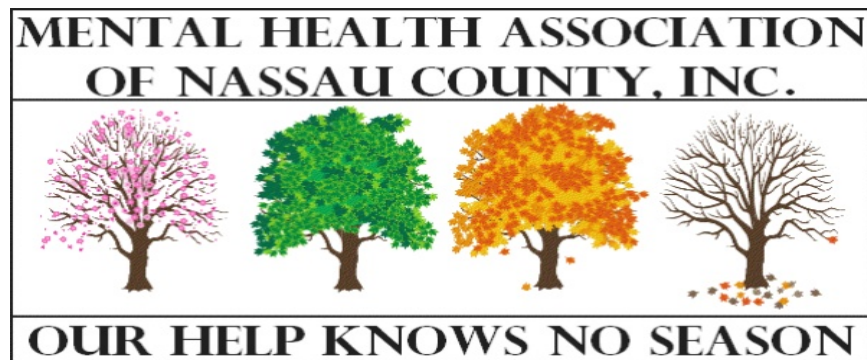


**THE MENTAL HEALTH ASSOCIATION  
OF NASSAU COUNTY, INC.**



**Financial Statements  
(Together with Independent Auditors' Report)**

**Years Ended December 31, 2018 and 2017**

**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, 2018 AND 2017**

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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, 2018 and 2017, 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 audit 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, 2018 and 2017, 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.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, MHA adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities" (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Marks Paneth LLP*

New York, NY  
May 30, 2019

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2C and 13A)	\$ 1,949,372	\$ 3,223,548
Investments (Notes 2D and 5)	3,511,422	3,683,935
Accounts receivable, net (Notes 2E and 4)	2,155,931	1,727,405
Due from related parties (Note 14)	228,498	220,336
Prepaid expenses and other assets	101,189	137,530
Security deposits	82,334	82,334
Restricted cash (Note 11)	46,120	41,579
Property and equipment, net (Notes 2F and 6)	4,968,211	5,356,716
Consumer funds (Note 2G)	<u>2,841,940</u>	<u>2,399,866</u>
<b>TOTAL ASSETS</b>	<u>\$ 15,885,017</u>	<u>\$ 16,873,249</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 817,227	\$ 598,639
Accrued payroll, vacation and employer taxes	357,427	358,966
Due to CRISP Trust (Note 15)	185,769	207,919
Due to funding sources and deferred revenue (Notes 6 and 7)	1,653,873	1,261,704
Loans and mortgage payable (Notes 2N and 8)	2,499,244	2,674,879
Consumer funds (Note 2G)	<u>2,841,940</u>	<u>2,399,866</u>
<b>TOTAL LIABILITIES</b>	<u>8,355,480</u>	<u>7,501,973</u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 9)		
<b>NET ASSETS</b> (Notes 2B and 10)		
Without donor restrictions		
Operating	4,100,585	5,769,520
Board designated (Note 10)	<u>3,412,540</u>	<u>3,583,326</u>
Total net assets without donor restrictions	7,513,125	9,352,846
With donor restrictions (Note 10)	<u>16,412</u>	<u>18,430</u>
<b>TOTAL NET ASSETS</b>	<u>7,529,537</u>	<u>9,371,276</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 15,885,017</u>	<u>\$ 16,873,249</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, 2018 AND 2017**

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total 2018	Without Donor Restrictions	With Donor Restrictions	Total 2017
<b>Operating Revenues:</b> (Notes 2H and 13B)						
Nassau County programs	\$ 1,388,398	\$ -	\$ 1,388,398	\$ 1,422,348	\$ -	\$ 1,422,348
MH Houses	3,280,926	-	3,280,926	2,975,005	-	2,975,005
OPWDD houses	1,923,204	-	1,923,204	2,364,731	-	2,364,731
MHA programs	497,562	-	497,562	102,032	-	102,032
Health Homes - Care Coordination	1,307,809	-	1,307,809	1,306,385	-	1,306,385
PROS services	1,311,187	-	1,311,187	1,220,444	-	1,220,444
Medicaid Service Coordination services	33,727	-	33,727	64,340	-	64,340
In-home respite services	23,792	-	23,792	63,121	-	63,121
Other programs and grants	309,592	-	309,592	325,118	40,000	365,118
Net assets released from restrictions (Notes 2B and 10)	2,018	(2,018)	-	125,955	(125,955)	-
<b>Total Operating Revenues</b>	<b>10,078,215</b>	<b>(2,018)</b>	<b>10,076,197</b>	<b>9,969,479</b>	<b>(85,955)</b>	<b>9,883,524</b>
<b>Expenses:</b> (Note 2K)						
Program services:						
Nassau County programs	1,198,346	-	1,198,346	1,205,712	-	1,205,712
MH Houses	2,824,130	-	2,824,130	2,465,516	-	2,465,516
OPWDD houses	2,744,119	-	2,744,119	2,253,359	-	2,253,359
MHA programs	198,195	-	198,195	291,535	-	291,535
Health Homes - Care Coordination	1,229,043	-	1,229,043	1,386,556	-	1,386,556
PROS services	1,088,218	-	1,088,218	1,017,243	-	1,017,243
Medicaid Service Coordinatoin services	63,624	-	63,624	49,619	-	49,619
In-home respite services	58,679	-	58,679	90,776	-	90,776
Other programs	211,237	-	211,237	244,069	-	244,069
	9,615,591	-	9,615,591	9,004,385	-	9,004,385
Supporting services:						
Management and general	2,083,859	-	2,083,859	1,868,831	-	1,868,831
Fundraising	124,291	-	124,291	30,333	-	30,333
	11,823,741	-	11,823,741	10,903,549	-	10,903,549
<b>Change in Net Assets from Operations</b>	<b>(1,745,526)</b>	<b>(2,018)</b>	<b>(1,747,544)</b>	<b>(934,070)</b>	<b>(85,955)</b>	<b>(1,020,025)</b>
<b>Nonoperating Revenues, Expenses, Gains and Losses</b>						
Investment gain, net (Note 5)	(253,327)	-	(253,327)	304,307	-	304,307
Interest and dividends (Note 5)	90,745	-	90,745	78,855	-	78,855
Investment Activity	(162,582)	-	(162,582)	383,162	-	383,162
Contributions (Note 2I)	53,673	-	53,673	45,157	-	45,157
Gain on involuntary conversion (Note 16)	-	-	-	240,936	-	240,936
Miscellaneous income	14,714	-	14,714	269,915	-	269,915
<b>Total Nonoperating Revenues, Expenses, Gains and Losses</b>	<b>(94,195)</b>	<b>-</b>	<b>(94,195)</b>	<b>939,170</b>	<b>-</b>	<b>939,170</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,839,721)</b>	<b>(2,018)</b>	<b>(1,841,739)</b>	<b>5,100</b>	<b>(85,955)</b>	<b>(80,855)</b>
Net assets - beginning of year	9,352,846	18,430	9,371,276	9,347,746	104,385	9,452,131
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 7,513,125</b>	<b>\$ 16,412</b>	<b>\$ 7,529,537</b>	<b>\$ 9,352,846</b>	<b>\$ 18,430</b>	<b>\$ 9,371,276</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, 2018**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Program Services									Supporting Services			Total 2018	Total 2017
	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	\$ 690,184	\$ 908,605	\$ 1,036,329	\$ 133,004	\$ 846,711	\$ 557,546	\$ 42,790	\$ 37,348	\$ 95,820	\$ 4,348,337	\$ 793,494	\$ 74,609	\$ 5,216,440	\$ 5,551,394
Payroll taxes employee benefits (Note 12)	140,622	234,168	251,079	27,739	185,979	118,364	8,874	8,390	21,747	996,962	184,379	14,849	1,196,190	1,199,022
Total salaries and related costs	830,806	1,142,773	1,287,408	160,743	1,032,690	675,910	51,664	45,738	117,567	5,345,299	977,873	89,458	6,412,630	6,750,416
Professional fees	52,527	6,318	193,912	2,801	15,362	96,426	2,934	1,070	36,464	407,814	276,816	29,200	713,830	356,923
Temporary staff	-	-	721,531	-	-	-	-	-	-	721,531	412,638	-	1,134,169	243,359
Billing & payroll processing fees	6,105	191	1,825	24	51,683	200	-	-	34	60,062	29,645	-	89,707	173,924
Occupancy (Note 9A)	67,019	987,047	98,362	1,849	11,598	38,730	-	-	5,459	1,210,064	41,629	-	1,251,693	1,245,001
Client assistance, medicines & incidentals	46,517	23,244	33,105	542	162	4,526	-	-	2,073	110,169	-	-	110,169	68,013
Program food & supplies	5,370	102,343	84,593	166	1,200	4,789	-	4	12,538	211,003	-	-	211,003	212,313
Insurance	19,600	115,262	45,157	888	7,212	20,059	-	-	2,840	211,018	54,780	-	265,798	141,674
Computers, equipment & furnishings	33,107	48,602	10,620	3,849	19,631	26,911	773	851	6,623	150,967	30,975	-	181,942	232,826
Maintenance & repairs	4,172	34,630	19,580	325	1,743	3,411	-	-	605	64,466	25,846	-	90,312	117,512
Office expenses & telephone	26,527	28,482	16,402	7,550	35,398	26,282	2,048	1,063	4,608	148,360	66,424	2,755	217,539	186,850
Staff recruitment, training and travel	29,103	19,462	10,082	580	17,399	8,067	-	79	2,472	87,244	45,770	983	133,997	156,369
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	68	68	352
Bad debt expenses (recovery)	20,527	148,532	54,484	(6,778)	(1,715)	99,901	3,047	9,823	3,048	330,869	-	-	330,869	281,856
Miscellaneous	26,086	5,233	1,779	18,522	882	2,929	3,158	51	2,559	61,199	51,505	1,776	114,480	139,989
Interest (Note 8)	9,461	16,337	55,012	1,052	6,662	17,575	-	-	3,340	109,439	19,709	51	129,199	156,118
Depreciation (Note 6)	21,419	145,674	110,267	6,082	29,136	62,502	-	-	11,007	386,087	50,249	-	436,336	440,054
Total expenses	\$ 1,198,346	\$ 2,824,130	\$ 2,744,119	\$ 198,195	\$ 1,229,043	\$ 1,088,218	\$ 63,624	\$ 58,679	\$ 211,237	\$ 9,615,591	\$ 2,083,859	\$ 124,291	\$ 11,823,741	\$ 10,903,549

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**

	Program Services									Supporting Services			Total 2017
	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
Payroll taxes employee benefits (Note 12)	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
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
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
Temporary staff	18,160	20,966	117,677	6,601	3,205	937	2,363	784	-	170,693	72,666	-	243,359
Billing & payroll processing fees	-	1,840	1,995	-	121,455	-	-	-	3,120	128,410	45,514	-	173,924
Occupancy (Note 9A)	130,665	883,373	119,549	1,493	9,127	32,091	-	-	5,956	1,182,254	62,747	-	1,245,001
Client assistance, medicines & incidentals	19,933	16,282	16,260	(5)	-	6,755	-	-	8,788	68,013	-	-	68,013
Program food & supplies	11,097	99,304	85,401	61	1,990	5,490	-	-	8,970	212,313	-	-	212,313
Insurance	11,472	68,337	18,154	-	1,026	10,228	-	-	169	109,386	32,288	-	141,674
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
Maintenance & repairs	5,509	36,230	22,231	306	956	14,094	3	-	264	79,593	37,919	-	117,512
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
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
Fundraising expenses	-	-	-	-	-	-	-	-	-	-	-	352	352
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
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
Interest (Note 8)	9,287	20,723	66,825	1,092	6,722	18,230	-	-	4,284	127,163	28,955	-	156,118
Depreciation (Note 6)	35,124	131,684	116,282	5,204	22,008	87,019	-	-	12,744	410,065	29,989	-	440,054
Total expenses	\$ 1,205,712	\$ 2,465,516	\$ 2,253,359	\$ 291,535	\$ 1,386,556	\$ 1,017,243	\$ 49,619	\$ 90,776	\$ 244,069	\$ 9,004,385	\$ 1,868,831	\$ 30,333	\$ 10,903,549

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, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (1,841,739)	\$ (80,855)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	436,336	440,054
Noncash interest expense	6,691	6,692
Bad debt	330,869	281,856
Loss from fixed asset disposal	-	28,103
Unrealized loss (gain) on investments	217,524	(254,505)
Realized gain on investments	-	(83,435)
Subtotal	(850,319)	337,910
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(759,395)	5,438
Due from related parties	(8,162)	(7,723)
Prepaid expenses and other assets	36,341	(94,005)
Security deposits	-	15,945
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	218,588	52,519
Accrued payroll , vacation and employer taxes	(1,539)	(10,700)
Due to CRISP Trust	(22,150)	(55,617)
Due to funding source and deferred revenue	392,169	(335,626)
<b>Net Cash Used in Operating Activities</b>	(994,467)	(91,859)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(45,011)	(109,411)
Proceeds from sales of investments	-	69,801
Purchase of property and equipment	(47,831)	(172,130)
Increase in restricted cash	(4,541)	(4,376)
<b>Net Cash Used in Investing Activities</b>	(97,383)	(216,116)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from loan and mortgages	-	24,331
Principal payments on loans and mortgages	(182,326)	(215,142)
<b>Net Cash Used in Financing Activities</b>	(182,326)	(190,811)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,274,176)	(498,786)
Cash and cash equivalents - beginning of year	3,223,548	3,722,334
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,949,372	\$ 3,223,548
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 122,508	\$ 149,426

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, 2018 AND 2017**

**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 Office 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”).
- B. ***Basis of Presentation*** - MHA maintains its net assets under the following two classes:
- Without donor restrictions – represents resources available for the support of MHA’s operations over which the Board of Directors has discretionary control which includes:
    - **Operations** – consists of net assets without donor restrictions whose use is available for daily operations.
    - **Board designated** – consists of net assets without donor restrictions whose use has been designated by the Board for program expansion, anticipated program deficits, capital improvements and purchase of property.
  - With donor restrictions – 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 stock, 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 5.

**THE MENTAL HEALTH ASSOCIATION OF NASSAU COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, MHA determined that an allowance of \$870,735 and \$539,820, 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 in Note 4.
- 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 purchased 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 supports without donor restrictions unless they are received with donor stipulations that limit the use of the contribution or grant, in which case they are reported as supports with donor restrictions.
- 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*** - The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited as follows:

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, amortization and interest and insurance which are allocated on square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology and other, which are allocated on the basis of time and effort.

- L. ***Use of Estimates*** - The preparation of the financial statements in conformity with U.S. GAAP 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.

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

- 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.
- 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. **Recent Accounting Pronouncements** - Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities" was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended December 31, 2018. Due to these changes, MHA has reclassified prior periods and fully comparative financial statements are presented. Net assets as of December 31, 2017 were reclassified to conform to the new presentation.

**NOTE 3—LIQUIDITY AND AVAILABILITY**

MHA regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, MHA considers all expenditures related to its ongoing activities of programs and funding through the Nassau County Office of Mental Health, Chemical Dependency, and Developmental Disabilities Services, the OMH, United States Department of Housing and Urban Development, and the OPWDD.

Financial assets without donor or other restrictions limiting their use as of December 31, 2018 comprise the following:

Cash and cash equivalents	\$ 1,949,370
Accounts receivable, net	2,155,931
Investments	<u>3,511,422</u>
	<u>\$ 7,616,723</u>

As of December 31, 2018, financial assets available to meet general expenditures over the next 12 months were as follows:

Cash and cash equivalents	\$ 1,949,370
Accounts receivable, net	2,155,931
Investments not subject to Board restrictions	<u>98,882</u>
	<u>\$ 4,204,183</u>

In addition to financial assets available to meet general expenditures over the next 12 months, MHA operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by funding sources.

MHA's governing board has designated a portion of its unrestricted resources. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income, but remain available and may be spent at the discretion of the Board for program expansion, anticipated program deficits, capital improvements and purchase of property.

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**NOTE 4—ACCOUNTS RECEIVABLE, NET**

Accounts receivable consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Medicaid and Medicare	\$ 1,618,227	\$ 1,057,248
Government contracts	1,033,578	706,474
Earned but unbilled government contracts	41,867	244,953
Other	<u>332,994</u>	<u>258,550</u>
Subtotal	3,026,666	2,267,225
Less: Allowance for doubtful accounts	<u>(870,735)</u>	<u>(539,820)</u>
	<u>\$ 2,155,931</u>	<u>\$ 1,727,405</u>

**NOTE 5—INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following as of December 31 and were classified as Level 1 in the fair value hierarchy (as defined below) as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 190,378	\$ 151,541
Equities	1,472,543	1,679,062
Mutual fund - managed futures	110,034	115,733
Fixed income		
Corporate - U.S.	1,002,038	1,044,931
U.S. Government	<u>736,429</u>	<u>692,668</u>
Total investments	<u>\$ 3,511,422</u>	<u>\$ 3,683,935</u>

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

Investment activity consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 90,745	\$ 78,855
Realized gain	-	83,435
Unrealized (loss) gain	<u>(217,524)</u>	<u>254,505</u>
	(126,779)	416,795
Less: Investment fees	<u>(35,803)</u>	<u>(33,633)</u>
	<u>\$ (162,582)</u>	<u>\$ 383,162</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.

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**NOTE 5—INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the 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, 2018 and 2017, no such transfers between fair value levels occurred.

**NOTE 6—PROPERTY AND EQUIPMENT, NET**

Property and equipment consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Lives</u>
Land	\$ 824,185	\$ 824,185	-
Buildings and building improvements	9,061,314	9,006,110	10-25 Years
Equipment and vehicles	642,6223	649,995	4-10 Years
Construction in progress	<u>44,648</u>	<u>44,648</u>	-
Total cost	16,356,370	10,524,938	
Less: accumulated depreciation	<u>(5,604,558)</u>	<u>(5,168,222)</u>	
Net book value	<u>\$ 4,968,211</u>	<u>\$ 5,356,716</u>	

For the years ended December 31, 2018 and 2017, depreciation expense amounted to \$436,336 and \$440,054, respectively.

As of December 31, 2018 and 2017, 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 16). The estimated additional cost to retrofit the residence due to the fire amounts to approximately \$512,000, of which at least \$167,000 will be covered by insurance proceeds already received. The project is expected to commence by June 2019 and be completed in December 2019. The \$167,000 insurance proceeds are included in the due to funding sources and deferred revenue in the accompanying statements of financial position as of December 31, 2018 and 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 7—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, 2018 and 2017, \$152,426 and \$175,074, 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.

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**NOTE 8—LOANS AND MORTGAGES PAYABLE**

	2018	2017
<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 ten 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%.	\$ 1,663,000	\$ 1,719,000
<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.	36,000	52,000
<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.	215,944	228,227
<b>D. <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.	666,863	750,218
<b>E. <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.	16,220	21,086
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%. The loan was repaid in 2018.	-	5,632
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.	14,969	19,159
	2,612,996	2,795,322
Unamortized debt issuance costs	(113,752)	(120,443)
Loans and mortgages payable, net	\$ 2,499,244	\$ 2,674,879

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**NOTE 8—LOANS AND MORTGAGES PAYABLE (Continued)**

Principal payments on long-term loans and mortgages for the year ended subsequent to December 31, 2018 are as follows:

	<u>Loans and Mortgages</u>	<u>Vehicle Loans</u>	<u>Total</u>
2019	\$ 184,670	\$ 9,046	\$ 193,716
2020	194,084	9,046	203,130
2021	217,182	9,046	226,228
2022	227,019	4,050	231,069
2023	240,656	-	240,656
Thereafter	<u>1,518,197</u>	<u>-</u>	<u>1,518,197</u>
	<u>\$ 2,581,808</u>	<u>\$ 31,188</u>	<u>\$ 2,612,996</u>

The interest expense for the years ended December 31, 2018 and 2017 amounted to \$116,571 and \$149,426, 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, 2018:

2019	\$ 602,014
2020	190,609
2021	<u>2,769</u>
	<u>\$ 795,392</u>

Rent expense amounted to \$796,736 and \$787,415 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 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.**  
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**NOTE 10—NET ASSETS**

Net assets without donor restrictions 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 are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Opening balance	\$ 3,583,326	\$ 3,205,576
Interest and dividends	78,073	70,276
Net (loss) gain on investments	(213,601)	340,562
Investment fees	<u>(35,258)</u>	<u>(33,088)</u>
Ending balance	<u>\$ 3,412,540</u>	<u>\$ 3,583,326</u>

Net assets with donor restrictions are available for the following purposes as of December 31:

	<u>2018</u>	<u>2017</u>
Family resource center	\$ 16,412	\$ 16,412
Training programs	-	114
OPWDD site client activities	-	1,384
Program software upgrade	<u>-</u>	<u>520</u>
Total temporarily restricted net assets	<u>\$ 16,412</u>	<u>\$ 18,430</u>

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

	<u>2018</u>	<u>2017</u>
Veterans health alliance activities	\$ -	\$ 2,217
Family resource center	-	18,619
Advocacy and peer training	-	2,262
Case management of Long Island military families	-	2,700
OPWDD site client activities	1,384	3,616
Program software upgrade	520	34,480
Seniors and veterans outreach	-	62,061
Training programs	<u>114</u>	<u>-</u>
	<u>\$ 2,018</u>	<u>\$ 125,955</u>

**NOTE 11—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 \$46,120 and \$41,579 as of December 31, 2018 and 2017, respectively.



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**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, 2018 and 2017.

**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 Corporation ("FDIC") insurance limits by approximately \$3,928,000 and \$4,975,000 as of December 31, 2018 and 2017, respectively, at two banks. 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% of gross accounts receivable as of both December 31, 2018 and 2017. Revenue derived from such sources represent 98% and 89% for the years ended December 2018 and 2017, respectively.

**NOTE 14—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 \$93,000 and \$86,000 of indirect compensation in connection with its services for the years ended December 31, 2018 and 2017, 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 amounts due from Clinton and Haypath as of December 31 are as follows:

	2018	2017
Clinton	\$ 227,485	\$ 221,472
Haypath	221,346	219,197
Subtotal	448,831	440,669
Less: Allowance for doubtful accounts	(220,333)	(220,333)
	\$ 228,498	\$ 220,336

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, 2018 and 2017.

**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 the 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.

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**NOTE 15—WORKERS' COMPENSATION ASSESSMENT (Continued)**

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 ten-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, 2018 and 2017, the liability related to CRISP amounted to \$185,769 and \$207,919, respectively.

**NOTE 16—GAIN ON INVOLUNTARY CONVERSION**

As indicated in Note 6, 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 6.

**NOTE 17—SUBSEQUENT EVENTS**

On April 29, 2019, MHA entered into a management agreement with another not-for-profit organization, in coordination with the OPWDD to conduct a change of auspice of the programs from MHA to the not-for-profit organization. Under this agreement, MHA hires the not-for-profit organization to provide management services to the individuals and programs served by MHA as independent contractor.

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statements of financial position through May 30, 2019, the date the financial statements were available to be issued.