



**COMBINING FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Contents
June 30, 2015 and 2014

	<u>Pages</u>
Independent Auditor's Report	1 - 1A
Combining Financial Statements:	
Combining Statements of Financial Position	2
Combining Statements of Activities	3
Combining Statements of Changes in Net Assets	4
Combining Statements of Cash Flows	5
Combining Statements of Operating Expenses	6
Notes to Combining Financial Statements	7 - 19
Supplemental Information:	
Statements of Functional Expenses - North Suffolk Mental Health Association, Inc.	20 - 21

Independent Auditor's Report

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

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of North Suffolk Mental Health Association, Inc. and Affiliates (Massachusetts corporations, not for profit), which comprise the combining statements of financial position as of June 30, 2015 and 2014, and the related combining statements of activities, changes in net assets, cash flows and operating expenses for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining 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 combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining 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 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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the combining financial statements as a whole. The accompanying supplemental information shown on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the combining financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combining financial statements as a whole.

Alexander, Brown, Finning & Co., P.C.

Boston, Massachusetts
October 19, 2015

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Combining Statements of Financial Position
June 30, 2015 and 2014

	2015				2014			
	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total
Assets								
Current Assets:								
Cash	\$ 3,060,925	\$ 106,783	\$ -	\$ 3,167,708	\$ 2,195,850	\$ 145,730	\$ -	\$ 2,341,580
Short-term investments	1,553,452	-	-	1,553,452	1,807,921	-	-	1,807,921
Client funds held in trust	675,492	-	-	675,492	643,591	-	-	643,591
Contracts, grants and other receivables, net of allowance for doubtful accounts of approximately \$85,000 and \$81,000 as of June 30, 2015 and 2014, respectively	4,300,201	10,981	-	4,311,182	4,122,543	18,133	-	4,140,676
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$326,000 and \$153,000 as of June 30, 2015 and 2014, respectively	854,153	-	-	854,153	928,012	-	-	928,012
Current portion of due from related parties	12,268	-	(12,268)	-	54,063	-	(54,063)	-
Prepaid expenses and deposits	416,761	-	-	416,761	321,926	-	-	321,926
Total current assets	<u>10,873,252</u>	<u>117,764</u>	<u>(12,268)</u>	<u>10,978,748</u>	<u>10,073,906</u>	<u>163,863</u>	<u>(54,063)</u>	<u>10,183,706</u>
Other Assets:								
Restricted cash	900,000	-	-	900,000	-	-	-	-
Cash held in reserves	-	1,458,093	-	1,458,093	-	1,369,705	-	1,369,705
Investments	570,156	-	-	570,156	304,114	-	-	304,114
Due from related parties, net of current portion	872,591	-	(872,591)	-	824,237	-	(824,237)	-
Total other assets	<u>2,342,747</u>	<u>1,458,093</u>	<u>(872,591)</u>	<u>2,928,249</u>	<u>1,128,351</u>	<u>1,369,705</u>	<u>(824,237)</u>	<u>1,673,819</u>
Property and Equipment:								
Land	1,469,665	547,365	-	2,017,030	1,524,690	547,365	-	2,072,055
Buildings and improvements	10,211,758	7,391,608	(90,087)	17,513,279	10,332,573	7,362,571	(90,087)	17,605,057
Furniture and equipment	3,620,820	21,250	-	3,642,070	3,856,148	21,250	-	3,877,398
Vehicles	475,340	-	-	475,340	463,097	-	-	463,097
	<u>15,777,583</u>	<u>7,960,223</u>	<u>(90,087)</u>	<u>23,647,719</u>	<u>16,176,508</u>	<u>7,931,186</u>	<u>(90,087)</u>	<u>24,017,607</u>
Less - accumulated depreciation	9,750,245	4,119,997	-	13,870,242	9,574,856	3,925,339	-	13,500,195
Net property and equipment	<u>6,027,338</u>	<u>3,840,226</u>	<u>(90,087)</u>	<u>9,777,477</u>	<u>6,601,652</u>	<u>4,005,847</u>	<u>(90,087)</u>	<u>10,517,412</u>
Total assets	<u>\$ 19,243,337</u>	<u>\$ 5,416,083</u>	<u>\$ (974,946)</u>	<u>\$ 23,684,474</u>	<u>\$ 17,803,909</u>	<u>\$ 5,539,415</u>	<u>\$ (968,387)</u>	<u>\$ 22,374,937</u>
Liabilities and Net Assets								
Current Liabilities:								
Current portion of long-term debt	\$ 343,583	\$ 82,465	\$ -	\$ 426,048	\$ 142,107	\$ 75,256	\$ -	\$ 217,363
Accounts payable	671,803	43,487	-	715,290	715,652	59,242	-	774,894
Accrued expenses	2,933,676	76,494	-	3,010,170	2,844,645	49,035	-	2,893,680
Client funds held in trust	675,492	-	-	675,492	643,591	-	-	643,591
Current portion of due to related parties	-	12,268	(12,268)	-	-	54,063	(54,063)	-
Deferred revenue	140,951	-	-	140,951	14,049	-	-	14,049
Total current liabilities	<u>4,765,505</u>	<u>214,714</u>	<u>(12,268)</u>	<u>4,967,951</u>	<u>4,360,044</u>	<u>237,596</u>	<u>(54,063)</u>	<u>4,543,577</u>
Due to Related Parties, net of current portion	-	872,591	(872,591)	-	-	824,237	(824,237)	-
Long-Term Debt, net of current portion	2,840,491	1,679,880	-	4,520,371	2,300,442	1,762,401	-	4,062,843
Interest Rate Swap Contract in Loss Position	112,382	-	-	112,382	102,347	-	-	102,347
Total liabilities	<u>7,718,378</u>	<u>2,767,185</u>	<u>(884,859)</u>	<u>9,600,704</u>	<u>6,762,833</u>	<u>2,824,234</u>	<u>(878,300)</u>	<u>8,708,767</u>
Capital Advances and Contingent Debt	<u>-</u>	<u>4,726,991</u>	<u>-</u>	<u>4,726,991</u>	<u>-</u>	<u>4,726,991</u>	<u>-</u>	<u>4,726,991</u>
Net Assets:								
Unrestricted:								
Operating	7,358,667	609,404	-	7,968,071	6,587,102	585,378	-	7,172,480
Property and equipment	3,630,882	(2,687,497)	(90,087)	853,298	4,056,756	(2,597,188)	(90,087)	1,369,481
Board designated	357,449	-	-	357,449	209,935	-	-	209,935
Total unrestricted	<u>11,346,998</u>	<u>(2,078,093)</u>	<u>(90,087)</u>	<u>9,178,818</u>	<u>10,853,793</u>	<u>(2,011,810)</u>	<u>(90,087)</u>	<u>8,751,896</u>
Temporarily restricted	177,961	-	-	177,961	187,283	-	-	187,283
Total net assets	<u>11,524,959</u>	<u>(2,078,093)</u>	<u>(90,087)</u>	<u>9,356,779</u>	<u>11,041,076</u>	<u>(2,011,810)</u>	<u>(90,087)</u>	<u>8,939,179</u>
Total liabilities and net assets	<u>\$ 19,243,337</u>	<u>\$ 5,416,083</u>	<u>\$ (974,946)</u>	<u>\$ 23,684,474</u>	<u>\$ 17,803,909</u>	<u>\$ 5,539,415</u>	<u>\$ (968,387)</u>	<u>\$ 22,374,937</u>

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

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Combining Statements of Activities
For the Years Ended June 30, 2015 and 2014

	2015				2014			
	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total
Unrestricted Net Assets:								
Support and revenues:								
Contracts and grants	\$ 28,544,065	\$ -	\$ -	\$ 28,544,065	\$ 26,676,731	\$ -	\$ -	\$ 26,676,731
Net patient service revenue	14,705,354	-	-	14,705,354	15,861,928	-	-	15,861,928
Residential client fees and subsidies	1,375,524	-	-	1,375,524	1,258,092	-	-	1,258,092
Rents	-	1,013,913	-	1,013,913	-	999,712	-	999,712
Donated rent	595,912	-	-	595,912	561,862	-	-	561,862
Interest and other	404,703	1,251	-	405,954	399,481	2,454	-	401,935
Management and service fees	509,245	-	(174,910)	334,335	529,278	-	(228,691)	300,587
Net assets released from purpose restrictions	93,811	-	-	93,811	46,382	-	-	46,382
Total support and revenues	46,228,614	1,015,164	(174,910)	47,068,868	45,333,754	1,002,166	(228,691)	46,107,229
Operating expenses:								
Program services	41,504,960	1,081,447	(174,910)	42,411,497	40,847,202	1,079,279	(228,691)	41,697,790
Supporting services	4,251,467	-	-	4,251,467	4,209,401	-	-	4,209,401
Total operating expenses	45,756,427	1,081,447	(174,910)	46,662,964	45,056,603	1,079,279	(228,691)	45,907,191
Changes in unrestricted net assets from operations	472,187	(66,283)	-	405,904	277,151	(77,113)	-	200,038
Other revenues (expenses):								
Net gain on sale/disposal of property and equipment	33,539	-	-	33,539	175,389	-	-	175,389
Interest on Board designated net assets	1,514	-	-	1,514	1,258	-	-	1,258
Board designated expenses	(4,000)	-	-	(4,000)	(4,000)	-	-	(4,000)
Unrealized loss on carrying value of interest rate swap contract	(10,035)	-	-	(10,035)	(6,890)	-	-	(6,890)
Total other revenues (expenses)	21,018	-	-	21,018	165,757	-	-	165,757
Changes in unrestricted net assets	493,205	(66,283)	-	426,922	442,908	(77,113)	-	365,795
Temporarily Restricted Net Assets:								
Contributions	84,489	-	-	84,489	99,556	-	-	99,556
Net assets released from purpose restrictions	(93,811)	-	-	(93,811)	(46,382)	-	-	(46,382)
Changes in temporarily restricted net assets	(9,322)	-	-	(9,322)	53,174	-	-	53,174
Changes in net assets	\$ 483,883	\$ (66,283)	\$ -	\$ 417,600	\$ 496,082	\$ (77,113)	\$ -	\$ 418,969

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

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Combining Statements of Changes in Net Assets
For the Years Ended June 30, 2015 and 2014

	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total
Net Assets, June 30, 2013	\$ 10,544,994	\$ (1,934,697)	\$ (90,087)	\$ 8,520,210
Changes in net assets	<u>496,082</u>	<u>(77,113)</u>	<u>-</u>	<u>418,969</u>
Net Assets, June 30, 2014	11,041,076	(2,011,810)	(90,087)	8,939,179
Changes in net assets	<u>483,883</u>	<u>(66,283)</u>	<u>-</u>	<u>417,600</u>
Net Assets, June 30, 2015	<u><u>\$ 11,524,959</u></u>	<u><u>\$ (2,078,093)</u></u>	<u><u>\$ (90,087)</u></u>	<u><u>\$ 9,356,779</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, 2015 and 2014

	2015			2014		
	North Suffolk Mental Health Association, Inc.	Rental Projects	Total	North Suffolk Mental Health Association, Inc.	Rental Projects	Total
Cash Flows from Operating Activities:						
Changes in net assets	\$ 483,883	\$ (66,283)	\$ 417,600	\$ 496,082	\$ (77,113)	\$ 418,969
Adjustments to reconcile changes in net assets to net cash provided by operating activities:						
Bad debts	3,136	-	3,136	34,361	2,308	36,669
Depreciation	661,550	194,658	856,208	634,508	196,465	830,973
Unrealized loss on carrying value of interest rate swap contract	10,035	-	10,035	6,890	-	6,890
Net gain on sale/disposal of property and equipment	(33,539)	-	(33,539)	(175,389)	-	(175,389)
Changes in operating assets and liabilities:						
Contracts, grants and other receivables, net	(180,794)	7,152	(173,642)	(1,358,821)	(12,627)	(1,371,448)
Patient accounts receivable, net	73,859	-	73,859	(158,167)	-	(158,167)
Prepaid expenses and deposits	(94,835)	-	(94,835)	274,388	-	274,388
Accounts payable	(43,849)	(15,755)	(59,604)	48,794	34,232	83,026
Accrued expenses	89,031	27,459	116,490	340,265	(32,896)	307,369
Deferred revenue	126,902	-	126,902	(20,951)	-	(20,951)
Net cash provided by operating activities	1,095,379	147,231	1,242,610	121,960	110,369	232,329
Cash Flows from Investing Activities:						
Net change in due from/to related parties	(6,559)	6,559	-	(104,656)	104,656	-
Purchase of investments and interest earned	(11,573)	-	(11,573)	(103,016)	-	(103,016)
Acquisition of property and equipment	(409,326)	(43,380)	(452,706)	(380,478)	(42,762)	(423,240)
Proceeds from sale of property and equipment	355,629	-	355,629	296,580	-	296,580
Proceeds from reimbursement of environmental costs	-	14,343	14,343	-	-	-
Increase in restricted cash	(900,000)	-	(900,000)	-	-	-
Net change in cash held in reserves	-	(88,388)	(88,388)	-	(63,168)	(63,168)
Net cash used in investing activities	(971,829)	(110,866)	(1,082,695)	(291,570)	(1,274)	(292,844)
Cash Flows from Financing Activities:						
Proceeds from refinanced long-term debt	-	-	-	11,420	-	11,420
Principal payments on long-term debt	(158,475)	(75,312)	(233,787)	(131,186)	(68,677)	(199,863)
Proceeds from long-term debt	900,000	-	900,000	-	-	-
Net cash provided by (used in) financing activities	741,525	(75,312)	666,213	(119,766)	(68,677)	(188,443)
Net Change in Cash	865,075	(38,947)	826,128	(289,376)	40,418	(248,958)
Cash:						
Beginning of year	2,195,850	145,730	2,341,580	2,485,226	105,312	2,590,538
End of year	\$ 3,060,925	\$ 106,783	\$ 3,167,708	\$ 2,195,850	\$ 145,730	\$ 2,341,580
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	\$ 139,319	\$ 164,540	\$ 303,859	\$ 130,113	\$ 171,175	\$ 301,288
Non-Cash Investing and Financing Activities:						
Refinance of long term debt	\$ -	\$ -	\$ -	\$ 1,853,456	\$ -	\$ 1,853,456

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, 2015 and 2014

	2015				2014			
	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total
Expenses:								
Personnel and related costs:								
Salaries and wages	\$ 27,381,374	\$ -	\$ -	\$ 27,381,374	\$ 27,747,300	\$ -	\$ -	\$ 27,747,300
Fringe benefits	3,193,732	-	-	3,193,732	3,373,063	-	-	3,373,063
Payroll taxes	2,431,064	-	-	2,431,064	2,438,875	-	-	2,438,875
Consultants and contracted services	1,474,474	-	-	1,474,474	691,004	-	-	691,004
Staff training	90,597	-	-	90,597	92,913	-	-	92,913
Total personnel and related costs	<u>34,571,241</u>	<u>-</u>	<u>-</u>	<u>34,571,241</u>	<u>34,343,155</u>	<u>-</u>	<u>-</u>	<u>34,343,155</u>
Occupancy:								
Maintenance and utilities	1,342,156	480,252	(52,577)	1,769,831	1,205,440	456,466	(90,665)	1,571,241
Rent	1,392,716	-	-	1,392,716	1,320,789	-	-	1,320,789
Mortgage interest	139,319	164,116	-	303,435	134,560	168,881	-	303,441
Taxes and insurance	109,052	49,486	-	158,538	110,767	49,185	-	159,952
Total occupancy	<u>2,983,243</u>	<u>693,854</u>	<u>(52,577)</u>	<u>3,624,520</u>	<u>2,771,556</u>	<u>674,532</u>	<u>(90,665)</u>	<u>3,355,423</u>
Direct program costs:								
Subcontractors	2,684,502	-	-	2,684,502	2,790,420	-	-	2,790,420
Client activities and services	627,209	-	-	627,209	501,688	-	-	501,688
Meals	587,530	-	-	587,530	569,208	-	-	569,208
Vehicle leases and operating costs	491,854	-	-	491,854	506,922	-	-	506,922
Travel	478,093	-	-	478,093	553,234	-	-	553,234
Supplies	410,583	-	-	410,583	323,912	-	-	323,912
Consultants	67,535	-	-	67,535	64,394	-	-	64,394
Total direct program costs	<u>5,347,306</u>	<u>-</u>	<u>-</u>	<u>5,347,306</u>	<u>5,309,778</u>	<u>-</u>	<u>-</u>	<u>5,309,778</u>
Non-capital equipment:								
Furniture and equipment	260,319	-	-	260,319	94,422	-	-	94,422
Equipment repairs and maintenance	25,085	-	-	25,085	17,819	-	-	17,819
Leased equipment	17,219	-	-	17,219	22,895	-	-	22,895
Total non-capital equipment	<u>302,623</u>	<u>-</u>	<u>-</u>	<u>302,623</u>	<u>135,136</u>	<u>-</u>	<u>-</u>	<u>135,136</u>
Other operating costs:								
Office supplies and postage	582,118	6,931	-	589,049	596,358	8,649	-	605,007
Telephone	451,837	-	-	451,837	468,722	-	-	468,722
Liability insurance	436,191	-	-	436,191	452,050	-	-	452,050
Professional fees	286,404	63,671	-	350,075	243,363	59,299	-	302,662
Advertising and recruitment	68,199	-	-	68,199	6,103	-	-	6,103
Dues, subscriptions and conferences	62,579	-	-	62,579	61,513	-	-	61,513
Bad debts	3,136	-	-	3,136	34,361	2,308	-	36,669
Management fees	-	122,333	(122,333)	-	-	138,026	(138,026)	-
Total other operating costs	<u>1,890,464</u>	<u>192,935</u>	<u>(122,333)</u>	<u>1,961,066</u>	<u>1,862,470</u>	<u>208,282</u>	<u>(138,026)</u>	<u>1,932,726</u>
Total expenses before depreciation	45,094,877	886,789	(174,910)	45,806,756	44,422,095	882,814	(228,691)	45,076,218
Depreciation	<u>661,550</u>	<u>194,658</u>	<u>-</u>	<u>856,208</u>	<u>634,508</u>	<u>196,465</u>	<u>-</u>	<u>830,973</u>
Total expenses	<u>\$ 45,756,427</u>	<u>\$ 1,081,447</u>	<u>\$ (174,910)</u>	<u>\$ 46,662,964</u>	<u>\$ 45,056,603</u>	<u>\$ 1,079,279</u>	<u>\$ (228,691)</u>	<u>\$ 45,907,191</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, 2015 and 2014

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, Massachusetts. Many of these services are provided through contracts with the Massachusetts Department of Mental Health, Massachusetts Department of Developmental Services, Massachusetts Department of Public Health, and the Massachusetts Commission for the Blind. NSMHA also bills third-party payors such as Medicaid Managed Care entities and insurance carriers for services provided.

NSMHA and the 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 (IRC). NSMHA and the Affiliates are also exempt from state income taxes. Donors may deduct contributions made to NSMHA and its Affiliates within the IRC 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-eight units of housing 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 fourteen units of housing, three of which are contracted as double occupancy, 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.

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.

Proctor Community Housing Corporation (PCHC), was formed during February 2001 and provides six 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, 2015 and 2014

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

OPERATIONS AND NONPROFIT STATUS (Continued)

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 notes are to the FASB Accounting Standards Codification (ASC).

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 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, net of related debt.

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. In fiscal year 2015, the Board voted for NSMHA to transfer \$150,000 into this fund from operating net assets to support the future renovation of CLC's property. In fiscal year 2014, NSMHA transferred \$500,000 from this fund into operating net assets to fund the implementation of a new electronic health records system. Board designated net assets are restricted for the following purposes as of June 30:

	<u>2015</u>	<u>2014</u>
Armando Alfano Fund	\$ 187,659	\$ 190,145
CLC Renovation Project	150,000	-
ABA Educational Fund	<u>19,790</u>	<u>19,790</u>
	<u>\$ 357,449</u>	<u>\$ 209,935</u>

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Net Assets (Continued)

Temporarily restricted net assets are restricted for the following purposes:

	<u>2015</u>	<u>2014</u>
Meridian House replacement reserve	\$ 83,267	\$ 82,504
Barnard Fund - individuals challenged by mental illness and/or addiction	75,000	85,372
Meridian House program improvements	8,468	8,468
STEP Roxbury Fund	4,529	5,067
Property and equipment - Noble	2,500	2,500
Meridian House services	2,077	3,372
Conexions fund	1,870	-
Multi Chamber BBQ	250	-
	<u>\$ 177,961</u>	<u>\$ 187,283</u>

Revenue Recognition

Contracts and grants are recorded when services are provided and costs are incurred. Residential client fees and subsidies and net patient service revenue are recorded as services are provided. 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 unconditionally committed. All other revenues are 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. 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 \$5,266,000 and \$6,958,000 for the years ended June 30, 2015 and 2014, respectively.

NSMHA establishes fees for services to patients based upon the patient's ability to pay for those services. NSMHA has a policy of providing free care services to patients who meet certain criteria under its free care policy without charge or at amounts less than its established rates. Charges for free care have not been included in net patient service revenue. NSMHA provided approximately \$134,000 and \$213,000 of free care during the years ended June 30, 2015 and 2014, respectively. The cost of providing these services was approximately \$108,000 and \$164,000 for the years ended June 30, 2015 and 2014, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost of providing patient services.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015 and 2014 was \$595,912 and \$561,862, respectively, and is included in donated rent and rent expense in the accompanying combining financial statements.

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, contracts, grant and other receivables 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.

Deferred Revenue

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

Advertising Costs

NSMHA expenses advertising costs as they are incurred.

Program Services

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

	<u>2015</u>	<u>2014</u>
Mental Health Services	\$ 14,244,633	\$ 14,319,063
Development Disability	10,016,505	8,135,291
Outpatient Services	3,908,912	4,772,677
Child Services	3,803,433	4,024,236
Early Childhood Services	3,260,957	3,065,217
Emergency Services	2,927,570	2,833,049
Substance Abuse Services	2,215,538	2,608,876
Rental Projects, net of elimination	906,537	850,588
Day Treatment	652,718	640,860
Program Support	474,694	354,237
Research	-	93,696
	<u>\$ 42,411,497</u>	<u>\$ 41,697,790</u>

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. 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

Fair Value Measurement

The Agency follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements is the estimated amount that the Agency would have to pay to receive or terminate the agreements as of the combining statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 2 in the fair value hierarchy (see Note 8).

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

All Other Assets and Liabilities

The carrying value of all other assets and liabilities, including notes payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

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.

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combining financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at June 30, 2015 and 2014. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through October 19, 2015, which is the date the combining financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combining financial statements.

2. RELATED PARTY TRANSACTIONS

Transactions among NSMHA and the Affiliates during the year ended June 30, 2015, 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	\$ 80,468	\$ 70,000	\$ 14,174	\$ 8,413	\$ 9,834	\$ 15,562
NSCHC	33,357	34,979	7,970	4,844	5,652	6,835
NSC	17,605	23,000	6,992	5,224	5,616	7,494
CLC	12,955	16,845	10,297	4,399	6,012	7,447
Harborview	35,234	41,011	6,867	2,239	2,596	4,230
Broadway	19,582	12,500	3,430	1,138	1,416	2,283
Bradstreet	22,306	18,000	3,163	1,138	1,200	5,439
PCHC	<u>2,387</u>	<u>1,000</u>	<u>6,013</u>	<u>1,706</u>	<u>2,000</u>	<u>3,287</u>
	<u>\$ 223,894</u>	<u>\$ 217,335</u>	<u>\$ 58,906</u>	<u>\$ 29,101</u>	<u>\$ 34,326</u>	<u>\$ 52,577</u>

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

2. RELATED PARTY TRANSACTIONS (Continued)

Transactions among NSMHA and the Affiliates during the year ended June 30, 2014, 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	\$ 83,305	\$ 40,000	\$ 13,227	\$ 15,371	\$ 9,833	\$ 27,989
NSCHC	30,073	25,094	7,512	9,276	-	15,484
NSC	31,508	5,000	6,949	8,261	5,616	17,557
CLC	20,564	1,000	9,812	10,464	6,012	13,784
Harborview	12,418	32,000	6,715	4,872	2,830	5,830
Broadway	19,477	11,500	3,405	1,422	1,416	2,332
Bradstreet	21,754	13,000	3,179	1,345	1,200	2,894
PCHC	<u>13,151</u>	<u>-</u>	<u>5,382</u>	<u>1,927</u>	<u>2,000</u>	<u>4,795</u>
	<u>\$ 232,250</u>	<u>\$ 127,594</u>	<u>\$ 56,181</u>	<u>\$ 52,938</u>	<u>\$ 28,907</u>	<u>\$ 90,665</u>

Amounts due to NSMHA from the Affiliates consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
NSGH	\$ 495,514	\$ 485,046
NSC	78,382	83,777
Broadway	63,398	56,316
PCHC	62,561	61,174
CLC	62,131	66,021
Bradstreet	44,786	40,480
NSCHC	40,491	42,113
Harborview	<u>37,596</u>	<u>43,373</u>
	884,859	878,300
Less - current portion	<u>12,268</u>	<u>54,063</u>
	<u>\$ 872,591</u>	<u>\$ 824,237</u>

The current portion reflects the amounts NSMHA expects to collect during the following fiscal year based upon the Affiliates' cash flow. NSMHA does not expect to collect the long-term portion within one year from the date of the combining statements of financial position.

3. FUNDING

NSMHA receives significant funding under unit-rate and cost reimbursable government contracts. These reimbursements are subject to audit by the appropriate governmental agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the combining financial position of NSMHA and the Affiliates as of June 30, 2015 and 2014, or on the changes in their net assets for the years then ended.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

3. FUNDING (Continued)

The following sources provided a significant portion of the Agency's total support and revenues for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Commonwealth of Massachusetts:		
Department of Mental Health	32%	29%
Department of Developmental Services	21%	16%
Net patient Service Revenue	32%	35%

The following sources represented a significant portion of the Agency's contracts, grants and other receivables as of June 30:

	<u>2015</u>	<u>2014</u>
Commonwealth of Massachusetts:		
Department of Mental Health	25%	24%
Department of Developmental Services	30%	24%
Net patient Service Revenue	21%	19%
One other funding source	17%	18%

4. RESTRICTED CASH

Restricted cash reflects cash restricted by the Board of Directors to be used for future renovations of certain property.

Cash held in reserves consists of funds held under terms of agreements with HUD. 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 in the accompanying combining statements of financial position.

5. INVESTMENTS

Investments consist of certificates of deposit (CDs) having original maturities of greater than three months, maturing through September 2016, and with balances of \$2,123,608 and \$2,112,035 at June 30, 2015 and 2014, respectively. Short-term investments consist of CDs with maturities of one year or less from the date of the combining statements of financial position.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

6. LEASE COMMITMENTS

NSMHA rents various facilities and vehicles under operating leases and tenant-at-will agreements. The agreements expire at various dates through fiscal year 2020.

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>
2016	\$ 589,047	\$ 71,199	\$ 660,246
2017	\$ 310,973	\$ 35,291	\$ 346,264
2018	\$ 261,315	\$ 3,026	\$ 264,341
2019	\$ 155,114	\$ 3,026	\$ 158,140
2020	\$ 93,960	\$ 2,522	\$ 96,482

The Agency leases with clients under one-year leases.

7. NOTE PAYABLE TO A BANK

NSMHA has a line of credit agreement with a bank that allows for borrowings up to \$2,500,000. Borrowings under the line of credit are due on demand and interest is payable monthly at the London Interbank Offered Rate (LIBOR) (0.19% and 0.15% as of June 30, 2015 and 2014, respectively), plus 2.25%. 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, 2015 and 2014, 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, 2015 and 2014. This agreement is subject to annual renewal.

8. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

NSMHA:	<u>2015</u>	<u>2014</u>
Note payable to a bank, due in fixed monthly principal installments of \$5,963, increasing annually in accordance with the terms of the note agreement, plus interest, due monthly at LIBOR (0.19% and 0.15% as of June 30, 2015 and 2014, respectively), plus 2%. The Agency refinanced this loan in March 2014. Prior to the refinancing, interest was incurred at LIBOR plus 2.35%. There is a balloon payment of approximately \$1,483,000 due at maturity in November 2018. NSMHA entered into an interest rate swap agreement to hedge against potential interest rate exposure under the variable rate note (see page 17). 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 by an assignment of certain leases and rents.	\$ 1,764,512	\$ 1,841,025

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

8. LONG-TERM DEBT (Continued)

<i>NSMHA: (Continued)</i>	<u>2015</u>	<u>2014</u>
Note payable to a bank, due in monthly principal payments of \$2,350, plus interest, increasing annually in accordance with the terms of the note agreement. Interest is incurred on the outstanding balance at adjusted LIBOR rate plus 2.25%. All outstanding principal and interest is due at maturity in November 2019, including a balloon payment of approximately \$744,900. NSMHA entered into an interest rate swap agreement to hedge against potential interest rate exposure under the variable rate note (see page 17). This note is secured by a first mortgage on land and a building.	883,550	-
Note payable to a bank, due in monthly principal and interest installments of \$4,405, with interest at 5.25%. The interest rate will adjust based on the bank's prevailing adjustable rate mortgage index (ARM) 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.	305,942	341,708
Note payable to a bank, due in monthly principal and interest installments of \$1,763, with interest at 4.67%, through February 2016, at which time a balloon payment of approximately \$178,000 becomes due. This note is secured by a first mortgage on land and a building.	179,197	191,547
5% note payable to a nonprofit organization, due in monthly principal and interest installments of \$1,701, through March 2018. This note is secured by a second mortgage on land and a building.	<u>50,873</u>	<u>68,269</u>
Total NSMHA	<u>3,184,074</u>	<u>2,442,549</u>
<i>Rental Projects:</i>		
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.	875,749	930,875
9% note payable to HUD, due in monthly principal and interest installments of \$8,415, through November 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>886,596</u>	<u>906,782</u>
Total rental projects	<u>1,762,345</u>	<u>1,837,657</u>
Total long-term debt	4,946,419	4,280,206
Less - current portion	<u>426,048</u>	<u>217,363</u>
	<u>\$ 4,520,371</u>	<u>\$ 4,062,843</u>

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

8. LONG-TERM DEBT (Continued)

Certain long-term debt agreements require NSMHA to maintain certain financial ratios and covenants. NSMHA was in compliance with all financial ratios and covenants at June 30, 2015 and 2014.

Interest Rate Swap

To hedge against potential interest rate exposure under the variable rate notes described on pages 15 and 16, NSMHA entered into two interest rate swap agreements with a bank. NSMHA has interest rate swap contracts with the following terms, which effectively fixes the interest rate on the note:

	2015	2014
	Note 1	
Interest Rate	2.74%	2.74%
Maturity Date	November 27, 2018	November 27, 2018
Notional Amount	\$1,764,512	\$1,841,025
	Note 2	
Interest Rate	2.12%	N/A
Maturity Date	November 20, 2019	N/A
Notional Amount	\$ 883,550	N/A

The swap contracts are reported at fair value in the accompanying combining statements of financial position. 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 the swap contracts is recorded as a change in unrestricted net assets. For the years ended June 30, 2015 and 2014, NSMHA had an unrealized loss on the carrying value of the swap contracts of \$10,035 and \$6,890, respectively. As of June 30, 2015 and 2014, NSMHA's interest rate swap contracts were in a loss position of \$112,382 and \$102,347, respectively.

Maturity

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

2016	\$ 426,048
2017	\$ 263,564
2018	\$ 274,402
2019	\$ 1,698,761
2020	\$ 924,416

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. There have been no violations of these terms at June 30, 2015.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

9. CAPITAL ADVANCES AND CONTINGENT DEBT (Continued)

Capital Advances (Continued)

The following are amounts outstanding under these agreements as of June 30, 2015 and 2014:

NSC	\$ 1,478,100
CLC	837,790
PCHC	561,700
Harborview	435,799
Broadway	359,400
Bradstreet	<u>358,000</u>
	<u>\$ 4,030,789</u>

These capital advances are secured by first mortgages on the related properties, as well as by an assignment of each 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 October 2038. Principal is due annually if a certain cash flow level, as defined in the agreement, is achieved. There is no amount due in fiscal year 2015. These notes are secured by second mortgages on the related property and contain various covenants and conditions. The Affiliates were in compliance with these covenants and conditions at June 30, 2015 and 2014.

The following amounts have been advanced under these agreements as of June 30, 2015 and 2014:

Bradstreet	\$ 354,208
PCHC	<u>341,994</u>
	<u>\$ 696,202</u>

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.

10. CONCENTRATION OF CREDIT RISK

The Agency maintains its cash and certificates of deposit balances in various banks in Massachusetts. At certain times during the year, the balances in some of the accounts exceeded 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.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2015 and 2014

11. RETIREMENT PLAN

NSMHA maintains an IRC 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 \$20,000 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, 2015 and 2014, were \$70,678 and \$75,523, 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 wrongdoing 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.

13. MERGER PLAN

During fiscal year 2010, the Board of Directors voted to merge North Suffolk Group Homes, Inc. with North Suffolk Community Housing Corporation (see Note 1). After the merger, the successor corporation plans to refinance the mortgage payable to HUD (see Note 8) with another financial institution. The Agency has received a commitment from a financial institution to refinance the mortgage note payable. The Agency intends to submit a plan to HUD to obtain their approval of the potential merger once certain conditions are met.

14. RECLASSIFICATIONS

Certain amounts in the June 30, 2014 combining financial statements have been reclassified to conform with the June 30, 2015 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, 2015
(With Summarized Comparative Totals for the Year Ended June 30, 2014)

Expenses:	2015															2014
	Program Services											Supporting Services				Total
	Development Disability	Mental Health Services	Outpatient Services	Child Services	Day Treatment	Early Childhood Services	Emergency Services	Substance Abuse Services	Research	Program Support	Total Program Services	General and Administrative	Billing/ Reception	Facilities		
Personnel and related costs:																
Salaries and wages	\$ 5,963,386	\$ 7,555,803	\$ 2,773,074	\$ 2,692,610	\$ 344,315	\$ 1,761,817	\$ 2,171,030	\$ 1,238,499	\$ -	\$ 205,180	\$ 24,705,714	\$ 1,843,643	\$ 593,298	\$ 238,719	\$ 27,381,374	\$ 27,747,300
Fringe benefits	672,384	912,596	220,884	420,449	45,675	303,662	147,980	103,634	-	28,670	2,855,934	250,484	42,307	45,007	3,193,732	3,373,063
Payroll taxes	594,246	636,856	264,705	229,241	38,767	143,273	166,441	100,762	-	23,651	2,197,942	154,361	59,433	19,328	2,431,064	2,438,875
Consultants and contracted services	874,084	52,523	123,967	9,658	3,530	375,332	529	5,575	-	2,055	1,447,253	17,846	9,346	29	1,474,474	691,004
Staff training	13,209	24,141	7,320	7,785	1,722	4,309	3,485	16,529	-	8,152	86,652	3,439	200	306	90,597	92,913
Total personnel and related costs	8,117,309	9,181,919	3,389,950	3,359,743	434,009	2,588,393	2,489,465	1,464,999	-	267,708	31,293,495	2,269,773	704,584	303,389	34,571,241	34,343,155
Occupancy:																
Rent	162,506	607,690	155,071	27,029	286	110,259	127,262	202,450	-	-	1,392,553	-	-	163	1,392,716	1,320,789
Maintenance and utilities	373,232	408,786	57,876	95,904	88,816	32,260	27,872	146,540	-	17,778	1,249,064	81,346	7,591	4,155	1,342,156	1,205,440
Mortgage interest	51,885	46,789	4,485	7,611	10,857	-	-	7,424	-	979	130,030	8,676	453	160	139,319	134,560
Taxes and insurance	33,855	32,713	6,018	16,665	2,583	2,643	2,191	6,597	-	1,025	104,290	4,139	460	163	109,052	110,767
Total occupancy	621,478	1,095,978	223,450	147,209	102,542	145,162	157,325	363,011	-	19,782	2,875,937	94,161	8,504	4,641	2,983,243	2,771,556
Direct program costs:																
Subcontractors	-	2,259,685	-	-	-	352,817	-	72,000	-	-	2,684,502	-	-	-	2,684,502	2,790,420
Client activities and services	109,407	377,760	88,725	4,590	1,950	1,183	15,411	26,603	-	25	625,654	1,552	-	3	627,209	501,688
Meals	229,539	264,805	37	1,302	25,632	11,144	19,045	35,972	-	-	587,476	52	-	2	587,530	569,208
Vehicle leases and operating costs	238,622	160,069	345	10,604	11,054	-	13	39,551	-	165	460,423	2	-	31,429	491,854	506,922
Travel	16,958	166,580	31,615	53,980	387	57,393	109,879	10,939	-	16,534	464,265	7,706	437	5,685	478,093	553,234
Supplies	128,996	122,255	11,145	31,643	18,868	13,174	14,473	32,547	-	20,349	393,450	13,551	1,259	2,323	410,583	323,912
Consultants	6,058	17,418	7,102	8,474	10,459	349	52	4,050	-	263	54,225	13,303	-	7	67,535	64,394
Total direct program costs	729,580	3,368,572	138,969	110,593	68,350	436,060	158,873	221,662	-	37,336	5,269,995	36,166	1,696	39,449	5,347,306	5,309,778
Non-capital equipment:																
Furniture and equipment	151,822	48,255	1,063	4,380	558	3,090	15,084	7,177	-	20,432	251,861	5,353	1,979	1,126	260,319	94,422
Equipment repairs and maintenance	513	5,100	3,111	1,672	2,641	2,109	1,471	4,154	-	1,709	22,480	2,399	147	59	25,085	17,819
Leased equipment	1,478	2,110	1,228	4,699	396	619	925	1,476	-	724	13,655	3,392	123	49	17,219	22,895
Total non-capital equipment	153,813	55,465	5,402	10,751	3,595	5,818	17,480	12,807	-	22,865	287,996	11,144	2,249	1,234	302,623	135,136
Other operating costs:																
Office supplies and postage	42,819	50,642	22,929	25,032	6,905	14,223	19,546	37,216	-	23,929	243,241	255,941	80,729	2,207	582,118	596,358
Telephone	55,039	146,484	38,673	49,671	9,461	14,038	30,091	25,723	-	7,667	376,847	69,703	1,787	3,500	451,837	468,722
Liability insurance	96,351	184,816	42,278	19,986	11,754	11,820	10,085	32,182	-	4,578	413,850	19,567	2,052	722	436,191	452,050
Professional fees	53,956	10,609	25,753	13,337	-	3,290	56	828	-	6,278	114,107	172,297	-	-	286,404	243,363
Advertising and recruitment	8,644	996	1,295	-	26	5,825	-	26	-	21,423	38,235	29,964	-	-	68,199	6,103
Dues, subscriptions and conferences	-	2,188	871	2,955	222	4,191	-	2,766	-	6,972	20,165	42,414	-	-	62,579	61,513
Bad debts	306	2,708	113	-	-	-	9	-	-	-	3,136	-	-	-	3,136	34,361
Total other operating costs	257,115	398,443	131,912	110,981	28,368	53,387	59,787	98,741	-	70,847	1,209,581	589,886	84,568	6,429	1,890,464	1,862,470
Total expenses before depreciation and allocations	9,879,295	14,100,377	3,889,683	3,739,277	636,864	3,228,820	2,882,930	2,161,220	-	418,538	40,937,004	3,001,130	801,601	355,142	45,094,877	44,422,095
Depreciation	137,210	144,256	19,229	64,156	15,854	32,137	44,640	54,318	-	56,156	567,956	68,929	19,297	5,368	661,550	634,508
Total expenses before allocations	10,016,505	14,244,633	3,908,912	3,803,433	652,718	3,260,957	2,927,570	2,215,538	-	474,694	41,504,960	3,070,059	820,898	360,510	45,756,427	45,056,603
Program support allocation	171,070	307,467	-	-	-	-	-	-	-	(478,537)	-	-	-	-	-	-
Billing/reception/medical records	22,797	25,307	370,073	89,017	23,677	5,450	5,779	80,038	-	-	622,138	-	(622,875)	737	-	-
Facilities allocation	57,044	89,853	1,114	9,367	2,657	977	2,181	7,368	-	3,843	174,404	95,208	-	(269,612)	-	-
Electronic health records	2,634	-	102,437	58,634	16,258	-	-	18,060	-	-	198,023	-	(198,023)	-	-	-
Total expenses	\$ 10,270,050	\$ 14,667,260	\$ 4,382,536	\$ 3,960,451	\$ 695,310	\$ 3,267,384	\$ 2,935,530	\$ 2,321,004	\$ -	\$ -	\$ 42,499,525	\$ 3,165,267	\$ -	\$ 91,635	\$ 45,756,427	\$ 45,056,603
2014 Total expenses	\$ 8,287,125	\$ 14,739,082	\$ 5,257,806	\$ 4,255,430	\$ 683,090	\$ 3,071,229	\$ 2,839,442	\$ 2,728,561	\$ 93,696	\$ -	\$ 41,955,461	\$ 3,048,976	\$ -	\$ 52,166	\$ 45,056,603	

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Statement of Functional Expenses - North Suffolk Mental Health Association, Inc.
For the Year Ended June 30, 2014

	Program Services										Supporting Services				
	Development Disability	Mental Health Services	Outpatient Services	Child Services	Day Treatment	Early Childhood Services	Emergency Services	Substance Abuse Services	Research	Program Support	Total Program Services	General and Administrative	Billing/ Reception	Facilities	Total
Expenses:															
Personnel and related costs:															
Salaries and wages	\$ 5,213,408	\$ 7,693,445	\$ 3,509,352	\$ 2,907,745	\$ 369,732	\$ 1,739,828	\$ 2,094,535	\$ 1,384,979	\$ 8,031	\$ 175,117	\$ 25,096,172	\$ 1,775,547	\$ 682,810	\$ 192,771	\$ 27,747,300
Fringe benefits	721,207	997,967	290,513	418,766	46,650	257,107	146,776	138,691	1,779	23,881	3,043,337	225,233	60,937	43,556	3,373,063
Payroll taxes	474,504	666,764	285,579	271,517	29,769	157,151	178,359	110,913	646	14,438	2,189,640	146,019	87,287	15,929	2,438,875
Consultants and contracted services	118,631	63,925	33,684	5,694	3,655	327,399	2,407	4,165	359	1,499	561,418	63,085	12,064	54,437	691,004
Staff training	6,611	21,564	9,773	9,927	1,811	5,386	4,108	24,975	-	4,402	88,557	3,684	230	442	92,913
Total personnel and related costs	6,534,361	9,443,665	4,128,901	3,613,649	451,617	2,486,871	2,426,185	1,663,723	10,815	219,337	30,979,124	2,213,568	843,328	307,135	34,343,155
Occupancy:															
Rent	141,833	547,091	124,178	27,091	316	104,058	117,112	191,859	67,104	-	1,320,642	-	-	147	1,320,789
Maintenance and utilities	309,678	374,810	96,861	80,923	75,447	24,453	19,776	140,101	1,353	13,003	1,136,405	60,897	6,661	1,477	1,205,440
Mortgage interest	49,436	39,080	13,362	5,478	12,483	-	-	8,913	-	1,115	129,867	3,869	728	96	134,560
Taxes and insurance	34,053	32,126	19,211	4,857	2,592	2,636	1,953	8,091	604	835	106,958	3,015	709	85	110,767
Total occupancy	535,000	993,107	253,612	118,349	90,838	131,147	138,841	348,964	69,061	14,953	2,693,872	67,781	8,098	1,805	2,771,556
Direct program costs:															
Subcontractors	-	2,217,191	-	-	-	285,229	-	288,000	-	-	2,790,420	-	-	-	2,790,420
Client activities and services	88,054	271,316	75,705	4,399	1,805	2,263	20,990	35,649	50	7	500,238	821	46	583	501,688
Meals	210,889	269,100	41	549	23,806	10,666	19,063	34,957	134	-	569,205	-	-	3	569,208
Vehicle leases and operating costs	259,676	166,623	122	8,755	9,010	12	-	28,087	-	61	472,346	-	-	34,576	506,922
Travel	14,460	192,155	68,254	79,770	1,444	62,371	106,146	8,530	-	9,632	542,762	7,379	366	2,727	553,234
Supplies	79,475	112,585	15,049	20,201	16,273	8,191	11,382	29,326	464	17,980	310,926	10,629	1,182	1,175	323,912
Consultants	3,557	34,814	620	-	-	-	-	194	1,020	6,601	46,806	17,588	-	-	64,394
Total direct program costs	656,111	3,263,784	159,791	113,674	52,338	368,732	157,581	424,743	1,668	34,281	5,232,703	36,417	1,594	39,064	5,309,778
Non-capital equipment:															
Furniture and equipment	41,438	20,725	5,961	1,480	975	118	324	12,775	-	-	83,796	9,691	935	-	94,422
Equipment repairs and maintenance	170	3,443	2,139	2,458	1,316	1,171	1,181	1,932	176	2,267	16,253	1,175	373	18	17,819
Leased equipment	1,439	3,740	1,986	5,436	531	714	1,500	2,166	18	986	18,516	3,976	159	244	22,895
Total non-capital equipment	43,047	27,908	10,086	9,374	2,822	2,003	3,005	16,873	194	3,253	118,565	14,842	1,467	262	135,136
Other operating costs:															
Office supplies and postage	77,935	61,576	59,662	17,754	2,860	15,617	16,749	26,480	968	14,781	294,382	257,211	43,290	1,475	596,358
Telephone	49,908	144,526	52,334	53,086	10,051	14,989	32,201	28,475	7,058	8,170	400,798	63,726	2,378	1,820	468,722
Liability insurance	99,781	175,510	56,657	24,630	13,499	12,055	9,201	35,787	2,778	3,818	433,716	15,844	2,100	390	452,050
Professional fees	175	42,111	8,573	12,975	-	425	-	1,741	-	-	66,000	177,363	-	-	243,363
Advertising and recruitment	-	-	-	-	-	-	440	-	-	-	440	5,663	-	-	6,103
Dues, subscriptions and conferences	457	4,490	189	184	2	1,986	7	3,649	-	5,591	16,555	44,958	-	-	61,513
Bad debts	438	27,438	-	-	-	-	157	-	1,154	850	30,037	4,140	184	-	34,361
Total other operating costs	228,694	455,651	177,415	108,629	26,412	45,072	58,755	96,132	11,958	33,210	1,241,928	568,905	47,952	3,685	1,862,470
Total expenses before depreciation and allocations	7,997,213	14,184,115	4,729,805	3,963,675	624,027	3,033,825	2,784,367	2,550,435	93,696	305,034	40,266,192	2,901,513	902,439	351,951	44,422,095
Depreciation	138,078	134,948	42,872	60,561	16,833	31,392	48,682	58,441	-	49,203	581,010	39,480	8,962	5,056	634,508
Total expenses before allocations	8,135,291	14,319,063	4,772,677	4,024,236	640,860	3,065,217	2,833,049	2,608,876	93,696	354,237	40,847,202	2,940,993	911,401	357,007	45,056,603
Program support allocation	76,329	279,669	-	-	-	-	-	-	-	(355,998)	-	-	-	-	-
Billing/reception/medical records	16,572	23,824	407,659	181,978	27,186	4,800	5,448	95,982	-	-	763,449	-	(764,044)	595	-
Facilities allocation	56,973	116,526	1,243	5,583	2,946	1,212	945	10,264	-	1,761	197,453	107,983	-	(305,436)	-
Electronic health records	1,960	-	76,227	43,633	12,098	-	-	13,439	-	-	147,357	-	(147,357)	-	-
Total expenses	\$ 8,287,125	\$ 14,739,082	\$ 5,257,806	\$ 4,255,430	\$ 683,090	\$ 3,071,229	\$ 2,839,442	\$ 2,728,561	\$ 93,696	\$ -	\$ 41,955,461	\$ 3,048,976	\$ -	\$ 52,166	\$ 45,056,603