



START Treatment and Recovery Centers and Subsidiary

Consolidating Financial Statements

December 31, 2015 and 2014

With Independent Auditors' Report

START Treatment and Recovery Centers and Subsidiary
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December 31, 2015 and 2014

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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, 2015 and 2014 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, 2015 and 2014, 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.



March 11, 2016

START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Financial Position
December 31, 2015

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 7,329,404	\$ 29,092	\$ --	\$ 7,358,496
Due from funding agencies	1,149,096	--	--	1,149,096
Medicaid Title XIX receivable, net of allowance for doubtful accounts of \$855,158	2,623,965	--	--	2,623,965
Inventory	3,348	--	--	3,348
Investments	1,969,175	--	--	1,969,175
Other current assets	484,728	--	--	484,728
Total current assets	<u>13,559,716</u>	<u>29,092</u>	<u>--</u>	<u>13,588,808</u>
Property and equipment				
Construction in progress	104,378	--	--	104,378
Land	1,100,252	148,382	--	1,248,634
Building	1,811,912	420,599	--	2,232,511
Renovations and building improvements	15,094,698	--	--	15,094,698
Furniture, fixtures and equipment	7,066,026	--	--	7,066,026
Automotive equipment	239,991	--	--	239,991
	<u>25,417,257</u>	<u>568,981</u>	<u>--</u>	<u>25,986,238</u>
Less: Accumulated depreciation	<u>14,945,517</u>	<u>351,377</u>	<u>--</u>	<u>15,296,894</u>
Property and equipment, net	10,471,740	217,604	--	10,689,344
Other assets				
Due from affiliates	9,204	20,040	(20,040)	9,204
Other assets	5,540	--	--	5,540
Total other assets	<u>14,744</u>	<u>20,040</u>	<u>(20,040)</u>	<u>14,744</u>
	<u>\$ 24,046,200</u>	<u>\$ 266,736</u>	<u>\$ (20,040)</u>	<u>\$ 24,292,896</u>
Liabilities and Net Assets				
Current liabilities				
Due to funding agencies	\$ 72,311	\$ --	\$ --	\$ 72,311
Accounts payable and accrued expenses	1,729,818	--	--	1,729,818
Other current liabilities	35,688	--	--	35,688
Total current liabilities	<u>1,837,817</u>	<u>--</u>	<u>--</u>	<u>1,837,817</u>
Due to affiliates	<u>20,040</u>	<u>34,998</u>	<u>(20,040)</u>	<u>34,998</u>
Total liabilities	1,857,857	34,998	(20,040)	1,872,815
Unrestricted net assets				
Operating	6,716,603	231,738	--	6,948,341
Property and equipment	10,471,740	--	--	10,471,740
Board designated - Third Horizon building development fund	5,000,000	--	--	5,000,000
Total unrestricted net assets	<u>22,188,343</u>	<u>231,738</u>	<u>--</u>	<u>22,420,081</u>
	<u>\$ 24,046,200</u>	<u>\$ 266,736</u>	<u>\$ (20,040)</u>	<u>\$ 24,292,896</u>

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

**START Treatment and Recovery Centers and Subsidiary
Consolidating Statements of Financial Position
December 31, 2014**

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 6,345,617	\$ 29,063	\$ --	\$ 6,374,680
Due from funding agencies, net	746,402	--	--	746,402
Medicaid Title XIX receivable, net of allowance for doubtful accounts of \$380,830	2,364,603	--	--	2,364,603
Inventory	17,084	--	--	17,084
Other current assets	1,391,509	--	--	1,391,509
Total current assets	<u>10,865,215</u>	<u>29,063</u>	<u>--</u>	<u>10,894,278</u>
Property and equipment				
Construction in progress	5,050,216	--	--	5,050,216
Land	392,208	148,382	--	540,590
Building	1,811,912	420,599	--	2,232,511
Renovations and building improvements	9,634,845	--	--	9,634,845
Furniture, fixtures and equipment	6,691,033	--	--	6,691,033
Automotive equipment	239,991	--	--	239,991
	<u>23,820,205</u>	<u>568,981</u>	<u>--</u>	<u>24,389,186</u>
Less: Accumulated depreciation	<u>14,242,656</u>	<u>338,001</u>	<u>--</u>	<u>14,580,657</u>
Property and equipment, net	9,577,549	230,980	--	9,808,529
Other assets				
Due from affiliates	--	20,040	(20,040)	--
Other assets	5,540	--	--	5,540
Total other assets	<u>5,540</u>	<u>20,040</u>	<u>(20,040)</u>	<u>5,540</u>
	<u>\$ 20,448,304</u>	<u>\$ 280,083</u>	<u>\$ (20,040)</u>	<u>\$ 20,708,347</u>
Liabilities and Net Assets				
Current liabilities				
Due to funding agencies	\$ 73,399	\$ --	\$ --	\$ 73,399
Accounts payable and accrued expenses	2,617,658	--	--	2,617,658
Other current liabilities	53,982	--	--	53,982
Total current liabilities	<u>2,745,039</u>	<u>--</u>	<u>--</u>	<u>2,745,039</u>
Due to affiliates	<u>20,040</u>	<u>34,998</u>	<u>(20,040)</u>	<u>34,998</u>
Total liabilities	2,765,079	34,998	(20,040)	2,780,037
Unrestricted net assets				
Operating	8,105,676	245,085	--	8,350,761
Property and equipment	9,577,549	--	--	9,577,549
Total unrestricted net assets	<u>17,683,225</u>	<u>245,085</u>	<u>--</u>	<u>17,928,310</u>
	<u>\$ 20,448,304</u>	<u>\$ 280,083</u>	<u>\$ (20,040)</u>	<u>\$ 20,708,347</u>

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, 2015 (With Comparative Totals for 2014)

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total	2014 Total
Changes in unrestricted net assets					
Revenues					
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	\$ 1,035,982	\$ --	\$ --	\$ 1,035,982	\$ 1,907,066
Medicaid Title XIX	25,642,882	--	--	25,642,882	20,898,808
Patient fees	244,514	--	--	244,514	288,946
Contract/grant revenue	1,564,330	--	--	1,564,330	1,442,532
Rental revenue	4,127	--	--	4,127	78,026
Interest and dividends	90,541	89	--	90,630	72,460
Fundraising	119,083	--	--	119,083	115,754
Other	30,847	--	--	30,847	4,469
	<u>28,732,306</u>	<u>89</u>	<u>--</u>	<u>28,732,395</u>	<u>24,808,061</u>
Expenses and losses					
Program services					
Clinic operations	19,726,578	--	--	19,726,578	15,948,393
Research activities	184,307	--	--	184,307	99,003
Other programs	1,331,154	--	--	1,331,154	2,288,191
Total program services	<u>21,242,039</u>	<u>--</u>	<u>--</u>	<u>21,242,039</u>	<u>18,335,587</u>
Supporting services					
Administration	2,704,819	--	--	2,704,819	2,489,258
Fundraising	280,330	--	--	280,330	168,331
Facility	--	13,436	--	13,436	13,452
	<u>2,985,149</u>	<u>13,436</u>	<u>--</u>	<u>2,998,585</u>	<u>2,671,041</u>
	<u>24,227,188</u>	<u>13,436</u>	<u>--</u>	<u>24,240,624</u>	<u>21,006,628</u>
Changes in unrestricted net assets	<u>\$ 4,505,118</u>	<u>\$ (13,347)</u>	<u>\$ --</u>	<u>\$ 4,491,771</u>	<u>\$ 3,801,433</u>

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, 2014

	<u>START Treatment and Recovery Centers</u>	<u>Affiliated Services and Resources Corporation</u>	<u>Eliminations</u>	<u>Total</u>
Changes in unrestricted net assets				
Revenues				
New York State Department of Health, Office of Alcoholism and Substance Abuse Services	\$ 1,907,066	\$ --	\$ --	\$ 1,907,066
Medicaid Title XIX	20,898,808	--	--	20,898,808
Patient fees	288,946	--	--	288,946
Contract/grant revenue	1,442,532	--	--	1,442,532
Rental revenue	78,026	--	--	78,026
Interest and dividends	72,415	45	--	72,460
Fundraising	115,754	--	--	115,754
Other	4,469	--	--	4,469
	<u>24,808,016</u>	<u>45</u>	<u>--</u>	<u>24,808,061</u>
Expenses and losses				
Program services				
Clinic operations	15,948,393	--	--	15,948,393
Research activities	99,003	--	--	99,003
Other programs	<u>2,288,191</u>	<u>--</u>	<u>--</u>	<u>2,288,191</u>
Total program services	18,335,587	--	--	18,335,587
Supporting services				
Administration	2,489,258	--	--	2,489,258
Fundraising	168,331	--	--	168,331
Facility	--	13,452	--	13,452
	<u>2,657,589</u>	<u>13,452</u>	<u>--</u>	<u>2,671,041</u>
	<u>20,993,176</u>	<u>13,452</u>	<u>--</u>	<u>21,006,628</u>
Changes in unrestricted net assets	<u>\$ 3,814,840</u>	<u>\$ (13,407)</u>	<u>\$ --</u>	<u>\$ 3,801,433</u>

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, 2015 and 2014**

	START Treatment and Recovery Centers			Affiliated Services and Resources Corporation Operating	Total
	Operating	Property and Equipment Fund	Third Horizon Building Development Fund		
Unrestricted net assets December 31, 2013	\$ 4,870,920	\$ 8,997,465	\$ --	\$ 258,492	\$ 14,126,877
Changes in unrestricted net assets	<u>3,234,756</u>	<u>580,084</u>	<u>--</u>	<u>(13,407)</u>	<u>3,801,433</u>
Unrestricted net assets December 31, 2014	8,105,676	9,577,549	--	245,085	17,928,310
Changes in unrestricted net assets	<u>(1,389,073)</u>	<u>894,191</u>	<u>5,000,000</u>	<u>(13,347)</u>	<u>4,491,771</u>
Unrestricted net assets December 31, 2015	<u>\$ 6,716,603</u>	<u>\$ 10,471,740</u>	<u>\$ 5,000,000</u>	<u>\$ 231,738</u>	<u>\$ 22,420,081</u>

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, 2015

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Cash flows from operating activities				
Changes in unrestricted net assets	\$ 4,505,118	\$ (13,347)	\$ --	\$ 4,491,771
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities				
Depreciation	702,861	13,376	--	716,237
Bad debts	1,616,856	--	--	1,616,856
Unrealized loss on investments	3,639	--	--	3,639
Donated investments	(5,612)	--	--	(5,612)
Changes in assets and liabilities				
Due from funding agencies	(402,694)	--	--	(402,694)
Medicaid Title XIX receivable	(1,876,218)	--	--	(1,876,218)
Inventory	13,736	--	--	13,736
Other current assets	906,781	--	--	906,781
Due to funding agencies	(1,088)	--	--	(1,088)
Accounts payable and accrued expenses	(887,840)	--	--	(887,840)
Other current liabilities	(18,294)	--	--	(18,294)
Due from/to affiliates	(9,204)	--	--	(9,204)
Net cash provided by operating activities	<u>4,548,041</u>	<u>29</u>	<u>--</u>	<u>4,548,070</u>
Cash flows from investing activities				
Purchases of investments	(3,265,092)	--	--	(3,265,092)
Sale of investments	1,297,890	--	--	1,297,890
Property and equipment additions	(1,597,052)	--	--	(1,597,052)
Net cash used by investing activities	<u>(3,564,254)</u>	<u>--</u>	<u>--</u>	<u>(3,564,254)</u>
Net changes in cash and cash equivalents	983,787	29	--	983,816
Cash and cash equivalents				
Beginning of year	<u>6,345,617</u>	<u>29,063</u>	<u>--</u>	<u>6,374,680</u>
End of year	<u>\$ 7,329,404</u>	<u>\$ 29,092</u>	<u>\$ --</u>	<u>\$ 7,358,496</u>

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, 2014

	START Treatment and Recovery Centers	Affiliated Services and Resources Corporation	Eliminations	Total
Cash flows from operating activities				
Changes in unrestricted net assets	\$ 3,814,840	\$ (13,407)	\$ --	\$ 3,801,433
Adjustments to reconcile changes in unrestricted net assets to net cash provided (used) by operating activities				
Depreciation	428,766	13,376	--	442,142
Bad debts	440,459	--	--	440,459
Changes in assets and liabilities				
Due from funding agencies	(606,563)	--	--	(606,563)
Medicaid Title XIX receivable	(1,322,006)	--	--	(1,322,006)
Inventory	11,143	--	--	11,143
Other current assets	(110,460)	--	--	(110,460)
Due to funding agencies	(2,714,931)	--	--	(2,714,931)
Accounts payable and accrued expenses	117,078	--	--	117,078
Other current liabilities	(11,776)	--	--	(11,776)
Net cash provided (used) by operating activities	46,550	(31)	--	46,519
Cash flows from investing activities				
Property and equipment dispositions	2,192,837	--	--	2,192,837
Property and equipment additions	(3,201,687)	--	--	(3,201,687)
Net cash used by investing activities	(1,008,850)	--	--	(1,008,850)
Net changes in cash and cash equivalents	(962,300)	(31)	--	(962,331)
Cash and cash equivalents				
Beginning of year	7,307,917	29,094	--	7,337,011
End of year	\$ 6,345,617	\$ 29,063	\$ --	\$ 6,374,680

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, 2015**

	START Treatment and Recovery Centers					Affiliated Services and Resources Corporation	Total
	Clinic Operations	Research Activities	Other Programs	Administration	Fundraising	Facility	
Personnel costs	\$ 14,061,705	\$ 154,589	\$ 1,091,185	\$ 1,771,902	\$ 180,521	\$ --	\$ 17,259,902
Patient costs	406,491	3,250	1,229	--	--	--	410,970
Medical supplies and prescription drugs	718,775	--	--	--	--	--	718,775
Consumable supplies	87,865	647	4,007	41,754	8,973	--	143,246
Rent	199,191	--	21,036	--	--	--	220,227
Utilities	327,770	--	--	95,805	--	--	423,575
Communications	320,088	1,367	6,156	148,129	1,382	--	477,122
Outside security services	60,594	--	--	2,262	--	--	62,856
Repairs and maintenance	418,094	--	--	110,043	5,198	--	533,335
Equipment rental	40,950	--	--	13,344	--	--	54,294
Janitorial and maintenance supplies	46,180	--	--	10,788	--	--	56,968
Legal and accounting	64,156	--	2,500	203,574	--	--	270,230
Consulting	71,715	--	--	74,772	52,429	--	198,916
Data processing	137,700	--	492	47,799	--	--	185,991
Conference and meetings	36,566	7,102	920	86,859	17,013	--	148,460
Staff travel	451	113	--	15,595	--	--	16,159
Staff recruitment and training	208,422	--	5,206	88,767	4,550	--	306,945
Insurance	175,840	--	1,999	138,936	--	--	316,775
Indirect costs	51,249	15,951	196,092	(263,292)	--	--	--
Depreciation	626,193	1,243	134	69,065	6,226	13,376	716,237
Bad debt expense	1,616,856	--	--	--	--	--	1,616,856
Other	49,727	45	198	48,717	4,038	60	102,785
	<u>\$ 19,726,578</u>	<u>\$ 184,307</u>	<u>\$ 1,331,154</u>	<u>\$ 2,704,819</u>	<u>\$ 280,330</u>	<u>\$ 13,436</u>	<u>\$ 24,240,624</u>

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, 2014**

	START Treatment and Recovery Centers					Affiliated Services and Resource Corporation	Total
	Clinic Operations	Research Activities	Other Programs	Administration	Fundraising	Facility	
Personnel costs	\$ 11,560,326	\$ 6,611	\$ 1,230,692	\$ 1,657,948	\$ 99,978	\$ --	\$ 14,555,555
Patient costs	341,176	84,712	2,823	5,946	--	--	434,657
Medical supplies and prescription drugs	726,597	--	--	--	--	--	726,597
Consumable supplies	123,906	--	8,547	48,859	5,644	--	186,956
Rent	125,378	--	43,750	--	--	--	169,128
Utilities	340,076	--	--	140,129	--	--	480,205
Communications	309,593	--	10,250	151,823	--	--	471,666
Outside security services	92,077	--	--	3,833	--	--	95,910
Repairs and maintenance	412,327	--	--	117,911	3,856	--	534,094
Equipment rental	75,186	--	--	43,638	109	--	118,933
Janitorial and maintenance supplies	58,916	--	--	8,625	--	--	67,541
Legal and accounting	45,240	--	5,000	190,954	--	--	241,194
Consulting	432,875	--	--	62,410	36,056	--	531,341
Data processing	134,733	--	985	20,346	--	--	156,064
Conference and meetings	53,911	7,670	8,048	46,627	16,231	--	132,487
Staff travel	713	--	1,896	1,033	18	--	3,660
Staff recruitment and development	--	--	1,000	38,828	--	--	39,828
Insurance	161,741	--	--	86,179	--	--	247,920
Indirect costs	48,521	--	240,048	(288,569)	--	--	--
Depreciation	371,550	--	427	52,065	4,724	13,376	442,142
Bad debts expense	440,459	--	--	--	--	--	440,459
Impairment loss	--	--	726,067	--	--	--	726,067
Other	93,092	10	8,658	100,673	1,715	76	204,224
	<u>\$ 15,948,393</u>	<u>\$ 99,003</u>	<u>\$ 2,288,191</u>	<u>\$ 2,489,258</u>	<u>\$ 168,331</u>	<u>\$ 13,452</u>	<u>\$ 21,006,628</u>

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

START Treatment and Recovery Centers and Subsidiary

Notes to Consolidating Financial Statements

December 31, 2015 and 2014

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 \$716,237 and \$442,142 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, all transactions were in the unrestricted category.

START Treatment and Recovery Centers and Subsidiary

Notes to Consolidating Financial Statements

December 31, 2015 and 2014

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 administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Organization 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 the years ended December 31, 2015 and 2014, impairment loss of \$-0- and \$726,067, respectively, 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.

Reclassifications

Certain items at December 31, 2014 have been reclassified to conform to the presentation at December 31, 2015. There was no change in the reported amounts of the change in net assets as a result of these reclassifications.

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, 2015 and 2014. In addition the Corporation has no income tax related penalties or interest for the periods presented in these consolidating financial statements.

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4. Investments

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

	2015	
	<u>Cost</u>	<u>Market</u>
US Gov't Securities	\$ 1,550,795	\$ 1,547,351
Corporate Bonds	416,407	415,738
Equities	<u>5,612</u>	<u>6,086</u>
	<u>\$ 1,972,814</u>	<u>\$ 1,969,175</u>

Investment income related to these investments is included in interest and dividends on the consolidating statement of activities at December 31, 2015 and was comprised of the following:

	2015
Interest and dividend income	\$ 16,211
Realized gains	--
Unrealized losses	<u>(3,639)</u>
	<u>\$ 12,572</u>

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.)

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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, 2015:

	2015			
	Total	Level 1	Level 2	Level 3
US Gov't Securities	\$ 1,547,351	\$ --	\$ 1,547,351	\$ --
Corporate Bonds	415,738	--	415,738	--
Equities	6,086	6,086	--	--
Total investments	<u>\$ 1,969,175</u>	<u>\$ 6,086</u>	<u>\$ 1,963,089</u>	<u>\$ --</u>

5. Due From/To Funding Agencies

Amounts due from funding agencies are as follows:

	2015	2014
NY State Department of Health	\$ 133,093	\$ --
Brooklyn Borough President's Office	96,479	82,329
New York State Department of Health –Office of Alcoholism and Substance Abuse Services	661,521	217,437
NYC Administration of Children's Services	251,190	435,198
New York State AIDS Institute	6,813	11,438
Other	--	--
	<u>\$ 1,149,096</u>	<u>\$ 746,402</u>

Amounts due to funding agencies are as follows:

	2015	2014
New York State Department of Health	\$ 31,934	\$ 2,846
New York State Department of Health –Office of Alcoholism and Substance Abuse Services	--	--
New York University School of Medicine - NIDA	39,031	35,546
Other	1,346	35,007
	<u>\$ 72,311</u>	<u>\$ 73,399</u>

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, 2015 and 2014 was \$940,030 and \$763,740, 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 amounted to \$164,434 and \$169,128 for the years ended December 31, 2015 and 2014, respectively.

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.

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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

The Corporation entered into a state aid grant lien agreement with the New York State Office of Alcoholism and Substance Abuse Services to fund renovations at two of its facilities. The maximum funding amounts are \$6,100,000 and \$7,410,000. As long as the facilities are used for program purposes, the liens will not be exercised.

As of December 31, 2015 and 2014, \$500,000 and \$1,463,932, respectively, had been advanced and \$5,581,322 and \$4,945,838, respectively, had been expended in project costs for the first project. In 2014, the Corporation withdrew from the second project, due to uncertain economic conditions, and returned all funds to the New York State Office of Alcoholism and Substance Abuse Services.

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.

The contribution of the land and improvements constitutes a capital contribution by START to the JV at an agreed upon value of \$24 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 11, 2016. Based on this evaluation, the Corporation has determined that no subsequent events have occurred, which require disclosure in the consolidating financial statements.