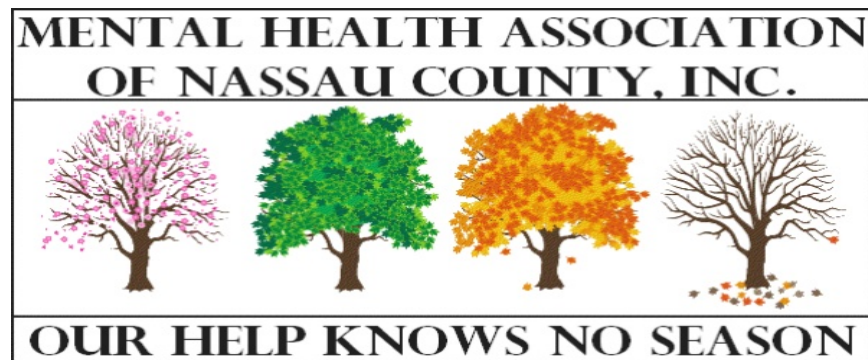


THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.



Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2016 and 2015

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.

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

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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 statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 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 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
May 30, 2017

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents (Notes 2C and 12A)	\$ 3,722,334	\$ 2,282,598
Investments (Notes 2D and 4)	3,306,385	3,188,061
Accounts receivable, net (Notes 2E and 3)	2,023,151	1,418,025
Due from related parties (Note 13)	204,161	408,282
Prepaid expenses and other assets	43,526	79,269
Security deposits	98,278	90,245
Assets limited as to use (Note 10)	37,203	32,867
Property and equipment, net (Notes 2F and 5)	5,652,743	5,903,734
Consumer funds (Note 2G)	<u>2,137,628</u>	<u>2,386,805</u>
TOTAL ASSETS	<u>\$ 17,225,409</u>	<u>\$ 15,789,886</u>
LIABILITIES		
Accounts payable and accrued expenses (Note 14)	\$ 1,158,856	\$ 1,208,935
Accrued payroll and vacations payable	369,666	344,662
Due to funding source and deferred revenue (Note 6)	1,248,130	1,104,973
Loans and mortgage payable (Notes 2H and 7)	2,858,998	3,029,721
Consumer funds (Note 2G)	<u>2,137,628</u>	<u>2,386,805</u>
TOTAL LIABILITIES	<u>7,773,278</u>	<u>8,075,096</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Notes 2B and 9)		
Unrestricted net assets		
Operating	6,142,170	4,511,783
Board designated (Note 9)	<u>3,205,576</u>	<u>3,095,939</u>
Total unrestricted net assets	9,347,746	7,607,722
Temporarily restricted (Note 9)	<u>104,385</u>	<u>107,068</u>
TOTAL NET ASSETS	<u>9,452,131</u>	<u>7,714,790</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,225,409</u>	<u>\$ 15,789,886</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, 2016 AND 2015

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total 2016	Unrestricted	Temporarily Restricted	Total 2015
Operating Revenues: (Note 2I)						
Nassau County programs	\$ 1,962,152	\$ -	\$ 1,962,152	\$ 1,835,951	\$ -	\$ 1,835,951
MH Houses	2,988,175	-	2,988,175	3,622,352	-	3,622,352
OPWDD houses	2,725,825	-	2,725,825	2,497,558	-	2,497,558
MHA programs	300,660	-	300,660	304,886	-	304,886
Health Homes -Care Coordination	2,157,568	-	2,157,568	999,981	-	999,981
PROS services	1,206,510	-	1,206,510	1,256,604	-	1,256,604
Medicaid Service Coordinator services	73,186	-	73,186	54,718	-	54,718
In-home respite services	171,277	-	171,277	149,827	-	149,827
Other programs and grants	63,312	31,222	94,534	18,023	34,835	52,858
Net assets released from restrictions (Notes 2B and 9)	33,905	(33,905)	-	37,808	(37,808)	-
Total Operating Revenues	11,682,570	(2,683)	11,679,887	10,777,708	(2,973)	10,774,735
Expenses: (Note 2L)						
Program services:						
Nassau County programs	1,345,389	-	1,345,389	1,296,541	-	1,296,541
MH Houses	2,509,293	-	2,509,293	2,789,772	-	2,789,772
OPWDD houses	2,041,990	-	2,041,990	2,115,106	-	2,115,106
MHA programs	206,793	-	206,793	294,366	-	294,366
Health Homes -Care Coordination	1,185,059	-	1,185,059	590,662	-	590,662
PROS services	1,043,992	-	1,043,992	1,057,886	-	1,057,886
Medicaid Service Coordinator services	52,436	-	52,436	55,348	-	55,348
In-home respite services	128,226	-	128,226	125,138	-	125,138
Other programs	239,104	-	239,104	181,379	-	181,379
	8,752,282	-	8,752,282	8,506,198	-	8,506,198
Supporting services:						
Management and general	1,473,442	-	1,473,442	1,318,090	-	1,318,090
Fund raising	12,459	-	12,459	23,154	-	23,154
Total Operating Expenses	10,238,183	-	10,238,183	9,847,442	-	9,847,442
Change in Net Assets from Operations	1,444,387	(2,683)	1,441,704	930,266	(2,973)	927,293
Nonoperating Revenues, Expenses, Gains and Losses						
Contributions (Note 2J)	63,910	-	63,910	77,256	-	77,256
Fundraising (net of direct costs of \$13,125 and \$13,295 for 2016 and 2015, respectively)	107,455	-	107,455	104,476	-	104,476
Miscellaneous revenue	7,030	-	7,030	7,443	-	7,443
Total Nonoperating Revenues and Expenses before Investment Return	178,395	-	178,395	189,175	-	189,175
Investment gain (loss), net (Note 4)	43,176	-	43,176	(82,248)	-	(82,248)
Interest (Note 4)	74,066	-	74,066	76,861	-	76,861
Investment Return	117,242	-	117,242	(5,387)	-	(5,387)
Total Nonoperating Revenues, Expenses, Gains and Losses	295,637	-	295,637	183,788	-	183,788
CHANGE IN NET ASSETS	1,740,024	(2,683)	1,737,341	1,114,054	(2,973)	1,111,081
Net assets - beginning of year	7,607,722	107,068	7,714,790	6,493,668	110,041	6,603,709
NET ASSETS - END OF YEAR	\$ 9,347,746	\$ 104,385	\$ 9,452,131	\$ 7,607,722	\$ 107,068	\$ 7,714,790

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, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	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 2016	Total 2015
Salaries	\$ 764,932	\$ 917,054	\$ 1,181,876	\$ 126,258	\$ 817,437	\$ 591,608	\$ 37,074	\$ 102,401	\$ 131,668	\$ 4,670,308	\$ 640,980	\$ -	\$ 5,311,288	\$ 5,015,943
Payroll taxes and related costs (Note 11)	170,352	204,557	269,600	27,952	182,788	132,063	8,160	23,099	29,582	1,048,153	138,239	-	1,186,392	1,348,610
Total Salaries and Related Costs	935,284	1,121,611	1,451,476	154,210	1,000,225	723,671	45,234	125,500	161,250	5,718,461	779,219	-	6,497,680	6,364,553
Professional fees	8,758	37,857	36,238	-	4,381	82,600	2,800	554	5,035	178,223	317,404	-	495,627	336,936
Insurance	15,072	90,404	23,667	-	1,388	13,615	-	-	228	144,374	34,550	-	178,924	182,277
Utilities	10,252	92,100	23,970	958	5,227	16,766	-	-	3,242	152,515	21,850	-	174,365	195,987
Telephone	18,077	18,212	9,595	1,890	19,034	12,330	1,409	983	2,930	84,460	16,549	-	101,009	93,894
Vehicle expenses	4,202	7,756	11,428	-	2,317	1,197	-	-	309	27,209	993	-	28,202	29,993
Interest (Note 7)	9,964	24,725	71,535	1,311	797	19,002	-	-	4,617	131,951	22,954	-	154,905	159,027
Staff training and development	2,250	192	1,550	-	474	1,163	16	16	1,062	6,723	39,211	-	45,934	38,369
Occupancy (Note 8A)	42,000	716,481	-	-	-	-	-	-	2,783	761,264	-	-	761,264	736,508
Facility assessment	-	-	81,133	-	-	-	-	-	-	81,133	-	-	81,133	81,133
Travel, transportation, etc.	3,993	9,607	1,334	-	9,016	46	1,113	-	2,257	27,366	23,165	-	50,531	47,973
Computer expenses	14,620	4,687	1,281	2,580	11,782	14,696	843	831	3,654	54,974	24,026	-	79,000	84,818
Payroll fees	-	-	-	-	-	-	-	-	-	-	25,812	-	25,812	18,530
Office expenses	6,723	9,110	3,169	20,701	8,610	8,702	375	305	1,401	59,096	52,737	8	111,841	77,829
Client medication and incidentals	38,337	55,834	17,073	326	4,853	24,336	-	-	19,860	160,619	3,163	-	163,782	109,353
Assistance to individual- emergency funds	106,796	-	-	-	-	-	-	-	-	106,796	-	-	106,796	105,877
Food	7,885	69,530	61,123	-	-	442	-	-	1,655	140,635	-	-	140,635	158,146
Dues and subscriptions	50,939	9,983	489	19,724	344	4,567	-	-	12,529	98,575	30,520	344	129,439	93,285
Repairs and maintenance	4,964	49,434	42,888	48	321	1,219	-	-	143	99,017	11,071	-	110,088	116,221
Equipment leases & Purchase	11,393	14,571	6,028	293	13,471	3,856	646	-	75	50,333	13,828	-	64,161	51,904
Household supplies	11,360	53,806	25,457	1,101	4,618	19,554	-	37	2,872	118,805	19,813	-	138,618	131,994
Fundraising expenses	-	-	-	-	-	-	-	-	66	66	-	12,107	12,173	23,121
Bad debt expenses	-	-	49,200	-	76,000	39,000	-	-	-	164,200	-	-	164,200	97,056
Depreciation and amortization (Note 5)	42,520	123,393	123,231	3,651	22,201	57,105	-	-	13,121	385,222	35,565	-	420,787	438,414
Miscellaneous	-	-	125	-	-	125	-	-	15	265	1,012	-	1,277	74,244
Costs of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	13,125	13,125	13,295
Investment management fees (Note 4)	-	-	-	-	-	-	-	-	-	-	28,482	-	28,482	24,820
Total expenses	1,345,389	2,509,293	2,041,990	206,793	1,185,059	1,043,992	52,436	128,226	239,104	8,752,282	1,501,924	25,584	10,279,790	9,885,557
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	-	-	(28,482)	(13,125)	(41,607)	(38,115)
Total expenses reported by function on the statement of activities	\$ 1,345,389	\$ 2,509,293	\$ 2,041,990	\$ 206,793	\$ 1,185,059	\$ 1,043,992	\$ 52,436	\$ 128,226	\$ 239,104	\$ 8,752,282	\$ 1,473,442	\$ 12,459	\$ 10,238,183	\$ 9,847,442

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**

	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
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
Payroll taxes and related costs (Note 11)	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
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
Professional fees	6,073	220	61,948	8,185	18,553	116,408	6,870	-	7,260	225,517	111,419	-	336,936
Insurance	15,491	90,404	23,667	-	1,388	13,615	-	-	228	144,793	37,484	-	182,277
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
Vehicle expenses	4,717	7,538	12,312	-	527	996	-	-	215	26,305	3,688	-	29,993
Interest (Note 7)	20,936	37,348	73,098	689	3,698	23,054	-	-	204	159,027	-	-	159,027
Staff training and development	1,619	3,500	508	-	3,192	643	-	96	5,919	15,477	22,892	-	38,369
Occupancy (Note 8A)	20,774	715,734	-	-	-	-	-	-	-	736,508	-	-	736,508
Facility assessment	-	-	81,133	-	-	-	-	-	-	81,133	-	-	81,133
Travel, transportation, etc.	5,791	14,057	526	-	2,872	35	825	-	1,622	25,728	22,245	-	47,973
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
Assistance to individual- emergency funds	105,877	-	-	-	-	-	-	-	-	105,877	-	-	105,877
Food	1,514	90,211	60,694	-	-	4,341	-	-	1,386	158,146	-	-	158,146
Dues and subscriptions	30,307	7,509	748	25,072	657	4,883	70	202	8,328	77,776	15,476	33	93,285
Repairs and maintenance	5,146	57,271	36,764	199	165	2,135	-	25	79	101,784	14,437	-	116,221
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
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	23,121	23,121
Bad debt expenses	-	-	-	97,056	-	-	-	-	-	97,056	-	-	97,056
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
Miscellaneous	1,671	18,229	9,142	-	-	29	-	-	290	29,361	44,883	-	74,244
Cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	13,295	13,295
Investment management fees (Note 4)	-	-	-	-	-	-	-	-	-	-	24,820	-	24,820
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
Less expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	-	-	-	-	-	(24,820)	(13,295)	(38,115)
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

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,737,341	\$ 1,111,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	420,787	438,414
Noncash Interest expense	6,691	-
Bad debts	164,200	97,056
Write off of deferred financing costs	-	45,929
Unrealized (gain) loss on investments	(25,759)	94,404
Realized gain on investments	(45,899)	(36,976)
Subtotal	2,257,361	1,749,908
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(769,326)	317,769
Due from related parties	204,121	33,564
Prepaid expenses and other assets	35,743	(1,918)
Security deposits	(8,033)	1,147
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(50,079)	(240,396)
Accrued payroll and vacations payable	25,004	85,364
Due to funding source and deferred revenue	143,157	(146,977)
Net Cash Provided by Operating Activities	1,837,948	1,798,461
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(651,298)	(2,178,899)
Proceeds from sales of investments	604,632	2,166,471
Purchase of property and equipment	(169,796)	(583,555)
Increase in assets limited as to use	(4,336)	(4,357)
Net Cash Used in Investing Activities	(220,798)	(600,340)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan and mortgages	25,080	1,952,000
Principal payments on loans and mortgages	(202,494)	(2,031,029)
Deferred financing costs	-	(133,826)
Net Cash Used in Financing Activities	(177,414)	(212,855)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,439,736	985,266
Cash and cash equivalents - beginning of year	2,282,598	1,297,332
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,722,334	\$ 2,282,598
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 148,214	\$ 159,027

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, 2016 AND 2015

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 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, 2016 AND 2015

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, 2016 and 2015, MHA determined that an allowance of \$274,176 and \$580,263, 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. **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.
- G. **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.
- H. **Debt Issuance Costs:** Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, "*Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*" is applicable for the period ended December 31, 2016. This update requires that debt issuance costs related to a liability be reported as a deduction from that liability on the statement of financial position. Accordingly, MHA retrospectively adopted ASU 2015-03 and has presented loans and mortgage payable net of debt issuance costs on the accompanying statements of financial position. Amortization of the debt issuance costs of \$6,691 and \$0 is reported as interest expense in the accompanying statements of functional expenses for the years ended December 31, 2016 and 2015, respectively. The December 31, 2015 financial statements have been reclassified to conform to the December 31, 2016 presentation. This change had no impact on the change in net assets for the year ended December 31, 2016.
- 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.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. **Noninterest Loans** - U.S. GAAP requires that when a not-for-profit organization receives or makes loans of cash that carry interest rates below the prevailing market rate, the imputed interest be recorded as contributions received or paid, respectively. Unless material, interest on loans with below the market interest rates is not imputed.

NOTE 3—ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Medicaid and Medicare	\$ 1,092,533	\$ 1,080,817
Government contracts	782,657	465,984
Other	<u>422,137</u>	<u>451,487</u>
Subtotal	2,297,327	1,998,288
Less: Allowance for doubtful accounts	<u>(274,176)</u>	<u>(580,263)</u>
	<u>\$ 2,023,151</u>	<u>\$ 1,418,025</u>

NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following at December 31, 2016 and 2015 and were classified as Level 1 in the fair value hierarchy (as defined below) as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 96,665	\$ 182,123
Equities		
Large cap	831,380	767,618
Mid cap	205,761	185,575
Small cap	131,552	105,592
International developed	182,090	203,426
Emerging markets	62,935	61,837
Mutual fund - managed futures	108,024	88,005
Fixed income		
Corporate - U.S.	985,280	1,442,487
U.S. Government	<u>702,698</u>	<u>151,398</u>
Total investments	<u>\$ 3,306,385</u>	<u>\$ 3,188,061</u>

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

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment return consisted of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 74,066	\$ 76,861
Realized gain	45,899	36,976
Unrealized gain (loss)	<u>25,759</u>	<u>(94,404)</u>
	145,724	19,433
Less: Investment fees	<u>(28,482)</u>	<u>(24,820)</u>
	<u>\$ 117,242</u>	<u>\$ (5,387)</u>

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, 2016 and 2015, no such transfers between fair value levels occurred.

NOTE 5—PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Land	\$ 824,185	\$ 824,185	-
Buildings and building improvements	9,033,427	7,962,897	10-25 Years
Equipment and vehicles	636,740	590,836	4-10 Years
Construction in progress	<u>8,517</u>	<u>955,155</u>	-
Total cost	10,502,869	10,333,073	
Less: accumulated depreciation	<u>(4,850,126)</u>	<u>(4,429,339)</u>	
Net book value	<u>\$ 5,652,743</u>	<u>\$ 5,903,734</u>	

For the years ended December 31, 2016 and 2015, depreciation expense amounted to \$420,787 and \$438,414, respectively.

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5—PROPERTY AND EQUIPMENT, NET (Continued)

As of December 31, 2015, construction in progress consists primarily of the construction of Walden Corners Community Residence and the construction was completed in 2016. As of December 31, 2016, construction in progress consists primarily of the construction of Garvey Community Residence. The estimated additional cost to complete the project amounts to approximately \$250,000, of which approximately \$170,000 will be covered by insurance and approximately \$55,000 will be funded by OMH. The project is expected to be completed in September 2017. 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—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, 2016 and 2015, \$248,235 and \$392,021, 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 7—LOANS AND MORTGAGES PAYABLE

	2016	2015
A. <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, 2016.	\$ 1,773,000	\$ 1,826,000
B. <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.	64,000	76,000
C. <u>36 Norcross Avenue, Bethpage</u>		
This mortgage, payable monthly, held by NY Community Bank, matured in 2016 and bore interest at 7.625%. The property collateralized is the land and building in Bethpage, New York.	-	2,853
D. <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.	239,604	250,316

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7—LOANS AND MORTGAGES PAYABLE (Continued)

	2016	2015
E. <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.	\$ 27,787	\$ 61,356
F. <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.	827,310	898,632
G. <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%.	1,750	7,282
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%.	15,590	19,609
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%.	13,753	21,499
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$25,080 payable in equal monthly installments of interest and principal of \$717 commencing in August 2016 and maturing in August 2022 and bears no interest.	23,339	-
	2,986,133	3,163,547
Unamortized debt issuance costs	(127,135)	(133,826)
Notes and mortgages payable, net	\$ 2,858,998	\$ 3,029,721

Principal payments on long-term loans and mortgages for the year ended subsequent to December 31, 2016 are as follows:

	Loans and Mortgages	Vehicle Loans	Total
2017	\$ 170,412	\$ 18,424	\$ 188,836
2018	167,888	14,315	182,203
2019	184,670	8,946	193,616
2020	194,084	6,247	200,331
2021	217,182	4,180	221,362
Thereafter	1,997,465	2,320	1,999,785
	\$ 2,931,701	\$ 54,432	\$ 2,986,133

The interest expense for the years ended December 31, 2016 and 2015 amounted to \$154,905 and \$159,027, respectively.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8—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, 2016:

2017	\$ 629,624
2018	240,523
2019	<u>2,715</u>
	<u>\$ 872,862</u>

Rent expense amounted to \$761,264 and \$736,508 for the years ended December 31, 2016 and 2015, 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. 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, 2016 and 2015 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.

NOTE 9—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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Opening balance	\$ 3,095,939	\$ 3,141,231
Interest and dividends	72,426	76,273
Net gain (loss) on investments	65,148	(55,700)
Investment fees	(27,937)	(24,712)
Transfer to operations	<u>-</u>	<u>(41,153)</u>
Ending balance	<u>\$ 3,205,576</u>	<u>\$ 3,095,939</u>

Temporarily restricted net assets as of December 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Family resource center	\$ 35,031	\$ 35,031
Veterans health alliance activities	2,217	5,014
Advocacy and peer training	2,262	2,262
Training programs	114	-
Case management of Long Island military families	2,700	2,700
Seniors and veterans outreach	<u>62,061</u>	<u>62,061</u>
Total temporarily restricted net assets	<u>\$ 104,385</u>	<u>\$ 107,068</u>

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9—NET ASSETS (Continued)

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.

	2016	2015
Veterans health alliance activities	\$ 31,598	\$ 31,984
Training programs	2,307	5,824
	\$ 33,905	\$ 37,808

NOTE 10—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 \$37,203 and \$32,867 as of December 31, 2016 and 2015, respectively.

NOTE 11—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, 2016 and 2015.

NOTE 12—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 \$5,348,000 and \$4,023,000 as of December 31, 2016 and 2015, 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 2016, accounts receivable and revenue derived from New York State represent 82% and 76%, respectively. In 2015, accounts receivable and revenue derived from New York State represent 85% and 86%, respectively.

NOTE 13—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 \$76,000 and \$82,000 of indirect compensation during 2016 and 2015, respectively, in connection with this transaction.

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 13—RELATED-PARTY TRANSACTIONS (Continued)

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 as of December 31, 2016 and 2015 is as follows:

	2016	2015
Clinton	\$ 200,279	\$ 200,279
Haypath	208,003	208,003
Subtotal	408,282	408,282
Less: Allowance for doubtful accounts	(204,121)	-
	\$ 204,161	\$ 408,282

NOTE 14—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 ran through June 1, 2015. 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.

In May 2016, the WCB provided a settlement agreement indicating MHA's net final pro rata allocation to be \$243,648. MHA opted the 10 year payment option that bears 3% interest. Under this option, MHA will make 120 payments in the amount of \$2,353 per month, commencing on July 15, 2016 and continuing until June 15, 2026.

As of December 31, 2016 and 2015, the liability related to CRISP included in accounts payable and accrued expenses amounted to \$263,536 and \$369,787, respectively.

THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.
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DECEMBER 31, 2016 AND 2015

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statements of financial position through May 30, 2017, the date the financial statements were available to be issued.