Developmental Disabilities Institute, Inc. and Affiliate

Combined Financial Statements and Supplementary Information

Year Ended December 31, 2018

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Developmental Disabilities Institute, Inc. and Affiliate

Contents

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Independent Auditor's Report

Board of Directors
Developmental Disabilities Institute, Inc. and Affiliate
Smithtown, New York

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Developmental Disabilities Institute, Inc. and Affiliate (collectively, the Agency and Affiliate), which comprise the combined statement of financial position as of December 31, 2018, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Developmental Disabilities Institute, Inc. and Affiliate as of December 31, 2018, and the results of changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

Report on Summarized Comparative Information

We have audited the Agency and Affiliate's 2017 combined financial statements and our report, dated May 23, 2018, expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

May 28, 2019

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Financial Position
(with comparative totals for 2017)

December 31,	2018	2017
Assets		
Current		
Cash and cash equivalents (Note 3)	$ **9,948,712**	$ 14,373,935
Assets limited as to use, current portion (Note 3)	**1,493,278**	2,514,991
Investments, at fair value (Note 3)	**-**	4,996
Accounts receivable, net of allowance for doubtful accounts (Notes 3 and 5)	**19,773,235**	19,083,777
Government and other grants receivable (Note 3)	**1,051,163**	1,011,873
Contributions and pledges receivable, current portion (Notes 3 and 6)	**45,171**	146,217
Prepaid expenses and other assets	**3,649,199**	2,702,297
Total Current Assets	**35,960,758**	39,838,086
Security Deposits	**148,286**	198,286
Other Investment (Note 18)	**22,747**	28,688
Contributions and Pledges Receivable, Net, less current portion (Notes 3 and 6)	**24,987**	54,145
Assets Limited as to Use, less current portion (Note 4)	**4,917,326**	4,708,558
Fixed Assets, Net (Notes 3, 7, 12, 13 and 21)	**30,337,735**	27,625,661
	$ **71,411,839**	$ 72,453,424
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ **6,204,510**	$ 4,447,122
Accrued interest payable (Note 13)	**151,207**	177,208
Accrued payroll and related benefits	**6,492,909**	6,313,736
Accrued pension payable (Note 8)	**1,255,163**	879,584
Deferred revenue, current portion (Note 3)	**894,307**	2,634,869
Capital lease obligations, current portion (Note 10)	**644,503**	765,696
Mortgages and loans payable, current portion (Note 12)	**193,379**	184,349
Bonds payable, current portion (Note 13)	**2,033,208**	1,972,176
Due to governmental agencies, current portion (Notes 3 and 9)	**2,663,453**	1,397,987
Total Current Liabilities	**20,532,639**	18,772,727
Deferred Revenue, less current portion (Note 3)	**1,924,586**	1,967,061
Capital Lease Obligations, less current maturities (Note 10)	**906,207**	1,053,121
Mortgages and Loans Payable, less current maturities (Note 12)	**1,535,196**	1,724,224
Bonds Payable, less current maturities (Notes 13 and 21)	**16,998,519**	19,046,728
Due to Governmental Agencies, less current portion	**-**	3,500,485
Total Liabilities	**41,897,147**	46,064,346
Commitments and Contingencies (Notes 3, 7, 9, 10, 11, 12, 13, 14, 15, 19, and 21)		
Net Assets		
Net Assets without donor restrictions	**29,133,950**	25,967,515
Net Assets with donor restrictions	**380,742**	421,563
Total Net Assets	**29,514,692**	26,389,078
	$ **71,411,839**	$ 72,453,424

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Activities
(with comparative totals for 2017)

Year ended December 31,

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Program Revenues				
Fees for services	$ 99,103,660	$ -	**$ 99,103,660**	$ 95,260,259
Government and other grants	1,105,578	-	**1,105,578**	1,605,822
Other program revenues	2,745,440	-	**2,745,440**	2,093,993
Net assets released from restrictions (Note 16)	200,980	(200,980)	**-**	-
Total Program Revenues	103,155,658	(200,980)	**102,954,678**	98,960,074
Expenses				
Program services:				
Education services	33,957,084	-	**33,957,084**	31,910,552
Adult day services	19,596,071	-	**19,596,071**	18,311,200
Children's residential services	11,215,072	-	**11,215,072**	10,635,824
Adult residential services	31,116,451	-	**31,116,451**	28,943,230
Other programs	772,610	-	**772,610**	1,199,492
Total Program Services	96,657,288	-	**96,657,288**	91,000,298
Supporting services:				
Management and general	7,060,314	-	**7,060,314**	6,663,472
Fundraising	387,618	-	**387,618**	241,488
Total Supporting Services	7,447,932	-	**7,447,932**	6,904,960
Total Expenses	104,105,220	-	**104,105,220**	97,905,258
Change in Net Assets Before Nonoperating Revenues and Expenses	(949,562)	(200,980)	**(1,150,542)**	1,054,816
Nonoperating Revenues and Expenses				
Capital Campaign:				
Capital campaign income	-	31,762	**31,762**	71,812
Capital campaign expenses	(73,712)	-	**(73,712)**	(97,750)
Net Expenses from Capital Campaign	(73,712)	31,762	**(41,950)**	(25,938)
Special Events:				
Special events revenues	418,095	-	**418,095**	464,288
Less: direct cost to donors	(123,266)	-	**(123,266)**	(126,526)
Net Revenues from Special Events	294,829	-	**294,829**	337,762
Contributions	41,247	-	**41,247**	172,360
Gain on sale of fixed assets	29,557	-	**29,557**	59,270
Unrealized loss on other investment	(5,941)	-	**(5,941)**	(21,312)
Interest income	173,006	-	**173,006**	50,466
Other income	107,376	-	**107,376**	88,170
Prior-period income (Note 3)	3,549,635	-	**3,549,635**	48,757
Program designated revenue	-	128,397	**128,397**	-
Total Nonoperating Revenues and Expenses	4,115,997	160,159	**4,276,156**	709,535
Change in Net Assets	3,166,435	(40,821)	**3,125,614**	1,764,351
Net Assets, beginning of year	25,967,515	421,563	**26,389,078**	24,624,727
Net Assets, end of year	$ 29,133,950	$ 380,742	**$ 29,514,692**	$ 26,389,078

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Functional Expenses
(with comparative totals for 2017)

Year ended December 31,

	Program Services						Supporting Services			Total	
	Education Services	Adult Day Services	Children's Residential Services	Adult Residential Services	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	2018	2017
Salaries and Related Expenses											
Salaries	$ 22,553,254	$ 11,589,458	$ 6,599,109	$ 19,737,653	$ 98,639	$ 60,578,113	$ 3,917,692	$ 170,973	$ 4,088,665	**$ 64,666,778**	$ 59,708,996
Payroll taxes and employee benefits	7,671,867	3,598,298	1,834,587	5,838,771	31,267	18,974,790	1,265,440	50,708	1,316,148	**20,290,938**	20,231,199
Total Salaries and Related Expenses	30,225,121	15,187,756	8,433,696	25,576,424	129,906	79,552,903	5,183,132	221,681	5,404,813	**84,957,716**	79,940,195
Other Expenses											
Fee-for-services professionals	33,279	46,050	27,238	138,755	-	245,322	87,492	10,500	97,992	**343,314**	576,220
Building occupancy	474,758	935,314	4	97	244,732	1,654,905	20,841	-	20,841	**1,675,746**	1,711,914
Telephone	173,265	231,463	59,197	146,666	13,190	623,781	44,848	1,377	46,225	**670,006**	642,891
Travel	52,752	84,519	13,046	60,608	1,573	212,498	18,843	1,305	20,148	**232,646**	194,132
Supplies	597,668	272,314	323,569	695,931	5,679	1,895,161	538,529	73,015	611,544	**2,506,705**	1,876,863
Food	709	25,760	388,010	880,619	-	1,295,098	151	-	151	**1,295,249**	1,247,731
Office expense	156,519	56,492	26,267	39,513	126	278,917	118,779	37,859	156,638	**435,555**	426,102
Dues and subscriptions	19,209	6,886	2,456	6,838	1,353	36,742	45,375	3,625	49,000	**85,742**	97,246
Postage	8,634	1,943	812	585	367	12,341	41,887	745	42,632	**54,973**	61,661
Meetings and conferences	8,049	13,181	4,111	11,231	1,058	37,630	15,747	594	16,341	**53,971**	57,550
Employee training and recruitment	206,538	90,380	67,344	132,750	237	497,249	149,756	1,444	151,200	**648,449**	560,132
Legal and accounting	2,953	869	28,652	4,145	-	36,619	209,941	4,076	214,017	**250,636**	235,707
Utilities	356,935	260,190	128,328	383,954	68,008	1,197,415	33,734	463	34,197	**1,231,612**	1,126,021
Repairs and maintenance	373,506	398,556	214,883	410,237	51,849	1,449,031	38,966	6,558	45,524	**1,494,555**	1,230,506
Equipment and furniture	222,312	42,370	40,062	79,730	5,579	390,053	35,359	21,274	56,633	**446,686**	400,657
Interest	208,743	173,389	186,141	359,995	107,489	1,035,757	50,835	336	51,171	**1,086,928**	1,171,433
Insurance	314,863	478,607	140,577	501,689	10,841	1,446,577	57,335	303	57,638	**1,504,215**	1,370,123
Medicaid assessment taxes	-	-	615,195	209,038	-	824,233	-	-	-	**824,233**	824,707
Debt-related expenses	-	-	-	-	-	-	20,202	-	20,202	**20,202**	17,480
Transportation subcontracting fees	-	41,034	-	-	-	41,034	-	-	-	**41,034**	16,803
Vehicle expense	22,255	570,959	53,776	316,496	295	963,781	2,158	296	2,454	**966,235**	898,332
Bad debt expense	1,502	-	-	-	-	1,502	-	-	-	**1,502**	122,566
Contributions expense	-	-	-	-	-	-	-	1,940	1,940	**1,940**	1,385
Total Expenses Before Depreciation and Amortization	33,459,570	18,918,032	10,753,364	29,955,301	642,282	93,728,549	6,713,910	387,391	7,101,301	**100,829,850**	94,808,357
Depreciation and Amortization	497,514	678,039	461,708	1,161,150	130,328	2,928,739	346,404	227	346,631	**3,275,370**	3,096,901
Total Expenses	$ 33,957,084	$ 19,596,071	$ 11,215,072	$ 31,116,451	$ 772,610	$ 96,657,288	$ 7,060,314	$ 387,618	$ 7,447,932	**$ 104,105,220**	$ 97,905,258

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Cash Flows
(with comparative totals for 2017)

Year ended December 31,		**2018**		2017
Cash Flows from Operating Activities				
Change in net assets	$	**3,125,614**	$	1,764,351
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**3,275,370**		3,096,901
Interest on debt issuance costs		**109,364**		119,351
Gain on sale of fixed assets		**(29,557)**		(59,270)
Provision for bad debt		**1,502**		122,566
Discount on pledges receivables		**1,525**		1,530
Loss on other investment		**5,941**		21,312
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable		**(690,960)**		(1,564,357)
Government and other grants receivable		**(39,290)**		51,174
Contributions and pledges receivable		**128,679**		(273,084)
Security deposits		**50,000**		-
Prepaid expenses and other assets		**(946,902)**		(78,651)
Increase (decrease) in:				
Accounts payable and accrued expenses		**1,757,388**		645,722
Accrued interest payable		**(26,001)**		41,251
Accrued payroll and related benefits		**179,173**		(1,240,053)
Accrued pension payable		**375,579**		(532,175)
Deferred revenue		**(1,783,037)**		(290,309)
Due to governmental agencies		**(2,235,019)**		607,041
Net Cash Provided by Operating Activities		**3,259,369**		2,433,300
Cash Flows from Investing Activities				
Purchase of other investment		**-**		(50,000)
Purchases of fixed assets		**(5,427,612)**		(2,091,966)
Proceeds from sale of fixed assets		**30,321**		84,073
Proceeds from sale of investments		**4,996**		-
Assets limited to use		**812,945**		519,668
Net Cash Used in Investing Activities		**(4,579,350)**		(1,538,225)
Cash Flows from Financing Activities				
Repayments on capital lease obligations		**(828,703)**		(803,178)
Principal payments on mortgages and loans payable		**(181,539)**		(209,501)
Principal payments on bonds payable		**(2,095,000)**		(1,945,000)
Net Cash Used in Financing Activities		**(3,105,242)**		(2,957,679)
Net Decrease in Cash and Cash Equivalents		**(4,425,223)**		(2,062,604)
Cash and Cash Equivalents, beginning of year		**14,373,935**		16,436,539
Cash and Cash Equivalents, end of year	$	**9,948,712**	$	14,373,935
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest	$	**1,086,928**	$	1,052,294
Noncash transaction related to capital leases		**560,596**		1,109,548

See accompanying notes to combined financial statements.

1. Principles of Combination

The accompanying combined financial statements include the accounts of Developmental Disabilities Institute, Inc. (the Agency), which are related by certain common members of the Board of Directors and identical management.

As further discussed in Note 20, on June 28, 2018, the Foundation's Board of Directors approved a Plan of Dissolution for the Foundation and approved the transfer of all of the Foundation's assets to the Agency. The Foundation was dissolved on September 28, 2018.

All intercompany balances and transactions have been eliminated in combination.

2. Nature of the Organization

The Agency is a New York State not-for-profit corporation that operates health, education and residential facilities for the therapeutic education, guidance and training of developmentally disabled children, adults and their families. The Agency is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), and therefore has made no provision for income taxes in the accompanying combined financial statements. In addition, the Agency has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended December 31, 2018.

3. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements of the Agency have been prepared on the accrual basis. In the combined statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

Financial Statement Presentation

The classification of the Agency's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of two classes of net assets—with donor restrictions and without restrictions—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a combined statement of activities.

These classes are defined as follows:

With Donor Restrictions - Net assets with donor restrictions consists of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Agency reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the combined statements of activities as net assets released from restrictions.

Without Donor Restrictions - Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board of Directors designated certain net assets for construction and renovation at various program locations, as well as for information technology infrastructure. See Note 19 for more information on the composition of liquidity and availability of resources.

Cash and Cash Equivalents

The Agency considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Provision for Doubtful Accounts

The Agency provides an allowance for doubtful accounts for accounts receivable, which are specifically identified by management as to their uncertainty in regard to collectability. As of December 31, 2018, the total allowance for doubtful accounts is $540,516.

Investments at Fair Value

Accounting Standards Codification (ASC) 820, "Fair Value Measurement," defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. ASC 820 defines fair value 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 in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market-corroborated, or unobservable. ASC 820 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and its placement within the fair value hierarchy. The Agency classifies fair value balances based on the fair value hierarchy defined by ASC 820, as follows:

Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Investment income is recognized when earned and consists of interest and dividends. Dividends are recorded on the ex-dividend date. Purchases and sales are recorded on a trade-date basis.

Income Taxes

The Agency was incorporated in the State of New York and is exempt from federal and state income taxes under Section 501(c)(3) of the Code and, therefore, have made no provision for income taxes in the accompanying combined financial statements. In addition, the Agency has been determined by the IRS not to be "private foundations" within the meaning of Section 509(a) of the Code. There was no unrelated business income for the year ended December 31, 2018. Management believes that the Agency is no longer subject to income tax examinations for years prior to 2014.

Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Agency does not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. The Agency has filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, the Agency has filed IRS Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended December 31, 2018, there was no interest or penalties recorded or included in the combined statement of activities.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and equipment under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

	Years
Buildings	18-40
Building improvements	5-40
Furniture and fixtures	4-20
Equipment and vehicles	3-15

Impairment of Fixed Assets

The Agency reviews fixed assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the future cash flows from the use of the asset are less than the carrying amount of that asset. As of December 31, 2018, there have been no such losses.

Contributions and Pledges Receivable

Contributions and pledges receivable, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Promises to give are recorded at the present value of estimated future cash flows, based on an appropriate discount rate at the time of the gift. Amortization of the discount in subsequent years is included in contribution revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions for capital projects are reported as nonoperating revenues. Conditional contributions, including conditional promises to give, are not recognized until the conditions are substantially met.

Unconditional promises to give are recorded in the combined financial statements at present value using a discount rate that represents risk-free interest rates applicable to the years in which promises are received. For the year ended December 31, 2018, the Agency used a discount rate of 3%.

Contributions receivable consist of $61,158 for the capital campaign and $9,000 for pledges receivable at December 31, 2018.

The capital campaign represents funds donated to the Agency for the purpose of renovations of the Little Plains School located in Huntington, New York and the Hollywood Drive campus located in Smithtown, New York, and expenses related to the capital campaign.

Third-Party Reimbursements and Revenue Recognition

The Agency receives substantially all of its revenue for services provided to approved clients from third-party reimbursement agencies—primarily the Office for People with Developmental Disabilities (OPWDD), Department of Health and the State Education Department of New York. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. The financial statement impact of such adjustments is recognized in the period in which the retroactive adjustment occurred.

Revenue is recognized as earned from third parties and when received or pledged for contributions, special events and fundraising activities.

Deferred Revenue

Receipts that have not been spent are available for applicable future years and are, therefore, classified as deferred revenue. As of December 31, 2018, the total deferred revenue is $2,818,893.

Prior-Period Income

The Agency records amounts related to retroactive rate and other adjustments as prior-period income on the combined statement of activities.

Allocation Methodology

Common costs incurred for the administration of the various programs are allocated directly to respective programs as incurred and/or utilizing predetermined allocation rates established by management. These expenses include depreciation, salaries, payroll taxes and employee benefits, and supplies. Depreciation is allocated based on estimated use of square footage. Other expenses are allocated based on estimates of time and effort.

Concentration of Credit Risk

Financial instruments that potentially subject the Agency to concentration of credit risk consist primarily of cash and cash equivalents. At various times, the Agency and Affiliate have cash deposits at financial institutions that exceed the Federal Depository Insurance Corporation insurance limits.

Use of Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

The combined financial statements include certain prior-year summarized comparative information. With respect to the combined statement of activities, the prior-year information is presented in total, not by net asset class. With respect to the combined statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's combined financial statements for the year ended December 31, 2017, from which the summarized information was derived in total but not by net asset class.

Recently Adopted Authoritative Guidance

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities." The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions;" (b) modifying the presentation of underwater endowment funds and related disclosures; (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise; (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs; (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (f) presenting investment return net of external and direct expenses and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Agency has adopted and reflected this pronouncement in these financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Agency is deemed to be a conduit bond obligor since its bond is held by the public and, therefore, has an effective date for annual reporting periods beginning after December 15, 2017. The Agency has adopted and reflected this pronouncement in these financial statements.

Accounting Pronouncements Issued but Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Accounting for Leases," which applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. In addition, lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

Reclassifications

Certain prior year balances have been reclassified to be consistent with the current-year financial statement presentation.

4. Assets Limited as to Use

The cost and respective fair values of assets limited as to use at December 31, 2018 are as follows:

December 31, 2018

	Cost	Fair Value
Agency and Affiliate:		
Cash and cash equivalents	$ 1,493,278	$ 1,493,278
Federated Treasury Obligations Fund	3,999,816	3,999,816
Debt service reserve fund - money market fund	917,510	917,510
Total	$ 6,410,604	$ 6,410,604

Assets limited as to use consists of cash held in banks for future contributions to the employee benefit plan and future workers compensation claims.

The Agency's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 3 for a discussion of the Agency's policies regarding this hierarchy. A description of the valuation techniques applied to the Agency's major categories of assets measured at fair value is below.

The Agency has investments in treasury obligations. The Agency's custodian prices these investments using nationally recognized pricing services. The Agency's common stock, Federated Treasury Obligations Fund and debt service reserve fund are classified as Level 1 of the fair value hierarchy.

The following table shows, by level within the fair value hierarchy, the Agency's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2018. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Agency's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels. There have been no changes in the levels from the prior year.

December 31, 2018

	Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Cash and cash equivalents	$ 1,493,278	$ -	$ -	$ 1,493,278
Federal Treasury Obligations Fund	153,591	-	-	153,591
2006 A-B Civic Facility Revenue Bonds:				
Federal Treasury Obligations Fund	65,228	-	-	65,228
2012 AA-AF Local Development Corp. Revenue Bond	3,327,756	-	-	3,327,756
2012 BA-BE County Economic Development Corp. Revenue Bond	452,347	-	-	452,347
Facilities Development Corporation (FDC) mortgages payable – debt service reserve fund	917,510	-	-	917,510
2004 A-C Civic Facility Revenue Bonds:				
Federal Treasury Obligations Fund	894	-	-	894
	$ 6,410,604	$ -	$ -	$ 6,410,604

5. Accounts Receivable, Net and Government and Other Grants Receivable

Accounts receivable, net and government and other grants receivable consists of the following:

December 31, 2018

Government and other grants	$ 1,051,163
Office for People with Developmental Disabilities	6,331,626
New York State Education Department	13,010,631
Long Island Select Healthcare, Inc.	765,595
Other	205,899
	21,364,914
Less: allowance for doubtful accounts	(540,516)
	$ 20,824,398

6. Contributions and Pledges Receivable, Net

At December 31, 2018, the net present value of contributions and pledges receivable is $70,158. The net present value of pledges receivable was calculated using a discount rate of 3%.

Net present value of pledges receivable is summarized below:

December 31, 2018		
Total contributions and pledges receivable	$	71,388
Discount		1,230
Net Present Value of Contributions Receivable	$	70,158
Amount due in:		
One year	$	45,171
Two to five years		26,217
	$	71,388

7. Fixed Assets, Net

Fixed assets, net, including equipment under capital leases, consists of the following:

December 31, 2018		
Land	$	5,991,251
Buildings and building improvements		45,900,491
Furniture, fixtures and office equipment		7,325,228
Vehicles under capital lease obligations		6,185,386
Machinery and equipment		183,194
IT equipment		1,795,770
Leasehold improvements		2,008,211
		69,389,531
Less: accumulated depreciation and amortization		(43,191,526)
Construction-in-progress		4,139,730
	$	30,337,735

The estimated cost to complete the construction-in-progress is approximately $3,316,000.

8. Employee Benefit Plan

The Agency is the sponsor of a 403(b) tax deferred annuity plan that covers all Agency employees meeting eligibility requirements. Employee contributions are immediately vested. The Agency also makes a discretionary contribution based upon a percentage of an employee's salary, which will become 100% vested after three or five years depending on date of hire. Accrued pension payable for the year ended December 31, 2018 was $1,255,163. In 2018, employer contributions of $879,768 were made.

9. Due to Governmental Agencies

Due to governmental agencies consists of the following:

December 31, 2018		
Advances by funding sources to be recouped in future years	$	2,663,453

10. Capital Lease Obligations

Capital lease obligations consisted of the following:

December 31, 2018		
The Agency financed the cost of vehicles with notes payable in various monthly installments through 2022. The interest rates on these leases range from 5.36% to 7.44%.	$	1,550,710
Less: current maturities		(644,503)
	$	906,207

Future minimum principal payments and the present value of net minimum principal payments are as follows:

December 31,		
2019	$	725,446
2020		585,968
2021		297,812
2022		80,189
Total Minimum Lease Payments		1,689,415
Less: interest		(138,705)
Present Value of Net Minimum Lease Payments	$	1,550,710

11. Line of Credit

The Agency has a revolving line of credit with a bank of up to $9,000,000 and expires on August 31, 2019. Interest is charged at 3.75% per annum. There were no amounts outstanding at December 31, 2018. The line of credit is secured by outstanding accounts receivable excluding any receivables, subject to subordination agreements.

12. Mortgages and Loans Payable

Mortgages and loans payable consist of the following:

December 31, 2018		
Mortgage payable to FDC, due February 2021, payable in semi-annual debt service payments ranging from $8,066 to $11,242, including interest at 5.61% per annum; secured by real estate located in Mt. Sinai, New York.	$	27,928
Various loans payable, due from January 2021 to July 2030, payable in current monthly installments ranging from $3,383 to $7,125, including interest from 3.65% to 5.49%; secured by related vehicles, land and buildings.		1,700,647
		1,728,575
Less: current maturities		(193,379)
	$	1,535,196

Mortgages and loans payable mature as follows:

December 31,		
2019	$	194,920
2020		192,777
2021		152,640
2022		157,642
2023		165,778
Thereafter		868,481
		1,732,238
Less: unamortized balance of deferred financing costs		(3,663)
	$	1,728,575

13. Bonds Payable

(a) On October 13, 2005, the Agency obtained financing of $1,091,000 of Civic Facility Revenue Bonds through SCIDA for the renovation and equipping of a facility located in East Patchogue, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2018, $200,000 remains outstanding.

(b) On September 27, 2006, the Agency obtained financing of $3,857,000 of Civic Facility Revenue Bonds through SCIDA to renovate properties located in Nesconset, NY, Commack, NY, Babylon, NY, Smithtown, NY and Bohemia, NY, and for acquisitions and renovations of properties located in Ridge, NY and Yaphank, NY. The bonds, which require quarterly interest payments, bear interest at 5.95%. At December 31, 2018, $935,000 remains outstanding.

(c) On August 29, 2012, the Agency obtained financing of $20,016,071 through the Town of Huntington Local Development Corporation to renovate properties in Smithtown and Huntington, NY and to refinance outstanding amounts associated with financing obtained in 1993 and 1998 through SCIDA. The bond, which requires monthly interest payments, bears interest ranging from 2.5% to 3.8%. At December 31, 2018, $13,124,476 remains outstanding.

On August 29, 2012, the Agency obtained financing of $5,880,138 through the Suffolk County Economic Development Corporation to renovate properties in Hauppauge, NY and to refinance outstanding amounts associated with financing obtained in 1993, 1998 and 1999. The bond, which requires monthly interest payments, bears interest ranging from 2.5% to 4.4%. At December 31, 2018, $3,092,482 remains outstanding.

(d) On October 5, 2016, the Agency obtained financing of $2,355,000 through the Dormitory Authority of New York State for properties in Deer Park, NY and Centereach, NY and to renovate properties in Smithtown, NY. The bond, which requires monthly interest payments, bears interest ranging from 1.5% to 4%. At December 31, 2018, $2,275,000 remains outstanding. These bonds are conduit debt securities since they are offered by a governmental entity not for its own use, but for the use of the Agency. As the conduit debt obligor, the Agency is required to make all interest and principal payments as they become due. The bonds are publicly held and therefore have additional financial reporting requirements.

The aggregate principal maturities for the years ending December 31 are as follows:

December 31,		
2019	$	2,120,000
2020		2,205,000
2021		2,200,000
2022		1,950,000
2023		2,299,558
Thereafter		8,852,400
		19,626,958
Less: unamortized balance of deferred financing costs		(595,231)
	$	19,031,727

All bonds are secured by the related properties.

Interest expense related to the bonds for the year ended December 31, 2018 was $771,264.

14. Operating Leases

Pursuant to several lease agreements, the Agency are obligated for minimum annual rentals payable to nonrelated entities, as indicated below. The Agency is obligated for certain operating costs at these sites. The future minimum commitments to all nonrelated parties are as follows:

December 31,		
2019	$	1,140,207
2020		1,053,903
2021		1,082,455
2022		981,011
2023		379,272
Thereafter		348,506
Total Minimum Lease Payments	$	4,985,354

Total rental expense under noncancellable operating leases amounted to $1,526,729 for the year ended December 31, 2018.

15. Commitments and Contingencies

For the year ended December 31, 2018, revenues from Medicare and Medicaid programs accounted for a significant portion of the Agency's revenues. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. In the event that noncompliance is determined, the Agency would be subject to regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

Additionally, the Agency is involved in certain disputes arising from the normal course of its businesses. In the opinion of management and on the advice of legal counsel, the expected outcome of such disputes, in the aggregate, will not have a material adverse effect on the Agency's financial position.

On July 15, 2015, the Agency entered into an irrevocable letter of credit amounting to $3,816,837 from a bank, which matures on July 1, 2019. The letter of credit was issued in conjunction with the Agency's workers' compensation policy. There were no outstanding borrowings at December 31, 2018.

16. Net Assets Released from Restrictions

During 2018, net assets with donor restrictions that were released from restrictions by incurring expenses satisfying the restricted purpose are as follows:

December 31, 2018		
Program-designated	$	103,009
Capital campaign		97,971
	$	200,980

17. Net Assets with Donor Restrictions

Net assets with donor restrictions held for specific purposes are as follows:

December 31, 2018		
Program designated	$	181,077
Capital campaign		199,665
	$	380,742

18. Other Investment

The Agency owns a 12.5% interest in LI Alliance, LLC (the Alliance), which was established to strategically position the Agency and other Alliance members to participate in programs relating to delivery of care to persons with developmental disabilities and other disorders through managed care or other models. The Agency's interest in the Alliance amounted to approximately $22,747 at December 31, 2018.

19. Liquidity and Availability of Resources

The Agency's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

December 31, 2018		
Cash	$	9,948,712
Accounts receivable, net		19,773,235
Government and other grants receivable		1,051,163
Contributions and pledges receivable, current portion		45,171
Total Financial Assets Available Within One Year		30,818,281
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose		380,742
Board designated		3,050,063
Total Amounts Unavailable to Management Within One Year		3,430,805
Total Financial Assets Available to Management	$	27,378,476

Liquidity Management

As part of the Agency's liquidity management, the agency structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Additionally, the Agency has board designated net assets without donor restrictions that, while the Agency does not intend to spend these for purposes other than those intended, the amounts could be made available for current operations if necessary.

To help manage unanticipated liquidity needs, the Agency has a line of credit of $9,000,000 that it could draw upon.

20. DDI Foundation Dissolution

During 2018, the Foundation was formally dissolved. All remaining assets and liabilities were transferred to the Agency as of September 28, 2018. As a result of the dissolution, the Agency recorded an increase to net assets amounting to $952,197.

21. Subsequent Events

On April 10, 2019, the Agency obtained financing of $6,720,000 through the Dormitory Authority of New York State for the purchase and renovations of properties in East Setauket, Dix Hills, Coram, Miller Place, and Greenlawn, NY and to renovate a Day Program property in Smithtown, NY. The bond, which requires monthly interest payments, bears interest ranging from 3.31% to 3.92%. These bonds are conduit debt securities since they are offered by a governmental entity not for its own use, but for the use of the Agency. As the conduit debt obligor, the Agency is required to make all interest and principal payments as they become due. The bonds are publicly held and therefore have additional financial reporting requirements.

The Agency's management has performed subsequent events procedures through May 28, 2019, which is the date the combined financial statements were available to be issued, and there were no subsequent events requiring adjustment to the combined financial statements or disclosures as stated herein.

Supplementary Information

Developmental Disabilities Institute, Inc. and Affiliate

Combining Schedule of Financial Position
(with comparative totals for 2017)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total 2018	Combined Total 2017
Assets					
Current					
Cash and cash equivalents	$ 9,948,712	$ -	$ -	**$ 9,948,712**	$ 14,373,935
Assets limited as to use, current portion	1,493,278	-	-	**1,493,278**	2,514,991
Investments, at fair value	-	-	-	**-**	4,996
Accounts receivable, net	19,773,235	-	-	**19,773,235**	19,083,777
Government and other grants receivable	1,051,163	-	-	**1,051,163**	1,011,873
Contributions and pledges receivable, current portion	45,171	-	-	**45,171**	146,217
Prepaid expenses and other assets	3,649,199	-	-	**3,649,199**	2,702,297
Total Current Assets	35,960,758	-	-	**35,960,758**	39,838,086
Security Deposits	148,286	-	-	**148,286**	198,286
Other Investment	22,747	-	-	**22,747**	28,688
Due From Affiliates	-	-	-	**-**	-
Contributions and Pledges Receivable, Net, less current portion	24,987	-	-	**24,987**	54,145
Assets Limited as to Use, less current portion	4,917,326	-	-	**4,917,326**	4,708,558
Fixed Assets, Net	30,337,735	-	-	**30,337,735**	27,625,661
	$ 71,411,839	$ -	$ -	**$ 71,411,839**	$ 72,453,424

Developmental Disabilities Institute, Inc. and Affiliate

Combining Schedule of Financial Position
(with comparative totals for 2017)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total 2018	Combined Total 2017
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued expenses	$ 6,204,510	$ -	$ -	**$ 6,204,510**	$ 4,447,122
Accrued interest payable	151,207	-	-	**151,207**	177,208
Accrued payroll and related benefits	6,492,909	-	-	**6,492,909**	6,313,736
Accrued pension payable	1,255,163	-	-	**1,255,163**	879,584
Due to affiliates	-	-	-	**-**	-
Deferred revenue, current portion	894,307	-	-	**894,307**	2,634,869
Capital lease obligations, current portion	644,503	-	-	**644,503**	765,696
Mortgages and loans payable, current portion	193,379	-	-	**193,379**	184,349
Bonds payable, current portion	2,033,208	-	-	**2,033,208**	1,972,176
Due to governmental agencies, current portion	2,663,453	-	-	**2,663,453**	1,397,987
Total Current Liabilities	20,532,639	-	-	**20,532,639**	18,772,727
Deferred Revenue, less current portion	1,924,586	-	-	**1,924,586**	1,967,061
Capital Lease Obligations, less current maturities	906,207	-	-	**906,207**	1,053,121
Mortgages and Loans Payable, less current maturities	1,535,196	-	-	**1,535,196**	1,724,224
Bonds Payable, less current maturities	16,998,519	-	-	**16,998,519**	19,046,728
Due to Governmental Agencies, less current portion	-	-	-	**-**	3,500,485
Total Liabilities	41,897,147	-	-	**41,897,147**	46,064,346
Net Assets					
Net Assets without donor restrictions	29,133,950	-	-	**29,133,950**	25,967,515
Net Assets with donor restrictions	380,742	-	-	**380,742**	421,563
Total Net Assets	29,514,692	-	-	**29,514,692**	26,389,078
	$ 71,411,839	$ -	$ -	**$ 71,411,839**	$ 72,453,424

Developmental Disabilities Institute, Inc. and Affiliate

Combining Schedule of Activities
(with comparative totals for 2017)

Year ended December 31,

	Developmental Disabilities Institute, Inc.			DDI Foundation, Inc.			Combined Total	
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	**2018**	2017
Program Revenues								
Fees for services	$ 99,103,660	$ -	$ 99,103,660	$ -	$ -	$ -	**$ 99,103,660**	$ 95,260,259
Government and other grants	1,105,578	-	1,105,578	-	-	-	**1,105,578**	1,605,822
Other program revenues	2,745,440	-	2,745,440	-	-	-	**2,745,440**	2,093,993
Net assets released from restrictions	43,575	(43,575)	-	157,405	(157,405)	-	**-**	-
Total Program Revenues	102,998,253	(43,575)	102,954,678	157,405	(157,405)	-	**102,954,678**	98,960,074
Expenses								
Program services:								
Education services	33,957,084	-	33,957,084	-	-	-	**33,957,084**	31,910,552
Adult day services	19,596,071	-	19,596,071	-	-	-	**19,596,071**	18,311,200
Children's residential services	11,215,072	-	11,215,072	-	-	-	**11,215,072**	10,635,824
Adult residential services	31,116,451	-	31,116,451	-	-	-	**31,116,451**	28,943,230
Other programs	772,610	-	772,610	-	-	-	**772,610**	1,199,492
Total Program Services	96,657,288	-	96,657,288	-	-	-	**96,657,288**	91,000,298
Supporting services:								
Management and general	7,060,314	-	7,060,314	-	-	-	**7,060,314**	6,663,472
Fundraising	208,594	-	208,594	179,024	-	179,024	**387,618**	241,488
Total Supporting Services	7,268,908	-	7,268,908	179,024	-	179,024	**7,447,932**	6,904,960
Total Expenses	103,926,196	-	103,926,196	179,024	-	179,024	**104,105,220**	97,905,258
Change in Net Assets Before Nonoperating Revenues and Expenses	(927,943)	(43,575)	(971,518)	(21,619)	(157,405)	(179,024)	**(1,150,542)**	1,054,816
Nonoperating Revenues and Expenses								
Capital campaign:								
Capital campaign income	-	11,051	11,051	-	20,711	20,711	**31,762**	71,812
Capital campaign expenses	-	-	-	(73,712)	-	(73,712)	**(73,712)**	(97,750)
Net Expenses from Capital Campaign	-	11,051	11,051	(73,712)	20,711	(53,001)	**(41,950)**	(25,938)
Special events:								
Special events revenues	261,302	-	261,302	156,793	-	156,793	**418,095**	464,288
Less: direct cost to donors	(48,667)	-	(48,667)	(74,599)	-	(74,599)	**(123,266)**	(126,526)
Net Revenues from Special Events	212,635	-	212,635	82,194	-	82,194	**294,829**	337,762
Contributions	29,924	-	29,924	11,323	-	11,323	**41,247**	172,360
Gain on sale of fixed assets	29,557	-	29,557	-	-	-	**29,557**	59,270
Unrealized loss on other investment	(5,941)	-	(5,941)	-	-	-	**(5,941)**	(21,312)
Interest income	172,962	-	172,962	44	-	44	**173,006**	50,466
Other income	107,376	-	107,376	-	-	-	**107,376**	88,170
Prior period income	3,559,461	-	3,559,461	(9,826)	-	(9,826)	**3,549,635**	48,757
Program designated revenue	-	97,559	97,559	-	30,838	30,838	**128,397**	-
Transfer of net assets from foundation	636,488	315,707	952,195	(636,488)	(315,707)	(952,195)	**-**	-
Total Nonoperating Revenues and Expenses	4,742,462	424,317	5,166,779	(626,465)	(264,158)	(890,623)	**4,276,156**	709,535
Change in Net Assets	3,814,519	380,742	4,195,261	(648,084)	(421,563)	(1,069,647)	**3,125,614**	1,764,351
Net Assets, beginning of year	25,319,431	-	25,319,431	648,084	421,563	1,069,647	**26,389,078**	24,624,727
Net Assets, end of year	$ 29,133,950	$ 380,742	$ 29,514,692	$ -	$ -	$ -	**$ 29,514,692**	$ 26,389,078