



**COMBINING FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Contents
June 30, 2017 and 2016

	<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 - 20
Supplemental Information:	
Supplemental Statements of Functional Expenses - North Suffolk Mental Health Association, Inc.	21 - 22

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, 2017 and 2016, 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, 2017 and 2016, 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 21 and 22 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, Pinning & Co., P.C.

Boston, Massachusetts
September 25, 2017

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Combining Statements of Financial Position
June 30, 2017 and 2016

	2017				2016			
	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total	North Suffolk Mental Health Association, Inc.	Rental Projects	Eliminations	Total
Assets								
Current Assets:								
Cash	\$ 3,687,706	\$ 132,111	\$ -	\$ 3,819,817	\$ 4,082,946	\$ 84,820	\$ -	\$ 4,167,766
Short-term investments	1,320,985	-	-	1,320,985	1,088,078	-	-	1,088,078
Client funds held in trust	710,837	-	-	710,837	692,593	-	-	692,593
Contracts, grants and other receivables, net of allowance for doubtful accounts of approximately \$80,000	3,835,372	12,987	-	3,848,359	3,837,175	12,674	-	3,849,849
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$358,000 and \$326,000 as of June 30, 2017 and 2016, respectively	786,393	-	-	786,393	746,320	-	-	746,320
Current portion of due from related parties	48,234	-	(48,234)	-	16,699	-	(16,699)	-
Prepaid expenses and deposits	642,825	-	-	642,825	444,661	-	-	444,661
Total current assets	<u>11,032,352</u>	<u>145,098</u>	<u>(48,234)</u>	<u>11,129,216</u>	<u>10,908,472</u>	<u>97,494</u>	<u>(16,699)</u>	<u>10,989,267</u>
Other Assets:								
Cash held in reserves	-	1,569,044	-	1,569,044	-	1,525,206	-	1,525,206
Investments	1,088,179	-	-	1,088,179	1,319,830	-	-	1,319,830
Due from related parties, net of current portion	971,070	-	(971,070)	-	932,554	-	(932,554)	-
Total other assets	<u>2,059,249</u>	<u>1,569,044</u>	<u>(971,070)</u>	<u>2,657,223</u>	<u>2,252,384</u>	<u>1,525,206</u>	<u>(932,554)</u>	<u>2,845,036</u>
Property and Equipment:								
Land	1,385,245	547,365	-	1,932,610	1,385,245	547,365	-	1,932,610
Buildings and improvements	11,371,034	7,521,932	(90,087)	18,802,879	11,244,987	7,448,587	(90,087)	18,603,487
Furniture and equipment	3,857,659	17,132	-	3,874,791	3,597,234	17,132	-	3,614,366
Vehicles	670,109	-	-	670,109	613,939	-	-	613,939
Construction in process	239,823	-	-	239,823	-	-	-	-
	<u>17,523,870</u>	<u>8,086,429</u>	<u>(90,087)</u>	<u>25,520,212</u>	<u>16,841,405</u>	<u>8,013,084</u>	<u>(90,087)</u>	<u>24,764,402</u>
Less - accumulated depreciation	10,785,555	4,515,385	-	15,300,940	10,136,166	4,316,256	-	14,452,422
Net property and equipment	<u>6,738,315</u>	<u>3,571,044</u>	<u>(90,087)</u>	<u>10,219,272</u>	<u>6,705,239</u>	<u>3,696,828</u>	<u>(90,087)</u>	<u>10,311,980</u>
Total assets	<u>\$ 19,829,916</u>	<u>\$ 5,285,186</u>	<u>\$ (1,109,391)</u>	<u>\$ 24,005,711</u>	<u>\$ 19,866,095</u>	<u>\$ 5,319,528</u>	<u>\$ (1,039,340)</u>	<u>\$ 24,146,283</u>
Liabilities and Net Assets								
Current Liabilities:								
Current portion of long-term debt	\$ 120,150	\$ 99,022	\$ -	\$ 219,172	\$ 114,250	\$ 90,365	\$ -	\$ 204,615
Accounts payable	780,249	38,382	-	818,631	708,044	32,057	-	740,101
Accrued expenses	1,865,383	64,495	-	1,929,878	2,508,340	56,058	-	2,564,398
Client funds held in trust	710,837	-	-	710,837	692,593	-	-	692,593
Current portion of due to related parties	-	48,234	(48,234)	-	-	16,699	(16,699)	-
Deferred revenue	110,442	-	-	110,442	113,813	-	-	113,813
Total current liabilities	<u>3,587,061</u>	<u>250,133</u>	<u>(48,234)</u>	<u>3,788,960</u>	<u>4,137,040</u>	<u>195,179</u>	<u>(16,699)</u>	<u>4,315,520</u>
Due to Related Parties, net of current portion	-	971,070	(971,070)	-	-	932,554	(932,554)	-
Long-Term Debt, net of current portion	2,305,262	1,490,492	-	3,795,754	2,425,412	1,589,514	-	4,014,926
Interest Rate Swap Contract in Loss Position	39,673	-	-	39,673	122,529	-	-	122,529
Total liabilities	<u>5,931,996</u>	<u>2,711,695</u>	<u>(1,019,304)</u>	<u>7,624,387</u>	<u>6,684,981</u>	<u>2,717,247</u>	<u>(949,253)</u>	<u>8,452,975</u>
Capital Advances and Contingent Debt	-	4,726,991	-	4,726,991	-	4,726,991	-	4,726,991
Net Assets:								
Unrestricted:								
Operating	8,162,747	630,348	-	8,793,095	7,641,827	623,719	-	8,265,546
Property and equipment	4,273,230	(2,783,848)	(90,087)	1,399,295	4,043,048	(2,748,429)	(90,087)	1,204,532
Board designated	200,783	-	-	200,783	354,899	-	-	354,899
Capital fund	707,216	-	-	707,216	557,000	-	-	557,000
Total unrestricted	<u>13,343,976</u>	<u>(2,153,500)</u>	<u>(90,087)</u>	<u>11,100,389</u>	<u>12,596,774</u>	<u>(2,124,710)</u>	<u>(90,087)</u>	<u>10,381,977</u>
Temporarily restricted	553,944	-	-	553,944	584,340	-	-	584,340
Total net assets	<u>13,897,920</u>	<u>(2,153,500)</u>	<u>(90,087)</u>	<u>11,654,333</u>	<u>13,181,114</u>	<u>(2,124,710)</u>	<u>(90,087)</u>	<u>10,966,317</u>
Total liabilities and net assets	<u>\$ 19,829,916</u>	<u>\$ 5,285,186</u>	<u>\$ (1,109,391)</u>	<u>\$ 24,005,711</u>	<u>\$ 19,866,095</u>	<u>\$ 5,319,528</u>	<u>\$ (1,039,340)</u>	<u>\$ 24,146,283</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, 2017 and 2016

	2017				2016			
	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	\$ 30,818,968	\$ -	\$ -	\$ 30,818,968	\$ 30,576,174	\$ -	\$ -	\$ 30,576,174
Net patient service revenue	14,375,867	-	-	14,375,867	14,227,901	-	-	14,227,901
Residential client fees and subsidies	1,513,966	-	-	1,513,966	1,434,019	-	-	1,434,019
Rents	-	1,067,646	-	1,067,646	-	1,047,312	-	1,047,312
Donated rent	618,959	-	-	618,959	620,625	-	-	620,625
Interest and other	367,347	10,764	-	378,111	382,176	6,504	-	388,680
Management and service fees	543,469	-	(202,565)	340,904	507,206	-	(196,906)	310,300
Net assets released from purpose restrictions	54,092	-	-	54,092	88,847	-	-	88,847
Donated services	21,893	-	-	21,893	-	-	-	-
Total support and revenues	48,314,561	1,078,410	(202,565)	49,190,406	47,836,948	1,053,816	(196,906)	48,693,858
Operating expenses:								
Program services	42,812,670	1,107,200	(202,565)	43,717,305	42,770,028	1,100,433	(196,906)	43,673,555
Supporting services	4,833,429	-	-	4,833,429	4,441,233	-	-	4,441,233
Total operating expenses	47,646,099	1,107,200	(202,565)	48,550,734	47,211,261	1,100,433	(196,906)	48,114,788
Changes in unrestricted net assets from operations	668,462	(28,790)	-	639,672	625,687	(46,617)	-	579,070
Other revenues (expenses):								
Unrealized gain (loss) on carrying value of interest rate swap contract	82,856	-	-	82,856	(10,146)	-	-	(10,146)
Interest on Board designated net assets	2,484	-	-	2,484	2,450	-	-	2,450
Net gain on sale/disposal of property and equipment	-	-	-	-	555,925	-	-	555,925
Capital grant	-	-	-	-	80,860	-	-	80,860
Board designated expenses	(6,600)	-	-	(6,600)	(5,000)	-	-	(5,000)
Total other revenues (expenses)	78,740	-	-	78,740	624,089	-	-	624,089
Changes in unrestricted net assets	747,202	(28,790)	-	718,412	1,249,776	(46,617)	-	1,203,159
Temporarily Restricted Net Assets:								
Contributions	23,696	-	-	23,696	495,226	-	-	495,226
Net assets released from purpose restrictions	(54,092)	-	-	(54,092)	(88,847)	-	-	(88,847)
Changes in temporarily restricted net assets	(30,396)	-	-	(30,396)	406,379	-	-	406,379
Changes in net assets	\$ 716,806	\$ (28,790)	\$ -	\$ 688,016	\$ 1,656,155	\$ (46,617)	\$ -	\$ 1,609,538

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, 2017 and 2016

	2017			2016		
	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	\$ 716,806	\$ (28,790)	\$ 688,016	\$ 1,656,155	\$ (46,617)	\$ 1,609,538
Adjustments to reconcile changes in net assets to net cash provided by operating activities:						
Bad debts	16,157	3,407	19,564	69,407	-	69,407
Capital grant	-	-	-	(80,860)	-	(80,860)
Depreciation	673,007	199,129	872,136	669,683	196,259	865,942
Unrealized (gain) loss on carrying value of interest rate swap contract	(82,856)	-	(82,856)	10,146	-	10,146
Net gain on sale/disposal of property and equipment	-	-	-	(555,925)	-	(555,925)
Changes in operating assets and liabilities:						
Contracts, grants and other receivables, net	1,803	(3,720)	(1,917)	393,619	(1,693)	391,926
Patient accounts receivable, net	(56,230)	-	(56,230)	107,833	-	107,833
Prepaid expenses and deposits	(198,164)	-	(198,164)	(27,900)	-	(27,900)
Accounts payable	72,205	6,325	78,530	36,242	(11,430)	24,812
Accrued expenses	(642,957)	8,437	(634,520)	(425,336)	(20,436)	(445,772)
Deferred revenue	(3,371)	-	(3,371)	(27,138)	-	(27,138)
Net cash provided by operating activities	<u>496,400</u>	<u>184,788</u>	<u>681,188</u>	<u>1,825,926</u>	<u>116,083</u>	<u>1,942,009</u>
Cash Flows from Investing Activities:						
Net change in due from/to related parties	(70,051)	70,051	-	(64,394)	64,394	-
Purchase of investments and interest earned	(1,256)	-	(1,256)	(284,300)	-	(284,300)
Acquisition of property and equipment	(706,083)	(73,345)	(779,428)	(1,516,659)	(52,861)	(1,569,520)
Proceeds from sale of property and equipment	-	-	-	725,000	-	725,000
Decrease in restricted cash	-	-	-	900,000	-	900,000
Net change in cash held in reserves	-	(43,838)	(43,838)	-	(67,113)	(67,113)
Net cash used in investing activities	<u>(777,390)</u>	<u>(47,132)</u>	<u>(824,522)</u>	<u>(240,353)</u>	<u>(55,580)</u>	<u>(295,933)</u>
Cash Flows from Financing Activities:						
Principal payments on long-term debt	(114,250)	(90,365)	(204,615)	(644,412)	(82,466)	(726,878)
Capital grant	-	-	-	80,860	-	80,860
Net cash used in financing activities	<u>(114,250)</u>	<u>(90,365)</u>	<u>(204,615)</u>	<u>(563,552)</u>	<u>(82,466)</u>	<u>(646,018)</u>
Net Change in Cash	(395,240)	47,291	(347,949)	1,022,021	(21,963)	1,000,058
Cash:						
Beginning of year	<u>4,082,946</u>	<u>84,820</u>	<u>4,167,766</u>	<u>3,060,925</u>	<u>106,783</u>	<u>3,167,708</u>
End of year	<u>\$ 3,687,706</u>	<u>\$ 132,111</u>	<u>\$ 3,819,817</u>	<u>\$ 4,082,946</u>	<u>\$ 84,820</u>	<u>\$ 4,167,766</u>
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	<u>\$ 116,357</u>	<u>\$ 148,796</u>	<u>\$ 265,153</u>	<u>\$ 134,684</u>	<u>\$ 155,597</u>	<u>\$ 290,281</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, 2017 and 2016

	2017				2016			
	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	\$ 28,567,958	\$ -	\$ -	\$ 28,567,958	\$ 28,024,194	\$ -	\$ -	\$ 28,024,194
Fringe benefits	3,131,106	-	-	3,131,106	3,140,842	-	-	3,140,842
Payroll taxes	2,350,903	-	-	2,350,903	2,479,345	-	-	2,479,345
Consultants and contracted services	1,590,568	-	-	1,590,568	1,474,433	-	-	1,474,433
Staff training	96,323	-	-	96,323	122,829	-	-	122,829
Total personnel and related costs	<u>35,736,858</u>	<u>-</u>	<u>-</u>	<u>35,736,858</u>	<u>35,241,643</u>	<u>-</u>	<u>-</u>	<u>35,241,643</u>
Occupancy:								
Maintenance and utilities	1,407,454	491,177	(79,358)	1,819,273	1,362,331	490,922	(75,503)	1,777,750
Rent	1,441,285	10,404	-	1,451,689	1,420,395	10,140	-	1,430,535
Mortgage interest	116,357	148,796	-	265,153	134,684	155,597	-	290,281
Taxes and insurance	110,162	51,224	-	161,386	106,155	48,428	-	154,583
Total occupancy	<u>3,075,258</u>	<u>701,601</u>	<u>(79,358)</u>	<u>3,697,501</u>	<u>3,023,565</u>	<u>705,087</u>	<u>(75,503)</u>	<u>3,653,149</u>
Direct program costs:								
Subcontractors	2,935,809	-	-	2,935,809	2,873,967	-	-	2,873,967
Meals	620,511	-	-	620,511	639,653	-	-	639,653
Client activities and services	599,435	-	-	599,435	688,945	-	-	688,945
Vehicle leases and operating costs	486,252	-	-	486,252	473,387	-	-	473,387
Travel	409,625	-	-	409,625	471,475	-	-	471,475
Supplies	406,108	-	-	406,108	482,584	-	-	482,584
Consultants	155,497	-	-	155,497	173,149	-	-	173,149
Total direct program costs	<u>5,613,237</u>	<u>-</u>	<u>-</u>	<u>5,613,237</u>	<u>5,803,160</u>	<u>-</u>	<u>-</u>	<u>5,803,160</u>
Non-capital equipment:								
Furniture and equipment	302,222	-	-	302,222	388,889	-	-	388,889
Equipment repairs and maintenance	32,401	-	-	32,401	28,515	-	-	28,515
Leased equipment	15,854	-	-	15,854	17,369	-	-	17,369
Total non-capital equipment	<u>350,477</u>	<u>-</u>	<u>-</u>	<u>350,477</u>	<u>434,773</u>	<u>-</u>	<u>-</u>	<u>434,773</u>
Other operating costs:								
Office supplies and postage	836,211	11,932	-	848,143	699,116	9,863	-	708,979
Telephone	480,475	-	-	480,475	459,132	-	-	459,132
Professional fees	327,148	67,924	-	395,072	305,617	67,821	-	373,438
Liability insurance	382,510	-	-	382,510	385,494	-	-	385,494
Advertising and recruitment	85,603	-	-	85,603	49,851	-	-	49,851
Dues, subscriptions and conferences	69,158	-	-	69,158	69,820	-	-	69,820
Bad debts	16,157	3,407	-	19,564	69,407	-	-	69,407
Management fees	-	123,207	(123,207)	-	-	121,403	(121,403)	-
Total other operating costs	<u>2,197,262</u>	<u>206,470</u>	<u>(123,207)</u>	<u>2,280,525</u>	<u>2,038,437</u>	<u>199,087</u>	<u>(121,403)</u>	<u>2,116,121</u>
Total expenses before depreciation	46,973,092	908,071	(202,565)	47,678,598	46,541,578	904,174	(196,906)	47,248,846
Depreciation	673,007	199,129	-	872,136	669,683	196,259	-	865,942
Total expenses	<u>\$ 47,646,099</u>	<u>\$ 1,107,200</u>	<u>\$ (202,565)</u>	<u>\$ 48,550,734</u>	<u>\$ 47,211,261</u>	<u>\$ 1,100,433</u>	<u>\$ (196,906)</u>	<u>\$ 48,114,788</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, 2017 and 2016

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, 2017 and 2016

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 2017, the Board voted to transfer these funds to the capital fund (see below). Board designated net assets are restricted for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Armando Alfano Fund	\$ 200,783	\$ 204,899
CLC Renovation Project	<u>-</u>	<u>150,000</u>
	<u>\$ 200,783</u>	<u>\$ 354,899</u>

Capital fund - consists of net assets of NSMHA that have been set aside by management to be used for capital purposes at management's discretion. In fiscal year 2016, management allocated \$557,000 from the gain on sale of a property (see page 11) into this fund. In fiscal year 2017, the Board voted for NSMHA to transfer \$150,000 for the future renovation of CLC's property into this fund from Board designated net assets.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

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>2017</u>	<u>2016</u>
Barnard Fund - individuals challenged by mental illness and/or addiction	\$ 226,716	\$ 250,000
Barnard Fund - Odyssey fund for Marlborough Street renovations	160,007	169,157
Meridian House replacement reserve	85,455	84,337
Porter St. renovations	40,293	45,512
Conexions 20 th anniversary	26,970	20,920
STEP Roxbury Fund	9,523	6,527
Conexions fund	3,709	2,056
Meridian House services	1,271	3,331
Property and equipment - Noble	<u>-</u>	<u>2,500</u>
	<u>\$ 553,944</u>	<u>\$ 584,340</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 \$4,191,000 and \$4,382,000 for the years ended June 30, 2017 and 2016, 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 \$118,000 and \$121,000 of free care during the years ended June 30, 2017 and 2016, respectively. The cost of providing these services was approximately \$106,000 and \$104,000 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combining Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenues and operating expenses in the accompanying combining statements of activities. Other revenues (expenses), includes net gain on sale/disposal of property and equipment, changes in the fair value of the interest rate swap contract (see Note 8), capital grants, and Board designated activity.

Donated Rent and Services

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 2017 and 2016 was \$618,959 and \$620,625, respectively, and is included in donated rent and rent expense in the accompanying combining financial statements.

NSMHA received donated services during fiscal year 2017. These services, which are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donors, were valued at \$21,893 for the year ended June 30, 2017. There were no donated services for the year ended June 30, 2016.

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 and 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.

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.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Services

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

	<u>2017</u>	<u>2016</u>
Mental Health Services	\$ 15,618,877	\$ 15,664,791
Development Disability	10,072,234	9,860,276
Early Childhood Services	3,679,331	3,340,686
Outpatient Services	3,462,819	3,590,580
Emergency Services	3,320,862	3,138,239
Child Services	3,064,642	3,545,799
Substance Abuse Services	2,549,371	2,495,922
Rental Projects, net of eliminations	904,635	903,527
Day Treatment	632,634	656,717
Program Support	<u>411,900</u>	<u>477,018</u>
	<u>\$ 43,717,305</u>	<u>\$ 43,673,555</u>

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

During fiscal year 2016, the Agency sold a property for a net gain of approximately \$557,000, which is included in net gain on sale/disposal of property and equipment in the accompanying combining statements of activities.

Construction in process consists of costs incurred to renovate one of the program sites. The renovation is expected to be completed during fiscal year 2018. These costs will begin to be depreciated once the project is completed and placed in service.

Fair Value Measurements

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.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 statements 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).

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.

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, 2017 and 2016. The Agency's information returns are subject to examination by the Federal and state jurisdictions.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through September 25, 2017, which is the date the combining financial statements were available to be issued. See Note 13 for events that met the criteria for disclosure in the combining financial statements.

2. RELATED PARTY TRANSACTIONS

Transactions among NSMHA and the Affiliates during the year ended June 30, 2017, 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	\$ 94,230	\$ 43,000	\$ 14,088	\$ 7,696	\$ 9,834	\$ 24,399
NSCHC	32,846	31,500	8,337	4,398	5,417	5,502
NSC	49,507	48,500	7,505	4,948	5,873	18,270
CLC	43,144	38,000	10,031	3,848	6,012	13,547
Harborview	20,858	21,000	7,142	2,199	2,832	3,850
Broadway	16,578	16,850	4,001	1,100	1,416	1,574
Bradstreet	14,385	9,600	3,748	1,100	1,300	4,408
PCHC	<u>14,953</u>	<u>8,000</u>	<u>6,641</u>	<u>1,649</u>	<u>2,092</u>	<u>7,808</u>
	<u>\$ 286,501</u>	<u>\$ 216,450</u>	<u>\$ 61,493</u>	<u>\$ 26,938</u>	<u>\$ 34,776</u>	<u>\$ 79,358</u>

Transactions among NSMHA and the Affiliates during the year ended June 30, 2016, 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	\$ 74,184	\$ 65,000	\$ 13,648	\$ 7,696	\$ 9,834	\$ 13,570
NSCHC	31,741	29,500	7,962	4,398	5,652	8,534
NSC	66,739	46,000	6,888	4,948	5,616	21,892
CLC	29,199	27,000	10,347	3,848	6,012	12,877
Harborview	28,161	27,500	7,248	2,199	2,832	6,367
Broadway	19,155	19,500	3,776	1,100	1,416	2,993
Bradstreet	16,922	13,800	3,453	1,100	1,200	2,485
PCHC	<u>35,093</u>	<u>8,500</u>	<u>6,581</u>	<u>1,649</u>	<u>2,000</u>	<u>6,785</u>
	<u>\$ 301,194</u>	<u>\$ 236,800</u>	<u>\$ 59,903</u>	<u>\$ 26,938</u>	<u>\$ 34,562</u>	<u>\$ 75,503</u>

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

2. RELATED PARTY TRANSACTIONS (Continued)

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

	<u>2017</u>	<u>2016</u>
NSGH	\$ 555,928	\$ 504,698
NSC	100,128	99,121
PCHC	96,107	89,154
CLC	69,474	64,330
Broadway	62,781	63,053
Bradstreet	52,693	47,908
NSCHC	44,078	42,732
Harborview	<u>38,115</u>	<u>38,257</u>
	1,019,304	949,253
Less - current portion	<u>48,234</u>	<u>16,699</u>
	<u>\$ 971,070</u>	<u>\$ 932,554</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 AND CONCENTRATIONS

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, 2017 and 2016, or on the changes in their net assets for the years then ended.

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

	<u>2017</u>	<u>2016</u>
Commonwealth of Massachusetts:		
Department of Mental Health	33%	33%
Department of Developmental Services	20%	20%

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

	<u>2017</u>	<u>2016</u>
Commonwealth of Massachusetts:		
Department of Mental Health	33%	31%
Department of Developmental Services	24%	24%
Boston Medical Center	34%	31%

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

3. FUNDING AND CONCENTRATIONS (Continued)

The following sources represented a significant portion of the Agency's gross patient accounts receivable as of June 30:

	<u>2017</u>	<u>2016</u>
Medicaid	23%	24%
Massachusetts Behavioral Health Partnership	14%	11%
Tufts Health Plan	12%	7%
Neighborhood Health Plan	8%	10%
Beacon Health Strategies	6%	12%

4. RESTRICTED CASH

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 on various dates through June 2021, and with balances of \$2,409,164 and \$2,407,908 at June 30, 2017 and 2016, respectively. Short-term investments consist of CDs with maturities of one year or less from the date of the combining statements of financial position.

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 2022.

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>
2018	\$ 517,305	\$ 114,048	\$ 631,353
2019	\$ 208,829	\$ 79,044	\$ 287,873
2020	\$ 131,556	\$ 38,466	\$ 170,022
2021	\$ 39,336	\$ 616	\$ 39,952
2022	\$ 40,524	\$ -	\$ 40,524

The Agency leases with clients under one-year leases.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

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) (1.17% and 0.47% as of June 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016. This agreement is subject to annual renewal.

8. LONG-TERM DEBT

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

NSMHA:	<u>2017</u>	<u>2016</u>
Note payable to a bank, due in fixed monthly principal installments of \$7,150, increasing annually in accordance with the terms of the note agreement, plus interest, due monthly at LIBOR (1.17% and 0.47% as of June 30, 2017 and 2016, respectively), plus 2%. 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.	\$ 1,601,212	\$ 1,685,012
Note payable to a bank, due in monthly principal installments of \$2,600, 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 are 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.	<u>824,200</u>	<u>854,650</u>
Total NSMHA	<u>2,425,412</u>	<u>2,539,662</u>
Rental Projects:		
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.	840,365	864,516

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

8. LONG-TERM DEBT (Continued)

Rental Projects: (Continued)

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. NSGH has received a commitment for a loan from a bank for up to \$2.4 million. The loan will be for 30 years and will be used to refinance the existing debt related to the property and construct a new residential facility. The loan is secured by a first mortgage on the property and all business assets of NSGH and guaranteed by NSMHA.

	<u>2017</u>	<u>2016</u>
	<u>749,149</u>	<u>815,363</u>
Total rental projects	<u>1,589,514</u>	<u>1,679,879</u>
Total long-term debt	4,014,926	4,219,541
Less - current portion	<u>219,172</u>	<u>204,615</u>
	<u>\$ 3,795,754</u>	<u>\$ 4,014,926</u>

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, 2017 and 2016.

Interest Rate Swap

To hedge against potential interest rate exposure under the variable rate notes described on page 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:

	<u>2017</u>	<u>2016</u>
	Note 1	
Interest Rate	2.74%	2.74%
Effective Date	December 27, 2013	December 27, 2013
Maturity Date	November 27, 2018	November 27, 2018
Notional Amount	\$ 1,601,212	\$ 1,685,012
Basis for Variable Rate Assumed by Counterparty	USD-LIBOR-BBA x .16	USD-LIBOR-BBA x .16
Counterparty	RBS Citizen's N.A.	RBS Citizen's N.A.
	Note 2	
Interest Rate	2.12%	2.12%
Effective Date	November 20, 2014	November 20, 2014
Maturity Date	November 20, 2019	November 20, 2019
Notional Amount	\$ 824,200	\$ 854,650
Basis for Variable Rate Assumed by Counterparty	USD-LIBOR-BBA x .16	USD-LIBOR-BBA x .16
Counterparty	RBS Citizen's N.A.	RBS Citizen's N.A.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

8. LONG-TERM DEBT (Continued)

Interest Rate Swap (Continued)

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 year ended June 30, 2017, NSMHA had an unrealized gain on the carrying value of the swap contracts of \$82,856. For the year ended June 30, 2016, NSMHA had an unrealized loss on the carrying value of the swap contracts of \$10,146. As of June 30, 2017 and 2016, NSMHA's interest rate swap contracts were in a loss position of \$39,673 and \$122,529, respectively.

Maturity

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

2018	\$ 219,172
2019	\$ 1,654,746
2020	\$ 877,928
2021	\$ 130,295
2022	\$ 142,777

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, 2017.

The following are amounts outstanding under these agreements as of June 30, 2017 and 2016:

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.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

9. CAPITAL ADVANCES AND CONTINGENT DEBT (Continued)

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 was no amount due in fiscal year 2017. 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, 2017 and 2016.

The following amounts have been advanced under these agreements as of June 30, 2017 and 2016:

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.

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, 2017 and 2016, were \$72,740 and \$66,957, 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.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Notes to Combining Financial Statements
June 30, 2017 and 2016

13. SUBSEQUENT EVENTS

During July 2017, the Agency purchased a property for approximately \$422,000 to be used as a residential program site beginning in fiscal year 2018.

NSGH has received a commitment for a loan from a bank for up to \$2.4 million. The loan will be for 30 years and will be used to refinance existing debt related to the property (see Note 8) and construct a new residential facility. The loan will be secured by a first mortgage on the property and all business assets of NSGH and guaranteed by NSMHA.

In August, 2017, the Agency was selected by the Commonwealth of Massachusetts Executive Office of Health and Human Services to enter into contract negotiations to become a Behavioral Health Community Partner (CP) under the redesigned MassHealth program as an affiliated partner of Riverside Community Care, Inc. MassHealth is expected to contract with the CP for certain behavioral health services beginning in April, 2018.

14. RECLASSIFICATIONS

Certain amounts in the June 30, 2016 combining financial statements have been reclassified to conform with the June 30, 2017 presentation.

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Supplemental Statement of Functional Expenses - North Suffolk Mental Health Association, Inc.
 For the Year Ended June 30, 2017
 (With Summarized Comparative Totals for the Year Ended June 30, 2016)

	2017													2016	
	Program Services									Supporting Services				Total	
	Development Disability	Mental Health Services	Outpatient Services	Child Services	Day Treatment	Early Childhood Services	Emergency Services	Substance Abuse Services	Program Support	Total Program Services	General and Administrative	Billing/ Reception	Facilities		
Expenses:															
Personnel and related costs:															
Salaries and wages	\$ 6,522,263	\$ 8,475,714	\$ 2,223,526	\$ 2,202,266	\$ 385,197	\$ 1,828,699	\$ 2,434,390	\$ 1,508,890	\$ 165,841	\$ 25,746,786	\$ 2,036,765	\$ 562,395	\$ 222,012	\$ 28,567,958	\$ 28,024,194
Fringe benefits	663,338	996,404	185,964	328,667	30,023	282,043	148,508	126,269	27,905	2,789,121	262,811	44,479	34,695	3,131,106	3,140,842
Payroll taxes	570,143	710,968	170,310	155,204	16,029	137,394	213,457	130,920	14,367	2,118,792	166,771	47,050	18,290	2,350,903	2,479,345
Consultants and contracted services	579,555	18,154	223,405	1,826	2,695	528,577	7,925	21,044	27,049	1,410,230	89,667	29,274	61,397	1,590,568	1,474,433
Staff training	7,812	22,918	13,245	7,454	5,600	3,547	4,475	22,079	4,031	91,161	3,834	1,046	282	96,323	122,829
Total personnel and related costs	8,343,111	10,224,158	2,816,450	2,695,417	439,544	2,780,260	2,808,755	1,809,202	239,193	32,156,090	2,559,848	684,244	336,676	35,736,858	35,241,643
Occupancy:															
Rent	156,868	600,432	168,895	26,810	280	118,471	130,544	238,830	-	1,441,130	-	-	155	1,441,285	1,420,395
Maintenance and utilities	366,646	492,821	58,549	86,237	81,431	34,596	38,229	166,748	15,923	1,341,180	49,192	13,857	3,225	1,407,454	1,362,331
Mortgage interest	40,657	56,160	2,423	6,979	-	-	-	489	985	107,693	7,646	803	215	116,357	134,684
Taxes and insurance	37,531	34,980	6,861	14,371	2,010	2,378	2,235	5,271	994	106,631	2,494	812	225	110,162	106,155
Total occupancy	601,702	1,184,393	236,728	134,397	83,721	155,445	171,008	411,338	17,902	2,996,634	59,332	15,472	3,820	3,075,258	3,023,565
Direct program costs:															
Subcontractors	-	2,351,071	-	-	-	584,738	-	-	-	2,935,809	-	-	-	2,935,809	2,873,967
Meals	242,379	276,093	14,283	993	23,828	8,055	23,683	31,126	69	620,509	-	-	2	620,511	639,653
Client activities and services	101,733	361,307	76,926	7,884	2,253	885	14,328	29,701	3,561	598,578	847	-	10	599,435	688,945
Vehicle leases and operating costs	245,294	172,022	183	8,022	12,013	13	26	24,678	-	462,251	76	-	23,925	486,252	473,387
Travel	10,573	121,037	30,672	39,721	315	36,790	121,848	14,843	23,241	399,040	6,471	355	3,759	409,625	471,475
Supplies	116,187	136,068	13,909	16,187	19,060	14,728	17,982	50,407	7,207	391,735	11,471	1,215	1,687	406,108	482,584
Consultants	5,219	28,712	42,685	19,669	60	104	119	4,420	-	100,988	50,695	-	3,814	155,497	173,149
Total direct program costs	721,385	3,446,310	178,658	92,476	57,529	645,313	177,986	155,175	34,078	5,508,910	69,560	1,570	33,197	5,613,237	5,803,160
Non-capital equipment:															
Furniture and equipment	51,046	59,550	80,216	599	8,461	681	43,306	30,363	3,662	277,884	19,273	4,864	201	302,222	388,889
Equipment repairs and maintenance	86	7,174	5,457	2,923	2,776	3,872	2,999	3,261	2,101	30,649	1,337	308	107	32,401	28,515
Leased equipment	447	2,575	983	5,295	451	390	572	1,800	232	12,745	2,870	197	42	15,854	17,369
Total non-capital equipment	51,579	69,299	86,656	8,817	11,688	4,943	46,877	35,424	5,995	321,278	23,480	5,369	350	350,477	434,773
Other operating costs:															
Office supplies and postage	60,520	121,207	31,047	8,865	9,224	22,836	20,833	26,836	28,099	329,467	333,321	170,781	2,642	836,211	699,116
Telephone	62,892	163,444	39,629	41,646	9,073	12,789	29,498	29,244	8,519	396,734	76,807	2,869	4,065	480,475	459,132
Liability insurance	72,093	178,061	40,851	14,584	8,818	10,438	10,374	23,451	4,365	363,035	14,923	3,562	990	382,510	385,494
Professional fees	-	22,560	7,605	9,935	88	7,210	13,955	-	7,771	69,124	250,455	7,481	88	327,148	305,617
Advertising and recruitment	24,850	27,142	1,814	4,704	-	785	586	1,835	3,817	65,533	20,070	-	-	85,603	49,851
Dues, subscriptions and conferences	264	2,399	1,222	2,574	89	3,633	95	1,604	7,089	18,969	50,189	-	-	69,158	69,820
Bad debts	4,105	9,837	-	-	-	-	762	1,453	-	16,157	-	-	-	16,157	69,407
Total other operating costs	224,724	524,650	122,168	82,308	27,292	57,691	76,103	84,423	59,660	1,259,019	745,765	184,693	7,785	2,197,262	2,038,437
Total expenses before depreciation and allocations	9,942,501	15,448,810	3,440,660	3,013,415	619,774	3,643,652	3,280,729	2,495,562	356,828	42,241,931	3,457,985	891,348	381,828	46,973,092	46,541,578
Depreciation	129,733	170,067	22,159	51,227	12,860	35,679	40,133	53,809	55,072	570,739	76,684	19,908	5,676	673,007	669,683
Total expenses before allocations	10,072,234	15,618,877	3,462,819	3,064,642	632,634	3,679,331	3,320,862	2,549,371	411,900	42,812,670	3,534,669	911,256	387,504	47,646,099	47,211,261
Program support allocation	86,067	329,062	-	-	-	-	-	-	(415,129)	-	-	-	-	-	-
Billing/reception	29,024	34,856	352,881	163,433	45,156	6,586	7,535	86,831	-	726,302	-	(727,156)	854	-	-
Facilities allocation	71,004	100,326	3,049	4,771	4,360	2,064	3,818	21,271	3,229	213,892	61,009	-	(274,901)	-	-
Electronic health records	-	-	79,163	67,325	18,963	-	-	18,649	-	184,100	-	(184,100)	-	-	-
Total expenses	\$ 10,258,329	\$ 16,083,121	\$ 3,897,912	\$ 3,300,171	\$ 701,113	\$ 3,687,981	\$ 3,332,215	\$ 2,676,122	\$ -	\$ 43,936,964	\$ 3,595,678	\$ -	\$ 113,457	\$ 47,646,099	\$ 47,211,261
2016 Total expenses	\$ 10,102,720	\$ 16,109,020	\$ 4,125,363	\$ 3,769,119	\$ 717,977	\$ 3,348,873	\$ 3,147,627	\$ 2,602,161	\$ -	\$ 43,922,860	\$ 3,182,690	\$ -	\$ 105,711	\$ 47,211,261	

NORTH SUFFOLK MENTAL HEALTH ASSOCIATION, INC. AND AFFILIATES

Supplemental Statement of Functional Expenses - North Suffolk Mental Health Association, Inc.
For the Year Ended June 30, 2016

	Program Services									Supporting Services				
	Development Disability	Mental Health Services	Outpatient Services	Child Services	Day Treatment	Early Childhood Services	Emergency Services	Substance Abuse Services	Program Support	Total Program Services	General and Administrative	Billing/ Reception	Facilities	Total
Expenses:														
Personnel and related costs:														
Salaries and wages	\$ 6,314,330	\$ 8,380,816	\$ 2,382,145	\$ 2,513,426	\$ 370,426	\$ 1,604,106	\$ 2,313,246	\$ 1,416,920	\$ 178,762	\$ 25,474,177	\$ 1,722,377	\$ 595,288	\$ 232,352	\$ 28,024,194
Fringe benefits	668,354	939,581	181,179	389,998	44,672	276,325	147,899	107,504	28,274	2,783,786	248,283	62,988	45,785	3,140,842
Payroll taxes	505,143	692,896	236,725	244,309	36,260	143,688	200,530	135,322	36,202	2,231,075	158,562	70,923	18,785	2,479,345
Consultants and contracted services	592,496	21,008	215,090	5,581	3,723	503,957	1,169	2,881	109	1,346,014	114,561	13,727	131	1,474,433
Staff training	16,439	31,774	11,630	10,095	1,387	7,950	5,335	19,403	5,258	109,271	12,546	481	531	122,829
Total personnel and related costs	<u>8,096,762</u>	<u>10,066,075</u>	<u>3,026,769</u>	<u>3,163,409</u>	<u>456,468</u>	<u>2,536,026</u>	<u>2,668,179</u>	<u>1,682,030</u>	<u>248,605</u>	<u>31,944,323</u>	<u>2,256,329</u>	<u>743,407</u>	<u>297,584</u>	<u>35,241,643</u>
Occupancy:														
Rent	149,170	605,581	169,212	26,992	317	114,468	129,133	225,359	-	1,420,232	-	-	163	1,420,395
Maintenance and utilities	330,144	435,307	60,935	77,772	67,807	27,814	25,094	237,559	14,574	1,277,006	68,067	13,919	3,339	1,362,331
Mortgage interest	46,366	58,267	3,560	7,510	5,172	-	-	3,698	826	125,399	8,219	841	225	134,684
Taxes and insurance	34,084	33,083	7,078	15,695	2,000	2,366	2,140	5,196	811	102,453	2,662	808	232	106,155
Total occupancy	<u>559,764</u>	<u>1,132,238</u>	<u>240,785</u>	<u>127,969</u>	<u>75,296</u>	<u>144,648</u>	<u>156,367</u>	<u>471,812</u>	<u>16,211</u>	<u>2,925,090</u>	<u>78,948</u>	<u>15,568</u>	<u>3,959</u>	<u>3,023,565</u>
Direct program costs:														
Subcontractors	-	2,367,072	-	-	-	506,895	-	-	-	2,873,967	-	-	-	2,873,967
Meals	253,576	278,610	15,445	491	24,256	10,641	22,051	34,250	330	639,650	-	-	3	639,653
Client activities and services	124,130	440,818	53,490	5,674	2,414	832	16,349	37,575	1,032	682,314	6,580	44	7	688,945
Vehicle leases and operating costs	230,521	166,689	191	8,037	11,874	60	-	31,245	102	448,719	269	-	24,399	473,387
Travel	11,557	158,162	24,078	53,995	372	43,752	133,542	11,608	21,924	458,990	5,967	472	6,046	471,475
Supplies	143,664	198,334	13,763	17,087	20,150	15,765	12,988	33,333	8,422	463,506	16,132	2,237	709	482,584
Consultants	-	30,580	55,897	11,511	6,580	-	-	16,456	3,644	124,668	39,527	8,954	-	173,149
Total direct program costs	<u>763,448</u>	<u>3,640,265</u>	<u>162,864</u>	<u>96,795</u>	<u>65,646</u>	<u>577,945</u>	<u>184,930</u>	<u>164,467</u>	<u>35,454</u>	<u>5,691,814</u>	<u>68,475</u>	<u>11,707</u>	<u>31,164</u>	<u>5,803,160</u>
Non-capital equipment:														
Furniture and equipment	57,652	161,793	18,957	3,488	3,510	5,814	5,961	41,303	57,281	355,759	26,655	5,995	480	388,889
Equipment repairs and maintenance	61	4,243	4,723	2,904	1,789	3,380	3,044	2,579	2,369	25,092	2,302	1,040	81	28,515
Leased equipment	2,348	1,904	1,084	4,784	265	436	881	1,883	353	13,938	3,147	245	39	17,369
Total non-capital equipment	<u>60,061</u>	<u>167,940</u>	<u>24,764</u>	<u>11,176</u>	<u>5,564</u>	<u>9,630</u>	<u>9,886</u>	<u>45,765</u>	<u>60,003</u>	<u>394,789</u>	<u>32,104</u>	<u>7,280</u>	<u>600</u>	<u>434,773</u>
Other operating costs:														
Office supplies and postage	49,370	79,561	25,941	9,874	13,237	9,514	19,734	30,260	24,981	262,472	271,915	160,710	4,019	699,116
Telephone	59,076	149,772	39,633	43,999	9,657	12,491	32,158	28,189	6,718	381,693	70,629	2,718	4,092	459,132
Liability insurance	69,934	185,468	40,827	15,752	8,685	10,149	10,102	21,938	3,650	366,505	14,572	3,455	962	385,494
Professional fees	79,971	5,227	2,844	15,650	95	1,279	12,335	62	14,412	131,875	164,242	9,500	-	305,617
Advertising and recruitment	180	5,592	929	-	-	2,040	-	572	2,199	11,512	38,339	-	-	49,851
Dues, subscriptions and conferences	-	3,242	1,201	2,578	111	3,903	-	4,069	7,638	22,742	46,871	207	-	69,820
Bad debts	2,260	67,141	-	-	3	-	-	1	-	69,405	2	-	-	69,407
Total other operating costs	<u>260,791</u>	<u>496,003</u>	<u>111,375</u>	<u>87,853</u>	<u>31,788</u>	<u>39,376</u>	<u>74,329</u>	<u>85,091</u>	<u>59,598</u>	<u>1,246,204</u>	<u>606,570</u>	<u>176,590</u>	<u>9,073</u>	<u>2,038,437</u>
Total expenses before depreciation and allocations	<u>9,740,826</u>	<u>15,502,521</u>	<u>3,566,557</u>	<u>3,487,202</u>	<u>634,762</u>	<u>3,307,625</u>	<u>3,093,691</u>	<u>2,449,165</u>	<u>419,871</u>	<u>42,202,220</u>	<u>3,042,426</u>	<u>954,552</u>	<u>342,380</u>	<u>46,541,578</u>
Depreciation	<u>119,450</u>	<u>162,270</u>	<u>24,023</u>	<u>58,597</u>	<u>21,955</u>	<u>33,061</u>	<u>44,548</u>	<u>46,757</u>	<u>57,147</u>	<u>567,808</u>	<u>76,052</u>	<u>20,103</u>	<u>5,720</u>	<u>669,683</u>
Total expenses before allocations	<u>9,860,276</u>	<u>15,664,791</u>	<u>3,590,580</u>	<u>3,545,799</u>	<u>656,717</u>	<u>3,340,686</u>	<u>3,138,239</u>	<u>2,495,922</u>	<u>477,018</u>	<u>42,770,028</u>	<u>3,118,478</u>	<u>974,655</u>	<u>348,100</u>	<u>47,211,261</u>
Program support allocation	152,436	328,506	-	-	-	-	-	-	(480,942)	-	-	-	-	-
Billing/reception	26,083	27,803	411,537	151,835	38,557	6,532	7,835	75,698	-	745,880	-	(746,694)	814	-
Facilities allocation	63,925	87,920	2,289	3,986	3,987	1,655	1,553	9,752	3,924	178,991	64,212	-	(243,203)	-
Electronic health records	-	-	120,957	67,499	18,716	-	-	20,789	-	227,961	-	(227,961)	-	-
Total expenses	<u>\$ 10,102,720</u>	<u>\$ 16,109,020</u>	<u>\$ 4,125,363</u>	<u>\$ 3,769,119</u>	<u>\$ 717,977</u>	<u>\$ 3,348,873</u>	<u>\$ 3,147,627</u>	<u>\$ 2,602,161</u>	<u>\$ -</u>	<u>\$ 43,922,860</u>	<u>\$ 3,182,690</u>	<u>\$ -</u>	<u>\$ 105,711</u>	<u>\$ 47,211,261</u>