

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

FINANCIAL STATEMENTS

AS OF JUNE 30, 2015

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Staten Island Mental Health Society, Inc.

We have audited the accompanying financial statements of the Staten Island Mental Health Society, Inc. (the "Society") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Staten Island Mental Health Society, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Society will continue as a going concern. As discussed in Note 14 to the financial statements, the Society has suffered recurring significant reductions in revenues and has a net deficiency in unrestricted net assets (program and available for operations) that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.


NERAL & COMPANY, PA
Certified Public Accountants

Wall, New Jersey
February 18, 2016

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 1,390,250	\$ 1,592,768
Investments at fair value (Note 4)	1,607,277	1,909,991
Program service receivables, less allowance for uncollectible accounts of \$2,105,000 (2015) and \$1,565,000 (2014)	786,920	694,152
Grants receivable	2,565,251	993,340
Other receivable	9,792	17,805
Security deposit	32,592	33,021
Other assets	180,788	138,469
Property, plant and equipment, net (Note 5)	<u>7,673,611</u>	<u>7,813,661</u>
 Total assets	 <u>\$ 14,246,481</u>	 <u>\$ 13,193,207</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses (Note 6)	\$ 2,523,755	\$ 2,149,767
Accounts payable COPS/CSP (Note 7)	6,615,094	6,212,182
Liability for pension benefits (Note 13)	1,579,604	1,031,100
Line of Credit	600,000	-
Deferred income	<u>328,470</u>	<u>536,781</u>
 Total liabilities	 <u>11,646,923</u>	 <u>9,929,830</u>
 Commitments and contingencies (Note 14)		
Net assets:		
Unrestricted:		
Auxiliary (Note 8)	57,950	56,552
Program	(8,815,553)	(6,740,224)
Available for operations	665,188	(978,330)
Net investment in plant	<u>10,547,301</u>	<u>10,780,707</u>
 Total unrestricted	 2,454,886	 3,118,705
Temporarily restricted (Note 8)	134,672	134,672
Permanently restricted (Note 8)	<u>10,000</u>	<u>10,000</u>
 Total net assets	 <u>2,599,558</u>	 <u>3,263,377</u>
 Total liabilities and net assets	 <u>\$ 14,246,481</u>	 <u>\$ 13,193,207</u>

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Public support and revenues:						
Public support:						
Grants from government agencies	\$ 10,618,803	\$ -	\$ -	\$ 10,618,803	\$ -	\$ -
Private grants	1,768,630			979,740		
Contributions	710,110			870,487	1,574	
Sales of donated merchandise	59,345			54,906		
Total public support	13,156,888	-	-	10,040,964	1,574	-
Revenues:						
Program service fees	4,896,190			7,212,983		
Investment income	76,856			604,238		
Other income	238,054			82,241		
Total revenue	5,211,100	-	-	7,899,462	-	-
Net assets released from restrictions						
Total public support and revenues	18,367,988	-	-	17,940,426	1,574	-
Expenses:						
Program services	17,193,328			17,672,916		
Supporting services:						
Management and general	949,865			895,387		
Fund raising	340,110			393,861		
Total supporting services	1,289,975	-	-	1,289,248	-	-
Total expenses	18,483,303	-	-	18,962,164	-	-
Change in net assets before effect of adoption of ASC Topic 715	(115,315)	-	-	(1,021,738)	1,574	-
Effect of adoption of recognition provisions of ASC Topic 715	548,504	-	-	(1,319,796)	-	-
Change in net assets	(663,819)	-	-	298,058	1,574	-
Net assets at beginning of year	3,118,705	134,672	10,000	2,820,647	133,098	10,000
Net assets at end of year	\$ 2,454,886	\$ 134,672	\$ 10,000	\$ 3,118,705	\$ 134,672	\$ 10,000

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015				2014			
	Supporting Service		Management and General		Supporting Service		Management and General	
	Fund Raising	Program Services	Total	Total	Fund Raising	Program Services	Total	Total
Salaries	\$ 81,003	\$ 9,189,594	\$ 9,699,957	\$ 456,833	\$ 117,292	\$ 9,107,595	\$ 574,125	\$ 9,681,720
Employee benefits (including pension and health insurance benefits)	16,709	2,647,728	2,777,432	110,551	21,305	2,321,529	131,856	2,453,385
Payroll taxes	5,431	710,860	749,221	35,196	8,349	706,148	43,545	749,693
Total salaries and related expenses	103,143	12,548,182	13,226,610	602,580	146,946	12,135,272	749,526	12,884,798
Professional fees	4,278	480,267	549,959	91,793	7,163	639,457	98,956	738,413
Food	3,834	239,321	245,865	16,455	3,548	201,544	20,003	221,547
Equipment and furnishings	-	137,234	141,359	-	-	242,350	-	242,350
Depreciation and amortization	-	25,405	282,275	24,580	-	248,535	24,580	273,115
Supplies	3,027	341,134	357,400	30,368	7,246	384,012	37,614	421,626
Rent (Note 9)	49,935	402,989	483,837	17,368	85,821	379,259	103,189	482,448
Repairs and maintenance	1,213	412,760	433,167	28,236	3,813	406,857	32,049	438,906
Patient and participant transportation	-	168,257	168,257	-	-	147,500	-	147,500
Telephone	14,657	162,791	180,823	11,723	2,104	177,326	13,827	191,153
Insurance	10,250	146,618	157,272	8,312	283	137,281	8,595	145,876
Interest	38,825	-	38,825	-	-	-	-	-
Conferences, meetings and dues	32,483	76,489	108,972	32,697	-	69,106	32,697	101,803
Systems training	16,972	55,013	71,985	3,326	-	43,915	3,326	47,241
Travel	2,990	48,981	52,077	2,588	77	44,679	2,665	47,344
Special events and fundraising	86,535	-	86,535	-	88,036	-	88,036	88,036
In-kind (Note 12)	79,233	126,476	233,560	8,023	-	257,131	8,023	265,154
Field trips	-	33,143	33,143	-	-	19,369	-	19,369
Advertising	962	16,668	20,515	4,273	5,018	37,905	9,291	47,196
Utilities	16,301	234,826	255,174	2,371	7,112	231,699	9,483	241,182
Printing	1,123	7,999	12,490	519	3,641	9,870	4,160	14,030
Equipment rental	2,842	31,882	35,112	2,118	408	32,487	2,526	35,013
Kaboom expenses	-	-	-	-	24,720	-	24,720	24,720
Other expenses (Children's Theatre)	-	25,449	25,449	-	-	34,197	-	34,197
Subgrantee expense	-	565,005	565,005	-	-	163,704	-	163,704
Wraparound needs	-	12,099	12,099	-	-	17,517	-	17,517
Miscellaneous	29,301	118,278	160,940	32,587	7,925	85,163	40,512	125,675
Bad debt expense	-	544,599	544,599	-	-	1,502,251	-	1,502,251
Total expenses	374,580	611,547	5,256,694	317,337	246,915	5,513,114	564,252	6,077,366
	\$ 949,865	\$ 340,110	\$ 1,289,975	\$ 17,193,328	\$ 393,861	\$ 17,648,386	\$ 1,313,778	\$ 18,962,164
Percentage to total expenses	5.1%	1.8%	7.0%	93.0%	2.1%	93.1%	6.9%	100.0%

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (663,819)	\$ 299,632
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	282,275	273,115
Net realized and unrealized (gains) and losses on investments	(50,441)	(572,631)
Change in allowance for doubtful accounts	664,733	316,817
Change in liability for pension benefits	548,504	(1,319,797)
(Increase) decrease in assets:		
Accounts and other receivables	(757,501)	(457,962)
Grants receivable	(1,571,911)	(419,709)
Other receivable	8,013	(7,850)
Security deposit	429	-
Other assets	(42,319)	31,732
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	373,987	(69,917)
Accounts payable COPS/CSP	402,912	1,173,724
Deferred income	(208,311)	233,394
	<u>(1,013,449)</u>	<u>(519,452)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of investments	(3,017,172)	(1,773,059)
Proceeds from sale of investments	3,370,327	2,107,272
Purchases of property, plant & equipment	(142,224)	(80,973)
	<u>210,931</u>	<u>253,240</u>
Net cash provided (used) by investing activities		
Cash flows from financing activities:		
Borrowing on Line of Credit	600,000	-
	<u>600,000</u>	<u>-</u>
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents	(202,518)	(266,212)
Cash and cash equivalents at beginning of year	<u>1,592,768</u>	<u>1,858,980</u>
Cash and cash equivalents at end of year	<u>\$ 1,390,250</u>	<u>\$ 1,592,768</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Unrelated business income tax	\$ 7,753	\$ 4,000
Interest	11,917	-

The accompanying notes are an integral part of the financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - ORGANIZATION

The Staten Island Mental Health Society, Inc. (the "Society") is a not-for-profit organization founded in 1895. The Society's mission is to diagnose and treat emotional, behavioral, organic, and developmental problems; to create and support programs and environments that reduce the risk of disability and advance the optimal development of children; to increase the Society's knowledge of the causes and treatments of mental illness and developmental impairment; and to promote public awareness of, and support for, the value and availability of the Society's services.

The Society provides comprehensive mental health, early childhood and related services to Staten Island children and their families. Services are provided to children and young adults who are emotionally or behaviorally challenged, developmentally or learning disabled, neurologically impaired, dependent on alcohol or drugs, and/or economically disadvantaged.

These financial statements represent the combined activities of the various programs administered by the Society as well as the various volunteer groups organized to raise money on the Society's behalf (See Note 8 and 12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and reporting practices of the Society conform to accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Basis of accounting

The accompanying financial statements were prepared by using the accrual method of accounting, under which revenues are recognized when earned and expenses and liabilities are recognized when incurred.

Basis of presentation

Financial statement presentation reflects the adoption and recommendations as required by the Accounting Standards Codification. Under the Codification, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

Unrestricted net assets

Unrestricted net assets represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions (including contracts with government agencies, unrestricted contributions (including board designated contributions), or restricted contributions whose restrictions have expired.

Temporarily restricted net assets

Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.

Permanently restricted net assets

Permanently restricted net assets represent resources that must be maintained permanently. Like temporarily restricted net assets, permanent restrictions may be imposed only by a donor. However, permanently restricted net assets generally do not get reclassified, since, by definition, their restrictions never expire.

Revenues

Revenues include program service fees which represent the estimated net realizable amount from clients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Contributions

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted contributions, received and expended in the same period are reflected as unrestricted contributions in the accompanying financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets including estimated uncollectibles and allowances for accounts receivable from services to clients, and liabilities, including estimated payables to third-party payors, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts and the estimated payable to third-party payors, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the statements of financial position and the statements of cash flows, cash and cash equivalents consist of cash on hand, in banks, and interest-bearing deposits. Management believes that the Society is not exposed to any significant credit risk on cash and cash equivalents.

Investments

At times throughout the year, unrestricted general funds and the investment in plant fund may consist of United States Treasury obligations and stocks. They are carried at fair value and any investment income (including realized and unrealized gains or losses on investment, interest and dividends) is reported in the statement of activities as increases or decreases in unrestricted net assets.

Donated securities (stocks) are recorded at fair market value at the date of gift. The Society reports gifts of goods and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. No donated securities were received in either year ended, June 30, 2015 or 2014.

Program service accounts receivables

Program service accounts receivables are recorded at established rates net of contractual and other allowances and do not bear interest. The allowance for uncollectible accounts is the Society's best estimate of the amount of losses which could result on the Society's accounts receivable from patients, insurance companies and others. The Society reviews its allowance for uncollectible accounts periodically and determines the estimated amount for the allowance based on management's assessment of historical and expected collections, business economic conditions and other collection indicators. Account balances are charged off against the allowance when the potential for recovery is considered remote.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants

The Society annually receives a number of grants and contracts with certain federal, state, city and private organizations to render services. The funds received under these grants and contracts are generally designated to cover current operating costs for specific programs. Revenue related to the majority of these programs is recognized as related expenses are incurred. Grants receivable and deferred income are recorded when a difference in payments received and expenses incurred vary.

Property, plant and equipment (capital expenditures)

In accordance with contracts with various governmental funding sources, purchases of furniture and equipment are expensed in the year of acquisition. The respective funding sources have title to all furniture and equipment purchased with governmental funding. The buildings, which are owned by the Society, are carried at cost and are depreciated using the straight-line method over their estimated useful lives ranging from twenty to forty years. Leasehold improvements consist of costs associated with modernization at the Pouch Center, Day Treatment Center North and St. Mark's Place which are being amortized over the shorter of the life of the improvement or the length of the lease. Furniture purchased for the Pouch Center, as part of the modernization incurred, are being depreciated over their estimated useful lives of seven years.

Concentrations of credit risk

The Society maintains cash balances at several financial institutions. Aggregated account balances at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Occasionally, during the year, certain balances exceeded that limit.

In a prior year, the Society entered into an agreement with Victory State Bank, its primary account holder, where the bank grants to the Society a lien upon and or a security interest in Federal National Mortgage Association CMO's sufficient to cover 110% of the aggregate amount of all funds on deposit in excess of the \$250,000 FDIC limit, as security for all deposits for the Society in excess of the \$250,000.

Reclassification

Certain amounts in the comparative totals for 2014 have been reclassified to conform with the 2015 presentation. These reclassifications have no effect on net assets or the operating results from the prior year.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - INCOME TAXES

The Society is exempt from federal income tax under Section 501(a) as described in Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose would be subject to taxation as unrelated business income. The Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The financial statements, however, do include unrelated business income tax expense relating to revenue that was earned from sublease agreements entered into during the current year that do not meet the Society's exempt purpose. The amounts for the periods ended June 30, 2015 and June 30, 2014 were approximately \$13,900 and \$4,000, respectively.

As required by the Accounting Standards Codification, the Society adopted the recognition requirements for uncertain income tax positions as required by accounting principles generally accepted in the United States of America, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

The Society has analyzed tax positions taken for filing with the Internal Revenue Service and New York State where it operates. The Society believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Society's financial condition, results of operations or cash flows. Accordingly, the Society has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2015.

NOTE 4 - INVESTMENTS & FAIR VALUE MEASUREMENT

The Society's investments are reported at fair value in the accompanying statement of financial position and maintained by Fiduciary Trust Company. These investments serve as collateral for a line of credit with Fiduciary Trust Company as discussed in Note 14.

Investments consist of the following:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity securities	\$ <u>1,376,023</u>	\$ <u>1,607,278</u>	\$ <u>1,550,456</u>	\$ <u>1,909,991</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS & FAIR VALUE MEASUREMENT (Continued)

Investment income consists of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 26,415	\$ 31,611
Realized gains (losses)	178,722	279,480
Unrealized gains (losses)	<u>(128,281)</u>	<u>293,148</u>
	<u>\$ 76,856</u>	<u>\$ 604,239</u>

In accordance with their investment policy, the Society maintains a diversified investment portfolio with no significant concentrations in any particular industry, segment or sector.

At June 30, 2015, any unrealized losses on investments are not deemed to be other than temporary impairments based on the expectation of recovery in value.

The Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. When those prices are not available, Level 2 inputs base fair value estimates on observable inputs that a market participant would use. Level 3 inputs have the lowest priority. This level requires the use of unobservable inputs. The Society uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Society measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. All of the Society's investments are classified as Level 1 inputs.

Investments recorded at fair value consisted of the following at June 30, 2015 and 2014:

	<u>Fair Value</u>	<u>Level 1 *</u>
<u>June 30, 2015</u>		
Equity securities	\$ <u>1,607,278</u>	\$ <u>1,607,278</u>
<u>June 30, 2014</u>		
Equity securities	\$ <u>1,909,991</u>	\$ <u>1,909,991</u>

* Quoted prices in active markets for identical assets

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - PROPERTY, PLANT & EQUIPMENT, NET

	657 Castleton Ave. Staten Island, NY		669 Castleton Ave. Staten Island, NY		16 Osgood Ave. Staten Island, NY		444 St. Marks Place Staten Island, NY		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Land	\$ 164,670	\$ 164,670	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ 314,670	\$ 314,670
Buildings	885,837	885,837	2,012,659	2,012,659	-	-	-	-	2,898,496	2,898,496
Leasehold improvements	543,249	543,249	631,145	555,742	2,606,813	2,606,813	6,669,751	6,669,751	10,450,958	10,375,555
Furniture	102,884	102,884	145,089	145,089	-	-	56,419	56,419	304,392	304,392
Computers and equipment			316,290	249,469	-	-	-	-	316,290	249,469
	1,696,640	1,696,640	3,255,183	3,112,959	2,606,813	2,606,813	6,726,170	6,726,170	14,284,806	14,142,582
Less, accumulated depreciation	1,107,581	1,093,402	2,227,150	2,138,134	2,606,813	2,606,813	669,651	490,572	6,611,195	6,328,921
	\$ 589,059	\$ 603,238	\$ 1,028,033	\$ 974,825	\$ -	\$ -	\$ 6,056,519	\$ 6,235,598	\$ 7,673,611	\$ 7,813,661

Depreciation and amortization expense totaled \$282,275 and \$273,115 for the years ended June 30, 2015 and 2014, respectively.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 894,135	\$ 781,993
Payroll and related expenses	740,388	560,554
Due to funding sources	839,026	771,692
Due to Medicaid	18,461	18,461
Accrued expenses	<u>36,715</u>	<u>8,708</u>
	<u>\$ 2,528,725</u>	<u>\$ 2,141,408</u>

NOTE 7 - ACCOUNTS PAYABLE COPS/CSP

Accounts payable COPS/CSP includes the following components as of June 30, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Due to COPS/CSP	\$ <u>6,615,094</u>	\$ <u>6,212,182</u>

The Level I Comprehensive Outpatient Services ("COPS") program was established during 1991 for Article 31 Clinics and Day Treatment programs. Upon inception of the program there were separate rates for each outpatient program for each provider. During 1993, the rates were combined into one rate for each provider. In 1995, additional COPS base supplement funds were added to the program and periodic cost of living adjustments have been made through the years. The COPS Medicaid rates were subject to a "cap" or maximum amount, which was adjusted periodically. The amount of COPS a provider could retain in any fiscal year was equal to that program's COPS threshold. All Clinic services rendered on or after July 1, 2008 were no longer subjected to the COPS reconciliation process. Providers were required to account for the COPS they received on a cash basis up to the threshold. Any COPS received in excess of the COPS threshold would be due back to the Office of Mental Health upon audit, and would be recouped through the State's payment system.

The Society has also received funding from the State's Community Support Program ("CSP"). These CSP payments also fund community-based mental health programs that serve the severely and persistently mentally ill population. Recoveries by The Office of the Medicaid Inspector General (OMIG) and The Department of Health (DOH) were initiated during the current year. As discussed further in Note 14, the Society filed a hardship request with both OMIG and DOH to reduce the withholding from remittances from the standard fifteen (15%) to five percent (5%). The OMIG request was accepted as of November 2014 for a period of one year. The DOH request was accepted as of April 2015. A summary of all pending recoveries is outlined below:

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - ACCOUNTS PAYABLE OMH COPS/CSP (Continued)

OMIG began recoupment in October 2014 at a rate of 5% of each weekly remittance related to an audit finalization of Level I COPS & CSP over payments for services provided from July 1, 2005 through June 30, 2008. The original amount due was \$3,068,117. The OMIG recovered \$7,286 before a DOH recovery superseded the OMIG obligation.

In a prior year, the Society received a draft audit report from OMIG indicating a review was performed for the three year period of July 1, 2008 through June 30, 2010 covering both COPS and CSP funding, and indicated their findings as it relates to \$1,269,983 in overpayments. To date, this audit has not be finalized and recoupments have not been initiated.

Also during the current year, OMH notified the Society of an estimated \$908,340 recoupment related to COPS over payment for the mental health clinics, with dates of service from November 1, 2010 through December 31, 2011. DOH recoupment of these claims began during the year at 15%. Once the hardship request was accepted, the withholding was reduced from 15% to 5% as noted above. The total amount recovered in fiscal year 2015 by DOH for this overpayment was \$478,174.

The Society was also notified by OMH in the current year, of the elimination of COPS payments effective October 1, 2013 for the Day Treatment Programs in the amount of \$1,134,951. Recoupment for this amount has not commenced.

As of June 30, 2015, accrued interest in the amount of \$26,907 has been recorded in the statement of activities, related to the balances due to DOH. Interest has not been applied to balances due to OMIG.

Subsequent to year end, all recoupments were suspended. The Society has met with the OMIG to discuss a long term payment plan. Discussions have also been initiated with DOH for an acceptable payment arrangement. The Society has received full support from OMH representatives who have been part of discussions and will continue to support payment arrangements with the OMIG and DOH.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS

Unrestricted Auxiliary

The Society receives funds from various volunteer groups organized to raise money on the Society's behalf, and to provide supplementary support for its various programs. The balances in these funds at June 30, 2015 and 2014, reflected as unrestricted auxiliary net assets, are as follows:

	<u>2015</u>	<u>2014</u>
Auxiliary of the Elizabeth W. Pouch		
Center for Special People	\$ 7,727	\$ 6,186
Head Start Children's and Parents' Funds	31,907	30,216
South Shore Clinic Committee and		
Thrift Shops	15,295	16,840
The Women's Guild	<u>3,021</u>	<u>3,310</u>
Total unrestricted auxiliary net assets	<u>\$ 57,950</u>	<u>\$ 56,552</u>

Temporarily restricted

Temporarily restricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
South Shore Building Capital Campaign	\$ 77,153	\$ 77,153
Pouch Building Campaign	<u>57,519</u>	<u>57,519</u>
Total temporarily restricted net assets	<u>\$ 134,672</u>	<u>\$ 134,672</u>

No amounts were released during the years ended June 30, 2015 and 2014 for either campaign.

Permanently restricted

In accordance with the January 14, 1960 consolidation of Staten Island Mental Health Society, Inc. and Port Richmond Day Nursery and Central Relief Association, the sum of \$10,000 shall remain permanently restricted. All income generated by the restricted funds will be used towards the maintenance of the Port Richmond Day Nursery Early Learn Program.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - LEASE COMMITMENTS

The Society is obligated to make minimum annual rental payments under operating leases, principally for office space, equipment, program facilities and vehicles. Lease commitments are as follows:

2016	\$	274,372
2017		203,707
2018		136,243
2019		128,825
2020		121,286
Thereafter		<u>1,740,000</u>
	\$	<u>2,604,433</u>

For the years ended June 30, 2015 and 2014, rent expense was \$483,837 and \$482,448 for facilities rental and \$35,112 and \$35,013 for equipment rental, respectively.

During the prior year, the Society entered into several sublease agreements with unrelated parties for office space at one of its locations. These sublease agreements run for various periods from December 2013 to January 2017. Rental income under these agreements is \$66,067 and \$30,013 for the years ended June 30, 2015 and June 30, 2014, respectively. The total future minimum rentals to be received under these agreements is \$60,650.

The Society currently rents three facilities from the Fund for the Advancement of Mental Health, Inc.

NOTE 10 - CHILD AND ADULT CARE FOOD PROGRAM

Included in "Grants from Government Agencies" is income from the New York State Department of Health - Division of Nutrition, Child and Adult Care Food Program ("CACFP"), funded by the United States Department of Agriculture ("USDA"), for the Head Start EarlyLearn Program. The program recognized revenue of \$317,215 and \$317,107 for the years ended June 30, 2015 and 2014, respectively.

The agreement between the sponsoring agency (the "Society") and the New York State Department of Health, states the program is approved to operate through September 2015. As of June 30, 2015, the Society maintains \$34,220 of unspent funding related to the Port Richmond Day Nursery program. All other funds have been spent down.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 - CHILD AND ADULT CARE FOOD PROGRAM (continued)

Subsequent to year end, a new agreement with the New York State Department of Health has been approved extending the operating period through September 2016.

NOTE 11 - SANDY SERVICES PUBLIC SUPPORT

Hurricane Sandy Relief - (Sandy Services Programs)

The Society continues to provide assistance to individuals and communities affected by Sandy by addressing their mental health needs. The Society was awarded three government grants to implement five programs to address post traumatic stress disorder ("PTSD") and other emotional symptoms experienced after a disaster. These programs range from providing community based services as part of a Mobile Integrated Health Team ("MIHT") to school based services for children in a pre-school/daycare setting to public intermediate schools. Resiliency training was provided to teachers, care givers and parents affected by Sandy in a daycare and Department of Education setting.

The grants included funding for a second year of the Summer Therapeutic Program ("STP"). This six week camp provided the needed therapy to 60 children identified as having emotional distress resulting from the disaster, which included individual, group, and family therapy in addition to social and recreational programs.

Intermediate School 2 (IS 2) is one school location in the area most devastated by Sandy and a number of children were identified as needing services resulting from the storm. The Staten Island Foundation joined with the Red Cross to provide services to teens and young adults faltering in direction as a result of the storm. These funds were used to implement the Safety Net program that would redirect personal, career and educational goals for individuals whose path was interrupted by Sandy.

Sandy Services Public Support consists of the following grants:

	<u>2015</u>	<u>2014</u>
Grants from Government Agencies:		
Superstorm Sandy Social Services Block Grant	\$ 1,909,418	\$ 430,180
Fund for Public Health in New York, Inc.- Mental Health Treatment Services	188,376	26,164
New York State Office of Children & Family Services- Daycare	132,001	800
Fund for Public Health in New York, Inc.- Resiliency	57,534	40,000
Project Hope	-	785,020
	<u>\$ 2,287,329</u>	<u>\$ 1,282,164</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - SANDY SERVICES PUBLIC SUPPORT (Continued)

	<u>2015</u>	<u>2014</u>
Private Grants:		
Sandy Safety Net	\$ 224,981	\$ 88,372
Tiger Foundation- Summer Therapeutic Program	90,131	4,869
Tiger Foundation	-	206,674
	<u>\$ 315,112</u>	<u>\$ 299,915</u>

Private Grants related to individuals effected by Sandy, recorded in the Children's Community Mental Health Center for the year ended June 30, 2014 were:

Staten Island Rotary	\$ 100,000
Children's Aid Society	20,000
New York State Health Foundation	37,500
	<u>\$ 157,500</u>

There were no private grants related to Sandy funding recorded in the Children's Community Mental Health Center for the year ended June 30, 2015.

NOTE 12 - IN-KIND INCOME AND EXPENSE

A facility for two of the programs of the Staten Island Children's Community Mental Health Center program resides in a facility with the New York City Board of Education. No amount has been reflected in the statements of activities for the equivalent of rent expense as the fair market value of the space has not been determined, in accordance with the Accounting Standards Codification.

On July 27, 2013, a team of 300 volunteers from the Society, BNP Paribas (an International Investment Firm), organizer KaBoom!, and the community residents built a brand new, state-of-the-art playground at the main facility of the Society, for those children affected by Hurricane Sandy. The project included many donations by local businesses and individuals of the community. Total in-kind contributions amounted to \$108,222 including \$56,593 which has been recorded in property, plant and equipment. The remaining expense of \$51,629 was recorded as in-kind expense during the prior year.

Services performed by volunteer consultants and unsalaried teachers' aides are recorded as contributions and professional fees in amounts equal to salaries of personnel providing similar services. Fringe benefits are also included at the State approved percentage on professional services. Equipment and supplies are valued at the fair market value as of the date of the contribution.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - IN-KIND INCOME AND EXPENSE (continued)

	<u>2015</u>	<u>2014</u>
Head Start EarlyLearn in-kind contributions consisted of:		
Professional services	\$ 92,318	\$ 81,467
Fringe benefits	34,158	30,143
Consultants	-	3,000
In-kind contributions meeting the criteria of the accounting standards codification	<u>\$ 126,476</u>	<u>\$ 114,610</u>

During both years transportation services were received; however, the value of these services was not provided by the donor.

	<u>2015</u>	<u>2014</u>
Other contributions provided through various Society programs:		
Professional services	\$ 535,533	\$ 433,376
Fringe benefits	203,887	166,125
Other in-kind contributions provided through various other Society programs**	<u>739,420</u>	<u>599,501</u>
Total in-kind contributions related to Head Start Early Learn Program	<u>\$ 865,896</u>	<u>\$ 714,111</u>

**Other contributions made by the various programs of the Society to the Head Start Early Learn Program are shown separately above as these contributions meet the requirements for in-kind match for the Society's grant with the Administration for Children's Services (ACS). However, they do not meet the recognition criteria of accounting standards codification, and as such were not recorded in the accompanying financial statements.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - IN-KIND INCOME AND EXPENSE (Continued)

The auxiliary and general funds record services performed by thrift shop volunteers and teachers' aides (reading volunteers) as contributions and professional fees in amounts equal to salaries of personnel providing similar services. The fair value of such donated time has been calculated using the most recent published rates for the Living Wage Rate, which was \$12.75 for both years ended June 30, 2015 and 2014.

	<u>2015</u>	Approx. Hours <u>Donated</u>	<u>2014</u>	Approx. Hours <u>Donated</u>
Women's Guild	**	289	**	337
Pouch Auxiliary	**	167	**	126
South Shore Clinic Committee and Thrift Shops	\$ 75,933	5,310	\$ 72,586	5,693
Reading Volunteers	<u>28,000</u>	<u>1,948</u>	<u>26,000</u>	<u>2,065</u>
	\$ <u><u>103,933</u></u>	<u><u>7,714</u></u>	\$ <u><u>98,586</u></u>	<u><u>8,221</u></u>

**A substantial number of unpaid volunteers have made a significant contribution of their time, for the purpose of raising funds on behalf of the Society. The hours contributed include hours related to attending meetings, committees, organizing events, etc. The Board of Directors makes significant contributions of time relative to general management and operations of the Society.

No amounts have been reflected in these statements for such donated services as the type of service donated does not meet the criteria of the accounting standard for assessing a value of such services.

No value is ascribed to donated merchandise when received.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Society's defined benefit plan (the "Plan") currently covers all nonunion employees other than those employed at the Head Start and Port Richmond Day Nursery programs, who are covered under other plans. Effective June 1, 1999, all employees covered by the National Health & Human Service Employees Union (Local 1199/SEIU) Collective Bargaining Agreement were no longer eligible under this employee benefit plan. As part of the agreement, the Society contributed the required 9.16% for the period July 2012 through November 2012, 11.50% for the period of December 2012 through December 2013 and 11.25% beginning in January 2014 until further notice, of union salaries to the Local 1199 Health Care Employees Pension Fund.

Prior to the Plan becoming frozen effective December 31, 2007, an employee was considered eligible after one year of service and attainment of age 21. Any prior employment in the health and welfare field within three years prior to employment with the Society was considered services for purposes of eligibility.

The Society's funding policy is designed to fund the Plan's normal costs, which are calculated as the percentage of annual payroll which will fund all plan benefits over the future service periods of all active plan participants. The Society's contributions of \$72,000 and \$144,000 for the plan years ending June 30, 2015 and 2014, respectively, complied with the minimum funding requirements of ERISA.

On July 6, 2012, P.L. 112-114, the Moving Ahead for Progress in the 21st Century Act (MAP-21), was signed into law. This Act provided much needed relief on pension plan funding and liabilities. The new MAP-21 law greatly reduced the minimum contribution for the fiscal year. The law is designed to result in continued increases in the required minimum contribution through the 2016 plan year as the applicable percentage of the 25 year average bond rates to value plan liabilities declines from 90% in 2012 to 70% in 2016.

The Plan paid benefits of \$573,614 and \$996,291 for the plan years ending June 30, 2015 and 2014, respectively.

All monthly contributions are deposited in Mutual of America's General Account. In accordance with the Plan investment policy, funds are transferred to various other funds at Mutual of America. In a prior year, the Plan was amended to allow investments to be transferred to the Fiduciary Trust Company. Approximately \$3 million was transferred to Fiduciary Trust Company to expand the investment vehicles available to the Plan. All remaining funds at Mutual of America are managed directly by Mutual of America.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Participants are entitled to annual pension benefits beginning at normal retirement age (65) equal to the sum of 2% of their final average earnings multiplied by the number of years of benefit accrual service. "Final average earnings" means the average monthly amount of compensation paid to an employee during the 60 consecutive months out of the last 120 months of employment that produces the highest average.

A participant with 25 years of service may retire early at age 62 with no reduction in accrued benefit.

Effective the close of business on December 31, 2007, the Plan was amended to state that final average earnings would not include any compensation earned after December 31, 2007. Benefit accrual service does not include any service after December 31, 2007 as the Plan is frozen.

Effective October 1, 2011, the Plan is subject to benefit restrictions under Section 206(g) of ERISA and Section 436(d)(3) of the Internal Revenue Code. These restrictions were added by the Pension Protection Act of 2006 and generally limit the amount of Plan assets that may be used to pay a lump sum or purchase an annuity to 50% of the value of the benefit otherwise payable to the participant.

The following table sets forth the fair value and changes in plan assets:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets at beginning of the year	\$ 12,537,059	\$ 11,141,597
Actual return on plan assets	339,342	2,306,732
Employer contributions	72,000	144,000
Benefits disbursed from plan assets (including expense charges)	<u>(633,784)</u>	<u>(1,055,270)</u>
Fair value of plan assets at the end of the year	\$ <u>12,314,617</u>	\$ <u>12,537,059</u>

As required by the Accounting Standards Codification, the employer is required to report in its statement of financial position the overfunded or underfunded status of a defined benefit post-retirement plan, which is measured as the difference between plan assets at fair value and the projected benefit obligation.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Plan assets are maintained in an investment contract with the pension plan carriers Mutual of America and Fiduciary Trust Company. The Society does not have access to plan assets except in the event of plan termination, which requires approval by the Pension Benefit Guaranty Corporation. The following table presents a reconciliation at June 30, 2015 and 2014 of the funded status and valuation of the Plan.

	<u>2015</u>	<u>2014</u>
Actuarial present value of:		
Vested benefit obligation	\$ (13,893,545)	\$ (13,566,833)
Accumulated benefit obligation	(13,894,222)	(13,568,159)
Actuarial present value of:		
Projected benefit obligation	\$ (13,894,222)	\$ (13,568,159)
Fair value of assets	<u>12,314,618</u>	<u>12,537,060</u>
Funded status	(1,579,604)	(1,031,099)
Unrecognized net (gain) or loss	2,736,085	1,915,615
Net effect of adoption of recognition provisions of ASC 715	<u>(2,736,085)</u>	<u>(1,915,615)</u>
Liability for pension benefits	\$ <u><u>(1,579,604)</u></u>	\$ <u><u>(1,031,099)</u></u>

The following table sets forth the reconciliation of the liability for pension benefits:

	<u>2015</u>	<u>2014</u>
Cumulative contributions greater (less) than net periodic pension cost as of the beginning of the fiscal year	\$ 884,516	\$ 899,612
Net periodic pension cost	(199,965)	159,096
Contribution paid during the year	<u>72,000</u>	<u>144,000</u>
Cumulative contributions greater (less) than net periodic pension cost as of the end of the fiscal year	1,156,481	884,516
Net effect of adoption of recognition provisions of ASC 715	<u>(2,736,085)</u>	<u>(1,915,615)</u>
Liability for pension benefits	\$ <u><u>(1,579,604)</u></u>	\$ <u><u>(1,031,099)</u></u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

The following table sets forth the components of net periodic pension cost:

	<u>2015</u>	<u>2014</u>
Benefits earned during the year (service costs)*	\$ 60,270	\$ 9,845
Interest cost on projected benefit obligation	457,393	526,667
Actual return on plan assets	(339,342)	(2,306,732)
Net amortization and deferrals:		
Amortization of unrecognized net (gain) or loss	170,727	418,714
Asset gain (loss) deferred	<u>(549,013)</u>	<u>1,510,602</u>
Net amortization and deferral	<u>(378,286)</u>	<u>1,929,316</u>
Net periodic pension cost	<u>\$ (199,965)</u>	<u>\$ 159,096</u>

* Includes estimated PBGC premium being paid from the fund.

Weighted-average assumptions as of June 30:

	<u>2015</u>	<u>2014</u>
Assumed discount rate	3.50%	4.00%
Post-retirement interest rate	6.00%	6.00%
Expected long-term rate of return on plan assets	7.50%	7.50%

The following table sets forth the changes in projected benefit obligation:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation at the beginning of the year	\$ 13,568,159	\$ 13,492,493
Service cost	60,270	9,845
Interest cost	457,393	526,667
Change due to assumption changes	95,618	241,175
Actuarial (gain) loss	346,566	353,249
Expense charges	(60,170)	(58,979)
Benefits disbursed	<u>(573,614)</u>	<u>(996,291)</u>
Projected benefit obligation at the end of the year	<u>\$ 13,894,222</u>	<u>\$ 13,568,159</u>

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Expected future benefit payments

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

	<u>Fiscal</u> <u>Year End</u>	<u>Expected Benefit</u> <u>Payments</u>
	2016	\$ 1,769,000
	2017	1,089,000
	2018	1,208,000
	2019	1,038,000
	2020	1,451,000
	2021-2025	5,411,000

Plan assets by category

	<u>2015</u>		<u>2014</u>	
* Equity	\$ 8,917,738	72.4%	\$ 9,150,970	73.0%
** Fixed income	1,853,312	15.1%	1,818,767	14.5%
*** Fixed income - General account	<u>1,543,568</u>	12.5%	<u>1,567,323</u>	12.5%
Total	\$ <u>12,314,618</u>	100.0%	\$ <u>12,537,060</u>	100.0%

Fair value hierarchy

The level of fair value hierarchy of the above plan asset categories are as follows: * = Level 1, ** = Level 2, *** = Level 3. These levels have been previously defined in Note 4, Investments and Fair Value Measurement.

Expected Long-Term Rate of Return on Plan Assets Assumption:

The Expected Long-Term Rate of Return on Plan Assets Assumption of 7.50% for both years ended June 30, 2015 and 2014, was selected in accordance with Actuarial Standards Board in Actuarial Standards of Practice No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations". Based on Staten Island Mental Health Society, Inc.'s investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on long term historical return on the applicable asset classes. An average inflation rate within the range equal to 3.5% was selected and added to the real rate of return range to arrive at a best estimate range of 7.23% - 9.79% for the year ended June 30, 2015 and 7.17% - 9.80% for the year ended June 30, 2014 . A rate of 7.50% for both years ended June 30, 2015 and 2014, which is within the best estimate range, was selected.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFIT PLANS (Continued)

Future Contributions

For fiscal 2016, the Society expects to make a contribution in the amount of approximately \$336,000, representing the minimum funding requirement to the Plan.

Reconciliation of Items Not Yet Reflected in Net Periodic Benefit Cost

	<u>July 1, 2014</u>	<u>Reclassification as Net Periodic Benefit Cost</u>	<u>Amounts Arising During Period</u>	<u>June 30, 2015</u>
Transition Obligation or Asset	\$ -	\$ -	\$ -	\$ -
Net Prior Service Cost or Credit	-	-	-	-
Net (gain) or loss	1,915,615	(170,727)	991,197	2,736,085

Estimated Effect in Next Fiscal Year - Items Not Yet Reflected in Net Periodic Benefit Cost

	<u>July 1, 2015</u>	<u>Estimated Amounts to be Reclassified as Net Periodic Benefit Cost</u>
Transition Obligation or Asset	\$ -	\$ -
Net Prior Service Cost or Credit	-	-
Net (gain) or loss	2,736,085	(328,454)

No plan assets are expected to be returned to the employer during the June 30, 2016 fiscal year.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13- EMPLOYEE BENEFIT PLANS (Continued)

Investment policies and strategies

Investment goals are to maximize the portfolio performance while keeping risk at a minimum. The investment options offered by Mutual of America and Fiduciary Trust are the vehicles that are permitted within the pension portfolio. The Finance Committee of the Board of Directors meets monthly to review the investment portfolio of the Plan. Periodically, Mutual of America and Fiduciary Trust present an analysis of the portfolio and provide recommendations for future investments, which are reviewed by the Finance Committee.

Assumptions

The significant assumptions used to determine the benefit obligation and the assumptions used to determine net benefit costs are as follows:

Retirement Age	For both 2015 and 2014, age 65; for employees over age 65, immediate retirement is assumed.
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Mortality Rates	
- Pre-retirement Mortality	For 2015, the RP-2014 Total Dataset Employee Table, separate for Males and Females projected by Scan MD-2014
	For 2014, the 2014 Unisex Mortality Table specified in IRS Notice 2013-49.

- Post-retirement Mortality	For 2015, the 2015 Unisex Mortality Table specified in IRS Notice 2013-49.
	For 2014, the 2014 Unisex Mortality Table specified in IRS Notice 2013-49.

Employee Withdrawal Rates	For both 2015 and 2014, T-11 Rates of Withdrawal from the Pension Actuary's Handbook.
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	% Withdrawing in Year
<u>Age</u>	<u>2015 & 2014</u>
25	24.9242
40	17.6871
55	4.9572

Maximum Benefit Increase	3.75% per year for both 2015 and 2014.
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Maximum Includable Compensation Increase	3.75% per year for both 2015 and 2014.
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Post-retirement Interest Rate	6.00% per year for both 2015 and 2014.
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STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13- EMPLOYEE BENEFIT PLANS (Continued)

Assumptions (continued)

The portion of unrecognized net (gain) or loss that exceeds 10% of the greater of projected benefit obligation or the market-related value of plan assets, the transition asset, and the prior service cost are each amortized over the average remaining service period of active employees as of the date of establishment of the transition asset or prior service cost or, in the case of unrecognized net (gain) or loss, as of the beginning of the fiscal year.

403 (B) Thrift Plan

On January 1, 2008, management implemented a 403(B) Thrift Plan for all employees. Employees can defer up to the federal limits and management contributes 2% of the employees' base compensation for those employees not covered by a collective bargaining agreement and employed on the last day of the fiscal year.

Effective July 1, 2013, the employer contribution was changed to a discretionary contribution.

The Society did not make any discretionary contributions to the plan for both years ended June 30, 2015 and 2014.

NOTE 14 - COMMITMENTS & CONTINGENCIES

Commitments:

Line of Credit

In the prior year, the Society entered into a line of credit with Fiduciary Trust Company in the amount of \$600,000 at a rate of Prime. The Society's investments held at Fiduciary Trust Company will serve as collateral for the line. The line's interest rate for the year was 3.25% and is payable upon demand. During the current year, the Society borrowed on the full amount to cover operating expenses. The entire balance remains outstanding at June 30, 2015.

Interest expense in the amount of \$11,918 has been recorded in the Statement of Activities as of June 30, 2015.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Commitments: (continued)

Guarantee of Loan

The Society has provided a guarantee on a \$2 million loan. The loan has been made to the landlord of property that the Society leases for several of its programs. The loan is in the form of a mortgage in the amount of \$1.5 million and a \$500,000 installment loan both of which have outstanding principal balances of \$1,391,359 and \$463,709, respectively at June 30, 2015 and are collateralized by first mortgages on properties at 657 & 669 Castleton Avenue, Staten Island, New York.

\$1.5 million Mortgage

The mortgage commenced on June 3, 2010, and interest is computed at a rate of 7.25% per annum. The loan is to be repaid by interest only payments for the first 24 months, followed by 240 interest and principal payments of \$11,855.64 per month applied first to interest and then to a reduction of principal. The remaining unpaid balance is due and payable in full on June 3, 2032.

\$500,000 Installment Loan

This installment loan was previously a revolving note which was converted on July 3, 2012. Payment shall be made for 240 months with interest at the rate of 7.25% per annum, and monthly thereafter, in payments of \$3,951.88 or such lesser monthly payment amount as will liquidate the then balance over a term of 20 years, to be applied first to interest and then to a reduction of principal. The remaining unpaid balance is due and payable in full on June 3, 2032.

Financial, Compliance and Third-Party Audits

The Society participates in several government assisted program grants, which represent approximately 58% and 45% of total public support and revenue, for the years ended June 30, 2015 and 2014, respectively. These program grants are subject to financial and compliance audits by the grantors or their representatives. Grantors reserve the right to reclaim certain funds as a result of these audits. The Society is liable for any disallowed costs.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Commitments: (continued)

Some of these grant contract terms are three years, but are renewed annually depending on the availability of funds and the Society's compliance with the requirements of the contracts and grants. Therefore, continued funding is contingent on availability of funding from the various funding sources.

During a prior year, the Society entered into an installment agreement with the New York City Department of Education for the Society's Integrated program relating to retroactive tuition rate adjustments for prior years totaling \$185,831. The agreement called for 24 monthly installments in the amount of \$7,742.96. The balance remaining in the prior year was \$25,165. This amount was paid in full during the current year.

The Society also receives a substantial amount of its revenue from services provided to approved participants under third-party reimbursement arrangements with providers such as Medicaid. These revenues are also subject to audit and retroactive adjustment by the third-party fiscal intermediaries.

Contingencies:

Going Concern

As reported in the prior year, drastic reductions in Medicaid revenues and loss of Comprehensive Outpatient Program Services (COPS) funding due to New York State (NYS) Medicaid reform has compromised the financial viability of the Society. The Office of Mental Health (OMH) has reviewed agencies throughout NY State and documented that over 50% of mental health clinics treating children are in financial distress. It is important to note that these reductions have resulted in financial deficiencies in the Society's Mental Health programs which constitute the Society's largest service area.

In addition to Medicaid revenue reductions, the contractual salary rates under the Collective Bargaining Agreement with 1199 SEIU are among the highest in NYS. These salaries coupled with the required contributions for fringe benefits has also placed a drain on the Society's fiscal status.

Over the last several years, the Society has implemented all possible cost cutting measures which have reduced the deficit projections. However, despite all management's efforts, fiscal distress continues. A strategic planning process, including a comprehensive financial analysis was conducted, in early 2014, by the Non Profit Finance Fund concluded that Medicaid reimbursement and 1199 contractual obligations had threatened the fiscal viability of Society; internal restructuring was necessary but not sufficient to reach fiscal stability, and that merger possibilities should be explored.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Contingencies: (continued)

Clearly, to build resiliency and sustainable long-term growth, the Society has recognized that it must generate more revenues, build reserves and increase product lines while strengthening its infrastructure and development capacity. It also recognized the importance of identifying a merger partner who, through a mutually beneficial agreement, values the Society's culture, can build on its assets and strengthen its ability to continue to serve the Staten Island community.

During this fiscal year, discussions have taken place between the management teams of Richmond University Medical Center (RUMC) and the Society regarding the possibilities and future strength of a merged entity. The organizations have concluded that a merger would be mutually beneficial. The synergy between the two organizations would not only lead to financial stability for the Society, it would also:

- Ensure access to person-centered, data driven, high quality and evidence-based community services
- Creates an innovative integrated care model
- Creates co-location opportunities
- Increases providers' scope and community outreach

A merger would also support the New York State Medicaid Redesign Team's (MRT) objective to reduce the number of emergency room and hospital visits by providing community services that will ensure client/patient support. In May 2015, a letter of intent was signed by RUMC

Partnering with RUMC appears to be an optimal fit for both entities. However support from the City & State is critical. The support for the merger received from State and City representatives from the Office of Mental Health (OMH), Department of Health (DOH), Office of Alcoholism and Substance Abuse (OASAS), Office of the Medicaid Inspector General (OMIG) and the NYC Department of Health and Mental Hygiene (DOHMH) has been remarkable. Weekly conference calls are held with multiple representatives from these entities and the management teams of RUMC and the Society. Discussion have centered on the following key areas:

- OMH Vital Access Provider (VAP) Funding: the Society has been identified by OMH as a Vital Access Provider (VAP) and the 3rd largest Medicaid provider on Staten Island after the two hospitals. A joint VAP application submitted by the Society and RUMC to the NYS Office of Mental Health totaling \$9.9 million will assist with all merger expenses and support four other initiatives that will expand access and strengthen infrastructure and financial viable. It is important to note that OMH has worked with us to develop this application; we have been told that we will receive final approval within the next few weeks.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS & CONTINGENCIES (Continued)

Contingencies: (continued)

- License Conversions: Prior to merging, RUMC and the Society are requesting expedited transfer of the Society's mental health and substance abuse licenses to RUMC. This will allow the Society to benefit from the higher Medicaid reimbursement rates enjoyed by the hospital. This strategy has received support from OMH and OASAS.
- Society Liabilities: Several discussions with DOH, OMH and OMIG have taken place involving long term payment options for the approximately \$7 million in recoveries due to DOH and OMIG for COP and CSP overpayments. Payment plans would allow the merged entity to strengthen its financial status while expanding access to services to the Staten Island community.

Merger discussions continue and a binding agreement is expected soon.

In addition to merger consideration, the Society is pursuing several funding opportunities in line with their mission. The Society is an engaged Preferred Provider partner in Staten Island PPS Delivery System Reform Incentive Payment Program (DSRIP) network; participating in five (5) projects, serving on several committees (i.e. Steering Finances, Workforce and Clinical) and has submitted a DSRIP Capital Request. The Society is also a member of Coordinated Behavioral Care (CBC) and will be providing Health Home services to children, familie and adults in the community.

The conditions noted above create an uncertainty about the Society's ability to continue as a going concern. The ability of the Society to continue as a going concern and meet its obligations as they become due will be dependent on a merger as described above. Management believes it is probable with the support and guidance of OMH, DOH and the other entities identified above and with VAP funding. The financial statements do not include any adjustments that might be necessary if the Society is unable to continue as a going concern.

NOTE 15 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. During the current year, as a result of the Society's restructuring, management has reviewed and revised the cost allocation methodology used among the various programs benefited. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 - CONCENTRATIONS

Employees Covered By Collective Bargaining Agreements

Approximately 61% of the Head Start program employees are covered by a collective bargaining agreement. Of the remaining programs at the Society, approximately 44% of employees are covered by a collective bargaining agreement.

Revenue

The Society earns its "Grants from government agencies" from several funding sources, the largest of which are as follows:

	<u>2015</u>	<u>2014</u>
New York City - Administration for Children's Services	50%	60%
New York State - Office of Mental Health	25%	6%
New York City - Department of Health and Mental Hygiene	14%	23%

Program service fees consist of the following concentrations:

	<u>2015</u>	<u>2014</u>
Medicaid	93%	62%
COPS	-	30%

NOTE 17 - RELATED PARTIES

A former member of the Board of Directors is the Chairman at the bank where the Society maintains the majority of its bank accounts.

A current member of the Board of Directors is also a board member of the Staten Island Rotary which provided the Society with a grant in the amount of \$100,000 in the prior year to be used to provide services to children traumatized by Hurricane Sandy. This grant was utilized in the Children's Community Mental Health Center.

During the current year, a member of the Board of Directors provided services for repaving the parking lot to the Society in the amount of \$75,403. At June 30, 2015, the outstanding balance for the services was \$12,575. This amount was paid subsequent to year end.

During the current year, the Fund loaned the Society \$500,000 to be used toward operating expenses. Subsequent to year end the Funds board of trustees notified the Society that the loan was converted to a grant effective June 30, 2015. Therefore, the transaction has been recorded as a private grant along with an additional \$550,000 which was previously granted during the year by the Fund to also be used for operating expenses.

STATEN ISLAND MENTAL HEALTH SOCIETY, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 - RELATED PARTIES (Continued)

As previously noted, the Fund for the Advancement of Mental Health, Inc. (the "Fund"), a 501(c)(3) non-profit organization, provides facilities through lease agreements for several programs of the Society. The Fund is also the landlord for the Society's "Green Building" located on St. Mark's Place in Staten Island. As discussed in Note 14, the Society has provided a guarantee and collateral to the bank on outstanding loans that are maintained by the Fund.

During the current year, the Society and the Fund entered into a management service agreement in which the Society provides management services to the Fund. The agreement calls for a fee of \$12,000 per year. This amount has been recorded as Other income.

The Fund also leases a vehicle to the Society on a month-to-month basis.

NOTE 18 - AFFILIATION AGREEMENT

The Society enters annually into an agreement with the Richmond University Medical Center ("RUMC") whereby RUMC sends postgraduate trainees ("Pediatric Medical Residents") to the Society's Elizabeth W. Pouch Center For Special People for training purposes.

The Pouch Center participates in training in the diagnosis, evaluation and management of developmental disorders to pediatric residents. The pediatric residents will provide no direct independent service to the patients, family members or other program participants of the Pouch Center. The agreement calls for a fee of \$20,000 for both years ended June 30, 2015 and 2014 to be paid to the Pouch Center. This amount has been reflected in the statement of activities under the category of program service fees.

NOTE 19 - SUBSEQUENT EVENTS

The Society has evaluated events and transactions for potential recognition or disclosure through February 18, 2016, which is the date the financial statements were available to be issued. Other than as previously noted, no significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.