



**NORTH  
SUFFOLK  
MENTAL HEALTH  
ASSOCIATION, INC.  
AND AFFILIATES**

**COMBINING FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.  
AND AFFILIATES**

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JUNE 30, 2010 AND 2009**

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CERTIFIED PUBLIC ACCOUNTANTS  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
North Suffolk Mental Health Association, Inc. and Affiliates:

We have audited the accompanying combining statements of financial position of North Suffolk Mental Health Association, Inc. (NSMHA) and Affiliates (the Affiliates) (Massachusetts corporations, not for profit) as of June 30, 2010 and 2009, and the related combining statements of activities and changes in net assets, cash flows and operating expenses for the years then ended. These combining financial statements are the responsibility of NSMHA and the Affiliates' management. Our responsibility is to express an opinion on these combining 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 combining financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combining financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the combining financial position of North Suffolk Mental Health Association, Inc. and Affiliates as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic combining financial statements taken as a whole. The supplemental statements of functional expenses - North Suffolk Mental Health Association, Inc., for the years ended June 30, 2010 and 2009, are presented for purposes of additional analysis and are not a required part of the basic combining financial statements. These statements have been subjected to the auditing procedures applied in the audit of the basic combining financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic combining financial statements taken as a whole.

*Alexander, Aronson, Finning & Co., P.C.*

Wellesley, Massachusetts  
September 29, 2010

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**COMBINING STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2010 AND 2009**

	2010				2009			
	NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.				NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.			
<u>ASSETS</u>	<u>RENTAL PROJECTS</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>		<u>RENTAL PROJECTS</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	
<b>CURRENT ASSETS:</b>								
Cash and cash equivalents	\$ 2,794,176	\$ 103,320	\$ -	\$ 2,897,496	\$ 2,456,419	\$ 46,357	\$ -	\$ 2,502,776
Short-term investments	2,047,270	-	-	2,047,270	2,042,004	-	-	2,042,004
Client funds held in trust	709,651	-	-	709,651	583,220	-	-	583,220
Contracts, grants and other receivables, net of allowances for doubtful accounts of approximately \$92,000 at June 30, 2010 and 2009	2,987,291	19,889	-	3,007,180	1,710,748	23,006	-	1,733,754
Patient accounts receivable, net of allowances for doubtful accounts of approximately \$304,000 and \$231,000 at June 30, 2010 and 2009, respectively	575,162	-	-	575,162	629,203	-	-	629,203
Due from related parties	729,558	-	(729,558)	-	650,944	-	(650,944)	-
Prepaid expenses and deposits	456,952	-	-	456,952	193,127	528	-	193,655
Total current assets	<u>10,300,060</u>	<u>123,209</u>	<u>(729,558)</u>	<u>9,693,711</u>	<u>8,265,665</u>	<u>69,891</u>	<u>(650,944)</u>	<u>7,684,612</u>
<b>PROPERTY AND EQUIPMENT:</b>								
Land	1,373,408	743,589	-	2,116,997	1,454,041	662,956	-	2,116,997
Buildings and improvements	8,942,308	9,543,765	(90,087)	18,395,986	9,541,650	9,409,899	(90,087)	18,861,462
Furniture and equipment	2,989,273	61,238	-	3,050,511	2,942,141	59,943	-	3,002,084
Vehicles	268,273	-	-	268,273	150,252	-	-	150,252
Property held for sale	-	-	-	-	-	134,937	-	134,937
	<u>13,573,262</u>	<u>10,348,592</u>	<u>(90,087)</u>	<u>23,831,767</u>	<u>14,088,084</u>	<u>10,267,735</u>	<u>(90,087)</u>	<u>24,265,732</u>
Less - accumulated depreciation	7,665,771	3,798,094	-	11,463,865	7,869,369	3,539,178	-	11,408,547
Net property and equipment	<u>5,907,491</u>	<u>6,550,498</u>	<u>(90,087)</u>	<u>12,367,902</u>	<u>6,218,715</u>	<u>6,728,557</u>	<u>(90,087)</u>	<u>12,857,185</u>
<b>CASH HELD IN RESERVES</b>	<u>-</u>	<u>1,102,147</u>	<u>-</u>	<u>1,102,147</u>	<u>-</u>	<u>1,012,193</u>	<u>-</u>	<u>1,012,193</u>
Total assets	<u>\$ 16,207,551</u>	<u>\$ 7,775,854</u>	<u>\$ (819,645)</u>	<u>\$ 23,163,760</u>	<u>\$ 14,484,380</u>	<u>\$ 7,810,641</u>	<u>\$ (741,031)</u>	<u>\$ 21,553,990</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>								
<b>CURRENT LIABILITIES:</b>								
Current portion of long-term debt	\$ 326,380	\$ 52,195	\$ -	\$ 378,575	\$ 1,946,464	\$ 47,632	\$ -	\$ 1,994,096
Accounts payable	632,507	67,256	-	699,763	674,763	51,553	-	726,316
Accrued expenses	2,767,828	55,647	-	2,823,475	1,794,789	52,289	-	1,847,078
Client funds held in trust	709,651	-	-	709,651	583,220	-	-	583,220
Due to related parties	-	729,558	(729,558)	-	-	650,944	(650,944)	-
Deferred revenue	240,966	-	-	240,966	370,511	-	-	370,511
Total current liabilities	<u>4,677,332</u>	<u>904,656</u>	<u>(729,558)</u>	<u>4,852,430</u>	<u>5,369,747</u>	<u>802,418</u>	<u>(650,944)</u>	<u>5,521,221</u>
<b>LONG-TERM DEBT, net of current portion</b>	<u>2,759,536</u>	<u>2,026,176</u>	<u>-</u>	<u>4,785,712</u>	<u>1,245,069</u>	<u>2,078,372</u>	<u>-</u>	<u>3,323,441</u>
<b>INTEREST RATE SWAP CONTRACTS IN LOSS POSITION</b>	<u>159,400</u>	<u>-</u>	<u>-</u>	<u>159,400</u>	<u>66,423</u>	<u>-</u>	<u>-</u>	<u>66,423</u>
Total liabilities	<u>7,596,268</u>	<u>2,930,832</u>	<u>(729,558)</u>	<u>9,797,542</u>	<u>6,681,239</u>	<u>2,880,790</u>	<u>(650,944)</u>	<u>8,911,085</u>
<b>CAPITAL ADVANCES AND CONTINGENT DEBT</b>	<u>-</u>	<u>7,076,175</u>	<u>-</u>	<u>7,076,175</u>	<u>-</u>	<u>7,069,575</u>	<u>-</u>	<u>7,069,575</u>
<b>NET ASSETS:</b>								
Unrestricted -								
Operating	5,314,532	403,510	-	5,718,042	4,306,051	321,100	-	4,627,151
Property and equipment	2,662,175	(2,634,663)	(90,087)	(62,575)	2,960,759	(2,460,824)	(90,087)	409,848
Board designated	526,164	-	-	526,164	423,833	-	-	423,833
Total unrestricted	<u>8,502,871</u>	<u>(2,231,153)</u>	<u>(90,087)</u>	<u>6,181,631</u>	<u>7,690,643</u>	<u>(2,139,724)</u>	<u>(90,087)</u>	<u>5,460,832</u>
Temporarily restricted	108,412	-	-	108,412	112,498	-	-	112,498
Total net assets	<u>8,611,283</u>	<u>(2,231,153)</u>	<u>(90,087)</u>	<u>6,290,043</u>	<u>7,803,141</u>	<u>(2,139,724)</u>	<u>(90,087)</u>	<u>5,573,330</u>
Total liabilities and net assets	<u>\$ 16,207,551</u>	<u>\$ 7,775,854</u>	<u>\$ (819,645)</u>	<u>\$ 23,163,760</u>	<u>\$ 14,484,380</u>	<u>\$ 7,810,641</u>	<u>\$ (741,031)</u>	<u>\$ 21,553,990</u>

*The accompanying notes are an integral part of these combining statements.*

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**COMBINING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				2009			
	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>
<b>UNRESTRICTED NET ASSETS -</b>								
<b>SUPPORT AND REVENUES:</b>								
Contracts and grants	\$ 24,541,181	\$ -	\$ -	\$ 24,541,181	\$ 22,812,865	\$ -	\$ -	\$ 22,812,865
Net patient service revenue	11,143,267	-	-	11,143,267	8,188,772	-	-	8,188,772
Residential client fees and subsidies	1,198,895	-	-	1,198,895	898,931	-	-	898,931
Rents	-	1,074,032	-	1,074,032	-	974,105	-	974,105
Donated rent	406,524	-	-	406,524	406,524	-	-	406,524
Interest and other	372,929	11,263	-	384,192	343,544	29,817	-	373,361
Management and service fees	521,135	-	(233,014)	288,121	658,907	-	(227,128)	431,779
Net assets released from restrictions	4,086	-	-	4,086	13,658	-	-	13,658
Total support and revenues	<u>38,188,017</u>	<u>1,085,295</u>	<u>(233,014)</u>	<u>39,040,298</u>	<u>33,323,201</u>	<u>1,003,922</u>	<u>(227,128)</u>	<u>34,099,995</u>
<b>OPERATING EXPENSES:</b>								
Program services	33,775,754	1,176,724	(233,014)	34,719,464	29,419,402	1,169,837	(227,128)	30,362,111
Supporting services	3,826,725	-	-	3,826,725	3,643,119	-	-	3,643,119
Total operating expenses	<u>37,602,479</u>	<u>1,176,724</u>	<u>(233,014)</u>	<u>38,546,189</u>	<u>33,062,521</u>	<u>1,169,837</u>	<u>(227,128)</u>	<u>34,005,230</u>
Changes in unrestricted net assets from operations	<u>585,538</u>	<u>(91,429)</u>	<u>-</u>	<u>494,109</u>	<u>260,680</u>	<u>(165,915)</u>	<u>-</u>	<u>94,765</u>
<b>OTHER REVENUES (EXPENSES):</b>								
Gain on sale of property and equipment	199,315	-	-	199,315	-	-	-	-
Capital grant	118,021	-	-	118,021	-	-	-	-
Interest on Board designated net assets	3,389	-	-	3,389	4,599	-	-	4,599
Board designated expenses	(1,058)	-	-	(1,058)	(1,000)	-	-	(1,000)
Unrealized loss on carrying value of interest rate swap contracts	(92,977)	-	-	(92,977)	(14,443)	-	-	(14,443)
Total other revenues (expenses)	<u>226,690</u>	<u>-</u>	<u>-</u>	<u>226,690</u>	<u>(10,844)</u>	<u>-</u>	<u>-</u>	<u>(10,844)</u>
Changes in unrestricted net assets	<u>812,228</u>	<u>(91,429)</u>	<u>-</u>	<u>720,799</u>	<u>249,836</u>	<u>(165,915)</u>	<u>-</u>	<u>83,921</u>
<b>TEMPORARILY RESTRICTED NET ASSETS -</b>								
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>(4,086)</u>	<u>-</u>	<u>-</u>	<u>(4,086)</u>	<u>(13,658)</u>	<u>-</u>	<u>-</u>	<u>(13,658)</u>
Changes in temporarily restricted net assets	<u>(4,086)</u>	<u>-</u>	<u>-</u>	<u>(4,086)</u>	<u>(13,658)</u>	<u>-</u>	<u>-</u>	<u>(13,658)</u>
Changes in net assets	808,142	(91,429)	-	716,713	236,178	(165,915)	-	70,263
<b>NET ASSETS, beginning of year</b>	<u>7,803,141</u>	<u>(2,139,724)</u>	<u>(90,087)</u>	<u>5,573,330</u>	<u>7,566,963</u>	<u>(1,973,809)</u>	<u>(90,087)</u>	<u>5,503,067</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 8,611,283</u></u>	<u><u>\$(2,231,153)</u></u>	<u><u>\$ (90,087)</u></u>	<u><u>\$ 6,290,043</u></u>	<u><u>\$ 7,803,141</u></u>	<u><u>\$(2,139,724)</u></u>	<u><u>\$ (90,087)</u></u>	<u><u>\$ 5,573,330</u></u>

*The accompanying notes are an integral part of these combining statements.*

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				2009			
	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Changes in net assets	\$ 808,142	\$ (91,429)	\$ -	\$ 716,713	\$ 236,178	\$ (165,915)	\$ -	\$ 70,263
Adjustments to reconcile changes in net assets to net cash provided by operating activities:								
Bad debts	4,248	3,698	-	7,946	4,683	260	-	4,943
Depreciation	503,359	258,916	-	762,275	565,517	292,965	-	858,482
Gain on sale of property and equipment	(199,315)	-	-	(199,315)	-	-	-	-
Capital grant	(118,021)	-	-	(118,021)	-	-	-	-
Unrealized loss on carrying value of interest rate swap contracts	92,977	-	-	92,977	14,443	-	-	14,443
Changes in operating assets and liabilities -								
Contracts, grants and other receivables	(1,280,791)	(581)	-	(1,281,372)	(321,080)	3,816	-	(317,264)
Patient accounts receivable	54,041	-	-	54,041	(171,300)	-	-	(171,300)
Prepaid expenses and deposits	(263,825)	528	-	(263,297)	506	(528)	-	(22)
Accounts payable	(42,256)	15,703	-	(26,553)	65,392	12,619	-	78,011
Accrued expenses	973,039	3,358	-	976,397	(26,350)	(34,820)	-	(61,170)
Deferred revenue	(129,545)	-	-	(129,545)	22,485	(719)	-	21,766
Net cash provided by operating activities	<u>402,053</u>	<u>190,193</u>	<u>-</u>	<u>592,246</u>	<u>390,474</u>	<u>107,678</u>	<u>-</u>	<u>498,152</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Net change in due from/to related parties	(78,614)	78,614	-	-	(162,513)	162,513	-	-
Net change in short-term investments	(5,266)	-	-	(5,266)	1,330,865	-	-	1,330,865
Acquisition of property and equipment	(338,565)	(80,857)	-	(419,422)	(871,684)	(129,441)	-	(1,001,125)
Proceeds from sale of property and equipment	345,745	-	-	345,745	-	-	-	-
Net change in cash held in reserves	<u>-</u>	<u>(89,954)</u>	<u>-</u>	<u>(89,954)</u>	<u>-</u>	<u>(111,474)</u>	<u>-</u>	<u>(111,474)</u>
Net cash provided by (used in) investing activities	<u>(76,700)</u>	<u>(92,197)</u>	<u>-</u>	<u>(168,897)</u>	<u>296,668</u>	<u>(78,402)</u>	<u>-</u>	<u>218,266</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>								
Proceeds from capital advances and contingent debt	-	6,600	-	6,600	-	14,573	-	14,573
Principal payments on long-term debt	(105,617)	(47,633)	-	(153,250)	(141,046)	(43,522)	-	(184,568)
Capital grant	<u>118,021</u>	<u>-</u>	<u>-</u>	<u>118,021</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>12,404</u>	<u>(41,033)</u>	<u>-</u>	<u>(28,629)</u>	<u>(141,046)</u>	<u>(28,949)</u>	<u>-</u>	<u>(169,995)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	337,757	56,963	-	394,720	546,096	327	-	546,423
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,456,419</u>	<u>46,357</u>	<u>-</u>	<u>2,502,776</u>	<u>1,910,323</u>	<u>46,030</u>	<u>-</u>	<u>1,956,353</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 2,794,176</u></u>	<u><u>\$ 103,320</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,897,496</u></u>	<u><u>\$ 2,456,419</u></u>	<u><u>\$ 46,357</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,502,776</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -</b>								
Cash paid for interest	<u>\$ 186,621</u>	<u>\$ 191,550</u>	<u>\$ -</u>	<u>\$ 378,171</u>	<u>\$ 202,079</u>	<u>\$ 196,316</u>	<u>\$ -</u>	<u>\$ 398,395</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITY:</b>								
Long-term debt refinanced	<u>\$ 2,107,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,107,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cost basis of property and equipment disposed	<u>\$ 853,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 853,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net book value of property and equipment transferred from related party	<u>\$ 134,937</u>	<u>\$ 178,364</u>	<u>\$ (313,301)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net book value of property and equipment transferred to related party	<u>\$ 178,364</u>	<u>\$ 134,937</u>	<u>\$ (313,301)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net book value of property and equipment transferred to property held for sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,420</u>	<u>\$ -</u>	<u>\$ 91,420</u>

*The accompanying notes are an integral part of these combining statements.*

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**COMBINING STATEMENTS OF OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				2009			
	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>	<b>NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.</b>	<b>RENTAL PROJECTS</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>
<b>EXPENSES:</b>								
Personnel and related costs -								
Salaries and wages	\$ 23,533,826	\$ -	\$ -	\$ 23,533,826	\$ 21,270,640	\$ -	\$ -	\$ 21,270,640
Fringe benefits	2,343,850	-	-	2,343,850	2,200,657	-	-	2,200,657
Payroll taxes	1,998,691	-	-	1,998,691	1,914,624	-	-	1,914,624
Consultants and contracted services	628,786	-	-	628,786	870,251	-	-	870,251
Staff training	56,535	-	-	56,535	61,987	-	-	61,987
Total personnel and related costs	<u>28,561,688</u>	<u>-</u>	<u>-</u>	<u>28,561,688</u>	<u>26,318,159</u>	<u>-</u>	<u>-</u>	<u>26,318,159</u>
Occupancy -								
Maintenance and utilities	1,061,107	425,120	(76,475)	1,409,752	1,131,118	409,910	(79,164)	1,461,864
Rent	1,060,270	-	-	1,060,270	870,619	-	-	870,619
Mortgage interest	186,621	191,550	-	378,171	201,202	163,592	-	364,794
Taxes and insurance	97,364	64,525	-	161,889	99,087	64,110	-	163,197
Total occupancy	<u>2,405,362</u>	<u>681,195</u>	<u>(76,475)</u>	<u>3,010,082</u>	<u>2,302,026</u>	<u>637,612</u>	<u>(79,164)</u>	<u>2,860,474</u>
Direct program costs -								
Subcontractors	2,259,459	-	-	2,259,459	170,118	-	-	170,118
Vehicle leases and operating costs	500,564	-	-	500,564	526,739	-	-	526,739
Meals	450,353	-	-	450,353	461,820	-	-	461,820
Travel	418,681	-	-	418,681	400,463	-	-	400,463
Client activities and services	344,554	-	-	344,554	274,370	-	-	274,370
Supplies	247,577	-	-	247,577	293,131	-	-	293,131
Consultants	81,993	-	-	81,993	61,181	-	-	61,181
Total direct program costs	<u>4,303,181</u>	<u>-</u>	<u>-</u>	<u>4,303,181</u>	<u>2,187,822</u>	<u>-</u>	<u>-</u>	<u>2,187,822</u>
Non-capital equipment -								
Furniture and equipment	127,018	-	-	127,018	182,227	-	-	182,227
Equipment repairs and maintenance	63,446	-	-	63,446	60,404	-	-	60,404
Leased equipment	55,164	-	-	55,164	39,366	-	-	39,366
Total non-capital equipment	<u>245,628</u>	<u>-</u>	<u>-</u>	<u>245,628</u>	<u>281,997</u>	<u>-</u>	<u>-</u>	<u>281,997</u>
Other operating costs -								
Office supplies and postage	387,403	11,203	-	398,606	351,116	27,163	-	378,279
Telephone	356,537	-	-	356,537	344,228	-	-	344,228
Liability insurance	337,183	-	-	337,183	351,817	-	-	351,817
Professional fees	196,324	65,173	-	261,497	118,420	63,873	-	182,293
Research	196,664	-	-	196,664	114,647	-	-	114,647
Dues, subscriptions and conferences	57,140	-	-	57,140	57,181	-	-	57,181
Advertising and recruitment	47,762	-	-	47,762	64,908	-	-	64,908
Bad debts	4,248	3,698	-	7,946	4,683	260	-	4,943
Management fees	-	156,539	(156,539)	-	-	147,964	(147,964)	-
Total other operating costs	<u>1,583,261</u>	<u>236,613</u>	<u>(156,539)</u>	<u>1,663,335</u>	<u>1,407,000</u>	<u>239,260</u>	<u>(147,964)</u>	<u>1,498,296</u>
Total expenses before depreciation	37,099,120	917,808	(233,014)	37,783,914	32,497,004	876,872	(227,128)	33,146,748
Depreciation	<u>503,359</u>	<u>258,916</u>	<u>-</u>	<u>762,275</u>	<u>565,517</u>	<u>292,965</u>	<u>-</u>	<u>858,482</u>
Total expenses	<u>\$ 37,602,479</u>	<u>\$ 1,176,724</u>	<u>\$ (233,014)</u>	<u>\$ 38,546,189</u>	<u>\$ 33,062,521</u>	<u>\$ 1,169,837</u>	<u>\$ (227,128)</u>	<u>\$ 34,005,230</u>

*The accompanying notes are an integral part of these combining statements.*

# NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

## NOTES TO COMBINING FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

### (1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

#### OPERATIONS AND NONPROFIT STATUS

North Suffolk Mental Health Association, Inc. (NSMHA) is a nonprofit corporation dedicated to providing comprehensive community-based, person-centered and recovery-oriented services to children, adults and families who are confronting emotional difficulties, mental illness, developmental disabilities, addictions or other challenges. NSMHA serves clients in the Boston area, especially the communities of Chelsea, East Boston, Revere, Charlestown and Winthrop. Many of these services are provided through contracts with the Massachusetts Department of Mental Health, Massachusetts Department of Developmental Services (formerly Department of Mental Retardation), Massachusetts Department of Public Health, and the Massachusetts Commission for the Blind.

NSMHA and its Affiliates (see below) are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. NSMHA and its Affiliates are also exempt from state income taxes. Donors may deduct contributions made to NSMHA and its Affiliates within the Internal Revenue Code requirements.

NSMHA is related to the following Massachusetts nonprofit corporations (the Affiliates) through common Board of Director membership:

**North Suffolk Group Homes, Inc. (NSGH)**, was formed during October, 1992, and provides twenty units of housing (twenty-eight units during 2010 and twenty units in 2009) to low-income individuals under the provisions of Section 202 of the National Housing Act.

**North Suffolk Community Housing Corporation (NSCHC)**, was formed during April, 1985, and provides sixteen units of housing to low-income individuals under the provisions of Section 202 of the National Housing Act.

**Noble Schoolhouse Corporation (NSC)**, was formed during October, 1990, and provides eighteen units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Community Living Corporation (CLC)**, was formed during July, 1990, and provides seventeen units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Harborview, Inc. (Harborview)**, was formed during April, 1992, and provides eight units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Broadway Community Housing Corporation (Broadway)**, was formed during March, 1995, and provides four units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Merrimack Housing Corporation (MHC)**, was formed during December, 1992, and provides nine units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Bradstreet Community Housing Corporation (Bradstreet)**, was formed during June, 1999, and provides four units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.



NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

**OPERATIONS AND NONPROFIT STATUS** (Continued)

**Proctor Community Housing Corporation (PCHC)**, was formed during February, 2001, and provides eight units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

**Westland Community Housing Corporation (WCHC)**, was formed during February, 2001, and provides eight units of housing to low-income individuals under the provisions of Section 811 of the National Housing Act.

The rent charges and operating methods of the Affiliates are regulated by the U.S. Department of Housing and Urban Development (HUD).

**SIGNIFICANT ACCOUNTING POLICIES**

NSMHA and the Affiliates prepare their combining financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Principles of Combining

The combining financial statements include the net assets of NSMHA and the Affiliates (collectively, the Agency). All significant balances between classes of net assets and intercompany balances and transactions are eliminated in the accompanying combining financial statements.

Description of Net Assets

**Unrestricted Net Assets**

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

**Operating** - consists of amounts relating to program and other operating activities, which bear no external restrictions and are currently available for operations.

**Property and Equipment** - reflects the activities relating to the property and equipment of the Agency.

**Board Designated** - consists of net assets of NSMHA that have been set aside by its Board of Directors for specific purposes. These net assets may only be used with the approval of the Board of Directors. Board designated net assets are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Armando Alfano Fund	\$226,164	\$223,833
Electronic Health Records	<u>300,000</u>	<u>200,000</u>
	<u>\$526,164</u>	<u>\$423,833</u>

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

(Continued)

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Description of Net Assets (Continued)

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Meridian House replacement reserve	\$ 85,307	\$ 83,821
Meridian House services	20,605	26,177
Property and equipment	<u>2,500</u>	<u>2,500</u>
	<u>\$108,412</u>	<u>\$112,498</u>

Revenue Recognition

Contracts and grants are recorded when services are provided and costs are incurred. Residential client fees are recorded as revenue as services are provided. Net patient service revenue is recorded as services are provided. NSMHA establishes fees for services to patients based upon the patient's ability to pay for those services. Management and service fees are recorded over the period the services are provided. Rents are recorded over the rental agreement period.

Unrestricted grants and contributions are recorded as revenue when received or committed. All other revenue is recognized as earned.

Restricted contributions are recorded as temporarily restricted support and revenues and net assets when received or unconditionally committed. Transfers are made to unrestricted net assets as costs are incurred or as time restrictions or program restrictions lapse. Donor restricted contributions received and satisfied in the same period are included in unrestricted net assets.

Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances were approximately \$6,005,000 and \$4,763,000 for the years ended June 30, 2010 and 2009, respectively.

NSMHA may provide free care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient prior to the services being rendered. Since NSMHA does not expect payment, estimated charges for free care are not included in net patient service revenue.

Donated Rent

NSMHA is the beneficiary of donated space in several of its programs. The donated space has a measurable basis and is based upon values determined by management. The value of the donated space for fiscal years 2010 and 2009 was \$406,524, and is included in donated rent and rent expense in the accompanying combining financial statements.

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**  
(Continued)

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible. The allowance is based upon collection experience, third party contracts and other circumstances which may affect the ability of the Agency to collect. The Agency writes off uncollectible patient accounts receivable upon determining they will not be collected.

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Program Services

Program services in the accompanying combining statements of activities and changes in net assets consist of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Developmental Disability	\$ 8,428,610	\$ 8,623,522
Mental Health Services	12,260,744	9,691,515
Adult Outpatient Services	3,242,034	3,291,232
Child Clinical Services	2,716,287	1,992,250
Day Treatment	772,878	728,139
Early Childhood Services	2,238,563	2,116,405
Emergency Services	1,486,266	816,894
Substance Abuse Services	1,689,901	1,583,685
Research	591,473	382,567
Program Support	348,998	193,193
Rental Projects, net of elimination	<u>943,710</u>	<u>942,709</u>
	<u>\$34,719,464</u>	<u>\$30,362,111</u>

Deferred Revenue

Deferred revenue consists of prepaid service fees and contract advances. These amounts will be recognized as revenue as the services are provided

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair market value at the time of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 – 40 years
Furniture and equipment	3 – 10 years
Vehicles	5 years

# NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

## NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

(Continued)

### (1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

#### **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

##### Property and Equipment and Depreciation (Continued)

During fiscal year 2009, NSGH's Hyde Park property ceased being a rental property. Accordingly, NSGH capitalized certain costs associated with maintaining the property and deemed the property held for sale. This property was transferred to NSMHA in July, 2009, as part of a property exchange between NSMHA and NSGH. Amounts related to the Hyde Park property are included in property held for sale on the accompanying combining statement of financial position as of June 30, 2009. NSMHA paid \$1 to NSGH to obtain all rights and title to the Hyde Park property and, in return, NSGH paid \$1 to NSMHA to obtain all rights and title to a specified property of NSMHA. The transfer of properties was approved by HUD. NSMHA sold the Hyde Park property during fiscal year 2010 to an unrelated party.

##### Fair Value Measurement

The Agency values its qualifying assets and liabilities under a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 – Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Agency values its qualifying assets and liabilities using Level 1 inputs, except its interest rate swap contracts (see Note 8) which use Level 2 inputs.

##### Estimates

The preparation of combining financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Uncertainty in Income Taxes

The Agency adopted the new standards for *Accounting for Uncertainty in Income Taxes* which require the Agency to report uncertain tax positions and to adjust its combining financial statements for the impact thereof. As of June 30, 2010, the Agency determined that it had no material unrecognized tax benefits to report. The Agency files information returns in the United States (Federal) and Massachusetts (state) jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

# NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

## NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

(Continued)

### (1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Subsequent Events

The preparation of combining financial statements in accordance with U.S. GAAP requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying combining financial statements. Subsequent events are transactions or events that occur after the combining statement of financial position date, but before the combining financial statements are issued or available to be issued. The accompanying combining financial statements include the evaluation of subsequent events that have occurred through September 29, 2010, which is the date the combining financial statements were available to be issued.

### (2) RELATED PARTY TRANSACTIONS

Transactions among NSMHA and the Affiliates during the year ended June 30, 2010, consist of the following:

	<u>Unsecured Cash Advances</u>	<u>Repayment of Cash Advances</u>	<u>Manage- ment Fees</u>	<u>Super- intendent Fees</u>	<u>Book- keeping Fees</u>	<u>Cleaning and Maintenance Services</u>
NSGH	\$118,893	\$ 44,700	\$13,531	\$16,067	\$ 9,835	\$17,080
NSCHC	32,752	16,426	7,956	9,744	-	13,967
NSC	29,749	31,250	7,225	8,261	5,616	12,715
CLC	28,034	31,000	11,374	9,998	5,112	15,972
Harborview	14,787	13,000	5,724	4,800	2,832	8,232
Broadway	16,521	20,000	3,269	1,458	1,416	679
MHC	5,853	12,700	5,042	2,400	-	3,285
Bradstreet	23,439	21,100	2,722	1,386	1,200	1,451
PCHC	9,376	10,000	4,732	1,927	2,000	1,711
WCHC	4,086	4,700	5,058	3,854	2,000	1,383
	<u>\$283,490</u>	<u>\$204,876</u>	<u>\$66,633</u>	<u>\$59,895</u>	<u>\$30,011</u>	<u>\$76,475</u>

Transactions among NSMHA and the Affiliates during the year ended June 30, 2009, consist of the following:

	<u>Unsecured Cash Advances</u>	<u>Repayment of Cash Advances</u>	<u>Manage- ment Fees</u>	<u>Super- intendent Fees</u>	<u>Book- keeping Fees</u>	<u>Cleaning and Maintenance Services</u>
NSGH	\$123,142	\$ -	\$ 9,079	\$16,298	\$ 9,835	\$11,087
NSCHC	37,505	51,262	7,732	9,744	-	16,736
NSC	29,449	22,383	6,624	8,261	5,616	13,916
CLC	26,873	21,866	10,257	9,293	6,012	15,149
Harborview	15,155	6,724	5,528	4,593	2,832	9,754
Broadway	10,181	3,700	2,876	1,285	1,416	1,667
MHC	9,629	2,455	5,060	2,081	-	4,120
Bradstreet	21,164	13,179	2,506	1,367	1,200	2,073
PCHC	9,479	8,711	4,074	1,927	2,000	1,121
WCHC	10,216	-	4,614	3,854	2,000	3,541
	<u>\$292,793</u>	<u>\$130,280</u>	<u>\$58,350</u>	<u>\$58,703</u>	<u>\$30,911</u>	<u>\$79,164</u>

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(2) RELATED PARTY TRANSACTIONS (Continued)**

Amounts due to NSMHA from the Affiliates consist of the following:

	<u>2010</u>	<u>2009</u>
NSGH	\$377,351	\$303,158
NSC	93,250	94,751
CLC	57,125	60,091
Harborview	59,750	57,963
Broadway	31,868	35,347
MHC	27,814	34,661
PCHC	30,334	30,958
Bradstreet	21,543	19,204
WCHC	14,103	14,717
NSCHC	<u>16,420</u>	<u>94</u>
	<u>\$729,558</u>	<u>\$650,944</u>

**(3) FUNDING**

NSMHA receives significant funding under unit rate and cost reimbursable government contracts. These reimbursements are subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of NSMHA and the Affiliates as of June 30, 2010 and 2009, or on the changes in their net assets for the years then ended. NSMHA received approximately 59% and 65% of its total support and revenues from the Commonwealth of Massachusetts during the years ended June 30, 2010 and 2009, respectively. As of June 30, 2010 and 2009, approximately 83% and 67%, respectively, of contracts, grants and other receivables are due from the Commonwealth of Massachusetts.

Additionally, approximately 12% and 19% of contracts, grants and other receivables are due from another funding source as of June 30, 2010 and 2009, respectively.

**(4) CASH AND CASH EQUIVALENTS**

- Cash and cash equivalents consist of checking, savings and certificates of deposit with original maturities of less than three months. These accounts, with the exception of cash held in reserves and client funds held in trust, are considered cash and cash equivalents for the purpose of the combining statements of cash flows.
- Cash held in reserves consist of funds held under terms of agreements with HUD (see Note 1). These reserves are held in separate bank accounts and consist of replacement, painting and residual receipts reserves. Certain withdrawals from these reserves require HUD's approval.
- NSMHA acts as custodian of various bank accounts on behalf of certain clients. These accounts are presented as client funds held in trust on the accompanying combining statements of financial position.

# NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

## NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

(Continued)

### (5) INVESTMENTS

Short-term investments consist of certificates of deposit and treasury notes having original maturities of greater than three months, maturing through June, 2011, with balances of \$2,047,270 and \$2,042,004 at June 30, 2010 and 2009, respectively.

### (6) LEASE COMMITMENTS

NSMHA rents various facilities and vehicles under operating lease and tenant-at-will agreements. The agreements expire at various dates through 2018.

Future minimum lease payments under operating lease agreements over the next five years are as follows:

	<u>Facilities</u>	<u>Vehicles</u>	<u>Total</u>
2011	\$650,610	\$122,880	\$773,490
2012	\$414,559	\$ 85,595	\$500,154
2013	\$310,778	\$ 46,802	\$357,580
2014	\$245,773	\$ 11,308	\$257,081
2015	\$215,487	\$ -	\$215,487

### (7) NOTE PAYABLE TO A BANK

NSMHA has a \$1,500,000 line of credit agreement with a bank. Borrowings under the line are due on demand and interest is payable monthly at the London Interbank Offered Rate (LIBOR) (0.35% and 0.32% as of June 30, 2010 and 2009, respectively). The line of credit is secured by all assets of NSMHA and is cross-collateralized and cross-defaulted with other debt provided by the bank (see Note 8), as well as by an assignment of certain leases and rents. As of June 30, 2010 and 2009, there were no outstanding balances under this agreement. NSMHA must maintain certain financial ratios and levels of working capital as specified in the agreement. NSMHA must also meet certain covenants before any advances may be drawn. NSMHA was in compliance with these financial ratios and covenants at June 30, 2010. This agreement is subject to annual renewal.

### (8) LONG-TERM DEBT

Long-term debt consists of:

<u>NSMHA:</u>	<u>2010</u>	<u>2009</u>
Note payable to a bank, due in fixed monthly principal payments of \$4,717, increasing approximately 6% each year until December 27, 2014. Interest is due monthly at LIBOR (0.35% as of June 30, 2010), plus 2.35%. There is a balloon payment of approximately \$1,793,000 due on January 27, 2015. NSMHA entered into an interest rate swap agreement to hedge against potential interest rate exposure under the variable rate note (see page 15). This note is secured by a first mortgage on land and buildings and is cross-collateralized and cross-defaulted with another note payable to the same bank (see Note 7), as well as an assignment of certain leases and rents.	\$2,083,428	\$ -

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(8) LONG-TERM DEBT (Continued)**

**NSMHA: (Continued)**

	<b><u>2010</u></b>	<b><u>2009</u></b>
Note payable to a bank, due in monthly principal and interest installments of \$4,926, with interest at 7.75%, through June, 2012, at which time the interest rate will be adjusted based upon the bank's prevailing adjustable rate mortgage index (ARM). The interest rate will adjust again in June, 2017, and will remain in effect through the note's maturity date of May, 2022. The interest rate can never increase or decrease more than 2.5% at each adjustment date and 5% over the term of the note. This note is secured by a first mortgage on land and a building.	458,903	481,502
6.23% note payable to a bank, due in monthly principal and interest installments of \$1,933, through March, 2011, at which time a balloon payment of approximately \$225,000 becomes due. This note is secured by a first mortgage on land and a building.	233,502	241,655
5.55% note payable to a bank, due in monthly principal and interest installments of \$905, through May, 2013, at which time a balloon payment of approximately \$177,000 becomes due. This note is secured by a first mortgage on land and a building.	180,298	180,996
5% note payable to a nonprofit organization, due in monthly principal and interest installments of \$1,701, through February, 2018. This note is secured by a second mortgage on land and a building.	129,785	143,340
Note payable to a bank, due in fixed monthly principal payments of \$6,474. Interest was due monthly at LIBOR (0.32% as of June 30, 2009), plus 1.75%, through December 18, 2009. NSMHA entered into an interest rate swap agreement to hedge against potential interest rate exposure under the variable rate note (see page 15). This note was refinanced in January, 2010. This note was secured by a first mortgage on land and buildings and was cross-collateralized and cross-defaulted with another note payable with the same bank (see Note 7), as well as by an assignment of certain leases and rents.	-	1,636,468
Note payable to a bank, due in monthly principal installments of \$1,185, plus interest at LIBOR (0.32 % as of June 30, 2009), plus 1.5%, through June, 2014. NSMHA entered into an interest rate swap agreement to hedge against potential interest rate exposure under the variable rate note (see page 15). This note was refinanced in January, 2010. This note was secured by a first mortgage on land and a building.	-	257,214



**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(8) LONG-TERM DEBT** (Continued)

<u>NSMHA:</u> (Continued)	<u>2010</u>	<u>2009</u>
5.79% note payable to a bank, due in monthly principal and interest installments of \$2,034, through December, 2009. This note was refinanced in January, 2010. This note was secured by a first mortgage on land and a building.	-	250,358
Total NSMHA	<u>3,085,916</u>	<u>3,191,533</u>
 <u>RENTAL PROJECTS:</u>		
9.25% note payable to HUD, due in monthly principal and interest installments of \$11,573, through December, 2024. This note is secured by a first mortgage on NSGH's property, as well as an assignment of NSGH's equipment, leases, rents and accounts receivable.	1,106,734	1,141,474
9% note payable to HUD, due in monthly principal and interest installments of \$8,415, through December, 2032. The note is secured by a mortgage on NSCHC's property, as well as by an assignment of rents, accounts receivable and other income.	<u>971,637</u>	<u>984,530</u>
Total rental projects	<u>2,078,371</u>	<u>2,126,004</u>
Total long-term debt	5,164,287	5,317,537
Less - current portion	<u>378,575</u>	<u>1,994,096</u>
	<u>\$4,785,712</u>	<u>\$3,323,441</u>

To hedge against potential interest rate exposure under variable rate notes described above, NSMHA entered into Interest Rate Swap Agreements with a bank. As of June 30, 2010, NSMHA had an interest rate swap contract with the following terms which effectively fixes the interest rate on the note:

Notional Amount	\$2,083,428
Interest Rate	3.55%
Maturity Date	January 27, 2015

During fiscal year 2009, NSMHA had two Interest Rate Swap Agreements with a bank relating to the variable rate notes that were rolled into one note during fiscal year 2010. These agreements terminated in connection with the refinancing that occurred during fiscal year 2010.

The swap contract is reported at fair value in the accompanying combining statement of financial position as of June 30, 2010. Fair value was derived using Level 2 inputs (see Note 1), including market liquidity, assumed transaction and hedging costs, and other factors.

Any gain or loss in the value of swap contracts is recorded as a change in unrestricted net assets. For the years ended June 30, 2010 and 2009, NSMHA had unrealized losses of \$92,977 and \$14,443, respectively, on the carrying value of the swap contracts. As of June 30, 2010 and 2009, NSMHA's swap contracts were in a loss position of \$159,400 and \$66,423, respectively.

# NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

## NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

(Continued)

### (8) LONG-TERM DEBT (Continued)

Maturities of long-term debt over the next five fiscal years are as follows:

2011	\$ 378,575
2012	\$ 161,044
2013	\$ 349,485
2014	\$ 185,233
2015	\$1,955,157

Certain note agreements require NSMHA to maintain certain financial ratios. NSMHA was in compliance with these financial ratios and covenants at June 30, 2010.

### (9) CAPITAL ADVANCES AND CONTINGENT DEBT

#### Capital Advances

Financing for some of the Affiliates has been provided by HUD under capital advance agreements. These advances are not required to be repaid and no interest is due as long as the related properties remain available to very low-income households, as defined, for a period of forty years in accordance with Section 811 of the National Housing Act. If the related properties do not comply with these terms, the entire advance will be due upon demand and will accrue interest at rates ranging from 6.75% to 8.375% from the date of default.

The following are amounts outstanding under these agreements:

	<u>2010</u>	<u>2009</u>
NSC	\$1,478,100	\$1,478,100
CLC	837,790	837,790
MHC	814,600	814,600
WCHC	641,100	641,100
PCHC	561,700	555,100
Harborview	435,799	435,799
Broadway	359,400	359,400
Bradstreet	<u>358,000</u>	<u>358,000</u>
	<u>\$5,486,489</u>	<u>\$5,479,889</u>

These capital advances are secured by first mortgages on the related properties, as well as by an assignment of each of the Affiliate's furniture and equipment.

#### Contingent Debt

The Commonwealth of Massachusetts, through Community Economic Development Assistance Corporation (CEDAC), has provided loans to some of the Affiliates to be used in the acquisition and renovation of the related properties. These notes do not bear interest and outstanding principal is due on dates ranging from September, 2033 through September, 2046. Principal is due annually if a certain cash flow level, as defined in the agreement, is achieved. These notes are secured by second mortgages on the related property and contain various covenants and conditions. The Affiliates are in compliance with these covenants and conditions at June 30, 2010 and 2009.

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(9) CAPITAL ADVANCES AND CONTINGENT DEBT (Continued)**

Contingent Debt (Continued)

The following amounts have been advanced under these agreements as of June 30:

WCHC	\$ 549,962
Bradstreet	354,208
MHC	343,522
PCHC	<u>341,994</u>
	<u>\$1,589,686</u>

The MHC note is guaranteed by NSMHA up to \$40,000.

Management's understanding is that these loans are not required to be repaid unless the related property fails to comply with other conditions in the agreement. It is the intention of the Board of Directors and management of the Affiliates to maintain the property for its intended purpose. Therefore, these loans have been classified as long-term liabilities.

**(10) CONCENTRATION OF CREDIT RISK**

The Agency maintains its cash balances in various banks in Massachusetts. At certain times during the year, the cash balances in some of the accounts exceed the maximum amount of insurance provided by the Federal Deposit Insurance Corporation. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

**(11) RETIREMENT PLAN**

NSMHA maintains an Internal Revenue Code Section 403(b)(7) Retirement Plan (the Plan) covering certain employees of NSMHA. NSMHA contributes up to 3% of an employee's salary (up to \$15,000 of annual salary) based on years of service, as defined in the Plan. Employee contributions vest immediately, and employer contributions vest as defined in the Plan.

NSMHA's contributions to the Plan for the years ended June 30, 2010 and 2009, were \$53,159 and \$53,558, respectively, and are included in fringe benefits in the accompanying combining statements of operating expenses.

**(12) CONTINGENCIES**

In the ordinary course of the Agency's business, the Agency is from time-to-time involved in disputes concerning individuals' employment with the Agency. While the employees are seeking damages in connection with these disputes, the Agency denies any wrong doing in these cases and is taking the appropriate legal steps in defense of these disputes. It is the Agency's opinion that any potential settlement would not be material to the accompanying combining financial statements.

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(13) SUBSEQUENT EVENT**

The Board of Directors voted to merge two of the related not-for-profit corporations, NSCHC and NSGH (see Note 1). After the merger, the successor corporation plans to refinance the mortgage payable to HUD (see Note 8) with another financial institution. NSGH has received a commitment from a financial institution to refinance the mortgage note payable. NSGH has submitted this plan to HUD to obtain their approval. HUD has not approved this plan as of the date of this report.

**(14) RECLASSIFICATION**

Certain amounts in the June 30, 2009 combining financial statements have been reclassified to conform with the June 30, 2010 presentation.

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**STATEMENT OF FUNCTIONAL EXPENSES - NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
 (With Summarized Totals for the Year Ended June 30, 2009)

	2010											2009				
	PROGRAM SERVICES											SUPPORTING SERVICES				
	DEVELOP- MENTAL DISABILITY	MENTAL HEALTH SERVICES	ADULT OUTPATIENT SERVICES	CHILD CLINICAL SERVICES	DAY TREATMENT	EARLY CHILDHOOD SERVICES	EMERGENCY SERVICES	SUBSTANCE ABUSE SERVICES	RESEARCH	PROGRAM SUPPORT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	BILLING/ RECEPTION	FACILITIES	TOTAL	TOTAL
<b>EXPENSES:</b>																
Personnel and related costs -																
Salaries and wages	\$ 5,666,086	\$ 6,507,608	\$ 2,426,803	\$ 1,920,680	\$ 441,878	\$ 1,550,634	\$ 1,131,690	\$ 1,010,891	\$ 137,207	\$ 225,133	\$ 21,018,610	\$ 1,726,907	\$ 569,748	\$ 218,561	\$ 23,533,826	\$ 21,270,640
Fringe benefits	643,793	696,905	183,474	204,460	42,139	123,230	78,863	75,219	2,770	34,319	2,085,172	160,846	58,760	39,072	2,343,850	2,200,657
Payroll taxes	517,530	563,981	184,283	158,535	34,665	126,052	87,937	81,832	10,924	16,741	1,782,480	138,147	60,530	17,534	1,998,691	1,914,624
Consultants and contracted services	51,220	61,330	102,868	40,875	550	154,399	1,615	82,277	31,383	338	526,855	71,520	25,659	4,752	628,786	870,251
Staff training	8,499	12,677	5,721	5,619	1,363	6,243	1,225	6,284	210	5,611	53,452	2,935	-	148	56,535	61,987
Total personnel and related costs	6,887,128	7,842,501	2,903,149	2,330,169	520,595	1,960,558	1,301,330	1,256,503	182,494	282,142	25,466,569	2,100,355	714,697	280,067	28,561,688	26,318,159
Occupancy -																
Maintenance and utilities	288,763	321,381	61,190	87,891	89,551	28,302	4,508	107,224	462	11,961	1,001,233	46,587	7,929	5,358	1,061,107	1,131,118
Rent	150,729	432,443	78,632	26,752	374	89,806	62,628	129,033	89,712	-	1,060,109	-	-	161	1,060,270	870,619
Mortgage interest	71,090	53,755	10,489	13,408	25,022	-	26	5,654	-	902	180,346	4,673	1,046	556	186,621	201,202
Taxes and insurance	28,883	18,558	5,817	11,688	5,597	255	139	23,527	-	338	94,802	1,792	558	212	97,364	99,087
Total occupancy	539,465	826,137	156,128	139,739	120,544	118,363	67,301	265,438	90,174	13,201	2,336,490	53,052	9,533	6,287	2,405,362	2,302,026
Direct program costs -																
Subcontractors	-	2,259,459	-	-	-	-	-	-	-	-	2,259,459	-	-	-	2,259,459	170,118
Vehicle leases and operating costs	279,564	163,259	53	8,229	9,281	11	33	10,383	-	-	470,813	34	-	29,717	500,564	526,739
Meals	168,065	223,314	156	2,643	17,250	9,257	54	29,449	-	65	450,253	-	90	10	450,353	461,820
Travel	29,973	166,935	34,296	40,647	1,594	44,294	62,481	3,797	4,507	7,041	395,565	18,938	545	3,633	418,681	400,463
Client activities and services	105,220	217,425	432	14,978	501	1,025	45	3,384	156	1,164	344,330	125	99	-	344,554	274,370
Supplies	65,236	93,832	9,108	11,400	7,238	12,403	2,147	21,115	15,433	5,615	243,527	2,707	1,032	311	247,577	293,131
Consultants	9,863	683	1,231	60	15	1,899	37	33	68,166	-	81,987	-	-	6	81,993	61,181
Total direct program costs	657,921	3,124,907	45,276	77,957	35,879	68,889	64,797	68,161	88,262	13,885	4,245,934	21,804	1,766	33,677	4,303,181	2,187,822
Non-capital equipment -																
Furniture and equipment	31,183	33,011	2,667	6,206	3,122	2,800	9,848	1,683	8,524	11,608	110,652	13,272	1,841	1,253	127,018	182,227
Equipment repairs and maintenance	895	4,641	3,648	5,526	2,755	2,744	1,365	2,445	544	6,550	31,113	31,435	121	777	63,446	60,404
Leased equipment	3,820	5,375	1,978	2,035	556	606	1,702	1,124	5	1,203	18,404	36,470	92	198	55,164	39,366
Total non-capital equipment	35,898	43,027	8,293	13,767	6,433	6,150	12,915	5,252	9,073	19,361	160,169	81,177	2,054	2,228	245,628	281,997
Other operating costs -																
Office supplies and postage	27,705	71,953	27,806	35,156	12,824	16,675	13,076	11,599	4,142	6,431	227,367	130,792	27,298	1,946	387,403	351,116
Telephone	64,490	116,817	29,203	32,471	12,553	26,235	20,416	19,120	6,627	2,414	330,346	21,533	1,953	2,705	356,537	344,228
Liability insurance	91,734	126,543	29,030	21,107	10,699	11,354	2,999	21,509	2,416	1,899	319,290	14,753	1,914	1,226	337,183	351,817
Research	-	-	-	-	-	-	-	-	196,664	-	196,664	-	-	-	196,664	114,647
Professional fees	4,141	-	5,928	3,320	-	-	-	1,608	-	-	14,997	181,327	-	-	196,324	118,420
Dues, subscriptions and conferences	2,389	2,119	184	2,212	78	1,373	166	1,341	8,602	1,805	20,269	36,870	-	1	57,140	57,181
Advertising and recruitment	6,344	8,202	6,591	3,256	279	1,472	596	5,348	3,019	607	35,714	11,399	465	184	47,762	64,908
Bad debts	2,213	387	-	-	-	-	-	90	-	-	2,690	1,459	99	-	4,248	4,683
Total other operating costs	199,016	326,021	98,742	97,522	36,433	57,109	37,253	60,615	221,470	13,156	1,147,337	398,133	31,729	6,062	1,583,261	1,407,000
Total expenses before depreciation and allocations	8,319,428	12,162,593	3,211,588	2,659,154	719,884	2,211,069	1,483,596	1,655,969	591,473	341,745	33,356,499	2,654,521	759,779	328,321	37,099,120	32,497,004
Depreciation	109,182	98,151	30,446	57,133	52,994	27,494	2,670	33,932	-	7,253	419,255	68,834	8,775	6,495	503,359	565,517
Total expenses before allocations	8,428,610	12,260,744	3,242,034	2,716,287	772,878	2,238,563	1,486,266	1,689,901	591,473	348,998	33,775,754	2,723,355	768,554	334,816	37,602,479	33,062,521
Program support allocation	93,638	259,387	-	-	-	-	-	-	-	(353,025)	-	-	-	-	-	-
Billing/reception	70,788	113,558	314,977	136,888	29,910	21,241	15,349	66,070	-	-	768,781	-	(768,781)	-	-	-
Facilities allocation	34,793	55,116	5,323	2,336	-	1,244	367	5,521	-	4,027	108,727	52,355	227	(161,309)	-	-
Total expenses	\$ 8,627,829	\$ 12,688,805	\$ 3,562,334	\$ 2,855,511	\$ 802,788	\$ 2,261,048	\$ 1,501,982	\$ 1,761,492	\$ 591,473	\$ -	\$ 34,653,262	\$ 2,775,710	\$ -	\$ 173,507	\$ 37,602,479	\$ 33,062,521
2009 Total expenses	\$ 8,907,618	\$ 9,870,126	\$ 3,592,346	\$ 2,087,146	\$ 767,314	\$ 2,143,253	\$ 823,586	\$ 1,671,978	\$ 382,567	\$ -	\$ 30,245,934	\$ 2,594,077	\$ -	\$ 222,510	\$ 33,062,521	

**NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES**

**STATEMENT OF FUNCTIONAL EXPENSES - NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC.  
FOR THE YEAR ENDED JUNE 30, 2009**

EXPENSES:	PROGRAM SERVICES											SUPPORTING SERVICES			
	DEVELOP- MENTAL	MENTAL HEALTH	ADULT OUTPATIENT	CHILD CLINICAL	DAY	EARLY CHILDHOOD	EMERGENCY	SUBSTANCE ABUSE	RESEARCH	PROGRAM	TOTAL	GENERAL AND	BILLING/ RECEPTION	FACILITIES	TOTAL
	DISABILITY	SERVICES	SERVICES	SERVICES	TREATMENT	SERVICES	SERVICES	SERVICES		SUPPORT	PROGRAM SERVICES	ADMINIS- TRATIVE			
Personnel and related costs -															
Salaries and wages	\$ 5,605,129	\$ 6,169,224	\$ 2,245,927	\$ 1,401,671	\$ 392,595	\$ 1,441,367	\$ 586,529	\$ 884,193	\$ 81,009	\$ 96,278	\$ 18,903,922	\$ 1,608,843	\$ 549,554	\$ 208,321	\$ 21,270,640
Fringe benefits	644,084	662,474	178,525	150,934	36,895	142,625	80,597	79,934	728	11,723	1,988,519	122,258	49,986	39,894	2,200,657
Payroll taxes	517,883	599,033	200,866	113,082	30,912	117,373	47,955	74,703	6,783	8,462	1,717,052	135,736	44,975	16,861	1,914,624
Consultants and contracted services	132,644	128,713	134,604	18,178	12,392	148,377	294	94,579	22,804	1,436	694,021	77,247	4,393	94,590	870,251
Staff training	9,463	22,977	8,834	6,349	668	4,235	1,074	3,164	-	265	57,029	4,495	-	463	61,987
Total personnel and related costs	6,909,203	7,582,421	2,768,756	1,690,214	473,462	1,853,977	716,449	1,136,573	111,324	118,164	23,360,543	1,948,579	648,908	360,129	26,318,159
Occupancy -															
Maintenance and utilities	376,377	301,182	54,965	72,558	92,269	32,257	1,489	117,010	8,618	11,929	1,068,654	48,732	8,283	5,449	1,131,118
Rent	150,690	299,237	78,956	26,390	340	60,650	35,766	128,876	89,712	-	870,617	-	-	2	870,619
Mortgage interest	79,713	55,922	13,193	12,275	26,522	206	-	6,414	-	860	195,105	4,457	1,109	531	201,202
Taxes and insurance	30,300	19,135	7,161	8,940	5,864	274	25	24,443	-	342	96,484	1,810	584	209	99,087
Total occupancy	637,080	675,476	154,275	120,163	124,995	93,387	37,280	276,743	98,330	13,131	2,230,860	54,999	9,976	6,191	2,302,026
Direct program costs -															
Subcontractors	-	-	170,118	-	-	-	-	-	-	-	170,118	-	-	-	170,118
Vehicle leases and operating costs	289,544	177,262	81	9,361	9,920	67	11	12,330	-	-	498,576	-	-	28,163	526,739
Meals	199,393	197,603	159	2,860	17,889	11,684	65	31,506	446	46	461,651	-	172	(3)	461,820
Travel	33,299	179,334	29,173	31,529	2,340	45,439	40,345	4,227	6,854	11,184	383,724	12,152	925	3,662	400,463
Client activities and services	91,129	144,472	726	28,889	834	1,553	-	6,284	-	256	274,143	21	206	-	274,370
Supplies	82,270	143,189	4,189	6,000	6,790	13,402	1,195	14,451	7,891	10,869	290,246	1,939	700	246	293,131
Consultants	29,131	149	16,496	-	-	1,197	-	-	13,793	415	61,181	-	-	-	61,181
Total direct program costs	724,766	842,009	220,942	78,639	37,773	73,342	41,616	68,798	28,984	22,770	2,139,639	14,112	2,003	32,068	2,187,822
Non-capital equipment -															
Furniture and equipment	25,723	126,901	2,465	966	679	743	73	4,567	5,232	9,739	177,088	3,954	690	495	182,227
Equipment repairs and maintenance	3,270	5,623	4,226	5,417	3,783	3,475	1,222	1,266	-	3,545	31,827	26,748	95	1,734	60,404
Leased equipment	6,950	4,976	1,391	1,824	556	651	1,211	1,154	-	1,157	19,870	19,189	122	185	39,366
Total non-capital equipment	35,943	137,500	8,082	8,207	5,018	4,869	2,506	6,987	5,232	14,441	228,785	49,891	907	2,414	281,997
Other operating costs -															
Office supplies and postage	27,088	56,241	23,910	15,670	4,812	20,683	5,298	8,400	2,767	14,156	179,025	151,931	18,785	1,375	351,116
Telephone	64,352	119,706	26,929	23,129	13,174	26,294	9,937	21,614	7,051	2,023	314,209	23,191	2,096	4,732	344,228
Liability insurance	94,954	148,021	32,113	14,117	11,417	8,185	1,641	19,876	2,839	1,655	334,818	13,073	3,196	730	351,817
Research	-	-	-	-	-	-	-	-	114,647	-	114,647	-	-	-	114,647
Professional fees	-	-	3,603	-	-	-	-	830	-	-	4,433	113,987	-	-	118,420
Dues, subscriptions and conferences	310	2	-	799	-	1,324	-	635	9,606	1,083	13,759	43,422	-	-	57,181
Advertising and recruitment	6,982	10,025	10,973	5,489	290	4,270	497	9,756	1,787	3,321	53,390	10,862	473	183	64,908
Bad debts	1,559	1,883	832	10	50	-	-	-	-	350	4,684	4	(5)	-	4,683
Total other operating costs	195,245	335,878	98,360	59,214	29,743	60,756	17,373	61,111	138,697	22,588	1,018,965	356,470	24,545	7,020	1,407,000
Total expenses before depreciation and allocations	8,502,237	9,573,284	3,250,415	1,956,437	670,991	2,086,331	815,224	1,550,212	382,567	191,094	28,978,792	2,424,051	686,339	407,822	32,497,004
Depreciation	121,285	118,231	40,817	35,813	57,148	30,074	1,670	33,473	-	2,099	440,610	109,296	8,860	6,751	565,517
Total expenses before allocations	8,623,522	9,691,515	3,291,232	1,992,250	728,139	2,116,405	816,894	1,583,685	382,567	193,193	29,419,402	2,533,347	695,199	414,573	33,062,521
Program support allocation	150,367	45,611	-	-	-	-	-	-	-	(195,978)	-	-	-	-	-
Billing/reception	72,949	96,749	301,114	91,061	35,609	18,984	6,692	72,134	-	-	695,292	-	(695,292)	-	-
Facilities allocation	60,780	36,251	-	3,835	3,566	7,864	-	16,159	-	2,785	131,240	60,730	93	(192,063)	-
Total expenses	\$ 8,907,618	\$ 9,870,126	\$ 3,592,346	\$ 2,087,146	\$ 767,314	\$ 2,143,253	\$ 823,586	\$ 1,671,978	\$ 382,567	\$ -	\$ 30,245,934	\$ 2,594,077	\$ -	\$ 222,510	\$ 33,062,521