

Developmental Disabilities Institute, Inc. and Affiliate

**Combined Financial Statements and
Supplementary Information**
Year Ended December 31, 2015

Developmental Disabilities Institute, Inc. and Affiliate

Combined Financial Statements and Supplementary Information
Year Ended December 31, 2015

Developmental Disabilities Institute, Inc. and Affiliate

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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 "Institute and Affiliate"), which comprise the combined statement of financial position as of December 31, 2015, 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, 2015, 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.

Report on Summarized Comparative Information

We have audited the Institute and Affiliate's 2014 combined financial statements and our report, dated May 28, 2015, 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, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

BDO USA, LLP

May 20, 2016

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Financial Position (with comparative totals for 2014)

<i>December 31,</i>	2015	2014
Assets		
Current:		
Cash and cash equivalents (Note 3)	\$15,000,115	\$10,402,612
Assets limited as to use, current portion (Note 3)	3,732,331	3,752,520
Investments, at fair value (Notes 3 and 4)	4,996	4,996
Accounts receivable, net of allowance for doubtful accounts of \$441,134 and \$375,045 for 2015 and 2014, respectively (Note 3)	14,160,941	16,131,405
Government and other grants receivable (Note 3)	831,894	934,962
Current portion of contributions and pledges receivable, net (Notes 3 and 5)	83,529	139,908
Prepaid expenses and other assets	1,359,096	1,258,735
Total Current Assets	35,172,902	32,625,138
Deferred Costs, Net (Note 3)	794,652	873,672
Assets Limited as to Use, Less Current Portion (Note 4)	4,696,140	4,640,093
Contributions and Pledges Receivable, Net, Less Current Portion (Notes 3 and 5)	108,714	71,141
Fixed Assets, Net (Notes 3, 6, 12 and 13)	28,059,733	27,477,574
	\$68,832,141	\$65,687,618
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,311,499	\$ 2,310,086
Accrued interest payable (Note 13)	132,657	129,677
Accrued payroll and related benefits	6,010,195	5,879,122
Accrued pension payable (Note 7)	816,729	897,777
Deferred revenue, current portion (Note 3)	2,023,502	1,804,318
Capital lease obligations, current portion (Note 10)	607,378	500,002
Mortgages and loans payable, current portion (Note 12)	257,668	244,387
Bonds payable, current portion (Note 13)	1,890,000	1,785,000
Due to governmental agencies, current portion (Notes 3 and 9)	918,521	1,547,860
Total Current Liabilities	15,968,149	15,098,229
Deferred Revenue, Less Current Portion (Note 3)	1,706,503	1,548,538
Capital Lease Obligations, Less Current Maturities (Note 10)	764,417	826,996
Mortgages and Loans Payable, Less Current Maturities (Note 12)	2,120,551	2,376,405
Bonds Payable, Less Current Maturities (Note 13)	21,311,958	23,201,958
Due to Governmental Agencies, Less Current Portion (Notes 3 and 9)	5,519,732	3,489,078
Total Liabilities	47,391,310	46,541,204
Commitments and Contingencies (Notes 3, 6, 8, 9, 10, 11, 12, 13, 14 and 15)		
Net Assets:		
Unrestricted net assets (Note 3)	20,704,388	18,218,769
Temporarily restricted net assets (Notes 3, 16 and 17)	736,443	927,645
Total Net Assets	21,440,831	19,146,414
	\$68,832,141	\$65,687,618

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Activities (with comparative totals for 2014)

Year ended December 31,

	Unrestricted	Temporarily Restricted	Total	
			2015	2014
Program Revenues:				
Fees for services	\$90,897,280	\$ -	\$90,897,280	\$85,125,406
Government and other grants	1,322,400	-	1,322,400	1,442,514
Clinic revenue	4,880,236	-	4,880,236	4,780,926
Other program revenues	1,748,095	-	1,748,095	1,515,040
Net assets released from restrictions (Note 16)	25,660	(25,660)	-	-
Total Program Revenues	98,873,671	(25,660)	98,848,011	92,863,886
Expenses:				
Program services:				
Education services	32,167,330	-	32,167,330	29,682,713
Clinic services	5,413,192	-	5,413,192	5,192,637
Adult day services	16,389,994	-	16,389,994	15,648,495
Children's residential services	10,550,947	-	10,550,947	7,934,228
Adult residential services	27,366,414	-	27,366,414	25,811,303
Other programs	64,642	-	64,642	5,136
Total Program Services	91,952,519	-	91,952,519	84,274,512
Supporting services:				
Management and general	5,879,833	-	5,879,833	5,793,961
Fundraising	184,604	-	184,604	171,150
Total Supporting Services	6,064,437	-	6,064,437	5,965,111
Total Expenses	98,016,956	-	98,016,956	90,239,623
Change in Net Assets Before Nonoperating Revenues and Expenses	856,715	(25,660)	831,055	2,624,263
Nonoperating Revenues and Expenses:				
Capital campaign income	-	100,532	100,532	67,935
Capital campaign expenses	-	(317,288)	(317,288)	(298,489)
Net Expenses From Capital Campaign	-	(216,756)	(216,756)	(230,554)
Special events revenues	394,326	-	394,326	398,815
Direct cost to donors	(113,751)	-	(113,751)	(127,729)
Net Revenues From Special Events	280,575	-	280,575	271,086
Contributions	55,887	51,214	107,101	50,733
Gain on sale of fixed assets	78,054	-	78,054	40,014
Unrealized losses on investments	-	-	-	(109)
Interest income	42,827	-	42,827	39,888
Other income	97,226	-	97,226	106,641
Prior period income (Note 3(l))	1,074,335	-	1,074,335	1,728,904
Total Nonoperating Revenues and Expenses	1,628,904	(165,542)	1,463,362	2,006,603
Change in Net Assets	2,485,619	(191,202)	2,294,417	4,630,866
Net Assets, Beginning of Year	18,218,769	927,645	19,146,414	14,515,548
Net Assets, End of Year	\$20,704,388	\$736,443	\$21,440,831	\$19,146,414

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

**Combined Statement of Functional Expenses
(with comparative totals for 2014)**

Year ended December 31,

	Program Services						Supporting Services			Total		
	Education Services	Clinic Services	Adult Day Services	Children's Residential Services	Adult Residential Services	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	2015	2014
Salaries and Related Expenses:												
Salaries	\$20,951,171	\$3,102,197	\$ 9,162,847	\$ 5,866,283	\$16,459,215	\$42,914	\$55,584,627	\$3,399,889	\$ 94,303	\$3,494,192	\$59,078,819	\$55,557,155
Payroll taxes and employee benefits	7,421,271	867,335	3,565,905	2,009,967	5,997,457	15,681	19,877,616	992,746	31,473	1,024,219	20,901,835	17,642,337
Total Salaries and Related Expenses	28,372,442	3,969,532	12,728,752	7,876,250	22,456,672	58,595	75,462,243	4,392,635	125,776	4,518,411	79,980,654	73,199,492
Other Expenses:												
Fee-for-services professionals	82,712	252,926	26,982	27,646	123,569	-	513,835	133,038	-	133,038	646,873	592,312
Building occupancy	479,576	229,604	831,624	22	11,488	-	1,552,314	19,177	-	19,177	1,571,491	1,567,432
Telephone	169,068	42,333	152,705	46,791	140,828	48	551,773	34,660	1,769	36,429	588,202	530,349
Travel	9,473	1,596	48,244	4,203	29,874	165	93,555	16,096	1,286	17,382	110,937	104,660
Supplies	546,469	126,433	193,740	317,620	595,893	123	1,780,278	17,602	698	18,300	1,798,578	1,867,896
Food	4,543	9	29,655	322,851	780,810	-	1,137,868	558	-	558	1,138,426	1,065,641
Office expense	210,379	102,511	121,756	58,905	84,704	272	578,527	325,882	20,950	346,832	925,359	799,904
Dues and subscriptions	17,436	3,694	3,811	1,968	4,452	999	32,360	40,989	2,412	43,401	75,761	68,961
Postage	11,857	3,059	1,849	1,413	866	-	19,044	52,506	532	53,038	72,082	64,497
Meetings and conferences	21,727	627	19,735	7,693	10,171	506	60,459	16,202	1,989	18,191	78,650	77,865
Employee training and recruitment	157,971	3,869	86,243	51,919	129,593	-	429,595	35,693	40	35,733	465,328	397,049
Legal and accounting	1,869	874	-	48,444	4,650	-	55,837	238,620	-	238,620	294,457	302,710
Utilities	315,339	64,224	183,099	116,006	322,005	-	1,000,673	37,481	509	37,990	1,038,663	1,181,204
Repairs and maintenance	459,031	91,653	290,646	181,006	302,967	1,171	1,326,474	29,571	9,789	39,360	1,365,834	1,032,661
Equipment and furniture	264,890	7,727	29,786	31,193	28,182	2,611	364,389	24,331	11,401	35,732	400,121	319,580
Interest	225,707	136,848	166,163	217,054	357,010	-	1,102,782	45,003	56	45,059	1,147,841	990,757
Insurance	298,327	77,098	367,453	133,818	412,101	152	1,288,949	47,544	366	47,910	1,336,859	1,319,734
Medicaid assessment taxes	-	-	-	624,670	200,813	-	825,483	-	-	-	825,483	693,279
Amortization of debt issuance costs	16,176	12,140	10,408	8,587	23,278	-	70,589	-	-	-	70,589	189,836
Debt-related expenses	-	-	-	-	-	-	-	13,807	-	13,807	13,807	13,831
Vehicle expense	48,519	1,827	521,593	40,828	286,776	-	899,543	5,769	63	5,832	905,375	1,213,204
Bad debt expense	-	121,741	-	-	-	-	121,741	-	6,559	6,559	128,300	21,404
Total Expenses Before Depreciation and Amortization	31,713,511	5,250,325	15,814,244	10,118,887	26,306,702	64,642	89,268,311	5,527,164	184,195	5,711,359	94,979,670	87,614,258
Depreciation and Amortization	453,819	162,867	575,750	432,060	1,059,712	-	2,684,208	352,669	409	353,078	3,037,286	2,625,365
Total Expenses	\$32,167,330	\$5,413,192	\$16,389,994	\$10,550,947	\$27,366,414	\$64,642	\$91,952,519	\$5,879,833	\$184,604	\$6,064,437	\$98,016,956	\$90,239,623

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Combined Statement of Cash Flows (with comparative totals for 2014)

<i>Year ended December 31,</i>	2015	2014
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,294,417	\$ 4,630,866
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,037,286	2,625,365
Amortization of debt issuance costs	70,589	189,836
Gain on sale of fixed assets	(78,054)	(40,014)
Provision for bad debt	128,300	21,404
Discount on pledges receivables	3,989	2,623
Unrealized loss (gain) on investments	-	109
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,842,164	(3,434,496)
Government and other grants receivable	103,068	79,406
Contributions and pledges receivable	14,817	12,878
Prepaid expenses and other assets	(100,361)	(128,417)
Debt issuance costs	8,431	73,804
Increase (decrease) in:		
Accounts payable and accrued expenses	1,001,413	(99,688)
Accrued interest payable	2,980	931
Accrued payroll and related benefits	131,073	(110,878)
Accrued pension payable	(81,048)	(17,318)
Deferred revenue	377,149	299,126
Due to governmental agencies	1,401,315	(49,142)
Net Cash Provided By Operating Activities	10,157,528	4,056,395
Cash Flows From Investing Activities:		
Purchases of fixed assets	(2,915,888)	(5,087,501)
Proceeds from sale of fixed assets	129,165	53,789
Cash - restricted	20,189	575,305
Assets limited to use	(56,047)	4,220,927
Proceeds from sale of investments	-	22,913
Net Cash Used In Investing Activities	(2,822,581)	(214,567)
Cash Flows From Financing Activities:		
Payments on line of credit	-	(384,000)
Repayments on capital lease obligations	(709,871)	(619,705)
Proceeds from mortgages and loans payable	-	1,150,000
Principal payments on mortgages and loans payable	(242,573)	(229,734)
Principal payments on bonds payable	(1,785,000)	(1,788,000)
Net Cash Used In Financing Activities	(2,737,444)	(1,871,439)
Net Increase in Cash and Cash Equivalents	4,597,503	1,970,389
Cash and Cash Equivalents, Beginning of Year	10,402,612	8,432,223
Cash and Cash Equivalents, End of Year	\$15,000,115	\$10,402,612
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 1,147,841	\$ 990,756
Noncash transaction related to capital leases	754,668	735,501

See accompanying notes to combined financial statements.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

1. Principles of Combination

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

All intercompany balances and transactions have been eliminated in combination.

2. Nature of the Organizations

(a) The Institute is a New York State not-for-profit corporation which operates health, education and residential facilities for the therapeutic education, guidance and training of developmentally disabled children, adults and their families. The Institute also operates Diagnostic and Treatment Centers, which are licensed by the New York State Department of Health under Article 28 of the Public Health Law to provide rehabilitative, therapeutic, medical and dental services primarily for developmentally disabled children and adults. The Institute 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 Institute has been determined by the Internal Revenue Service 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, 2015.

(b) The Foundation is a New York State not-for-profit corporation that was established May 31, 1988 and began operations October 1, 1990. The Foundation is organized and operated exclusively for charitable, scientific and educational purposes. Consistent with the foregoing, its specific purpose is to promote and support the activities of the Institute. The Foundation maintains certain common board members with the Institute. The Foundation is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Code and, therefore has made no provision for income taxes in the accompanying combined financial statements. In addition, the Foundation has been determined by the Internal Revenue Service 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, 2015.

3. Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The combined financial statements of the Institute and Affiliate 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.

(b) *Financial Statement Presentation*

The classification of the Institute's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

These classes are defined as follows:

- (i) **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institute.
- (ii) **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities.
- (iii) **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.
- (c) ***Cash and Cash Equivalents***

The Institute and Affiliate consider all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

- (d) ***Assets Limited as to Use***

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

- (e) ***Provision for Doubtful Accounts***

The Institute and Affiliate provide an allowance for doubtful accounts for accounts receivable which are specifically identified by management as to their uncertainty in regards to collectability. As of December 31, 2015, the total allowance for doubtful accounts is \$441,134.

- (f) ***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 their placement within the fair value hierarchy. The Institute and Affiliate classify fair value balances based on the fair value hierarchy defined by ASC 820 as follows:

Level 1 - Valuations 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 based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

Level 3 - Valuations 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.

(g) Income Taxes

The Institute and Affiliate were 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 Institute and Affiliate have been determined by the Internal Revenue Service not to be "private foundations" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended December 31, 2015. Management believes that the Institute and Affiliate are no longer subject to income tax examinations for years prior to 2012.

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 Institute and Affiliate do not believe there are any material uncertain tax positions and, accordingly, they will not recognize any liability for unrecognized tax benefits. The Institute and Affiliate have filed for and received income tax exemptions in the jurisdictions where they are required to do so. Additionally, the Institute and Affiliate have filed Internal Revenue Service Form 990 tax returns, as required, and all other applicable returns in jurisdictions when it is required. For the year ended December 31, 2015, there was no interest or penalties recorded or included in the combined statement of activities.

(h) 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

(i) Impairment of Fixed Assets

The Institute and Affiliate review 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, 2015, there have been no such losses.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(j) 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 which represents risk-free interest rates applicable to the years in which promises are received. For the year ended December 31, 2015, the Institute and Affiliate used a discount rate of 3%.

Contributions receivable consist of \$172,306 for the capital campaign and \$19,937 for pledges receivable at December 31, 2015.

The capital campaign represents funds donated to the Institute and Affiliate for the purpose of renovations of the Little Plains School located in Huntington, New York and expenses related to the capital campaign.

(k) Deferred Costs

Deferred costs consist of debt issuance costs and deferred start-up costs. Debt issuance costs are deferred and amortized using the straight-line method over the term of the related debt. Deferred start-up costs are amortized using the straight-line method over a five-year term in accordance with the reimbursement period of the costs to acquire those assets. As of December 31, 2015, the total accumulated amortization for debt issuance costs and deferred costs is \$1,550,878.

(l) Third-party Reimbursements and Revenue Recognition

The Institute 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.

(m) 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.

(n) Concentration of Credit Risk

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

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(o) 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.

(p) 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 Institute and Affiliate's combined financial statements for the year ended December 31, 2014, from which the summarized information was derived in total but not by net asset class.

(q) Recently Adopted Accounting Pronouncements

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, 2019. Management is currently evaluating the impact of the pending adoption of ASU 2016-02.

(r) Reclassifications

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

4. Investments and Assets Limited as to Use

The cost and respective fair values of investments at December 31, 2015 are as follows:

December 31, 2015

	Cost	Fair Value
Institute and Affiliate:		
Common stock	\$ 4,996	\$ 4,996
Federated Treasury Obligations Fund	3,743,755	3,743,755
Debt service reserve fund - money market fund	952,385	952,385
Total	\$4,701,136	\$4,701,136

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

The Institute and Affiliate's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 2 for a discussion of the Institute and Affiliate's policies regarding this hierarchy. A description of the valuation techniques applied to the Institute and Affiliate's major categories of assets measured at fair value is below.

The Institute and Affiliate have investments in common stock, treasury obligation and money market funds. The Institute and Affiliate's custodian prices these investments using nationally recognized pricing services. The Institute and Affiliate'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 Institute and Affiliate's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2015. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Institute and Affiliate'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.

	Fair Value Measurement at Reporting Date Using			Balance at December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Common stock	\$ 4,996	\$-	\$-	\$ 4,996
2005 A-B Civic Facility Revenue Bonds: Federal Treasury Obligations Fund	126,939	-	-	126,939
2006 A-B Civic Facility Revenue Bonds: Federal Treasury Obligations Fund	72,881	-	-	72,881
2012 AA-AF Local Development Corp. Revenue Bond	3,106,601	-	-	3,106,601
2012 BA-BE County Economic Development Corp. Revenue Bond	437,034	-	-	437,034
Facilities Development Corporation ("FDC") mortgages payable - debt service reserve fund	952,385	-	-	952,385
2004 A-C Civic Facility Revenue Bonds: Federal Treasury Obligations Fund	300	-	-	300
	\$4,701,136	\$-	\$-	\$4,701,136

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

5. Contributions and Pledges Receivable, Net

At December 31, 2015, the net present value of contributions and pledges receivable is \$192,243. The net present value of pledges receivable was calculated using a discount rate of 3%.

Net present value of pledges receivable at December 31, 2015 is summarized below:

December 31, 2015

Total contributions and pledges receivable	\$196,232
Discount	(3,989)
Net present value of contributions receivable	\$192,243
Amount due in:	
One year	\$ 83,529
Two to five years	112,703
	\$196,232

6. Fixed Assets, Net

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

December 31, 2015

Land	\$ 5,823,644
Buildings and building improvements	41,253,949
Furniture, fixtures and office equipment	8,618,856
Vehicles under capital lease obligations	4,822,961
Machinery and equipment	215,929
IT equipment	945,533
Leasehold improvements	1,997,651
	63,678,523
Less: Accumulated depreciation and amortization	(36,935,264)
Construction-in-progress	1,316,474
	\$ 28,059,733

The estimated cost to complete the construction-in-progress is approximately \$756,000.

7. Pension Plans

(a) 403(b) Tax Deferred Annuity Plan

The Institute is the sponsor of a 403(b) tax deferred annuity plan that covers all Institute and Affiliate employees meeting eligibility requirements. Employee contributions are immediately vested. The Institute 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, 2015 was \$816,729. In 2015, employer contributions of \$897,777 were made.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

(b) Frozen Plan

The Institute and Affiliate had a defined contribution 401(a) pension plan for all salaried employees who completed one year of service. Contributions were based on a percentage of employees' salaries and vesting occurred after five years. The plan was frozen as of April 6, 2001.

8. Workers' Compensation Reserve

DDI was previously a member of the now terminated and insolvent Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation ("CRISP"). Due to financial deficits, the Workers' Compensation Board ("WCB") of New York State assumed the administration of CRISP. WCB has been charged with facilitating the extinguishment of the liabilities of the trust and performed a review to reconstruct and allocate the deficit among CRISP's former members. DDI received an assessment based on this review for fiscal years 2006-2011. Former CRISP members retained counsel and negotiated an MOU with the WCB. The terms of the MOU called for DDI to pay a monthly amount of \$28,102. On the advice of counsel, DDI, and other former CRISP members involved with the MOU, stopped making these monthly payments. The WCB has offered a settlement agreement which is currently being negotiated upon by counsel. DDI's exact liability cannot be determined at this time. As such, provision for the amount of the full liability has not been recorded in the accompanying combined financial statements.

9. Due to Governmental Agencies

Due to governmental agencies consists of the following:

December 31, 2015

Advances by funding sources to be recouped in future years	\$6,438,253
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10. Capital Lease Obligations

Capital lease obligations consisted of the following:

December 31, 2015

The Institute financed the cost of vehicles with notes payable in various monthly installments through 2019. The interest rates on these leases range from 5.25% to 7.27%.	\$1,371,795
Less: Current maturities	(607,378)
	<hr/> \$ 764,417

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

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

December 31,

2016	\$ 669,291
2017	478,048
2018	312,531
2019	15,632
<hr/>	
Total minimum lease payments	1,475,502
Less: Interest	(103,707)
<hr/>	
Present value of net minimum lease payments	\$1,371,795

11. Line of Credit

The Institute has a revolving line of credit with a bank of up to \$9,000,000 and expires on August 31, 2016. Interest is charged at 3.75% per annum. There were no amounts outstanding at December 31, 2015. 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, 2015

Mortgage payable to Facilities Development Corporation ("FDC"), due August 2017, payable in semi-annual debt service payments ranging from \$24,430 to \$24,837, including interest at 7.95% per annum; secured by real estate located in Plainview, New York.	\$ 74,450
Mortgage payable to FDC, due August 2018, payable in semi-annual debt service payments ranging from \$22,544 to \$22,880, including interest at 6.76% per annum; secured by real estate located in Greenlawn, New York.	48,575
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.	88,864
Various loans payable, due from May 2025 to February 2026, 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.	2,166,330
<hr/>	
	2,378,219
Less: Current maturities	(257,668)
<hr/>	
	\$2,120,551

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

Mortgages and loans payable mature as follows:

December 31,

2016	\$ 257,668
2017	213,125
2018	186,670
2019	195,742
2020	193,644
Thereafter	1,331,370

\$2,378,219

13. Bonds Payable

(a) On December 1, 2004, the Institute obtained financing of \$265,000 of Civic Facility Revenue bonds through the Suffolk County Industrial Development Agency ("SCIDA") for the renovation and equipping of a facility located in Medford, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2015, \$60,000 remains outstanding:

(b) On January 21, 2005 the Institute obtained financing of \$163,000 of Civic Facility Revenue bonds through the Nassau County Industrial Development Agency ("NCIDA") for the renovation and equipping of a facility located in Bellmore, NY. The bonds, which require quarterly interest payments, bear interest at 6%. At December 31, 2015, \$55,000 remains outstanding.

(c) On October 1, 2005, the Institute 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, 2015, \$455,000 remains outstanding.

(d) On September 26, 2006, the Institute 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, 2015, \$1,715,000 remains outstanding.

(e) On August 29, 2012, the Institute 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, 2015, \$16,524,476 remains outstanding.

On August 29, 2012, the Institute 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, 2015, \$4,392,482 remains outstanding.

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

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

December 31,

2016	\$1,890,000
2017	1,940,000
2018	2,010,000
2019	2,060,000
2020	2,135,000
Thereafter	13,166,958
	<hr/>
	\$23,201,958

All bonds are secured by the related properties.

Interest expense related to the bonds for the year ended December 31, 2015 was \$930,150.

14. Operating Leases

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

December 31,

2016	\$1,379,576
2017	1,303,605
2018	936,195
2019	452,602
2020	345,322
Thereafter	731,195
	<hr/>
Total minimum lease payments	\$5,148,495

Total rental expense under noncancellable operating leases amounted to \$1,403,292 for the year ended December 31, 2015.

15. Commitments and Contingencies

(a) In conjunction with the operation of its Diagnostic and Treatment Centers, the Institute maintains occurrence-basis malpractice insurance policies for certain qualified providers. Non-qualified providers are required to maintain their own malpractice coverage. Management is not aware of any outstanding individual or aggregate malpractice claims that could potentially exceed the existing coverage limitations.

(b) For the year ended December 31, 2015, revenues from Medicare and Medicaid programs accounted for a significant portion of the Institute's revenues. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Institute believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or

Developmental Disabilities Institute, Inc. and Affiliate

Notes to Combined Financial Statements

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 noncompliance is determined, the Institute would be subject to regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

(c) Additionally, the Institute 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 Institute's financial position.

(d) On July 15, 2015, the Institute entered into an irrevocable letter of credit amounting to \$2,816,837 from a bank which matures on August 1, 2016. The letter of credit was issued in conjunction with the Institute's workers' compensation policy. There were no outstanding borrowings at December 31, 2015.

16. Net Assets Released From Restrictions

During 2015, temporarily restricted net assets that were released from donor restrictions by incurring expenses satisfying the restricted purpose are as follows:

Program designated	\$ 25,660
Capital Campaign	317,288
	<hr/> \$342,948

17. Temporarily Restricted Net Assets

Donor restricted contributions held for specific purposes are as follows:

December 31, 2015

Program designated	\$103,970
Memorial	44,220
Capital campaign	588,253
	<hr/> \$736,443

18. Subsequent Events

It is the intention of the Institute to surrender the license for its Diagnostic and Treatment Center ("OPTI Healthcare") during 2016. OPTI Healthcare will be transitioned over to another unrelated entity which will continue to provide services as a Federally Qualified Healthcare Center. The Institute will lease space to this entity and have a tenant-landlord relationship.

The Institute and Affiliate's management has performed subsequent events procedures through May 20, 2016, which is the date the combined financial statements were available to be issued and there were no subsequent events, other than those mentioned above, requiring adjustment to the combined financial statements or disclosures as stated herein.

Independent Auditor's Report on Supplementary Information

Our audit of the combined financial statements included in the preceding section of this report 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 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 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.

BDO USA, LLP

New York, New York

May 20, 2016

Supplementary Information

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Financial Position (with comparative totals for 2014)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total	
				2015	2014
Assets					
Current:					
Cash and cash equivalents	\$14,555,228	\$ 444,887	\$ -	\$15,000,115	\$10,402,612
Assets limited as to use, current portion	3,213,816	518,515	-	3,732,331	3,752,520
Investments, at fair value	-	4,996	-	4,996	4,996
Accounts receivable, net	14,160,941	-	-	14,160,941	16,131,405
Government and other grants receivable	831,894	-	-	831,894	934,962
Current portion of contributions and pledges receivable	-	83,529	-	83,529	139,908
Prepaid expenses and other assets	1,353,699	5,397	-	1,359,096	1,258,735
Total Current Assets	34,115,578	1,057,324	-	35,172,902	32,625,138
Due From Affiliates	10,517	-	(10,517)	-	-
Deferred Costs, Net	794,652	-	-	794,652	873,672
Assets Limited as to Use, Less Current Portion	4,696,140	-	-	4,696,140	4,640,093
Contributions and Pledges Receivable, Net, Less Current Portion	-	108,714	-	108,714	71,141
Fixed Assets, Net	28,059,733	-	-	28,059,733	27,477,574
	\$67,676,620	\$1,166,038	\$(10,517)	\$68,832,141	\$65,687,618

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Financial Position (with comparative totals for 2014)

December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.	Eliminations	Combined Total	
				2015	2014
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 3,305,899	\$ 5,600	\$ -	\$ 3,311,499	\$ 2,310,086
Accrued interest payable	132,657	-	-	132,657	129,677
Accrued payroll and related benefits	6,010,195	-	-	6,010,195	5,879,122
Accrued pension payable	816,729	-	-	816,729	897,777
Due to affiliates	-	10,517	(10,517)	-	-
Deferred revenue, current portion	2,023,502	-	-	2,023,502	1,804,318
Capital lease obligations, current portion	607,378	-	-	607,378	500,002
Mortgages and loans payable, current portion	257,668	-	-	257,668	244,387
Bonds payable, current portion	1,890,000	-	-	1,890,000	1,785,000
Due to governmental agencies, current portion	918,521	-	-	918,521	1,547,860
Total Current Liabilities	15,962,549	16,117	(10,517)	15,968,149	15,098,229
Deferred Revenue, Less Current Portion	1,706,503	-	-	1,706,503	1,548,538
Capital Lease Obligations, Less Current Maturities	764,417	-	-	764,417	826,996
Mortgages and Loans Payable, Less Current Maturities	2,120,551	-	-	2,120,551	2,376,405
Bonds Payable, Less Current Maturities	21,311,958	-	-	21,311,958	23,201,958
Due to Governmental Agencies, Less Current Portion	5,519,732	-	-	5,519,732	3,489,078
Total Liabilities	47,385,710	16,117	(10,517)	47,391,310	46,541,204
Net Assets:					
Unrestricted net assets	20,290,910	413,478	-	20,704,388	18,218,769
Temporarily restricted net assets	-	736,443	-	736,443	927,645
Total Net Assets	20,290,910	1,149,921	-	21,440,831	19,146,414
	\$67,676,620	\$1,166,038	\$(10,517)	\$68,832,141	\$65,687,618

Developmental Disabilities Institute, Inc. and Affiliate

Combining Statement of Activities (with comparative totals for 2014)

Year ended December 31,

	Developmental Disabilities Institute, Inc.	DDI Foundation, Inc.			Combined Total	
	Unrestricted	Unrestricted	Temporarily Restricted	Total	2015	2014
Program Revenues:						
Fees for services	\$90,897,280	\$ -	\$ -	\$ -	\$90,897,280	\$85,125,406
Government and other grants	1,322,400	-	-	-	1,322,400	1,442,514
Net patient service revenues	4,880,236	-	-	-	4,880,236	4,780,926
Other program revenues	1,748,095	-	-	-	1,748,095	1,515,040
Net assets released from restrictions	-	25,660	(25,660)	-	-	-
Total Program Revenues	98,848,011	25,660	(25,660)	-	98,848,011	92,863,886
Expenses:						
Program services:						
Education services	32,167,330	-	-	-	32,167,330	29,682,713
Clinic services	5,413,192	-	-	-	5,413,192	5,192,637
Adult day services	16,389,994	-	-	-	16,389,994	15,648,495
Children's residential services	10,550,947	-	-	-	10,550,947	7,934,228
Adult residential services	27,366,414	-	-	-	27,366,414	25,811,303
Other programs	64,642	-	-	-	64,642	5,136
Total Program Services	91,952,519	-	-	-	91,952,519	84,274,512
Supporting services:						
Management and general	5,879,833	-	-	-	5,879,833	5,793,961
Fundraising	-	184,604	-	184,604	184,604	171,150
Total Supporting Services	5,879,833	184,604	-	184,604	6,064,437	5,965,111
Total Expenses	97,832,352	184,604	-	184,604	98,016,956	90,239,623
Change in Net Assets Before Nonoperating Revenues and Expenses	1,015,659	(158,944)	(25,660)	(184,604)	831,055	2,624,263
Nonoperating Revenues and Expenses:						
Capital campaign income	-	-	100,532	100,532	100,532	67,935
Capital campaign expenses	-	-	(317,288)	(317,288)	(317,288)	(298,489)
Net Expenses From Capital Campaign	-	-	(216,756)	(216,756)	(216,756)	(230,554)
Special events revenues	-	394,326	-	394,326	394,326	398,815
Direct cost to donors	-	(113,751)	-	(113,751)	(113,751)	(127,729)
Net Revenues From Special Events	-	280,575	-	280,575	280,575	271,086
Contributions	10,000	45,887	51,214	97,101	107,101	50,733
Gain on sale of fixed assets	78,054	-	-	-	78,054	40,014
Unrealized losses on investments	-	-	-	-	-	(109)
Interest income	42,717	110	-	110	42,827	39,888
Other income	97,226	-	-	-	97,226	106,641
Prior period income	1,073,653	682	-	682	1,074,335	1,728,904
Total Nonoperating Revenues and Expenses	1,301,650	327,254	(165,542)	161,712	1,463,362	2,006,603
Change in Net Assets	2,317,309	168,310	(191,202)	(22,892)	2,294,417	4,630,866
Net Assets, Beginning of Year	17,973,601	245,168	927,645	1,172,813	19,146,414	14,515,548
Net Assets, End of Year	\$20,290,910	\$413,478	\$736,443	\$1,149,921	\$21,440,831	\$19,146,414