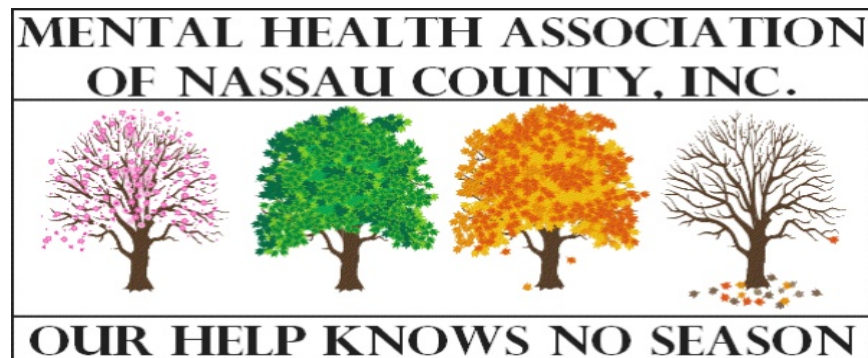


# THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.



Financial Statements  
(Together with Independent Auditors' Report)

Years Ended December 31, 2017 and 2016

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.**

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

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, 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 from 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, 2017 and 2016, 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  
June 1, 2018

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2C and 12A)	\$ 3,223,548	\$ 3,722,334
Investments (Notes 2D and 4)	3,683,935	3,306,385
Accounts receivable, net (Notes 2E and 3)	1,727,405	2,014,699
Due from related parties (Note 13)	220,336	212,613
Prepaid expenses and other assets	137,531	43,526
Security deposits	82,333	98,278
Restricted cash (Note 10)	41,579	37,203
Property and equipment, net (Notes 2F and 5)	5,356,716	5,652,743
Consumer funds (Note 2G)	<u>2,399,866</u>	<u>2,137,628</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,873,249</u>	<u>\$ 17,225,409</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 598,639	\$ 546,120
Accrued payroll, vacation and employer taxes	358,966	369,666
Due to CRISP Trust (Note 14)	207,919	263,536
Due to funding sources and deferred revenue (Notes 5 and 6)	1,261,704	1,597,330
Loans and mortgage payable (Notes 2N and 7)	2,674,879	2,858,998
Consumer funds (Note 2G)	<u>2,399,866</u>	<u>2,137,628</u>
<b>TOTAL LIABILITIES</b>	<u>7,501,973</u>	<u>7,773,278</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
<b>NET ASSETS (Notes 2B and 9)</b>		
Unrestricted net assets		
Operating	5,769,520	6,142,170
Board designated (Note 9)	<u>3,583,326</u>	<u>3,205,576</u>
Total unrestricted net assets	9,352,846	9,347,746
Temporarily restricted (Note 9)	<u>18,430</u>	<u>104,385</u>
<b>TOTAL NET ASSETS</b>	<u>9,371,276</u>	<u>9,452,131</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 16,873,249</u>	<u>\$ 17,225,409</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, 2017 AND 2016**

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total 2017	Unrestricted	Temporarily Restricted	Total 2016
<b>Operating Revenues:</b> (Notes 2H and 12B)						
Nassau County programs	\$ 1,422,348	\$ -	\$ 1,422,348	\$ 1,459,028	\$ -	\$ 1,459,028
MH Houses	2,975,005	-	2,975,005	3,008,978	-	3,008,978
OPWDD houses	2,364,731	-	2,364,731	2,725,825	-	2,725,825
MHA programs	102,032	-	102,032	300,660	-	300,660
Health Homes - Care Coordination	1,306,385	-	1,306,385	2,264,355	-	2,264,355
PROS services	1,220,444	-	1,220,444	1,354,045	-	1,354,045
Medicaid Service Coordinator services	64,340	-	64,340	73,186	-	73,186
In-home respite services	63,121	-	63,121	171,277	-	171,277
Other programs and grants	325,118	40,000	365,118	291,311	31,222	322,533
Net assets released from restrictions (Notes 2B and 9)	125,955	(125,955)	-	33,905	(33,905)	-
Total Operating Revenues	<u>9,969,479</u>	<u>(85,955)</u>	<u>9,883,524</u>	<u>11,682,570</u>	<u>(2,683)</u>	<u>11,679,887</u>
<b>Expenses:</b> (Note 2K)						
Program services:						
Nassau County programs	1,205,712	-	1,205,712	1,345,389	-	1,345,389
MH Houses	2,465,516	-	2,465,516	2,509,293	-	2,509,293
OPWDD houses	2,253,359	-	2,253,359	2,041,990	-	2,041,990
MHA programs	291,535	-	291,535	206,793	-	206,793
Health Homes - Care Coordination	1,386,556	-	1,386,556	1,185,059	-	1,185,059
PROS services	1,017,243	-	1,017,243	1,043,992	-	1,043,992
Medicaid Service Coordinaton services	49,619	-	49,619	52,436	-	52,436
In-home respite services	90,776	-	90,776	128,226	-	128,226
Other programs	244,069	-	244,069	239,038	-	239,038
	<u>9,004,385</u>	<u>-</u>	<u>9,004,385</u>	<u>8,752,216</u>	<u>-</u>	<u>8,752,216</u>
Supporting services:						
Management and general	1,868,831	-	1,868,831	1,473,442	-	1,473,442
Fundraising	30,333	-	30,333	12,525	-	12,525
	<u>10,903,549</u>	<u>-</u>	<u>10,903,549</u>	<u>10,238,183</u>	<u>-</u>	<u>10,238,183</u>
<b>Change in Net Assets from Operations</b>	<u>(934,070)</u>	<u>(85,955)</u>	<u>(1,020,025)</u>	<u>1,444,387</u>	<u>(2,683)</u>	<u>1,441,704</u>
<b>Nonoperating Revenues, Expenses, Gains and Losses</b>						
Investment gain, net (Note 4)	304,307	-	304,307	43,176	-	43,176
Interest and dividends (Note 4)	78,855	-	78,855	74,066	-	74,066
Investment Return	383,162	-	383,162	117,242	-	117,242
Contributions (Note 2I)	45,157	-	45,157	63,910	-	63,910
Fundraising (net of direct costs of \$13,125 in 2016)	-	-	-	107,455	-	107,455
Gain on involuntary conversion (Note 15)	240,936	-	240,936	-	-	-
Miscellaneous income	269,915	-	269,915	7,030	-	7,030
<b>Total Nonoperating Revenues, Expenses, Gains and Losses</b>	<u>939,170</u>	<u>-</u>	<u>939,170</u>	<u>295,637</u>	<u>-</u>	<u>295,637</u>
<b>CHANGE IN NET ASSETS</b>	5,100	(85,955)	(80,855)	1,740,024	(2,683)	1,737,341
Net assets - beginning of year	<u>9,347,746</u>	<u>104,385</u>	<u>9,452,131</u>	<u>7,607,722</u>	<u>107,068</u>	<u>7,714,790</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 9,352,846</u>	<u>\$ 18,430</u>	<u>\$ 9,371,276</u>	<u>\$ 9,347,746</u>	<u>\$ 104,385</u>	<u>\$ 9,452,131</u>

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, 2017**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)**

	Program services									Supporting Services			Total 2017	Total 2016
	Nassau County Programs	MH Houses	OPWDD Houses	MHA Programs	Health Homes- Care Coordination	PROS Services	Medicaid Service Coordinaton Services	In-Home Respite Services	Other Programs	Total Program Services	Management and General	Fundraising		
Salaries	\$ 681,922	\$ 832,824	\$ 1,180,759	\$ 157,937	\$ 922,470	\$ 563,894	\$ 32,584	\$ 72,310	\$ 121,058	\$ 4,565,758	\$ 985,636	\$ -	\$ 5,551,394	\$ 5,311,288
Payroll taxes employee benefits (Note 11)	152,838	187,961	270,949	35,865	210,649	127,233	7,362	16,561	26,483	1,035,901	163,121	-	1,199,022	1,197,760
Total salaries and related costs	834,760	1,020,785	1,451,708	193,802	1,133,119	691,127	39,946	88,871	147,541	5,601,659	1,148,757	-	6,750,416	6,509,048
Professional fees	17,720	2,444	45,932	49,007	375	60,400	3,625	-	19,230	198,733	131,115	27,075	356,923	452,058
Temporary staff	18,160	20,966	117,677	6,601	3,205	937	2,363	784	-	170,693	72,666	-	243,359	30,519
Billing & payroll processing fees	-	1,840	1,995	-	121,455	-	-	-	3,120	128,410	45,514	-	173,924	38,863
Occupancy (Note 8A)	130,665	883,373	119,549	1,493	9,127	32,091	-	-	5,956	1,182,254	62,747	-	1,245,001	1,220,211
Client assistance, medicines & incidentals	19,933	16,282	16,260	(5)	-	6,755	-	-	8,788	68,013	-	-	68,013	83,388
Program food & supplies	11,097	99,304	85,401	61	1,990	5,490	-	-	8,970	212,313	-	-	212,313	218,376
Insurance	11,472	68,337	18,154	-	1,026	10,228	-	-	169	109,386	32,288	-	141,674	178,924
Computers, equipment & furnishings	36,631	49,765	13,457	4,003	21,699	30,387	1,000	1,039	4,518	162,499	70,327	-	232,826	169,037
Maintenance & repairs	5,509	36,230	22,231	306	956	14,094	3	-	264	79,593	37,919	-	117,512	117,366
Office expenses & telephone	23,538	27,754	12,627	8,369	31,896	17,660	1,462	876	4,160	128,342	58,473	35	186,850	173,723
Staff recruitment, training and travel	41,600	15,983	8,356	540	12,348	2,696	1,352	99	10,754	93,728	61,197	1,444	156,369	173,438
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	352	352	12,173
Bad debt expenses (recovery)	(10,593)	63,718	154,549	(3,447)	18,827	37,754	(215)	(982)	6,033	265,644	16,212	-	281,856	164,200
Miscellaneous	20,809	6,328	2,356	24,509	1,803	2,375	83	89	7,538	65,890	72,672	1,427	139,989	121,167
Interest (Note 7)	9,287	20,723	66,825	1,092	6,722	18,230	-	-	4,284	127,163	28,955	-	156,118	154,905
Depreciation and amortization (Note 5)	35,124	131,684	116,282	5,204	22,008	87,019	-	-	12,744	410,065	29,989	-	440,054	420,787
<b>Total expenses</b>	<b>\$ 1,205,712</b>	<b>\$ 2,465,516</b>	<b>\$ 2,253,359</b>	<b>\$ 291,535</b>	<b>\$ 1,386,556</b>	<b>\$ 1,017,243</b>	<b>\$ 49,619</b>	<b>\$ 90,776</b>	<b>\$ 244,069</b>	<b>\$ 9,004,385</b>	<b>\$ 1,868,831</b>	<b>\$ 30,333</b>	<b>\$ 10,903,549</b>	<b>\$ 10,238,183</b>

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**

	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
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
Payroll taxes employee benefits (Note 11)	170,352	204,557	269,600	27,952	182,788	133,063	8,160	23,099	29,726	1,049,297	148,463	-	1,197,760
Total salaries and related costs	935,284	1,121,611	1,451,476	154,210	1,000,225	724,671	45,234	125,500	161,394	5,719,605	789,443	-	6,509,048
Professional fees	6,025	29,012	31,526	-	4,281	82,600	2,800	-	4,900	161,144	290,914	-	452,058
Temporary staff	-	6,461	1,384	-	-	-	-	-	-	7,845	22,674	-	30,519
Billing & payroll processing fees	2,733	2,384	3,328	-	100	-	-	554	135	9,234	29,629	-	38,863
Occupancy (Note 8A)	166,647	859,712	111,694	1,626	8,858	31,686	-	26	8,290	1,188,539	31,672	-	1,220,211
Client assistance, medicines & incidentals	24,397	16,600	15,663	-	-	19,563	-	-	7,165	83,388	-	-	83,388
Program food & supplies	12,227	104,607	80,233	177	3,264	7,808	-	11	10,049	218,376	-	-	218,376
Insurance	15,072	90,404	23,667	-	1,388	13,615	-	-	228	144,374	34,550	-	178,924
Computers, equipment & furnishings	27,372	38,493	8,719	3,199	27,153	18,677	1,489	831	4,134	130,067	38,970	-	169,037
Maintenance & repairs	7,098	37,433	47,292	303	1,297	3,089	-	-	142	96,654	20,712	-	117,366
Office expenses & telephone	23,893	26,698	12,012	8,258	26,810	17,866	1,784	1,266	3,909	122,496	51,227	-	173,723
Staff recruitment, training and travel	56,724	18,983	9,663	-	10,830	3,616	1,129	16	16,013	116,974	56,464	-	173,438
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	12,173	12,173
Bad debt expenses	-	-	49,200	-	76,000	39,000	-	-	-	164,200	-	-	164,200
Miscellaneous	15,433	8,777	1,367	34,058	1,855	5,695	-	22	4,941	72,148	48,667	352	121,167
Interest (Note 7)	9,964	24,725	71,535	1,311	797	19,001	-	-	4,617	131,950	22,955	-	154,905
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
Total expenses	\$ 1,345,389	\$ 2,509,293	\$ 2,041,990	\$ 206,793	\$ 1,185,059	\$ 1,043,992	\$ 52,436	\$ 128,226	\$ 239,038	\$ 8,752,216	\$ 1,473,442	\$ 12,525	\$ 10,238,183

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, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (80,855)	\$ 1,737,341
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	440,054	420,787
Noncash interest expense	6,692	6,691
Bad debts	281,856	164,200
Loss from fixed assets disposal	28,103	-
Unrealized gain on investments	(254,505)	(25,759)
Realized gain on investments	(83,435)	(45,899)
Subtotal	337,910	2,257,361
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	5,438	(769,326)
Due from related parties	(7,723)	204,121
Prepaid expenses and other assets	(94,005)	35,743
Security deposits	15,945	(8,033)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	52,519	(313,615)
Accrued payroll and vacations payable	(10,700)	25,004
Due to CRISP Trust	(55,617)	263,536
Due to funding source and deferred revenue	(335,626)	143,157
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(91,859)</b>	<b>1,837,948</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(109,411)	(651,298)
Proceeds from sales of investments	69,801	604,632
Purchase of property and equipment	(172,130)	(169,796)
Increase in restricted cash	(4,376)	(4,336)
<b>Net Cash Used in Investing Activities</b>	<b>(216,116)</b>	<b>(220,798)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from loan and mortgages	24,331	25,080
Principal payments on loans and mortgages	(215,142)	(202,494)
<b>Net Cash Used in Financing Activities</b>	<b>(190,811)</b>	<b>(177,414)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(498,786)	1,439,736
Cash and cash equivalents - beginning of year	3,722,334	2,282,598
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 3,223,548</b>	<b>\$ 3,722,334</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 149,426	\$ 148,214

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, 2017 AND 2016**

**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 its 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 the reported amounts and disclosures at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. 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 that are available for operations.
- D. ***Investments*** - Investments in common stocks, corporate and government bonds and other marketable securities 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, 2017 AND 2016**

**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, 2017 and 2016, MHA determined that an allowance of \$539,820 and \$274,176, 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 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. MHA has signatory authority over most consumer funds.
- H. **Revenues from Government Sources** – Revenue from government agency contracts is recorded as earned pursuant to the terms of the contracts. Revenue earned based on achievement of performance objectives is recognized when the objectives have been achieved. Earned revenue yet to be billed under contract terms in excess of advances is reported as earned but unbilled receivables. Advances received from government agencies in excess of expenditures incurred for a contract still in progress are reported as government contract advances. Advances in excess of expenditures for completed contracts are reported as due to government agencies.

The current Medicaid and other third-party payor programs are based on complex laws and regulations. Revenue is recognized based on established rates or contracts for the services provided. Non-compliance with such laws and regulations could result in fines, penalties and exclusion from such programs. MHA is not aware of any allegations of noncompliance that could have a material adverse effect on the financial statements and believes that it is in compliance with applicable laws and regulations.

- I. **Contributions and Grants** – Contributions and grants, including cash and in-kind contributions, are recorded as revenue at their fair value when received or when an unconditional promise or award is received. MHA reports such transactions as unrestricted support unless they are received with donor stipulations that limit the use of the contribution or grant, in which case they are reported as temporarily or permanently restricted support.
- J. **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.
- K. **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.
- L. **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.
- M. **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, nonrecurring items and the investment return are excluded from the measure of operations.

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**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- N. **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.
- O. **Reclassification** - Certain line items in the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 presentation.

**NOTE 3—ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Medicaid and Medicare	\$ 1,057,248	\$ 1,092,533
Government contracts	706,474	582,814
Earned but unbilled government contracts	244,953	199,843
Other	<u>258,550</u>	<u>413,685</u>
Subtotal	2,267,225	2,288,875
Less: Allowance for doubtful accounts	<u>(539,820)</u>	<u>(274,176)</u>
	<u>\$ 1,727,405</u>	<u>\$ 2,014,699</u>

**NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consisted of the following at December 31, 2017 and 2016 and were classified as Level 1 in the fair value hierarchy (as defined below) as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 151,541	\$ 96,665
Equities	1,679,062	1,413,718
Mutual fund - managed futures	115,733	108,024
Fixed income		
Corporate - U.S.	1,044,931	985,280
U.S. Government	<u>692,668</u>	<u>702,698</u>
Total investments	<u>\$ 3,683,935</u>	<u>\$ 3,306,385</u>

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

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**NOTE 4—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Investment return consisted of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 78,855	\$ 74,066
Realized gain	83,435	45,899
Unrealized gain	<u>254,505</u>	<u>25,759</u>
	416,795	145,724
Less: Investment fees	<u>(33,633)</u>	<u>(28,482)</u>
	<u>\$ 383,162</u>	<u>\$ 117,242</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, 2017 and 2016, 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Land	\$ 824,185	\$ 824,185	-
Buildings and building improvements	9,006,110	9,033,427	10-25 Years
Equipment and vehicles	649,995	636,740	4-10 Years
Construction in progress	<u>44,648</u>	<u>8,517</u>	-
Total cost	10,524,938	10,502,869	
Less: accumulated depreciation	<u>(5,168,222)</u>	<u>(4,850,126)</u>	
Net book value	<u>\$ 5,356,716</u>	<u>\$ 5,652,743</u>	

For the years ended December 31, 2017 and 2016, depreciation expense amounted to \$440,054 and \$420,787, respectively.

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**NOTE 5—PROPERTY AND EQUIPMENT, NET (Continued)**

As of December 31, 2016, construction in progress consists primarily of the initial costs related to the reconstruction of Garvey Community Residence necessitated as a result of a fire in 2015 (see Note 15). The estimated additional cost to retrofit the residence due to the fire amounts to approximately \$250,000, of which at least \$167,000 will be covered by insurance proceeds already received. Estimates are being finalized and will be presented to the insurer for continued negotiations as to the insurer's ultimate liability. No commitments for the project have been executed yet. The project is expected to commence by June 2018 and be completed in six to nine months. The \$167,000 insurance proceeds are included in due to funding sources and deferred revenue in the accompanying statements of financial position as of December 31, 2017.

During the year ended December 31, 2017, MHA disposed of property with an original cost of \$150,061, accumulated depreciation of \$121,958 and a net book value of \$28,103. The disposals resulted in a loss of \$9,546 which is netted against gain on involuntary conversion and a gain of \$4,194 which is included in non-operating miscellaneous income in the accompanying statements of activities.

Certain property and equipment of MHA is held as collateral for MHA's indebtedness as further described in Note 7 to the financial statements.

**NOTE 6—DUE TO FUNDING SOURCES 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, 2017 and 2016, \$175,074 and \$248,235, respectively, is due to OPWDD.

This liability also includes amount due to OMH which represents certain funds received from OMH and Medicaid as part of the reimbursement for its programs. The liability arises from limits within the reimbursement methodology and could be recouped from future payments from OMH.

Deferred revenue represents the 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**

	2017	2016
<b>A. <u>16 Main Street, Hempstead</u></b>		
In August 2015, MHA refinanced its 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 collateralized by the building and building improvements in Hempstead, NY. Interest is charged at 2.91%.	\$ 1,719,000	\$ 1,773,000
<b>B. <u>16 Main Street, Hempstead</u></b>		
In August 2015, MHA refinanced its 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 bears interest at 3.71%. The property is collateralized by the land and building in Hempstead, New York.	52,000	64,000

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**NOTE 7—LOANS AND MORTGAGES PAYABLE (Continued)**

	2017	2016
<b>C. <u>3 Ellen Street, Massapequa</u></b>		
This mortgage, payable monthly, is held by the Community Preservation Corporation, matures in 2030 and bears interest at 7.21%. The property is collateralized by the land and building in Massapequa, New York.	\$ 228,227	\$ 239,604
<b>D. <u>1727 North Jerusalem Avenue, East Meadow</u></b>		
This mortgage matured in 2017 and was extinguished.	-	27,787
<b>E. <u>40 Titus Road Glen Cove</u></b>		
This mortgage, payable monthly, held by HSBC Bank USA, National Association, matures in December 2024 and bears interest at 7.92%. The property is collateralized by the land and building located in Glen Cove, New York.	750,218	827,310
<b>F. <u>Vehicle Loans</u></b>		
MHA entered into a vehicle loan with Toyota Financial Services in the amount of \$24,331 payable in equal monthly installments of interest and principal of \$406 commenced in June 2017 and maturing in May 2022 and bears no interest.	21,086	-
MHA entered into three vehicle loans with Sovereign Bank and Toyota Financial Services that were repaid in 2017.	-	17,340
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 commenced in August 2015 and maturing in August 2018 and bearing interest at 4.75%.	5,632	13,753
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 commenced in August 2016 and maturing in August 2022 and bears no interest.		
	<u>19,159</u>	<u>23,339</u>
	2,795,322	2,986,133
Unamortized debt issuance costs	<u>(120,443)</u>	<u>(127,135)</u>
Notes and mortgages payable, net	<u>\$ 2,674,879</u>	<u>\$ 2,858,998</u>

Principal payments on long-term loans and mortgages for the year ended subsequent to December 31, 2017 are as follows:

	<u>Loans and Mortgages</u>	<u>Vehicle Loans</u>	<u>Total</u>
2018	\$ 167,888	\$ 14,679	\$ 182,567
2019	184,670	9,046	193,716
2020	194,084	9,046	203,130
2021	217,182	9,046	226,228
2022	227,019	4,062	231,081
Thereafter	<u>1,758,600</u>	<u>-</u>	<u>1,758,600</u>
	<u>\$ 2,749,443</u>	<u>\$ 45,879</u>	<u>\$ 2,795,322</u>

The interest expense for the years ended December 31, 2017 and 2016 amounted to \$149,426 and \$154,905, respectively.

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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, 2017:

2018	\$ 652,000
2019	207,000
2020	<u>29,000</u>
	<u>\$ 888,000</u>

Rent expense amounted to \$787,415 and \$761,264 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 3,205,576	\$ 3,095,939
Interest and dividends	70,276	72,426
Net gain on investments	340,562	65,148
Investment fees	<u>(33,088)</u>	<u>(27,937)</u>
Ending balance	<u>\$ 3,583,326</u>	<u>\$ 3,205,576</u>

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Family resource center	\$ 16,412	\$ 35,031
Veterans health alliance activities	-	2,217
Advocacy and peer training	-	2,262
Training programs	114	114
Case management of Long Island military families	-	2,700
OPWDD site client activities	1,384	-
Program software upgrade	520	-
Seniors and veterans outreach	<u>-</u>	<u>62,061</u>
Total temporarily restricted net assets	<u>\$ 18,430</u>	<u>\$ 104,385</u>

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**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.

	<u>2017</u>	<u>2016</u>
Veterans health alliance activities	\$ 2,217	\$ 31,598
Family resource center	18,619	-
Advocacy and peer training	2,262	-
Case management of Long Island military families	2,700	-
OPWDD site client activities	3,616	-
Program software upgrade	34,480	-
Seniors and veterans outreach	62,061	-
Training programs	<u>-</u>	<u>2,307</u>
	<u>\$ 125,955</u>	<u>\$ 33,905</u>

**NOTE 10—RESTRICTED CASH**

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 \$41,579 and \$37,203 as of December 31, 2017 and 2016, 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, 2017 and 2016.

**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 \$4,975,000 and \$5,348,000 as of December 31, 2017 and 2016, 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 Medicaid and government contracts for the funding of its programs. Accounts receivable from those sources represent 89% and 82% of gross accounts receivable in 2017 and 2016, respectively. Revenue derived from such sources represent 89% and 90% for the years 2017 and 2016, respectively.



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**NOTE 13—RELATED-PARTY TRANSACTIONS**

A member of the Board of Directors is employed by the insurance agency that is the broker of record for MHA's insurance policies. The insurance agency received approximately \$86,000 and \$76,000 of indirect compensation in connection with its services during 2017 and 2016, respectively.

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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Clinton	\$ 221,472	\$ 200,279
Haypath	<u>219,197</u>	<u>216,455</u>
Subtotal	440,669	416,734
Less: Allowance for doubtful accounts	<u>(220,333)</u>	<u>(204,121)</u>
	<u>\$ 220,336</u>	<u>\$ 212,613</u>

The non-interest bearing account balances with Clinton and Haypath have no stated repayment terms and will be settled as funds become available from operations.

MHA charged Haypath a management fee of \$6,336 in each of the years ended December 31, 2017 and 2016.

**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.

In May 2016, the WCB provided a settlement agreement indicating MHA's net final pro rata allocation to be \$243,648. MHA chose the 10 year, monthly payment option that bears 3% interest. Under this option, MHA commenced making monthly payments of \$2,353 on July 15, 2016 which will continue until June 15, 2026.

As of December 31, 2017 and 2016, the liability related to CRISP amounted to \$207,919 and \$263,536, respectively.

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**NOTE 15—GAIN ON INVOLUNTARY CONVERSION**

As indicated in Note 5, a fire was incurred at the Garvey Community Residence in 2015. As a result, operations have ceased until the facility can be reconstructed. Insurance proceeds included \$253,188 under the MHA business interruption policy which has been recognized as gain on involuntary conversion in the accompanying statement of activities for the year ended December 31, 2017. Additional proceeds of \$60,000 were received from a government agency to cover the cost of mold remediation. The actual expenditures exceeded the funding by \$2,706 which partially offset the gain on conversion. The loss on disposal of damaged fixed assets having a net book value of \$9,546 was also charged against the gain. Insurance proceeds for reconstruction are discussed in Note 5.

**NOTE 16—SUBSEQUENT EVENTS**

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statements of financial position through June 1, 2018, the date the financial statements were available to be issued.