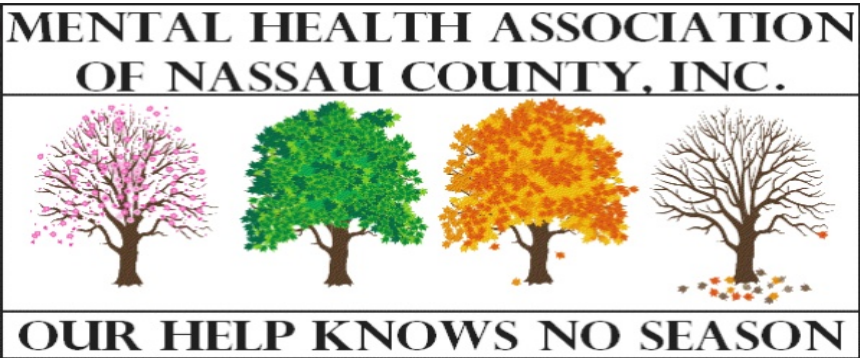


THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.



Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2015 and 2014

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED DECEMBER 31, 2015 AND 2014

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-17

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
The Mental Health Association of Nassau County, Inc.

We have audited the accompanying financial statements of The Mental Health Association of Nassau County, Inc. ("MHA"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mental Health Association of Nassau County, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Prior Period Financial Statements

The financial statements of MHA as of and for the year ended December 31, 2014, were audited by other auditors whose report dated May 27, 2015, expressed an unmodified opinion on those financial statements.

Marks Paneth LLP

New York, NY
May 31, 2016

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents (Notes 2C and 13)	\$ 2,282,598	\$ 1,297,332
Investments (Notes 2D and 4)	3,188,061	3,233,061
Accounts receivable, net (Notes 2E and 3)	1,418,025	1,832,850
Due from related parties (Note 14)	408,282	441,846
Prepaid expenses and other assets	79,269	77,351
Security deposits	90,245	91,392
Assets limited as to use (Note 11)	32,867	28,510
Deferred financing costs (Notes 2F and 6)	133,826	45,929
Property and equipment, net (Notes 2G and 5)	5,903,734	5,758,593
Consumer funds (Note 2H)	<u>2,386,805</u>	<u>2,011,723</u>
TOTAL ASSETS	<u>\$ 15,923,712</u>	<u>\$ 14,818,587</u>
LIABILITIES		
Accounts payable and accrued expenses (Note 15)	\$ 1,208,935	\$ 1,449,331
Accrued payroll and vacations payable	344,662	259,298
Due to funding source and deferred revenue (Note 7)	1,104,973	1,251,950
Loans and mortgage payable (Note 8)	3,163,547	3,242,576
Consumer funds (Note 2H)	<u>2,386,805</u>	<u>2,011,723</u>
TOTAL LIABILITIES	<u>8,208,922</u>	<u>8,214,878</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS (Notes 2B and 10)		
Unrestricted net assets		
Operating	4,511,783	3,352,437
Board designated (Note 10)	<u>3,095,939</u>	<u>3,141,231</u>
Total unrestricted net assets	7,607,722	6,493,668
Temporarily restricted (Note 10)	<u>107,068</u>	<u>110,041</u>
TOTAL NET ASSETS	<u>7,714,790</u>	<u>6,603,709</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,923,712</u>	<u>\$ 14,818,587</u>

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

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Unrestricted	Temporarily Restricted	Total 2015	Unrestricted	Temporarily Restricted	Total 2014
Operating Revenues: (Note 2I)						
Nassau County programs	\$ 1,835,951	\$ -	\$ 1,835,951	\$ 1,748,138	\$ -	\$ 1,748,138
MH Houses	3,622,352	-	3,622,352	3,469,028	-	3,469,028
OPWDD houses	2,497,558	-	2,497,558	2,245,851	-	2,245,851
MHA programs	304,886	-	304,886	271,001	-	271,001
Health Homes -Care Coordination	999,981	-	999,981	754,820	-	754,820
PROS services	1,256,604	-	1,256,604	1,395,963	-	1,395,963
Medicaid Service Coordinator services	54,718	-	54,718	54,681	-	54,681
In-home respite services	149,827	-	149,827	96,682	-	96,682
Project Hope	-	-	-	185,513	-	185,513
Other programs and grants	18,023	34,835	52,858	117,837	68,989	186,826
Net assets released from restrictions (Notes 2B and 10)	37,808	(37,808)	-	82,081	(82,081)	-
Total Operating Revenues	10,777,708	(2,973)	10,774,735	10,421,595	(13,092)	10,408,503
Expenses: (Note 2L)						
Program services:						
Nassau County programs	1,296,541	-	1,296,541	1,493,054	-	1,493,054
MH Houses	2,789,772	-	2,789,772	2,928,458	-	2,928,458
OPWDD houses	2,115,106	-	2,115,106	2,258,138	-	2,258,138
MHA programs	294,366	-	294,366	204,552	-	204,552
Health Homes -Care Coordination	590,662	-	590,662	543,984	-	543,984
PROS services	1,057,886	-	1,057,886	1,120,248	-	1,120,248
Medicaid Service Coordinator services	55,348	-	55,348	59,938	-	59,938
In-home respite services	125,138	-	125,138	104,080	-	104,080
Project Hope	-	-	-	196,515	-	196,515
Other programs	181,379	-	181,379	96,460	-	96,460
	8,506,198	-	8,506,198	9,005,427	-	9,005,427
Supporting services:						
Management and general	1,318,090	-	1,318,090	1,261,948	-	1,261,948
Fund raising	23,154	-	23,154	1,799	-	1,799
Total Operating Expenses	9,847,442	-	9,847,442	10,269,174	-	10,269,174
Change in Net Assets from Operations	930,266	(2,973)	927,293	152,421	(13,092)	139,329
Nonoperating Revenues, Expenses, Gains and Losses						
Contributions (Note 2J)	77,256	-	77,256	78,844	-	78,844
Fundraising (net of direct costs of \$13,295 and \$7,291 for 2015 and 2014, respectively)	104,476	-	104,476	63,473	-	63,473
Miscellaneous revenue	7,443	-	7,443	-	-	-
Total Nonoperating Revenues and Expenses before Investment Return	189,175	-	189,175	142,317	-	142,317
Investment (loss) gain, net (Note 4)	(82,248)	-	(82,248)	18,071	-	18,071
Interest (Note 4)	76,861	-	76,861	66,025	-	66,025
Investment Return	(5,387)	-	(5,387)	84,096	-	84,096
Total Nonoperating Revenues, Expenses, Gains and Losses	183,788	-	183,788	226,413	-	226,413
CHANGE IN NET ASSETS	1,114,054	(2,973)	1,111,081	378,834	(13,092)	365,742
Net assets - beginning of year	6,493,668	110,041	6,603,709	6,114,834	123,133	6,237,967
NET ASSETS - END OF YEAR	\$ 7,607,722	\$ 107,068	\$ 7,714,790	\$ 6,493,668	\$ 110,041	\$ 6,603,709

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

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED
DECEMBER 31, 2014)

	Program services									Supporting Services				
	Nassau County Programs	MH Houses	OPWDD Houses	MHA Programs	Health Homes- Care Coordination	PROS Services	Medicaid Service Coordinator Services	In-Home Respite Services	Other Programs	Total Program Services	Management and General	Fundraising	Total 2015	Total 2014
Salaries	\$ 726,588	\$ 1,074,059	\$ 1,237,566	\$ 119,109	\$ 399,720	\$ 545,407	\$ 36,384	\$ 94,885	\$ 110,463	\$ 4,344,181	\$ 671,762	\$ -	\$ 5,015,943	\$ 5,081,733
Payroll taxes and related costs (Note 12)	198,518	287,093	320,883	34,648	108,434	149,193	10,037	25,957	30,527	1,165,290	183,320	-	1,348,610	1,474,292
Total Salaries and Related Costs	925,106	1,361,152	1,558,449	153,757	508,154	694,600	46,421	120,842	140,990	5,509,471	855,082	-	6,364,553	6,556,025
Professional fees	6,073	220	61,948	8,185	18,553	116,408	6,870	-	7,260	225,517	111,419	-	336,936	446,488
Insurance	15,491	90,404	23,667	-	1,388	13,615	-	-	228	144,793	37,484	-	182,277	181,168
Utilities	13,973	111,879	26,838	636	1,908	17,965	-	636	1,005	174,840	21,147	-	195,987	-
Telephone	20,705	20,706	8,553	701	6,951	15,426	661	1,399	708	75,810	18,084	-	93,894	98,306
Vehicle expenses	4,717	7,538	12,312	-	527	996	-	-	215	26,305	3,688	-	29,993	-
Interest (Note 8)	20,936	37,348	73,098	689	3,698	23,054	-	-	204	159,027	-	-	159,027	209,217
Staff training and development	1,619	3,500	508	-	3,192	643	-	96	5,919	15,477	22,892	-	38,369	36,900
Occupancy (Note 9A)	20,774	715,734	-	-	-	-	-	-	-	736,508	-	-	736,508	973,528
Facility assessment	-	-	81,133	-	-	-	-	-	-	81,133	-	-	81,133	80,261
Travel, transportation, etc.	5,791	14,057	526	-	2,872	35	825	-	1,622	25,728	22,245	-	47,973	88,560
Computer expenses	8,872	20,792	215	418	1,280	12,869	-	415	262	45,123	39,695	-	84,818	-
Payroll fees	-	-	-	-	-	-	-	-	-	-	18,530	-	18,530	-
Office expenses	8,055	6,990	2,034	5,820	3,891	7,140	371	612	1,583	36,496	41,333	-	77,829	-
Client medication and incidentals	17,153	19,456	10,742	-	3,273	47,758	85	-	9,586	108,053	1,300	-	109,353	12,067
Assistance to individual- emergency funds	105,877	-	-	-	-	-	-	-	-	105,877	-	-	105,877	127,065
Food	1,514	90,211	60,694	-	-	4,341	-	-	1,386	158,146	-	-	158,146	151,622
Dues and subscriptions	30,307	7,509	748	25,072	657	4,883	70	202	8,328	77,776	15,476	33	93,285	25,111
Repairs and maintenance	5,146	57,271	36,764	199	165	2,135	-	25	79	101,784	14,437	-	116,221	183,641
Equipment leases & Purchase	9,490	13,415	5,726	-	8,362	3,797	45	373	455	41,663	10,241	-	51,904	-
Household supplies	14,204	55,715	20,144	796	1,718	19,103	-	538	18	112,236	19,758	-	131,994	41,326
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	23,121	23,121	-
Bad debt expenses	-	-	-	97,056	-	-	-	-	-	97,056	-	-	97,056	216,403
Depreciation and amortization (Note 5)	59,067	137,646	121,865	1,037	24,073	73,089	-	-	1,241	418,018	20,396	-	438,414	443,440
Miscellaneous	1,671	18,229	9,142	-	-	29	-	-	290	29,361	44,883	-	74,244	53,379
Printing and postage	-	-	-	-	-	-	-	-	-	-	-	-	-	17,598
Non-household supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	160,572
Conferences and meetings	-	-	-	-	-	-	-	-	-	-	-	-	-	43,223
Equipment purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	123,274
Costs of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	13,295	13,295	7,291
Investment management fees (Note 4)	-	-	-	-	-	-	-	-	-	-	24,820	-	24,820	21,613
Total expenses	1,296,541	2,789,772	2,115,106	294,366	590,662	1,057,886	55,348	125,138	181,379	8,506,198	1,342,910	36,449	9,885,557	10,298,078
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	-	-	(24,820)	(13,295)	(38,115)	(28,904)
Total expenses reported by function on the statement of activities	\$ 1,296,541	\$ 2,789,772	\$ 2,115,106	\$ 294,366	\$ 590,662	\$ 1,057,886	\$ 55,348	\$ 125,138	\$ 181,379	\$ 8,506,198	\$ 1,318,090	\$ 23,154	\$ 9,847,442	\$ 10,269,174

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

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program services										Supporting Services			
	Nassau County Programs	MH Houses	OPWDD Houses	MHA Programs	Health Homes- Care Coordination	PROS Services	Medicaid Service Coordinator Services	In-Home Respite Services	Project Hope	Other Programs	Total Program Services	Management and General	Fundraising	Total
Salaries	\$ 833,669	\$ 1,061,499	\$ 1,237,391	\$ 131,415	\$ 331,023	\$ 579,189	\$ 44,742	\$ 78,625	\$ 103,854	\$ 18,346	\$ 4,419,753	\$ 661,980	\$ -	\$ 5,081,733
Payroll taxes and related costs (Note 12)	211,708	297,775	347,181	40,180	91,833	165,708	11,879	21,996	88,134	4,020	1,280,414	193,878	-	1,474,292
Total Salaries and Related Costs	1,045,377	1,359,274	1,584,572	171,595	422,856	744,897	56,621	100,621	191,988	22,366	5,700,167	855,858	-	6,556,025
Professional fees	40,518	31,220	73,602	667	20,334	96,765	2,050	450	20	43,208	308,834	137,654	-	446,488
Insurance	19,999	90,904	24,260	54	1,549	13,861	20	-	-	228	150,875	30,293	-	181,168
Telephone	20,694	26,485	8,582	671	8,184	14,406	561	1,294	739	-	81,616	16,690	-	98,306
Interest	32,425	51,248	83,867	1,606	-	32,059	-	-	-	-	201,205	8,012	-	209,217
Staff training and development	6,131	942	1,003	419	422	385	210	300	2,393	-	12,205	24,695	-	36,900
Occupancy (Note 9A)	49,741	855,124	23,311	639	1,916	20,818	-	639	-	-	952,188	21,340	-	973,528
Facility assessment	-	-	80,261	-	-	-	-	-	-	-	80,261	-	-	80,261
Travel, transportation, etc.	12,942	20,822	16,349	306	5,484	2,520	-	-	1,340	568	60,331	28,229	-	88,560
Client medication and incidentals	1,877	2,329	4,107	-	-	3,754	-	-	-	-	12,067	-	-	12,067
Assistance to individual- emergency funds	127,065	-	-	-	-	-	-	-	-	-	127,065	-	-	127,065
Food	4,233	86,349	52,271	-	455	3,829	-	-	-	4,485	151,622	-	-	151,622
Dues and subscriptions	2,530	4,463	-	-	-	2,075	-	-	-	600	9,668	15,443	-	25,111
Repairs and maintenance	6,355	112,046	36,088	108	320	11,899	-	107	-	-	166,923	16,718	-	183,641
Household supplies	2,609	22,198	15,576	-	-	578	-	-	-	15	40,976	350	-	41,326
Bad debt expenses	-	28,903	92,500	-	50,000	45,000	-	-	-	-	216,403	-	-	216,403
Depreciation and amortization (Note 5)	51,490	136,433	119,727	1,176	23,456	90,339	-	-	-	2,047	424,668	18,772	-	443,440
Miscellaneous	232	10,867	18,700	17,510	521	-	-	-	-	2,977	50,807	1,980	592	53,379
Printing and postage	58	52	15	482	-	153	-	-	35	79	874	16,724	-	17,598
Non-household supplies	15,982	39,975	15,474	8,688	5,856	17,425	296	256	-	18,375	122,327	37,038	1,207	160,572
Conferences and meetings	28,863	977	-	22	65	6,719	-	22	-	1,512	38,180	5,043	-	43,223
Equipment purchases	23,933	47,847	7,873	609	2,566	12,766	180	391	-	-	96,165	27,109	-	123,274
Fund facility and entertainment	-	-	-	-	-	-	-	-	-	-	-	-	7,291	7,291
Investment management fees (Note 4)	-	-	-	-	-	-	-	-	-	-	-	21,613	-	21,613
Total expenses	1,493,054	2,928,458	2,258,138	204,552	543,984	1,120,248	59,938	104,080	196,515	96,460	9,005,427	1,283,561	9,090	10,298,078
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	-	-	-	(21,613)	(7,291)	(28,904)
Total expenses reported by function on the statement of activities	\$ 1,493,054	\$ 2,928,458	\$ 2,258,138	\$ 204,552	\$ 543,984	\$ 1,120,248	\$ 59,938	\$ 104,080	\$ 196,515	\$ 96,460	\$ 9,005,427	\$ 1,261,948	\$ 1,799	\$ 10,269,174

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

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,111,081	\$ 365,742
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	438,414	443,440
Bad debts	97,056	-
Write off of deferred financing costs	45,929	-
Unrealized loss on investments	94,404	70,731
Realized gain on investments	(36,976)	(88,802)
Subtotal	1,749,908	791,111
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	317,769	(206,221)
Due from related parties	33,564	(59,023)
Prepaid expenses and other assets	(1,918)	(24,063)
Security deposits	1,147	(5,929)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(240,396)	442,022
Accrued payroll and vacations payable	85,364	(10,657)
Due to funding source and deferred revenue	(146,977)	570,118
Net Cash Provided by Operating Activities	1,798,461	1,497,358
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(2,178,899)	(744,712)
Proceeds from sales of Investments	2,166,471	834,318
Purchase of property and equipment	(583,555)	(504,834)
Increase in assets limited as to use	(4,357)	(4,357)
Net Cash Used in Investing Activities	(600,340)	(419,585)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan and mortgages	1,952,000	1,865,525
Principal payments on loans and mortgages	(2,031,029)	(2,189,753)
Deferred financing costs	(133,826)	(45,929)
Net Cash Used in Financing Activities	(212,855)	(370,157)
NET INCREASE IN CASH AND CASH EQUIVALENTS	985,266	707,616
Cash and cash equivalents - beginning of year	1,297,332	589,716
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,282,598	\$ 1,297,332
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 159,027	\$ 209,217

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

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

The Mental Health Association of Nassau County, Inc. (“MHA”) was established as a voluntary citizens membership organization dedicated to the improvement of mental health care and the promotion of mental health programs through education, advocacy and community services, which include the operation of community residences for psychiatrically disabled adults and emotionally disturbed and autistic children. Further, it strives for cooperation and integration of effort with other agencies, government or voluntary, state or community, having similar ideals and objectives.

Funding for MHA's programs comes from the Nassau County Departments of Mental Health, Chemical Dependency, and Developmental Disabilities Services, the New York State Office of Mental Health (“OMH”), United States Department of Housing and Urban Development, and the Office for People With Developmental Disabilities (“OPWDD”). MHA also receives funding through special events and contributions.

MHA is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and is a publicly supported organization as described in Section 509(a).

MHA entered into an operating agreement with several other mental health providers and formed the AHN MSO, LLC (“Company”) to provide management, back office and administrative services customarily performed by a management service organization relating specifically to behavioral health services/providers, marketing, administration, IT services, facilities, billing, staff sharing/leasing, acting in accordance with the messenger model for non-risk negotiations with payors, and/or furnishing equipment and/or supplies or such other services the Company determines to perform, as determined by the Board of Managers. MHA has made an initial contribution of \$10,000 in the Company which has been expensed as of December 31, 2014.

MHA also provides financial management services, a voluntary money management support program, for individuals recovering from mental illnesses.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Accounting and Use of Estimates*** - MHA prepares its financial statements using the accrual basis of accounting. MHA adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”) that requires management to make estimates and assumptions that affect certain amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- B. ***Basis of Presentation*** - MHA maintains its net assets under the following two classes:
- Unrestricted – represents resources available for support of the MHA’s operations over which the Board of Directors has discretionary control which includes:
 - **Operations** – consists of unrestricted net assets whose use is available for daily operations.
 - **Board designated** – consists of unrestricted net assets whose use has been designated by the Board for program expansion, anticipated program deficits, capital improvements and purchase of property.
 - Temporarily restricted – represents assets that are subject to donor-stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- C. ***Cash and Cash Equivalents*** - Cash and cash equivalents include all highly liquid debt instruments purchased with maturities of 3 months or less.
- D. ***Investments*** - Investments are stated at fair value. Fair value measurements are based on 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 order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as described in Note 4.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. **Accounts Receivable and Allowance for Doubtful Accounts** - Accounts receivable are recorded when earned. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. As of December 31, 2015 and 2014, MHA determined that an allowance of \$580,263 and \$667,347, respectively, was necessary for accounts receivable. Such estimates are based on management's assessment of the aged basis of its government funding sources, current economic conditions, creditworthiness of funders and historical experience. Accounts receivable consist of amounts due from Federal, New York State and local sources, and are more fully detailed at Note 3.
- F. **Deferred financing costs** - Deferred financing costs are capitalized and amortized over the term of the related mortgage loan using the straight-line method.
- G. **Property and Equipment** - Property and equipment is stated at cost less accumulated depreciation. MHA capitalizes property and equipment with a cost of \$800 or more and a useful life greater than two years. Property and equipment using government support are capitalized in accordance with the requirements of the funding source. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of their useful lives or the lease term.
- H. **Consumer Funds** - MHA has signatory authority over most consumer funds. MHA holds these funds as an agent of the consumers in the residential programs of MHA and other providers and the funds are expended at the direction of the consumers for their personal needs.
- I. **Revenues** - Revenues are recorded when earned based on established rates or contracts for the services provided. Grants are recorded as revenues to the extent that expenses have been incurred for purposes specified by grantors.
- J. **Contributions** - MHA reports contributions of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets in which case they are reported as temporarily or permanently restricted support. Contributions, including cash and in-kind contributions, are recorded as revenue in the period in which the unconditional promise is received. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the gift is received, the Agency reports the support as unrestricted.
- K. **Operating leases** - Operating lease expense has been recorded on the straight-line basis over the life of the lease. MHA's policy is to reflect rent expense on the straight-line basis. However, no adjustment was made to record deferred rent as it had no material effect on the financial statements.
- L. **Functional Expense Allocation** - MHA allocates expenses on a functional basis among its various programs and supporting services. Expenses that can be identified as belonging to a specific program and/or supporting services are allocated directly according to their natural expenditure classification.
- M. **Use of Estimates** - The preparation of the financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual amounts could differ from those estimates.
- N. **Measure of Operations** - MHA includes in its definition of operations all revenues and expenses associated with the care of its clients. Contributions (including United Way, community chests and individual), membership dues, special events, fundraising expenses and the investment return are excluded from the measure of operations.
- O. **Reclassification** - Certain line items in the December 31, 2014 financial statements have been reclassified to conform to the December 31, 2015 presentation.

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 3—ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Medicaid and Medicare	\$ 1,080,817	\$ 1,137,560
Government contracts	465,984	776,562
Other	<u>451,487</u>	<u>586,075</u>
Subtotal	1,998,288	2,500,197
Less: Allowance for doubtful accounts	<u>(580,263)</u>	<u>(667,347)</u>
	<u>\$ 1,418,025</u>	<u>\$ 1,832,850</u>

NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following at December 31, 2015 and 2014 and were classified as Level 1 in the fair value hierarchy (as defined below) as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 182,123	\$ 50,968
Money market	-	55,145
Equities		
Large cap	767,618	757,951
Mid cap	185,575	151,821
Small cap	105,592	91,752
International developed	203,426	135,488
Emerging markets	61,837	118,074
REIT	-	6,922
Financial	-	33,247
Mutual fund - managed futures	88,005	88,454
Fixed income		
Corporate - U.S.	1,442,487	1,480,705
U.S. Government	<u>151,398</u>	<u>262,534</u>
Total investments	<u>\$ 3,188,061</u>	<u>\$ 3,233,061</u>

Investments are subject to market volatility that could change their carrying value in the near term.

Investment return consisted of the following for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 76,861	\$ 87,638
Realized gain	36,976	88,802
Unrealized loss	<u>(94,404)</u>	<u>(70,731)</u>
	19,433	705,709
Less: Investment fees	<u>(24,820)</u>	<u>(21,613)</u>
	<u>\$ (5,387)</u>	<u>\$ 84,096</u>

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs. Level 1 valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, MHA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in equities, mutual funds and fixed income are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes in active exchange markets involving identical assets.

MHA's policy is to recognize transfers in and transfers out between fair value levels as of the beginning of the period in which the transfer takes place. During the years ended December 31, 2015 and 2014, no such transfers between fair value levels occurred.

NOTE 5—PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Lives</u>
Land	\$ 824,185	\$ 824,185	-
Buildings and building improvements	7,962,897	7,917,159	10-25 Years
Equipment and vehicles	590,836	584,032	4-10 Years
Construction in progress	<u>955,155</u>	<u>424,142</u>	-
Total cost	10,333,073	9,749,518	
Less: accumulated depreciation and amortization	<u>(4,429,339)</u>	<u>(3,990,925)</u>	
Net book value	<u>\$ 5,903,734</u>	<u>\$ 5,758,593</u>	

For the years ended December 31, 2015 and 2014, depreciation and amortization expense amounted to \$438,414 and \$443,440, respectively.

As of December 31, 2015, construction in progress consists primarily of the construction of Walden Corners Community Residence. The estimated additional cost to complete the project amounts to approximately \$100,000 and the project is expected to be completed in July 2016. Certain property and equipment of MHA is held as collateral for MHA's indebtedness as further described in Note 8 to the financial statements.

NOTE 6—DEFERRED FINANCING COSTS

MHA incurred certain financing costs in connection with the closing of its loans and mortgages payable in the amount of \$133,826 and \$45,929 as of December 31, 2015 and 2014, respectively. These costs are being amortized over the term of the related mortgage. In August 2015, MHA refinanced its 2004 Bonds and wrote off related deferred financing costs. The financing costs incurred with the new bonds were capitalized. For the years ended December 31, 2015 and 2014, there was no accumulated amortization.

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 7—DUE TO FUNDING SOURCE AND DEFERRED REVENUE

MHA has entered into contracts with OPWDD. OPWDD has advanced monies for state-paid reimbursable items and day habilitation programs. OPWDD has also charged MHA with a facility assessment tax as part of the operation of the program. MHA agreed to pay back these advances out of Medicaid monies. As of December 31, 2015 and 2014, \$392,021 and \$268,392, respectively, is due to OPWDD.

Due to OMH represents certain funds received from OMH and Medicaid as part of the reimbursement of its programs. The liability arises from limits within the reimbursement methodology and could be recouped from future payments to OMH.

Deferred revenue represents funds advanced by OMH through Nassau County for MHA's contracts with these funding sources, for which MHA has not yet met the grant conditions. Should these conditions not be met, these funds would then be due back to the funding sources.

NOTE 8—LOANS AND MORTGAGES PAYABLE

	2015	2014
A. <u>16 Main Street, Hempstead</u>		
In December 2014, MHA refinanced its 2004 Bonds and obtained a mortgage in the amount of \$1,840,000 from TD Bank, N.A. The mortgage is payable in monthly payments of interest at the interest rate in effect at that time plus a fixed payment based on a twenty year amortization of principal at \$7,667 per month. The mortgage matures on December 1, 2019 and it is secured by the building and building improvements in Hempstead NY. Interest is charged based on the prime rate which was 3.25% at December 31, 2014. Outstanding principal (estimated to be \$1,379,980) and interest will be due and payable on the maturity date.	\$ -	\$ 1,840,000
B. <u>16 Main Street, Hempstead</u>		
In August 2015, MHA refinanced its 2014 Mortgage and obtained a tax exempt bond in the amount of \$1,847,000 from Suffolk County National Bank. The mortgage is payable in monthly payments of interest plus a fixed payment based on a 19 year amortization of principal at \$4,000 per month. The monthly principal payment will be reset after 10 years. The mortgage matures in June, 2034 and it is secured by the building and building improvements in Hempstead NY. Interest was charged at 2.91% at December 31, 2015.	1,826,000	-
C. <u>16 Main Street, Hempstead</u>		
In August 2015, MHA refinanced its 2014 Mortgage and obtained a taxable bond in the amount of \$81,000 from Suffolk County National Bank. This mortgage, payable monthly, matures in 2020 and bore interest at 3.71%. The property collateralized is the land and building in Hempstead, New York.	76,000	-
D. <u>36 Norcross Avenue, Bethpage</u>		
This mortgage, payable monthly, held by NY Community Bank, matures in 2016 and bore interest at 7.625%. The property collateralized is the land and building in Bethpage, New York.	2,853	19,960

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 8—LOANS AND MORTGAGES PAYABLE (Continued)

	2015	2014
E. <u>3 Ellen Street, Massapequa</u>		
This mortgage, payable monthly, is held by the Community Preservation Corporation, matures in 2030 and bears interest at 7.21%. The property collateralized is the land and building in Massapequa, New York.	\$ 250,316	\$ 260,225
F. <u>1727 North Jerusalem Avenue, East Meadow</u>		
This mortgage, payable on an annual basis, held by the Facilities Development Corporation (FDC) acting through its agent, New York State Office of Mental Health and its successors, matures in 2017 and bears interest at the rate of 9.38%. The property collateralized is the land and building located in East Meadow, New York.	61,356	91,985
G. <u>40 Titus Road Glen Cove</u>		
This mortgage, payable monthly, held by HSBC Bank USA, National Association, matures in December 2024 and bears interest at 7.92%. The property collateralized is the land and building located in Glen Cove, New York.	898,632	964,541
H. <u>Vehicle Loans</u>		
MHA entered into two vehicle loans with Sovereign Bank in the amount of \$20,507 payable in equal monthly installments of interest and principal of \$472 commencing in May 2013 and maturing in April 2017 and bears interest at 5.183%.	7,282	12,424
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$26,354 payable in equal monthly installments of interest and principal of \$461 commencing in November 2012 and maturing in October 2017 and bears interest at 1.90%.	-	15,230
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$26,354 payable in equal monthly installments of interest and principal of \$461 commencing in October 2012 and maturing in September 2017 and bears interest at 1.90%.	-	14,804
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$25,525 payable in equal monthly installments of interest and principal of \$419 commencing in June 2014 and maturing in May 2020 and bears interest at 5.69%.	19,609	23,407
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$24,000 payable in equal monthly installments of interest and principal of \$717 commencing in August 2015 and maturing in August 2018 and bears interest at 4.75%.	21,499	-
	\$ 3,163,547	\$ 3,242,576

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 8—LOAN AND MORTGAGES PAYABLE (Continued)

Principal payments on long-term loans and mortgages for the year ended subsequent to December 31, 2015 are as follows:

	Loans and Mortgages	Vehicle Loans	Total
2016	\$ 183,392	\$ 17,179	\$ 200,571
2017	181,817	14,243	196,060
2018	170,814	10,135	180,949
2019	185,591	4,766	190,357
2020	193,999	2,067	196,066
Thereafter	<u>2,199,544</u>	<u>-</u>	<u>2,199,544</u>
	<u>\$ 3,115,157</u>	<u>\$ 48,390</u>	<u>\$ 3,163,547</u>

The interest expense for the years ended December 31, 2015 and 2014 amounted to \$159,027 and \$209,217, respectively.

NOTE 9—COMMITMENTS AND CONTINGENCIES

A. MHA is obligated, pursuant to operating lease agreements, for approximate future minimum annual rent for real property as follows for the years ended after December 31, 2015:

2016	\$ 462,000
2017	168,000
2018	<u>24,000</u>
	<u>\$ 654,000</u>

Rent expense amounted to \$736,509 and \$759,273 for the years ended December 31, 2015 and 2014, respectively.

B. Pursuant to MHA's contractual relationships with certain governmental funding sources, governmental agencies have the right to examine the books and records of MHA involving transactions relating to these contracts. The accompanying financial statements make no provision for possible disallowances al relations. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowances would be immaterial.

C. MHA is a defendant in various legal actions arising out of the normal course of its operations. The final outcome of such actions cannot be determined at this time. Eventual liability, if any, is likely to be covered by insurance except where the applicable insurance policies expressly exclude certain coverage which arguably relates to the claims.

D. MHA believes it has no uncertain tax positions as of December 31, 2015 and 2014 in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10—NET ASSETS

Unrestricted net assets include designations by the Board of Directors for program expansion, anticipated program deficits, capital improvements, purchase of property and collateral. Change in board designated net assets for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Opening balance	\$ 3,141,231	\$ 3,212,505
Interest and dividends	76,273	86,885
Net gain on investments	(55,700)	18,071
Investment fees	(24,712)	(21,230)
Transfer to operations	(41,153)	(155,000)
Ending balance	<u>\$ 3,095,939</u>	<u>\$ 3,141,231</u>

Temporarily restricted net assets as of December 31, 2015 and 2014 are available for the following purposes:

	2015	2014
Family resource center	\$ 35,031	\$ 35,031
Veterans health alliance activities	5,014	4,506
Advocacy and peer training	2,262	2,262
Training programs	-	3,481
Case management of Long Island military families	2,700	2,700
Seniors and veterans outreach	62,061	62,061
Total temporarily restricted net assets	<u>\$ 107,068</u>	<u>\$ 110,041</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2015	2014
Veterans health alliance activities	\$ 31,984	\$ 48,095
Geriatric mental health training program	-	31,631
Training programs	5,824	394
Case management of Long Island military families	-	1,961
	<u>\$ 37,808</u>	<u>\$ 82,081</u>

NOTE 11—ASSETS LIMITED AS TO USE

MHA is required by OMH to deposit in a cash equivalent interest-bearing account an amount equal to the difference between the reimbursement attributable to depreciation on MHA's financed real property and MHA's principal repayment obligations on indebtedness attributable to such real property. MHA may expend the funds in such account, including accrued interest, to retire all or a portion of the indebtedness attributable to such real property or for building improvements and/or fixed equipment necessary to the facility. These accounts total \$32,867 and \$28,510 as of December 31, 2015 and 2014, respectively.

NOTE 12—PENSION PLAN

MHA's employees are covered under a noncontributory discretionary defined contribution pension plan. Contributions to the plan are based on 7.5% of each covered employee's salary through June 30, 2011. The Board suspended contributions to the plan as of July 1, 2011. No further contributions have been made for periods after June 30, 2011. In order to participate in the plan, the employee must perform 1,000 hours of service and must be employed for a minimum of one year. Participants are fully vested in the plan after six years of employment. There was no pension expense for the years ended December 31, 2015 and 2014.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 13—CONCENTRATIONS

- A. Cash and cash equivalents that potentially subject MHA to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporations (“FDIC”) insurance limits by approximately \$4,023,000 and \$2,840,000 as of December 31, 2015 and 2014, respectively. This excess includes outstanding checks. Cash accounts with participating banks are insured up to \$250,000 per depositor.
- B. MHA is highly dependent on New York State for the funding of its programs. In 2015, accounts receivable and revenue derived from New York State represent 85% and 86%, respectively. In 2014, accounts receivable and revenue derived from New York State represent 90% and 87%, respectively.

NOTE 14—RELATED-PARTY TRANSACTIONS

A member of the Board of Directors is employed by the insurance agency that MHA uses, the broker of record for MHA's insurance. The insurance agency received approximately \$82,000 and \$64,000 of indirect compensation during 2015 and 2014, respectively, in connection with this transaction.

MHA is the sponsor of Clinton Residence, Inc. (“Clinton”) and Haypath Residence, Inc. (“Haypath”) HUD projects. MHA provides certain administrative services to Clinton and Haypath. The amount due from Clinton and Haypath amounted to \$408,282 and \$441,846 as of December 31, 2015 and 2014, respectively.

NOTE 15—WORKERS’ COMPENSATION ASSESSMENT

In 1997, MHA joined the Community Residence Insurance Savings Plan Self-Insurance Trust for workers' compensation (CRISP). The trust was terminated by New York State Workers Compensation Board in January 2011. Pursuant to the trust agreement, MHA paid a portion of its annual premium at the beginning of each calendar year, and paid the balance as claims were incurred, subject to a yearly maximum. To the extent MHA's incurred claim costs exceeded the yearly maximum, such excess costs became the general obligation of CRISP. There were 458 agencies originally participating in the Trust.

A forensic audit of the Trust was commissioned by the New York State Workers Compensation Board (WCB). As of March 2013, CRISP's loss runs reflected that there were 361 remaining open CRISP claims reserved at \$60,715,450. Based on the Trust's deficit, the WCB terminated CRISP on or about January 2011 and assumed trust administration and claim run-off. The WCB calculated the deficit incurred in each year of trust operation and allocated the deficit to each trust member on a pro rata basis, determined by the member's annual contribution relative to total contributions of all CRISP members in that year. However, the WCB takes the position each member may be held jointly and severally liable up to the full amount of the CRISP deficit.

The cumulative estimated CRISP deficit amount, upon which the forensic audit assessment is based, is disputed, and has not yet been subject to outside review or inspection, and is not discounted to present value. Claim reserves and actuarial assumptions on which the deficit is premised also are disputed. Similarly, retention assessment is disputed, as are the reserves and alleged costs on which the assessment is based. The WCB acknowledges that the CRISP deficit and costs are disputed, and that further discovery and review, including outside accounting, actuarial and claims review are required to determine the financial status of CRISP.

In that regard, the WCB provided a Memorandum of Understanding (MOU) standstill agreement with members, including MHA, to allow membership to review and respond to forensic audit assessment and retention assessment, including outside actuarial, accounting and claims review while preserving all legal rights and defenses, in exchange for providing the WCB with cash on an interim basis to fund monthly claim costs. The MOU term is twenty-four (24) months, and is scheduled to run through June 1, 2015.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 15—WORKERS' COMPENSATION ASSESSMENT (Continued)

Pursuant to the MOU, MHA has been billed \$383,406. MHA has the option to enter into the MOU, and if so, the WCB may not commence any action against MHA during the MOU period. Expert review of CRISP financial status and deficit is anticipated. The WCB also commenced action on CRISP's behalf for damages against third parties responsible for CRISP's management and oversight, including the trust administrator, claims manager(s), accountants and actuaries. Proceeds, if any, from such action would be used to offset trust liabilities. As of December 31, 2015 and 2014, the liability related to CRISP included in accounts payable and accrued expenses amounted to \$369,787 and \$302,564, respectively. In March 2016, the WCB hired an actuary to review and evaluate the liability and present a final settlement offer.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statements of financial position through May 31, 2016, the date the financial statements were available to be issued.