AABR, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019

AABR, INC.

CONTENTS

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
AABR, Inc.
College Point, New York

Report on the Financial Statements

We have audited the accompanying financial statements of AABR, Inc. ("AABR"), which include the statement of financial position at June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AABR, Inc. at June 30, 2019, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, AABR, Inc. adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, No. 2016-14, and No. 2018-08. Our opinion is not modified with respect to this matter.

Grassi & Co, CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
November 27, 2019

AABR, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current assets:		
Cash and cash equivalents	$	4,280,447
Accounts receivable, net		5,686,209
Prepaid expenses and other assets		811,460
Total current assets		10,778,116
Consumer funds		194,026
Property and equipment, net		6,082,046
Assets limited as to use		1,227,715
TOTAL ASSETS	$	18,281,903

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	$	533,153
Accrued payroll and related liabilities		3,528,180
Due to governmental agencies		1,826,931
Accrued postretirement pension obligation		836,605
Mortgages payable		483,647
Bonds payable, net		30,000
Total current liabilities		7,238,516
Long-term liabilities:		
Due to AABR Foundation, Inc., net		5,231,559
Consumer funds		194,026
Due to governmental agencies		1,169,841
Accrued postretirement pension obligation, net of current portion		2,276,524
Mortgages payable, net of current portion		1,681,506
Bonds payable, net of current portion		158,184
TOTAL LIABILITIES		17,950,156
COMMITMENTS AND CONTINGENCIES		
Net assets:		
Without donor restrictions		331,747
Total net assets		331,747
TOTAL LIABILITIES AND NET ASSETS	$	18,281,903

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

AABR, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

REVENUES AND OTHER SUPPORT:	
Program service fees	$ 38,299,639
Other income	1,222,988
Total Revenues and Other Support	39,522,627
EXPENSES:	
Program services:	
Day habilitation services	11,160,211
Intermediate care facilities	9,281,360
Individualized residential alternatives	11,150,555
Educational services	1,901,092
Other programs	1,267,757
Total program services	34,760,975
Supporting services:	
Management and general	3,317,178
Total Expenses	38,078,153
Change in net assets from operations	1,444,474
Nonoperating revenues (expenses):	
Management fee	127,209
Change in postretirement liability obligation to be recognized in future periods	(746,446)
Total nonoperating expenses	(619,237)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	825,237
NET DEFICIT, BEGINNING OF YEAR	(493,490)
NET ASSETS, END OF YEAR	$ 331,747

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

AABR, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services						Supporting Services	
	Day Habilitation Services	Intermediate Care Facilities	Individualized Residential Alternatives	Education Services	Other	Total	Management and General	Total
Salaries and wages	$ 4,801,628	$ 4,955,880	$ 6,545,631	$ 1,096,703	$ 884,632	$ 18,284,474	$ 1,675,820	$ 19,960,294
Fringe benefits	2,124,165	1,577,995	2,198,389	360,023	282,409	6,542,981	627,629	7,170,610
Total salaries and fringe benefits	6,925,793	6,533,875	8,744,020	1,456,726	1,167,041	24,827,455	2,303,449	27,130,904
Professional fees	18,315	-	-	-	-	18,315	165,660	183,975
Contracted services	15,516	951,345	534,286	8,974	-	1,510,121	80,278	1,590,399
Insurance	69,751	62,362	94,452	11,466	6,188	244,219	225,127	469,346
Utilities	194,641	140,738	211,399	33,932	11,676	592,386	68,719	661,105
Telephone	73,722	22,301	40,354	3,605	20,447	160,429	26,116	186,545
Transportation	2,681,140	63,242	64,181	3,403	11,651	2,823,617	8,647	2,832,264
Program supplies	98,364	154,005	184,915	20,644	1,416	459,344	-	459,344
Office expense	30,879	39,972	59,334	19,948	2,235	152,368	230,548	382,916
Data processing	-	-	-	-	-	-	61,260	61,260
Clothing and incidentals	45,736	18,123	32,086	-	2,033	97,978	-	97,978
Food	42,691	287,506	301,984	3,774	3,001	638,956	-	638,956
Staff recruitment	2,689	8,634	9,135	1,450	314	22,222	1,000	23,222
Advertising	-	-	-	-	-	-	2,295	2,295
Repairs and maintenance	305,715	196,139	212,754	58,767	13,657	787,032	36,182	823,214
Vehicle and equipment rentals	63,821	80,815	116,206	11,168	3,465	275,475	25,957	301,432
Facility rental	352,788	156,974	70,951	254,620	-	835,333	-	835,333
Interest expense	37,825	5,192	52,653	-	7,181	102,851	-	102,851
Facility tax expense	-	509,789	-	-	-	509,789	-	509,789
Bad debt expense	-	16,630	-	-	7,840	24,470	-	24,470
Depreciation and amortization	186,899	32,873	419,083	12,500	9,562	660,917	46,626	707,543
Miscellaneous	13,926	845	2,762	115	50	17,698	35,314	53,012
Total Expenses	$ 11,160,211	$ 9,281,360	$ 11,150,555	$ 1,901,092	$ 1,267,757	$ 34,760,975	$ 3,317,178	$ 38,078,153

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

AABR, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:		
Change in net assets	$	825,237
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		707,543
Bad debt expense		24,470
Amortization of debt issuance cost		17,420
Amortization of bond premium		(13,382)
Changes in Assets (Increase) Decrease:		
Accounts receivable		800,630
Prepaid expenses and other assets		113,411
Changes in Liabilities Increase (Decrease)		
Due to AABR Foundation, Inc., net		(121,052)
Accounts payable and accrued expenses		(6,417)
Accrued payroll and related liabilities		282,312
Accrued pension obligation		659,489
Due to governmental agencies		(2,567,797)
Net cash provided by operating activities		721,864
Cash flows from investing activities:		
Purchase of fixed assets		(818,866)
Increase in assets limited as to use		(4,050)
Net cash used in investing activities		(822,916)
Cash flows from financing activities:		
Principal payments on mortgages payable		(387,486)
Principal payments on capital lease obligations		(3,197)
Principal payments on bonds payable		(225,000)
Net cash used in financing activities		(615,683)
Net change in cash and cash equivalents		(716,735)
Cash and cash equivalents, beginning of year		4,997,182
Cash and cash equivalents, end of year	$	4,280,447
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of capitalized interest	$	98,813

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

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

AABR, Inc. ("AABR") located in College Point, New York, is a not-for-profit corporation, founded in 1956. AABR operates two five-day per week day habilitation centers, eight intermediate care facilities, and fourteen individualized residential alternatives under contract with the New York State Office for People With Developmental Disabilities ("OPWDD"). In addition, AABR also operates a preschool and school-age programs for children with autism. AABR's primary source of revenue is from service fees from state and local governmental agencies including the OPWDD, through Medicaid and the New York State Education Department ("NYSED").

AABR, Inc. qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and as a not-for-profit corporation in New York State. Accordingly, no provision for federal or state income taxes is required.

Changes in Accounting Principles

ASU No. 2014-09

Effective July 1, 2018, AABR adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") using a modified retrospective method of adoption to all contracts with customers at July 1, 2018. ASU 2014-09 requires AABR to recognize revenue to depict the provision of services to individuals with developmental disabilities in amounts that reflect the consideration to which AABR expects to be entitled in exchange for those services. The amount to which AABR expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing the services. Because contracts are generally complete within a year, AABR used the actual transaction price rather than estimating variable consideration amounts for contracts completed during the year ended June 30, 2019.

ASU No. 2016-14

Effective July 1, 2018, AABR adopted the provisions of FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14") on a retrospective basis. This ASU provides for changes in financial statement presentation that affect classification of net assets, statement of cash flows and presentation of expenses. It also provides for enhanced disclosures of board designated funds, methods used to allocate costs among functions and available resources and liquidity.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Changes in Accounting Principles (cont'd.)

ASU No. 2018-08

Effective July 1, 2018, AABR adopted the provisions of FASB ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08") on a modified prospective basis. This ASU provides for guidance to assist AABR in evaluating the transfer of assets and the nature of the related transactions. AABR considers whether a contribution is either conditional based on whether an agreement includes a barrier that must be overcome and a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both indicates that the recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome any barriers in the agreement.

The adoption of these ASUs resulted in changes in presentation of financial statements and the related disclosures in the notes to the financial statements.

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 conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Allowance for Doubtful Accounts

AABR determines whether an allowance for doubtful accounts should be provided for Medicaid receivables. Such estimates are based on management's assessment of the aged basis of the receivables, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged on outstanding receivables. Bad debt expense is charged if the receivable is determined to be uncollectible based on periodic review by management. For the year ended June 30, 2019, AABR has determined that an allowance for doubtful accounts was not necessary.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments

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 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 AABR's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2019, the fair value of AABR's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, accrued payroll and related liabilities, due to governmental agencies and accrued postretirement pension obligation, approximated book value due to the short maturity of these instruments.

At June 30, 2019, AABR does not have assets or liabilities required to be measured at fair value in accordance with FASB Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement.*

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment is provided over the estimated useful lives of the assets utilizing the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

Building and improvements	20 to 25 years
Furniture, fixtures, and equipment	5 to 10 years

Contract Assets

Amounts related to services provided to customers which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of services provided to customers who are still receiving services at the end of the year. There were no contract assets at June 30, 2019.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

Contract Liabilities

Contract liabilities represent revenue that has been deferred for the funds advanced by third party payors for AABR contracts received related to services that have not yet been provided to customers. Contract liabilities consist of payments made by funding sources for AABR contracts for services not yet performed that are expected to be performed within the next fiscal year. There were no contract liabilities at June 30, 2019.

Assets Limited as to Use

Assets limited as to use are assets set aside under the terms of certain financing agreements, to be used for capital purposes or the pay down of the outstanding amounts.

Long-Lived Assets

AABR reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Management has determined that no assessment was required for the period presented in these financial statements.

Debt Issuance Costs and Premium on Bonds Payable

Debt issuance costs were incurred in connection with the issuance of AABR's bonds payable. These costs are amortized over the term of the related indebtedness, and are included in interest expense in the accompanying financial statements. In order to simplify the presentation, AABR reports the deferred financing costs as a direct deduction from the carrying amount for the corresponding debt liability.

Premium on bonds payable are amounts received in excess of par value of the related debt and are included in the carrying value of the related debt. The premiums are amortized on the straight-line basis over the term of the bonds. The amortization of the bond premium is netted against interest expense.

Due to Governmental Agencies

These amounts represent actual and estimated liabilities due back to government funding sources based on current laws and regulations. In addition, to the extent amounts received for government grants exceed the amounts spent, AABR establishes an amount due to governmental agencies. Laws and regulations governing education and health care programs are extremely 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. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs.

Net Assets

Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those net assets that are restricted by the donors for specific purposes.

Note 1 - Nature of Operations and 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 has been recorded for the difference between the cash payment and rent expense.

Accounting for Uncertainty in Income Taxes

AABR applies the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. AABR is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. AABR believes it is no longer subject to income tax examinations prior to 2016.

Measure of Operations

The measure of operations includes all revenues and expenses directly related to consumer care and excludes management fees and change in postretirement liability obligation to be recognized in future periods.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting services of AABR. Those expenses include staffing and general operating expenses. Shared staff include therapists, other program administration and support staff, and maintenance staff. Other program administration and support staff are allocated by using time studies or the ratio value method. Maintenance staff are allocated based on a square footage basis. General operating expenses are allocated based upon the methodology set forth by the New York State Consolidated Fiscal Report ("CFR") Instruction Manual, Appendix J.

New Accounting Pronouncements

ASU No. 2016-18

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. Current guidance does not specify how to present restricted cash and restricted cash equivalents in the statement of cash flows, thus there is diversity in practice.

The amendments in ASU No. 2016-18 should be applied using a retrospective transition method to each period presented and are effective for nonpublic entities for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements (cont'd.)

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede FASB ASC Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021, based on the FASB's vote at its October 16, 2019 meeting to defer the implementation dates by one year. Early application is permitted for all entities.

AABR has not yet determined if these ASUs will have a material effect on its financial statements.

Note 2 - Revenue from Contracts with Governmental Agencies

Service Revenue

AABR receives funding from various governmental agencies, including the OPWDD and the SED to provide services to individuals with developmental disabilities. Revenue is reported at the amount that reflects the consideration to which AABR expects to be entitled in exchange for providing the support and services. These amounts are due from third-party payors (including government programs), individuals (including Social Security ("SSA") and Supplemental Security Income ("SSI") benefits) and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. As part of its reimbursement process, SED adjusts the tuition rates paid to reflect actual allowable expenditures based on the Consolidated Fiscal Report filed with SED. AABR estimates these adjustments and records them during each fiscal year. As of June 30, 2019, AABR's latest adjusted and reconciled tuition rate is for the school year ended June 30, 2017. The subsequent year's adjustments have been accrued in these financial statements.

Generally, AABR bills individuals and third-party payors after the services are performed or they have completed their portion of the contract. Receivables are due in full when billed, and revenue is recognized as performance obligations are satisfied.

Note 2 - Revenue from Contracts with Governmental Agencies (cont'd.)

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Performance obligations are determined based on the nature of the services provided by AABR in accordance with the contract. Revenue for performance obligations satisfied over time is recognized as the services are provided based on per diem or monthly rates. AABR believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. AABR measures the performance obligation from the beginning of the next month or day to the point when it is no longer required to provide services under the contract or has met the requirements to bill for the services provided, which is generally at the end of each month or period of time allowed based on the governmental agencies' stipulations.

Because all of its performance obligations relate to contracts with a duration of less than one year, AABR has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the service is completed and upon submission of required documentation, which is usually at each month end.

AABR determines the transaction price based on established rates and contracts for services provided. The initial estimate of the transaction price is determined by reducing the established rates for services provided by any implicit price concessions based on historical collection experience with each governmental agency and school district. AABR has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors and service lines. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change.

Third-Party Payors

Agreements with third-party payors typically provide for payments at established charges. A summary of the payment arrangements with major third-party payors is as follows:

Medicaid: Reimbursements for day and residential services are generally paid for each type of service provided. Certain of these rates may be subject to final settlement as determined after submission of annual cost reports by AABR.

School Districts: Reimbursements for education are generally paid as those services are provided. Certain of these rates are subject to final settlement as determined after submission of annual cost reports by AABR.

Other: Payment agreements with private payors are based on pre-determined rates for established services as they are provided, on a monthly basis.

SSA and SSI

Generally, individuals who receive long-term residential support and services are responsible for a portion of their cost of care, which is based on the individual's income level. AABR estimates the transaction price based on government guidelines and historical experience.

Note 2 - Revenue from Contracts with Governmental Agencies (cont'd.)

Significant Judgments

Laws and regulations concerning government programs are complex and subject to varying interpretation. There can be no assurance that regulatory authorities will not challenge AABR's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have upon AABR.

From time to time, AABR will receive overpayments resulting in amounts owed back to the governmental agency. In addition, contracts that AABR has with certain governmental agencies provide for reconciliation and retroactive audit and review of documentation and annual report filings. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2019, AABR has an estimated liability for amounts due to governmental agencies of $2,996,772.

Disaggregation of Revenue

The composition of revenue by program and primary payor, as well as revenue by reimbursement method for the year ended June 30, 2019 is as follows:

	OPWDD	Medicaid, including SSI/SSA	School Districts	Other	Total
Education	$ -	$ -	$ 1,720,560	$ -	$ 1,720,560
Intermediate Care Facilities	-	9,997,433	-	-	9,997,433
Individual Residential Alternative	220,322	11,968,072	-	186,911	12,375,305
Day Habilitation	-	13,679,008	-	-	13,679,008
Other	27,729	499,604	-	-	527,333
	$ 248,051	$ 36,144,117	$ 1,720,560	$ 186,911	$ 38,299,639

Reimbursement Method

Per Diem	$ 35,172,777
Per Month	1,940,882
Established Rates	1,185,980
	$ 38,299,639

Financing Component

AABR has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers and third parties for the effects of a significant financing component due to AABR's expectation that the period between the time the service is provided to a customer and the time the customer or a third-party payor pays for that service will be one year or less.

Note 2 - Revenue from Contracts with Governmental Agencies (cont'd.)

Contract Costs

AABR has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that AABR otherwise would have recognized is one year or less in duration.

Note 3 - Concentrations of Credit Risk

AABR 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, AABR's balances may exceed these limits.

Note 4 - Assets Limited as to Use

At June 30, 2019, assets held for specific purposes are maintained in the following restricted funds:

Debt service reserve funds - OPWDD (a)	$	210,024
Debt service reserve funds - DASNY (b)		186,796
Restricted cash (c)		830,895
	$	1,227,715

(a) Debt Service Reserve Funds - OPWDD. The debt service reserve fund consists of funds held by OPWDD to be applied to the last payment on the mortgage with the Facilities Development Corporation.

(b) Debt Service Reserve Funds - DASNY. The debt service reserve fund consists of funds held on behalf of the DASNY bonds. As required by the bond agreement, one twelfth of the annual principal payment and one sixth of the semiannual interest payment are paid monthly into the fund.

(c) Restricted cash to comply with collateral security as required by the lender of the loan to be used for the renovations of property located in the Bronx, New York.

Note 5 - Property and Equipment

Property and equipment, stated at cost, net of accumulated depreciation and amortization, consists of the following for June 30, 2019:

Land	$	2,680,004
Leasehold improvements		1,880,151
Building and improvements		18,536,435
Furniture, fixtures and equipment		1,437,868
Construction in progress		722,591
		25,257,049
Less: Accumulated depreciation and amortization		19,175,003
	$	6,082,046

Depreciation and amortization expense related to property and equipment amounted to $707,543.

The remaining estimated cost to complete the ICF project is approximately $272,000, and construction is expected to be complete in 2019.

Note 6 - Related Party Transactions

AABR Foundation, Inc. (the “Foundation”) is related to AABR through common board control. The Foundation became the parent of AABR on October 17, 2014. AABR provides administrative-related services to the Foundation. The management fees earned for the year ended June 30, 2019 amounted to $127,209. During the year ended June 30, 2019, the Foundation gave a grant to AABR in the amount of $3,234. The amount due to the Foundation at June 30, 2019 was $5,231,559. These balances are unsecured, noninterest-bearing and due on demand.

Note 7 - Bonds Payable

In 2013, AABR, through DASNY, issued Series 2013 A-1 and 2013 A-2 Bonds aggregating $2,020,000. The bonds were issued at a premium of $118,750, which is being amortized on the straight-line basis over the term of the bonds. One twelfth of the annual principal payment and one sixth of the semiannual interest payment are paid monthly into a repayment fund. This amount is included in the debt service reserve fund balance on the statement of financial position. The rate of interest on the bonds ranges from 1.43% to 3.25%. The DASNY bonds are secured by a second mortgage lien on each Facility and a subordinate lien on the Public Funds attributable to the Facilities secured by a Stand-by Intercept Agreement with OPWDD. The principal balance of the Series 2013 A-2 bonds were paid off in 2015. The principal balance outstanding at June 30, 2019 is $200,000.

Outstanding principal	$	200,000
Unamortized debt issuance costs		(15,142)
Unamortized premium		3,326
Total	$	188,184

Note 7 - Bonds Payable (cont'd.)

Future maturities of bonds payable are approximately as follows:

Years Ending June 30:		
2020	$	30,000
2021		35,000
2022		35,000
2023		35,000
2024		10,000
Thereafter		55,000
	$	200,000

Note 8 - Mortgages Payable

Mortgages payable at June 30, 2019 consist of the following:

Mortgage due to Dormitory Authority of the State of New York (DASNY) payable in semi-annual principal and administrative fee payments ranging from $5,714 to $155,456, plus interest at an average annual coupon rate of 5.9801%. The mortgage matures August 15, 2021 and is secured by all real and personal property and pledged revenues for the St. Albans facility.	$	430,750
Mortgage due to TD Bank, N.A. in May 2016 with an interest rate of 7.09% per annum. The balance due was refinanced in 2017 and is due in monthly installments of $1,504 through May 2026, including interest at 4.02% per annum. The mortgage is secured by related property located in Queens, New York.		170,229
Mortgage due to TD Bank, N.A. in April 2024 payable in monthly installments of $7,635, including interest at 4.92% per annum. The loan is secured by related property located in the Bronx, New York.		392,565
Mortgage due to TD Bank, N.A., in monthly installments of $5,453 through August 2025, including interest at 4.82% per annum. The mortgage is secured by related property located in Queens, New York.		347,740
Mortgage due to TD Bank, N.A. with interest-only payments required until August, 1, 2019 and followed by 102 equal consecutive monthly installments. Interest is charged at a fluctuating rate equal to prime rate which was 5%. The monthly installment has not been determined yet as of the financial statement date. The mortgage is secured by related property located in the Bronx, New York.		823,869
		2,165,153
Less: Current portion		483,647
Long-term portion	$	1,681,506

Note 8 - Mortgages Payable (cont'd.)

Future maturities of mortgages payable are as follows:

Years Ending June 30:		
2020	$	483,647
2021		379,345
2022		236,112
2023		247,999
2024		194,376
Thereafter		623,674
	$	2,165,153

Note 9 - Retirement Plans

Union Plan

AABR contributes to the Local 830 Retirement Plan (the "Plan"), a multiple-employer defined benefit pension plan, under the terms of a participation agreement for its employees. The risks of participating in this multiple-employer plan are different from a single-employer plan in the following aspects:

a. Assets contributed to the plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If AABR chooses to stop participating in the plan, AABR may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

AABR's participation in this plan for the annual period ended June 30, 2019, is outlined in the tables below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2019 is for the plan's year-end at June 30, 2019. The zone status is based on information that AABR received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are 65 percent to 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Note 9 - Retirement Plans (cont'd.)

Union Plan (cont'd.)

The following information was obtained from AABR's union-managed pension plan:

Pension Fund	EIN/ Pension Plan Number	2019 Pension Protection Act Zone Status	FIP/ RP Status Pending/Implemented	2019 Contributions	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Local 840 Pension Fund	EIN 13-6304568 Plan No. 001	Red	Implemented	$ 114,908	Yes	June 2019

The plan was certified by its actuary to be in "red zone" status - critical or endangered status for the years beginning January 1, 2018 and January 1, 2019.

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

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

As of the date the financial statements were issued, the latest Form 5500 available was for the plan year ended December 31, 2017.

Nonunion Plans

Tax-Deferred Annuity Plan

AABR has a defined contribution 403(b) plan for all employees. AABR makes monthly contributions, which varied from 2% to 8% of employees' salaries in 2019 up to statutory limits. Pension expense for 2019 was $622,402. AABR has a second 403(b) plan for voluntary employee contributions. There are no eligibility requirements for the purpose of making salary deferrals to the Plan. Employees are eligible to enter immediately and their salary deferral election will be effective on the first of the month.

To be eligible to participate in the Employer's non-elective contribution portion of the Plan, employees must have attained age 21, have completed one year of service and been paid a minimum of 1,000 hours and must be employed on the last day of each quarter. Once an employee has met these requirements, an employee can enter the Plan on the first day of each calendar month of the Plan year, coincident with or following the effective date of his or her salary deferral agreement.

Note 9 - Retirement Plans (cont'd.)

Nonunion Plans (cont'd.)

Defined Benefit Pension Plan

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

AABR uses June 30 as its measurement date for the Plan. Information about the Plan's funded status is as follows:

Change in benefit obligation		
Beginning of year	$	(9,771,583)
Interest and service costs		(526,044)
Net actuarial gain		(911,893)
Benefits paid		567,348
End of Year		(10,642,172)
Change in plan assets		
Beginning of year		7,317,943
Actual return on plan assets		536,991
Employer contributions		263,967
Benefits paid		(589,858)
End of year		7,529,043
Funded status at end of year	$	(3,113,129)
Liabilities recognized in the statement of financial position		
Current liabilities	$	(836,605)
Non-current liabilities		(2,276,524)
Total liabilities	$	(3,113,129)

The following table sets forth the funded status at June 30, 2019 and amounts recognized in AABR's statement of financial position at June 30, 2019:

Projected benefit obligation	$	(10,642,172)
Fair value of plan assets		7,529,043
Funded status at year end	$	(3,113,129)

Note 9 - Retirement Plans (cont'd.)

Nonunion Plans (cont'd.)

Defined Benefit Pension Plan (cont'd.)

Components of net periodic pension (gain) cost:

Net periodic pension cost		
Service cost	$	141,547
Interest cost		384,497
Expected return on assets		(547,905)
Amortization of net (gain) / loss		198,871
Net periodic pension cost / (income)	$	177,010

The following are weighted-average assumptions used to determine the benefit obligations and net periodic benefit costs for the year ended June 30, 2019 as follows:

Discount rate	3.03%
Expected long-term rate of return on plan assets	6.63%
Rate of compensation increase	0%
Mortality	RP-2014 at 2006/MP-2018

Employer contributions expected to be paid in fiscal year ending June 30, 2020 are $377,277.

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

Years Ending June 30:		
2020	$	836,605
2021		382,585
2022		552,254
2023		633,771
2024		849,455
2025-2029		2,659,397
	$	5,914,067

Plan Assets

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

Note 9 - Retirement Plans (cont'd.)

Nonunion Plans (cont'd.)

Defined Benefit Pension Plan (cont'd.)

The fair value of pension plan assets as of June 30, 2019, by asset class are as follows:

	June 30, 2019		
Asset Class	Fair Value	Level 1	
Common stock			
Basic materials	$ 63,136	$ 63,136	
Communication services	579,652	579,652	
Consumer cyclical	535,591	535,591	
Consumer defensive	239,160	239,160	
Energy	132,783	132,783	
Financial services	2,059,353	2,059,353	
Healthcare	454,771	454,771	
Industrials	295,903	295,903	
Real estate	1,146,102	1,146,102	
Technology	1,334,603	1,334,603	
Utilities	44,552	44,552	
Total common stock	6,885,606	6,885,606	91%
Exchange traded funds			
Financial services	73,184	73,184	
Real estate	40,493	40,493	
Total exchange traded funds	113,677	113,677	2%
Cash and cash equivalents	529,760	529,760	7%
Total plan assets at fair value	$7,529,043	$7,529,043	100%

Note 10 - Commitments

AABR leases facilities and equipment from unrelated parties under leases classified as operating leases. The leases are noncancelable and AABR is obligated for certain other operating costs at these sites. Lease agreements for these facilities extend through June 2023. Leases for equipment extend through October 2022. The future minimum commitments to all nonrelated parties are as follows:

	Real Property	Equipment
Years Ending June 30:		
2020	$ 626,293	$ 606,386
2021	270,126	193,571
2022	278,230	18,945
2023	286,577	5,460
	$ 1,461,226	$ 824,362

Note 11 - Contingencies

As of June 30, 2019, AABR is a party to various litigations which, in the opinion of management and legal counsel, will not have a material adverse impact on AABR's future financial position, liquidity and results from operations.

Under the Employee Retirement Income Security Act of 1974, a contributor to a multiemployer plan is liable, only upon termination or withdrawal from a plan, for its proportionate share of a plan's unfunded vested liability. AABR currently has no intention of withdrawing from the multiemployer pension plan in which it participates.

Note 12 - Available Resources and Liquidity

AABR regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. AABR has various sources of liquidity at its disposal, including cash and cash equivalents, and accounts receivable.

The following reflects AABR financial assets as of the balance sheet date, available for general use within one year of the balance sheet date:

Current assets, excluding non-financial assets	
Cash and cash equivalents	$ 4,280,447
Accounts receivable	5,686,209
Financial assets available to meet cash needs for general expenditures within one year	$ 9,966,656

Note 13 - Subsequent Events

AABR has evaluated all events or transactions that occurred after June 30, 2019 through November 27, 2019, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.