START TREATMENT & RECOVERY CENTERS

START TREATMENT AND RECOVERY CENTERS AND SUBSIDIARY

Consolidating Financial Statements

December 31, 2017 and 2016

With Independent Auditors' Report

withum

AUDIT TAX ADVISORY

START Treatment and Recovery Centers and Subsidiary
December 31, 2017 and 2016

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AUDIT TAX ADVISORY

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
START Treatment and Recovery Centers:

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of START Treatment and Recovery Centers and Subsidiary which comprise the consolidating statements of financial position as of December 31, 2017 and 2016 and the related consolidating statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of START Treatment and Recovery Centers and Subsidiary as of December 31, 2017 and 2016, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

March 24, 2018

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Financial Position
December 31, 2017

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 8,284,735	$ 65,148	$ --	$ 8,349,883
Due from funding agencies	636,337	--	--	636,337
Medicaid Title XIX receivable	1,934,610	--	--	1,934,610
Inventory	17,645	--	--	17,645
Investments	2,024,385	--	--	2,024,385
Other current assets	227,510	--	--	227,510
Total current assets	13,125,222	65,148	--	13,190,370
Property and equipment				
Land	1,100,252	148,382	--	1,248,634
Building	1,848,312	420,599	--	2,268,911
Renovations and building improvements	14,644,746	--	--	14,644,746
Furniture, fixtures and equipment	7,422,814	--	--	7,422,814
Automotive equipment	239,991	--	--	239,991
	25,256,115	568,981	--	25,825,096
Less: Accumulated depreciation	15,770,259	378,129	--	16,148,388
Property and equipment, net	9,485,856	190,852	--	9,676,708
Other assets				
Due from affiliates	92,264	20,040	(20,040)	92,264
Other assets	160,180	--	--	160,180
Total other assets	252,444	20,040	(20,040)	252,444
Total assets	$ 22,863,522	$ 276,040	$ (20,040)	$ 23,119,522
Liabilities and Net Assets				
Current liabilities				
Due to funding agencies	$ 512,806	$ --	$ --	$ 512,806
Accounts payable and accrued expenses	1,712,414	--	--	1,712,414
Other current liabilities	35,880	--	--	35,880
Total current liabilities	2,261,100	--	--	2,261,100
Due to affiliates	20,040	34,998	(20,040)	34,998
Total liabilities	2,281,140	34,998	(20,040)	2,296,098
Unrestricted net assets				
Operating	6,096,524	241,042	--	6,337,566
Property and equipment	9,485,858	--	--	9,485,858
Board designated - Third Horizon building development fund	5,000,000	--	--	5,000,000
Total unrestricted net assets	20,582,382	241,042	--	20,823,424
	$ 22,863,522	$ 276,040	$ (20,040)	$ 23,119,522

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Financial Position
December 31, 2016

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	$ 7,204,787	$ 29,121	$ --	$ 7,233,908
Due from funding agencies, net	491,006	--	--	491,006
Medicaid Title XIX receivable, net of allowance for doubtful accounts of $737,975	4,422,907	--	--	4,422,907
Inventory	9,116	--	--	9,116
Investments	1,961,993	--	--	1,961,993
Other current assets	435,921	--	--	435,921
Total current assets	14,525,730	29,121	--	14,554,851
Property and equipment				
Land	1,100,252	148,382	--	1,248,634
Building	1,811,912	420,599	--	2,232,511
Renovations and building improvements	14,578,446	--	--	14,578,446
Furniture, fixtures and equipment	7,245,520	--	--	7,245,520
Automotive equipment	239,991	--	--	239,991
	24,976,121	568,981	--	25,545,102
Less: Accumulated depreciation	15,091,048	364,753	--	15,455,801
Property and equipment, net	9,885,073	204,228	--	10,089,301
Other assets				
Due from affiliates	63,457	20,040	(20,040)	63,457
Other assets	5,540	--	--	5,540
Total other assets	68,997	20,040	(20,040)	68,997
Total assets	$ 24,479,800	$ 253,389	$ (20,040)	$ 24,713,149
Liabilities and Net Assets				
Current liabilities				
Due to funding agencies	$ 235,079	$ --	$ --	$ 235,079
Accounts payable and accrued expenses	1,813,464	--	--	1,813,464
Other current liabilities	35,498	--	--	35,498
Total current liabilities	2,084,041	--	--	2,084,041
Due to affiliates	20,040	34,998	(20,040)	34,998
Total liabilities	2,104,081	34,998	(20,040)	2,119,039
Unrestricted net assets				
Operating	7,490,644	218,391	--	7,709,035
Property and equipment	9,885,075	--	--	9,885,075
Board designated - Third Horizon building development fund	5,000,000	--	--	5,000,000
Total unrestricted net assets	22,375,719	218,391	--	22,594,110
	$ 24,479,800	$ 253,389	$ (20,040)	$ 24,713,149

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Activities
Year Ended December 31, 2017 (With Comparative Totals for 2016)

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total	2016 Total
Changes in unrestricted net assets					
Revenues					
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	$ 678,610	$ --	$ --	$ 678,610	$ 559,728
Medicaid Title XIX	24,283,482	--	--	24,283,482	24,313,097
Patient fees	153,793	--	--	153,793	211,641
Contract/grant revenue	1,804,900	--	--	1,804,900	1,454,818
Rental revenue	--	36,000	--	36,000	2,293
Interest and dividends	66,670	27	--	66,697	67,510
Fundraising	168,648	--	--	168,648	132,226
Other	118,097	--	--	118,097	28,401
	27,274,200	36,027	--	27,310,227	26,769,714
Expenses and losses					
Program services					
Clinic operations	23,376,560	--	--	23,376,560	21,695,695
Research activities	364,450	--	--	364,450	372,685
Other programs	1,945,051	--	--	1,945,051	1,223,104
	25,686,061	--	--	25,686,061	23,291,484
Supporting services					
Administration	3,035,737	--	--	3,035,737	3,763,963
Fundraising	345,739	--	--	345,739	303,085
Facility	--	13,376	--	13,376	13,376
	3,381,476	13,376	--	3,394,852	4,080,424
	29,067,537	13,376	--	29,080,913	27,371,908
Changes in unrestricted net assets	$ (1,793,337)	$ 22,651	$ --	$ (1,770,686)	$ (602,194)

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Activities
Year Ended December 31, 2016

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Changes in unrestricted net assets				
Revenues				
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	$ 559,728	$ --	$ --	$ 559,728
Medicaid Title XIX	24,313,097	--	--	24,313,097
Patient fees	211,641	--	--	211,641
Contract/grant revenue	1,454,818	--	--	1,454,818
Rental revenue	2,293	--	--	2,293
Interest and dividends	67,481	29	--	67,510
Fundraising	132,226	--	--	132,226
Other	28,401	--	--	28,401
	26,769,685	29	--	26,769,714
Expenses and losses				
Program services				
Clinic operations	21,695,695	--	--	21,695,695
Research activities	372,685	--	--	372,685
Other programs	1,223,104	--	--	1,223,104
	23,291,484	--	--	23,291,484
Supporting services				
Administration	3,763,963	--	--	3,763,963
Fundraising	303,085	--	--	303,085
Facility	--	13,376	--	13,376
	4,067,048	13,376	--	4,080,424
	27,358,532	13,376	--	27,371,908
Changes in unrestricted net assets	$ (588,847)	$ (13,347)	$ --	$ (602,194)

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	START Treatment and Recovery Centers				
	Operating	Property and Equipment Fund	Third Horizon Building Development Fund	Affiliated Services and Resources Corporation Operating	Total
Unrestricted net assets December 31, 2015	$ 7,492,826	$ 10,471,740	$ 5,000,000	$ 231,738	$ 23,196,304
Changes in unrestricted net assets	(2,182)	(586,665)	--	(13,347)	(602,194)
Unrestricted net assets December 31, 2016	7,490,644	9,885,075	5,000,000	218,391	22,594,110
Changes in unrestricted net assets	(1,394,120)	(399,217)	--	22,651	(1,770,686)
Unrestricted net assets December 31, 2017	$ 6,096,524	$ 9,485,858	$ 5,000,000	$ 241,042	$ 20,823,424

The Notes to Consolidating Financial Statements are an integral part of these statements.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Cash Flows
Year Ended December 31, 2017

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Cash flows from operating activities				
Changes in unrestricted net assets	$ (1,793,337)	$ 22,651	$ --	$ (1,770,686)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities				
Depreciation	679,395	13,376	--	692,771
Bad debts	3,573,117	--	--	3,573,117
Unrealized loss on investments	11,138	--	--	11,138
Donated investments	(11,200)	--	--	(11,200)
Changes in assets and liabilities				
Due from funding agencies	(145,331)	--	--	(145,331)
Medicaid Title XIX receivable	(1,084,820)	--	--	(1,084,820)
Inventory	(8,529)	--	--	(8,529)
Other current assets	208,411	--	--	208,411
Other assets	(154,640)	--	--	(154,640)
Due to funding agencies	277,727	--	--	277,727
Accounts payable and accrued expenses	(101,050)	--	--	(101,050)
Other current liabilities	382	--	--	382
Due from/to affiliates	(28,807)	--	--	(28,807)
Total adjustments	3,215,793	13,376	--	3,229,169
Net cash provided by operating activities	1,422,456	36,027	--	1,458,483
Cash flows from investing activities				
Purchases of invesments	(1,018,993)	--	--	(1,018,993)
Sale of investments	956,663	--	--	956,663
Property and equipment additions	(280,178)	--	--	(280,178)
Net cash used by investing activities	(342,508)	--	--	(342,508)
Net changes in cash and cash equivalents	1,079,948	36,027	--	1,115,975
Cash and cash equivalents				
Beginning of year	7,204,787	29,121	--	7,233,908
End of year	$ 8,284,735	$ 65,148	$ --	$ 8,349,883

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Cash Flows
Year Ended December 31, 2016

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Cash flows from operating activities				
Changes in unrestricted net assets	$ (588,847)	$ (13,347)	$ --	$ (602,194)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities				
Depreciation	900,379	13,376	--	913,755
Bad debts	2,149,583	--	--	2,149,583
Unrealized loss on investments	14,469	--	--	14,469
Donated investments	(11,516)	--	--	(11,516)
Changes in assets and liabilities				
Due from funding agencies	658,090	--	--	658,090
Medicaid Title XIX receivable	(3,948,525)	--	--	(3,948,525)
Inventory	(5,768)	--	--	(5,768)
Other currents assets	825,030	--	--	825,030
Due to funding agencies	162,768	--	--	162,768
Accounts payable and accrued expenses	83,646	--	--	83,646
Other current liabilities	(190)	--	--	(190)
Due to affiliates	(54,253)	--	--	(54,253)
Net cash provided by operating activities	184,866	29	--	184,895
Cash flows from investing activities				
Purchases of invesments	(3,322,353)	--	--	(3,322,353)
Sale of investments	3,326,584	--	--	3,326,584
Property and equipment additions	(313,714)	--	--	(313,714)
Net cash used by investing activities	(309,483)	--	--	(309,483)
Net changes in cash and cash equivalents	(124,617)	29	--	(124,588)
Cash and cash equivalents				
Beginning of year	7,329,404	29,092	--	7,358,496
End of year	$ 7,204,787	$ 29,121	$ --	$ 7,233,908

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Functional Expenses
Year Ended December 31, 2017

	START Treatment and Recovery Centers					Affiliated Services and Resources Corporation	
	Clinic Operations	Research Activities	Other Programs	Administration	Fundraising	Facility	Total
Personnel costs	$ 13,556,495	$ 268,517	$ 1,635,586	$ 2,398,825	$ 215,246	$ --	$ 18,074,669
Patient costs	520,313	15,955	1,836	--	--	--	538,104
Medical supplies and prescription drugs	718,818	894	--	--	--	--	719,712
Consumable supplies	119,222	885	11,932	45,414	8,969	--	186,422
Rent	424,289	--	18,641	--	--	--	442,930
Utilities	344,786	--	--	17,049	--	--	361,835
Communications	312,576	3,022	5,449	87,117	--	--	408,164
Outside security services	69,825	--	--	1,677	--	--	71,502
Repairs and maintenance	463,169	555	4,487	102,580	7,294	--	578,085
Equipment rental	61,527	--	--	22,169	--	--	83,696
Janitorial and maintenance supplies	95,507	--	104	14,901	--	--	110,512
Legal and accounting	397,157	--	--	78,740	--	--	475,897
Consulting	1,123,881	--	350	144,360	81,755	--	1,350,346
Data processing	465,175	--	9,517	92,990	--	--	567,682
Conference and meetings	47,762	3,185	2,352	39,774	23,493	--	116,566
Staff travel	724	83	223	20,380	31	--	21,441
Staff recruitment and training	188,898	1,019	28,732	121,013	--	--	339,662
Insurance	197,541	--	6,000	101,509	--	--	305,050
Indirect costs	50,545	70,222	217,134	(337,901)	--	--	--
Depreciation	625,155	113	2,013	46,502	5,612	13,376	692,771
Bad debt expense	3,573,117	--	--	--	--	--	3,573,117
Other	20,078	--	695	38,638	3,339	--	62,750
	$ 23,376,560	$ 364,450	$ 1,945,051	$ 3,035,737	$ 345,739	$ 13,376	$ 29,080,913

The Notes to Consolidating Financial Statements are an integral part of this statement.

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Functional Expenses
Year Ended December 31, 2016

	START Treatment and Recovery Centers					Affiliated Services and Resources Corporation	
	Clinic Operations	Research Activities	Other Programs	Administration	Fundraising	Facility	Total
Personnel costs	$ 14,234,835	$ 290,320	$ 1,042,456	$ 2,257,073	$ 150,719	$ --	$ 17,975,403
Patient costs	489,942	48,203	1,702	--	--	--	539,847
Medical supplies and prescription drugs	677,087	--	--	--	--	--	677,087
Consumable supplies	106,789	345	3,454	39,014	10,323	--	159,925
Rent	105,201	--	5,163	--	--	--	110,364
Utilities	259,520	--	--	67,135	--	--	326,655
Communications	292,830	2,848	2,629	148,796	325	--	447,428
Outside security services	68,928	--	--	1,697	--	--	70,625
Repairs and maintenance	350,055	--	--	101,179	5,761	--	456,995
Equipment rental	39,333	--	--	28,470	--	--	67,803
Janitorial and maintenance supplies	71,567	--	--	11,550	--	--	83,117
Legal and accounting	269,216	--	--	156,918	--	--	426,134
Consulting	684,685	--	--	182,564	103,632	--	970,881
Data processing	156,467	--	985	65,844	--	--	223,296
Conference and meetings	61,788	3,886	1,066	46,111	11,510	--	124,361
Staff travel	946	--	102	13,963	10	--	15,021
Staff recruitment and development	311,657	102	1,886	113,938	2,705	--	430,288
Insurance	168,738	--	3,996	109,365	--	--	282,099
Indirect costs	70,003	26,177	159,072	(255,252)	--	--	--
Depreciation	698,163	804	134	195,356	5,922	13,376	913,755
Bad debts expense	2,149,583	--	--	--	--	--	2,149,583
OASAS disallowance	405,134	--	--	397,051	--		801,185
Other	24,228	--	459	83,191	12,178	--	120,056
	$ 21,695,695	$ 372,685	$ 1,223,104	$ 3,763,963	$ 303,085	$ 13,376	$ 27,371,908

The Notes to Consolidating Financial Statements are an integral part of this statement.

1. ORGANIZATION AND PURPOSE

START Treatment and Recovery Centers and Subsidiary (Formerly Addiction Research and Treatment Corporation and Subsidiary) ("the Corporation") is a private, nonprofit corporation established in 1969. START Treatment and Recovery Centers and Subsidiary primarily offers substance abuse treatment and rehabilitation services in the boroughs of Brooklyn and Manhattan of New York City. In addition, START Treatment and Recovery Centers and Subsidiary performs research in several areas related to substance abuse.

Affiliated Services and Resources Corporation ("ASRC") is a private, nonprofit corporation and wholly owned Subsidiary of START Treatment and Recovery Centers and Subsidiary (Formerly Addiction Research and Treatment Corporation and Subsidiary) which owns and manages facilities rented to nonprofit corporations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The consolidating financial statements include START Treatment and Recovery Centers and Subsidiary and Affiliated Services and Resources Corporation (the "Corporation") with all significant intercompany transactions eliminated.

Financial reporting by nonprofit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. The Corporation had accounting transactions only in the unrestricted net asset category. This category represents net assets that are not subject to donor imposed restrictions.

Cash and Cash Equivalents
For purposes of the consolidating statements of cash flows, the Corporation considers all highly liquid investments with and initial maturity of three months or less to be cash equivalents.

Property and Equipment
Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets by the straight-line-method.

The estimated useful lives of assets by major asset category are as follows:

Description	Estimated Life (Years)
Building	25
Renovations and leasehold improvements	10
Furniture, fixtures and equipment	3-10
Automotive equipment	5

When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and from the applicable net asset category. Maintenance, repairs and minor renewals are charged to operations as incurred. Depreciation expense amounted to $692,771 and $913,755 for the years ended December 31, 2017 and 2016, respectively.

Revenue Recognition

The Corporation recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support, according to donor stipulations that limit the use of these assets due to time or purpose restrictions. For the years ended December 31, 2017 and 2016, all transactions were in the unrestricted category.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statements of activities as net assets released from restrictions.

The Corporation is primarily funded through billings to the State of New York - Department of Health for patient services provided under Title XIX of the Social Security Act of 1985 (Medicaid) and by the New York State Department of Health - Office of Alcoholism and Substance Abuse Service (“OASAS”). Effective October 1, 2015, Medicaid Managed Care became effective. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Corporation provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Revenue from billings to Medicaid is recorded at the time service is provided, net of an allowance for uncollectible amounts. Program revenue under the Corporation's OASAS contracts and its Federal and State contracts/grants is recognized in an amount sufficient to absorb allowable expenditures including capital items and excluding depreciation, net of all applicable third party reimbursements, up to the maximum allowable amount under the terms of the contracts/grants. A receivable from the funding agency is recognized to the extent expenses have been incurred but not reimbursed. A liability is recorded when contract advances exceed expenses.

Impairment

On a periodic basis, management assesses whether there are any indicators that the value of the property may be impaired. A property’s value is impaired only if management’s estimate of the aggregate future cash flows (undiscounted) to be generated by the property are less than the carrying value of the property. For each of the years ended December 31, 2017 and 2016, impairment loss of $-0- was recorded.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidating statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Recent Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14 – Not-for-profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 (the "ASU") underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. In addition to the above disclosures the ASU changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. The Corporation is evaluating the impact the ASU will have on its consolidating financial statements.

In February 2016, FASB issued ASU 2016-02 *Leases* (Topic 842), which requires the recognition of a "right of use" asset and a lease liability, initially measured at the present value of the lease payments, on the consolidating statements of financial position for all of the Corporation's lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019. The Corporation is currently evaluating the effect that this pronouncement will have on its consolidating financial statements and related disclosures.

In November 2016, FASB issued ASU 2016-18 *Statement of Cash Flows* (Topic 230), which requires restricted cash to be included within cash and cash equivalents when explaining the total change in cash for the period within the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018. Upon adoption, the Corporation anticipates including its restricted cash within the cash and cash equivalents when explaining the total change in cash for the period within the consolidating statements of cash flows.

3. INCOME TAXES

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under applicable state provisions.

The Corporation had no unrecognized tax benefits at December 31, 2017 and 2016. In addition, the Corporation has no income tax related penalties or interest for the periods presented in these consolidating financial statements.

4. INVESTMENTS

The following summarizes the relationship between the market value and cost of investments at December 31:

	2017	
	Cost	Market
US Gov't securities	$ 605,991	$ 598,487
Corporate bonds	1,199,507	1,191,888
Mutual funds	199,674	200,760
Equities	28,328	33,250
	$ 2,033,500	$ 2,024,385

	2016	
	Cost	Market
US Gov't securities	$ 857,810	$ 851,586
Corporate bonds	1,094,912	1,087,667
Equities	17,128	22,740
	$ 1,969,850	$ 1,961,993

Investment income related to these investments is included in interest and dividends on the consolidating statements of activities at December 31, 2017 and 2016 and was comprised of the following:

	2017
Interest and dividend income	$ 42,860
Realized gains	--
Unrealized losses	(11,138)
	$ 31,722

	2016
Interest and dividend income	$ 28,289
Realized gains	--
Unrealized losses	(14,469)
	$ 13,820

Fair Value Measurements

The Corporation has provided fair value disclosure information for relevant assets and liabilities in these consolidating financial statements. For applicable assets and liabilities, the Corporation values such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, the Corporation values such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Corporation develops measurement criteria based on the best information available.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Corporation has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own estimates about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Corporation's own data.)

The following table summarizes assets which have been accounted for at fair value on a recurring basis along with the basis of the determination of fair value as of December 31, 2017 and 2016:

	2017			
	Total	Level 1	Level 2	Level 3
US Gov't securities	$ 598,487	$ --	$ 598,487	$ --
Corporate bonds	1,191,888	--	1,191,888	--
Mutual funds	200,760	200,760	--	--
Equities	33,250	33,250	--	--
Total investments	$ 2,024,385	$ 234,010	$ 1,790,375	$ --

	2016			
	Total	Level 1	Level 2	Level 3
US Gov't securities	$ 851,586	$ --	$ 851,586	$ --
Corporate bonds	1,087,667	--	1,087,667	--
Equities	22,740	22,740	--	--
Total investments	$ 1,961,993	$ 22,740	$ 1,939,253	$ --

5. DUE FROM/TO FUNDING AGENCIES

Amounts due from funding agencies are as follows:

	2017	2016
Brooklyn Borough President's Office	$ 59,841	$ 96,479
Harlem Hospital	19,672	19,672
Gilead Sciences	56,534	56,534
Jewish Board	99,199	--
University of Rochester	20,531	3,124
Patient-Centered Outcomes Research Institute	42,881	60,468
NYC Administration of Children's Services	330,866	247,916
New York State AIDS Institute	6,813	6,813
	$ 636,337	$ 491,006

Amounts due to funding agencies are as follows:

	2017	2016
New York State Department of Health	$ 70,633	$ 60,820
New York State Department of Health –Office of Alcoholism and Substance Abuse Services	436,904	111,490
New York State Department of Mental Health	--	45,000
Other	5,269	17,769
	$ 512,806	$ 235,079

6. PENSION PLAN

Substantially all of the Corporation's full time employees are covered under a noncontributory, defined contribution pension plan. The pension plan is funded by annual contributions equal to 7.5 percent of eligible employees' current salaries. Pension expense for the years ended December 31, 2017 and 2016 was $966,348 and $896,179, respectively. It is the Corporation's policy to fund the plan currently.

7. LEASE COMMITMENTS

Rent expense for clinic space under non-cancellable and cancellable month-to-month operating leases through June 2027 amounted to $343,982 and $88,773 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments required under all non-cancelable operating leases for the next five years in the aggregate are as follows:

Years	Amounts
2018	$ 621,180
2019	639,816
2020	659,009
2021	678,774
2022	553,069
Thereafter	2,007,039
	$ 5,158,887

8. CONCENTRATIONS AND USE OF ESTIMATES

The Corporation routinely maintains cash balances at financial institutions in excess of federally insured limits. Management monitors the soundness of the institutions on a regular basis and deems the credit risk related to these cash balances to be minimal.

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

9. CONTINGENCIES AND OTHER MATTERS

On December 17, 2014, the Corporation executed an operating agreement and contribution agreement with Delshah-OTL-START 22 Chapel JV LLC (the “JV”), a New York limited liability company. Under the terms of the agreements, the Corporation is a member of the JV and has agreed to convey title and assign all rights, title and interest of the land and improvements located at 22 Chapel Street, Brooklyn, New York within 24 months of December 17, 2014, subject to certain conditions related to financing and other matters. This agreement was extended in November 2017 to note that, subject to certain contingencies, the property is to be transferred by START as of or before March 15, 2018. As of the report date, title has not been transferred due to continued financing negotiations but the Corporation fully expects conveyance will occur during 2018.

The contribution of the land and improvements constitutes a capital contribution by START to the JV at an agreed upon value of $26.45 million dollars. Delshah and OTL will be contributing approximately $5 million dollars in cash and will be personally responsible for guaranteeing the completion of construction and the repayment of all financing. No asset of the Corporation will be at risk with respect to this development beyond the Chapel Street property it is contributing. Ownership of the JV is determined by dividing each member’s capital contributions by the aggregate capital contributions of all members. The JV will demolish the existing structure and construct a new building containing rental units and a separate 15,000 square foot condominium unit that will be solely owned by the Corporation and used for its administrative operations. The proposed development is being designed and will consist of at least 20 floors and more than 180 residential units.

The Corporation is involved in legal matters as a defendant arising in the ordinary course of business. Management does not expect the outcome of these matters to have a material effect on the Corporation's consolidating financial position or results of operations.

10. BOARD DESIGNATED NET ASSETS

In the year ended December 31, 2015, the Board of Directors of the Corporation designated $5 million of unrestricted net assets to be used for the development of the Third Horizon treatment facility owned by the Corporation.

11. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events occurring after the consolidating statement of financial position date through the date of March 24, 2018. Based on this evaluation, the Corporation has determined that no subsequent events have occurred, which require disclosure in the consolidating financial statements.