)
Advances from government agencies	(449,345)	172,073
Tenant security deposits	(10,253)	53,188
Accrued interest payable	112,760	19,990
Due to government agencies	(52,128)	4,043,944
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>2,005,057</u>	 <u>547,840</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(598,474)	(22,890)
Deposits to operating and capital reserve	(1,183)	(711,813)
Cash paid in connection with building acquisition costs	-	(80,452)
Cash contribution from Halle Housing Associates, L.P.	-	1,196,639
 NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	 <u>(599,657)</u>	 <u>381,484</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	141,928	484,205
Proceeds from line of credit	-	1,000,000
Purchase of investments	(97,332)	-
Principal payments on loan payable	(309,853)	(22,500)
Payments on line of credit	-	(1,000,000)
 NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	 <u>(265,257)</u>	 <u>461,705</u>
 NET INCREASE IN CASH	 1,140,143	 1,391,029
 CASH, BEGINNING OF YEAR	 <u>1,990,010</u>	 <u>598,981</u>
 CASH, END OF YEAR	 <u>\$ 3,130,153</u>	 <u>\$ 1,990,010</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of property	<u>\$ -</u>	<u>\$ 10,598,236</u>
Debt transfer	<u>\$ -</u>	<u>\$ 10,799,727</u>
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest expense, net of capitalization	<u>\$ 572,225</u>	<u>\$ 516,112</u>

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Nature of Organization and Principles of Consolidation

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,

(1) 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,

(2) provides immigration legal services; case management, shelter and foster boarding homes to immigrant minors; disaster relief case management; and a hunger prevention program, and

(3) 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.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Nature of Organization and Principles of Consolidation (cont'd.)

LSSMNY, LFCS and LDRNY are qualified as tax-exempt organizations under Section 501(a) of the Code and are classified as Section 501(c)(3) organizations. Accordingly, they are exempt from federal income taxes.

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.

New Times Plaza Operating Corporation ("NTPO") is Muhlenberg's wholly owned for-profit subsidiary. NTPO was formed to act as the general partner in Halle Housing Associates, LP ("Halle"), a low-income housing tax credit property with 1% ownership in Halle.

On June 30, 2014, the limited partners of Halle, Corporate Housing Initiatives II Limited Partnership ("Corporate LP") with a 69.44% partnership interest and Enterprise Housing Partners III Limited Partnership ("Enterprise LP") with a 29.56% partnership interest, assigned and transferred its partnership interest to Muhlenberg. On June 30, 2014, Muhlenberg acquired the building at 510 Atlantic Avenue, Brooklyn, New York from Halle. The building was transferred, at fair value and subject to two notes from New York City agencies. Muhlenberg is required to maintain the property as low income housing and is obligated to make annual contributions to reserve accounts as described in Note 2.

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.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Nature of Organization and Principles of Consolidation (cont'd.)

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.

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.

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 School, St. John's, ACCA, CUEM, NTPO, Halle, LFCS and LDRNY. Inter-entity transactions and balances have been eliminated in consolidation.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and the amount of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

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 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 bad debt expense 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 \$111,302 and \$50,231 at June 30, 2015 and 2014, respectively. Interest is not accrued or recorded on outstanding receivables.

Restricted Investment / Cash Surrender Value of Life Insurance

Muhlenberg invests in an annuity contract, which is reflected at its cash surrender value in the accompanying consolidated statement 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, 2016. The investment was restricted up until Muhlenberg acquired the underlying housing tax credit property. See Note 6 for further details.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

Investments

Investments are stated at the readily determinable fair market value in accordance with the Not-for-Profit Entities topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities 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 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 loan, 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.

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 statement of activities as net assets released from restrictions.

Net Assets

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

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.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

Operating Measure

Operating revenues and expenses reflect activities in which the Consolidated Group engages in order to fulfill its mission. Unrealized gains on cash surrender value of life insurance, interest income - operating and capital reserve and excess of assets acquired over liabilities assumed in the donation of Halle Housing Associates, L.P. are considered to be nonoperating.

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, 2015 and 2014, revenue of \$191,519 and \$333,258, respectively was recognized as in-kind contributions.

Fair Value Measurements

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

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

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

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

At June 30, 2015 and 2014, the fair value of the Consolidated Group's financial instruments including cash, restricted cash, due from affiliates, accounts receivable, accounts payable and accrued expenses, accrued compensation, accrued interest payable, advances from government agencies, loans and notes payable, construction loan payable and due to government agencies approximated book value due to the short maturity of these instruments (see Note 5 for fair value measurements).

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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.

Accounting for Uncertainty in Income Taxes

The Consolidated Group has adopted the provisions pertaining to uncertain tax provisions under FASB ASC Topic 740 and has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. The Consolidated Group is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Consolidated Group believes that it is no longer subject to income tax examinations for years prior to 2012.

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.

Note 4 - Accounts Receivable

Accounts receivable, net consisted of the following at June 30, 2015 and 2014:

	2015	2014
New York City Administration for Children's Services ("ACS")	\$ 2,570,750	\$ 2,204,333
New York State Office of Children and Family Services	178,581	170,261
New York City Department of Health and Mental Hygiene	202,852	86,583
New York City Department of Youth & Community Development	24,969	-
New York City Department of Homeless Services	32,460	73,578
U.S. Department of Housing and Urban Development	162,552	96,721
New York State Education Department	262,304	69,053
New York City Board of Education	159,988	155,794
LDRNY Project Life	673,017	779,246
Medicaid	199,147	477,355
Tenant rent receivable	31,971	155,804
Other receivables	789,403	943,008
	<u>5,287,994</u>	<u>5,211,736</u>
Less: Allowance for doubtful accounts	<u>111,302</u>	<u>50,231</u>
	<u>\$ 5,176,692</u>	<u>\$ 5,161,505</u>

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 5 - Fair Value Measurements

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

Fair Value Hierarchy

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2015 and 2014.

The Level 2 inputs relate to the cash surrender value of life insurance which is valued at the estimated amount that would have been available had the contract terminated at the valuation date, calculated as per contract terms. ELCA endowment fund pooled trust is valued on a market valued basis. The fund's assets are invested in a diversified balanced portfolio consisting principally of global equities and fixed income securities. The fund is made up of investment pools managed under the supervision of the investment advisor.

Items Measured at Fair Value on a Recurring Basis

The following table presents the Consolidated Group's assets that are measured at fair value on a recurring basis at June 30, 2015 and 2014:

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash surrender value				
of life insurance	\$ 1,278,243	\$ -	\$ 1,278,243	\$ -
ELCA Endowment fund pooled trust	103,887	-	103,887	-
Restricted reserves - Money Market	713,409	713,409	-	-
Total Assets Measured at Fair Value	<u>\$ 2,095,539</u>	<u>\$ 713,409</u>	<u>\$ 1,382,130</u>	<u>\$ -</u>

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 5 - Fair Value Measurements (cont'd.)

	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Restricted Investments:				
Cash surrender value of life insurance	\$ 1,250,139	\$ -	\$ 1,250,139	\$ -
Restricted reserves - Money Market	711,813	711,813	-	-
Total Assets Measured at Fair Value	<u>\$ 1,961,952</u>	<u>\$ 711,813</u>	<u>\$ 1,250,139</u>	<u>\$ -</u>

Note 6 - Restricted Investment / Cash Surrender Value of Life Insurance

Through June 30, 2014, Muhlenberg was a party to an agreement to fund operational deficits of Halle, up to the amount of restricted assets required by the agreement. Included in the consolidated financial statements is a key officer life insurance annuity contract valued at its actual cash value of \$1,278,243 and \$1,250,139 at June 30, 2015 and 2014, respectively, and was restricted for this purpose.

The restricted investments were restricted as required by Muhlenberg's Outside Operating Reserve Agreement with Halle and were funded as noted in Halle's Funding and Disbursement Agreement with the City of New York. This restricted investment was released from its restriction upon the acquisition of the underlying building by Muhlenberg (see Note 1).

Investment income - unrealized gain amounted to \$35,072 and \$27,509 for the years ended June 30, 2015 and 2014, 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.

	2015	2014
Mortgage and bond issue costs	\$ 649,853	\$ 649,853
Building acquisition cost	80,452	80,452
	<u>730,305</u>	<u>730,305</u>
Less: Accumulated amortization	75,120	51,447
	<u>\$ 655,185</u>	<u>\$ 678,858</u>

Amortization expense was \$23,673 and \$21,662 for the years ended June 30, 2015 and 2014, respectively.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 8 - Fixed Assets

Fixed assets, net consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 5,174,334	\$ 5,174,334
Buildings and improvements	28,986,455	28,736,536
Leasehold improvements	2,302,201	2,270,898
Furniture and equipment	651,868	635,393
Construction in progress	255,151	-
Vehicles	24,319	24,319
	<u>37,394,328</u>	<u>36,841,480</u>
Less: Accumulated depreciation and amortization	<u>6,768,484</u>	<u>5,947,167</u>
	<u>\$ 30,625,844</u>	<u>\$ 30,894,313</u>

Depreciation and amortization expense related to fixed assets amounted to \$866,943 and \$767,621 for the years ended June 30, 2015 and 2014, 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, 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, 2015 and 2014 was \$1,053,981 and \$1,068,976, 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 the 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, 2015 was 0.12%. The bonds are secured by the land and building with a net book value of \$16,470,633, as detailed in the agreement. The agreement requires interest-only payments through January 31, 2015. The agreement further requires interest and principal payments to begin February 1, 2015. The balance outstanding at June 30, 2015 and 2014 was \$16,010,142 and \$16,305,000, respectively. In the event that LSSMNY defaults on the loan, the School has unconditionally guaranteed payment.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 9 - Loans and Notes Payable (cont'd.)

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, 2015 and 2014, \$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 at June 30, 2015 and 2014. 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, 2015 and 2014. 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 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.

New York City Housing Development Corporation ("HDC") Reserve Loan, \$484,205 note, 0% interest rate, principal due January 1, 2046	\$ 484,205
New York City Department of Housing Preservation and Development ("HPD"), \$10,799,727 note, 0.85% interest rate, principal and accrued interest due January 1, 2046	<u>10,799,727</u>
	<u>\$ 11,283,932</u>

Interest expense for the Consolidated Group relating to loans and notes payable amounted to \$572,225 and \$516,112 for the years ended June 30, 2015 and 2014, respectively.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 9 - Loans and Notes Payable (cont'd.)

Future maturities of loans and notes payable are as follows:

<u>Years Ending June 30:</u>	
2016	\$ 330,408
2017	346,980
2018	367,804
2019	383,652
2020	399,449
Thereafter	<u>28,423,609</u>
	<u><u>\$ 30,251,902</u></u>

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 spent \$141,928 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. 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 - Line of Credit

LSSMNY had available a \$1,000,000 working capital line of credit carrying an interest rate of 4.875% at June 30, 2014. The line of credit was held with the Lutheran Church Extension Fund and was collateralized with substantially all assets. The line of credit expired on April 29, 2014, at which date no renewal agreement was signed with Lutheran Church Extension Fund. At June 30, 2015 and 2014, there were no amounts outstanding on this line of credit.

Note 12 - 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 expenses recognized by the Consolidated Group under the Plan were \$553,602 and \$373,046 for the years ended June 30, 2015 and 2014, respectively.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 13 - Net Assets

Temporarily restricted net assets at June 30, 2015 and 2014 are available for specific donor restricted purposes as follows:

	<u>2015</u>	<u>2014</u>
The Crumb Family Library	\$ 38,500	\$ 38,500
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
	<u>\$ 38,500</u>	<u>\$ 233,669</u>

Net assets were released from restrictions during the years ended June 30, 2015 and 2014 due to expenditures being incurred satisfying the following donor-restricted purposes:

	<u>2015</u>	<u>2014</u>
Latvia Fund - New Life Adoption	\$ -	\$ 34,162
Robin Hood Foundation - Disaster Relief	-	7,660
McCormick Foundation - Disaster Relief	52,474	-
Catholic Charities - Direct Client Service	90,732	12,268
United Way of Long Island - Hurricane Sandy Relief	41,371	8,275
United Way of New York - Immigration Legal Services	10,592	79,408
	<u>\$ 195,169</u>	<u>\$ 141,773</u>

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 14 - 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, and such amounts are adjusted in future periods as adjustments become known or as 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, 2015 and 2014 was \$1,039,350 and \$835,227, respectively.

The noncancellable leases expire at various dates through June 2032 and provide for minimum annual rental payments as follows:

<u>Years Ending June 30:</u>	
2016	\$ 532,311
2017	358,245
2018	294,329
2019	277,258
2020	148,826
Thereafter	<u>955,657</u>
	<u>\$ 2,566,626</u>

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 14 - Commitments and Contingencies (cont'd.)

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, 2015.

Note 15 - Due to Government Agencies

LSSMNY

At June 30, 2015 and 2014, LSSMNY had a total liability of \$3,430,057 and \$3,431,775, respectively to ACS, representing net overpayments received by LSSMNY for ACS programs from audit years 1993 through 2007, along with an estimate of potential overpayments for years 2008 through 2012, yet to be audited. There is no formal repayment arrangement, although ACS was recouping for settlements through 2007, in increments of \$12,500 per month. Based on a request by LSSMNY, these payments have been suspended beginning in May 2014. During 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 settlement of the outstanding amount for years 1993 through 2007, and a formal installment agreement for repayments to be made on a long-term basis. The years 2008 through 2015 are still subject to review and audit. ACS has begun desk reviews for 2008 and 2009 and has issued a draft report for 2010. Audits for 2011 through 2015 have not yet commenced. An appropriate estimate of overpayments or underpayments for these years has been made, reflecting a lower probability of the significant audit adjustments incurred in prior years. The current portion of this liability at June 30, 2015 and 2014 was \$24,000 and \$0, respectively.

The New York State Department of Health 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 \$5,256,584 and \$5,662,668, at June 30, 2015 and 2014, respectively. This amount will be repaid based on a 15% reduction of Medicaid payments with interest of prime plus 2%, until such time the obligation is repaid. The current portion of this liability at June 30, 2015 and 2014 was \$384,000 and \$2,197,353, respectively.

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 15 - Due to Government Agencies (cont'd.)

Muhlenberg

In a prior year, Muhlenberg was audited by the U.S. Department of Housing and Urban Development (“HUD”) with respect to its compliance requirements that are stated in the contract. The audit resulted in an audit disallowance of \$206,680. Muhlenberg has agreed to repay \$206,680 to HUD out of non-HUD, non-federal funds, in thirty-six equal monthly installments of \$5,741 for three years. Payments are made on the first day of each month beginning on January 1, 2013.

The School

The School owes the New York State Education Department amounts incurred in the normal course of business. 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. Fiscal years 2014 and 2015 are still subject to reconciliation. An estimated reconciliation amount has been recorded for these years.

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

Years Ending June 30:

2016	\$ 1,049,084
2017	1,163,283
2018	1,083,458
2019	408,000
2020	408,000
Thereafter	<u>6,646,641</u>
	<u><u>\$ 10,758,466</u></u>

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 16 - Restatement

During the years ended June 30, 2014 and 2013, the School did not properly estimate and record due to government agencies. The School's net assets at June 30, 2014 and 2013 have been corrected to reflect an adjustment to recognize the liability that was not recorded at June 30, 2014 and 2013.

On June 30, 2014, Corporate LP and Enterprise LP assigned and transferred their partnership interests in Halle to Muhlenberg. This transfer was not reflected in the June 30, 2014 financial statements.

During the year ended June 30, 2014, LSSMNY did not record certain government grants and contracts revenue that was incurred and earned at the year-end. LSSMNY's net assets at June 30, 2014 have been corrected to reflect an adjustment to recognize revenue that was not recorded at June 30, 2014.

The impact of these restatements on the June 30, 2013 net assets is as follows:

	Balance as previously stated at June 30, 2013	Adjustments	Balance as restated at June 30, 2013
Net Assets-unrestricted	\$ (3,091,898)	\$ (150,375)	\$ (3,242,273)

The impact of these restatements on operating revenues and nonoperating activities for the year ended June 30, 2014 is:

	Balance as previously stated for the year ended June 30, 2014	Adjustments	Balance as restated for the year ended June 30, 2014
Government grants and contracts	\$ 30,584,262	\$ 286,060	\$ 30,298,202
Tuition fees	5,376,796	628,678	4,748,118
Equity in losses of Halle	(3,537)	(3,537)	-
Excess of liabilities assumed over assets acquired in acquisition of Halle Housing Associates, L.P.	-	(1,427,282)	1,427,282
Other nonoperating activities	(18,844)	(18,844)	-

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 16 - Restatement (cont'd.)

The impact of these restatements on opening June 30, 2015 net assets is as follows:

<u>ASSETS</u>	Balance as previously stated at June 30, 2014	Adjustments	Balance as restated at June 30, 2014
CURRENT ASSETS:			
Cash	\$ 991,907	\$ (998,103)	\$ 1,990,010
Restricted cash - tenant security deposits	41,638	(48,428)	90,066
Accounts receivable, net	5,446,829	285,324	5,161,505
Prepaid expenses and other current assets	382,670	11,046	371,624
Due from affiliates	-	(11,255)	11,255
Total Current Assets	6,863,044	(761,416)	7,624,460
Cash surrender value of life insurance	1,250,139	-	1,250,139
Restricted cash - operating reserve	-	(598,923)	598,923
Restricted cash - capital reserve	-	(112,890)	112,890
Due from affiliates	-	(63,735)	63,735
Fixed asset, net	32,660,752	1,766,439	30,894,313
Deferred financing costs, net	598,406	(80,452)	678,858
TOTAL ASSETS	\$ 41,372,341	\$ 149,023	\$ 41,223,318
<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$ 2,522,700	\$ 600,250	\$ 1,922,450
Accrued compensation	1,192,976	(32,376)	1,225,352
Deferred revenue	18,204	18,204	-
Advances from government agencies	-	(679,830)	679,830
Tenant security deposits	41,638	(48,428)	90,066
Due to government agencies	2,519,457	-	2,519,457
Due to affiliates	-	-	-
Loans and notes payable	309,995	-	309,995
Total Current Liabilities	6,604,970	(142,180)	6,747,150
Accrued interest payable	464,578	-	464,578
Loans and notes payable, net of current portion	31,252,051	1,000,291	30,251,760
Due to government agencies, net of current portion	7,530,928	(760,209)	8,291,137
Equity interest in losses in excess of capital invested in Halle	435,671	435,671	-
TOTAL LIABILITIES	46,288,198	533,573	45,754,625
NET ASSETS (DEFICIENCY):			
Unrestricted	(5,149,526)	(384,550)	(4,764,976)
Temporarily restricted	233,669	-	233,669
Total Net Assets (Deficiency)	(4,915,857)	(384,550)	(4,531,307)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	\$ 41,372,341	\$ 149,023	\$ 41,223,318

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 17 - Subsequent Events

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2015 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 material subsequent events requiring disclosure.