

**SBH COMMUNITY SERVICE NETWORK, INC.  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2016**

**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

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## **Independent Auditor's Report**

**Board of Directors  
SBH Community Service Network, Inc.  
and Affiliate**

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of SBH Community Service Network, Inc. and Affiliate, which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SBH Community Service Network, Inc. and Affiliate as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited SBH Community Service Network, Inc.'s December 31, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Loeb & Troper LLP*

December 28, 2017

**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**
**EXHIBIT A**
**CONSOLIDATED BALANCE SHEET**
**DECEMBER 31, 2016**
**(With Summarized Financial Information for December 31, 2015)**

|   | <b>2016</b>          |                     |                      | <b>2015</b>          |
|---|----------------------|---------------------|----------------------|----------------------|
|   | <b>SBHC</b>          | <b>SBHJB</b>        | <b>Total</b>         |                      |
| <b>ASSETS</b>                           |                      |                     |                      |                      |
| Cash and cash equivalents               | \$ 893,326           |                     | \$ 893,326           | \$ 1,017,343         |
| Investments (Note 2)                    | 1,365,505            | \$ 3,549,186        | 4,914,691            | 3,989,904            |
| Accounts receivable                     | 271,250              |                     | 271,250              | 240,003              |
| Contributions receivable - net (Note 3) | 1,994,024            | 322,000             | 2,316,024            | 2,109,515            |
| Grants receivable                       | 334,391              |                     | 334,391              | 54,917               |
| Prepaid expenses and other assets       | 130,671              |                     | 130,671              | 132,637              |
| Fixed assets - net (Note 4)             | 7,607,249            |                     | 7,607,249            | 7,317,579            |
| Total assets                            | <u>\$ 12,596,416</u> | <u>\$ 3,871,186</u> | <u>\$ 16,467,602</u> | <u>\$ 14,861,898</u> |
| <b>LIABILITIES AND NET ASSETS</b>       |                      |                     |                      |                      |
| <b>Liabilities</b>                      |                      |                     |                      |                      |
| Accounts payable and accrued expenses   | \$ 272,944           |                     | \$ 272,944           | \$ 70,794            |
| Accrued payroll and related liabilities | 252,948              |                     | 252,948              | 201,618              |
| Deferred income                         | 355,450              |                     | 355,450              | 319,311              |
| Security deposit                        | 1,500                |                     | 1,500                | 1,500                |
| Total liabilities                       | <u>882,842</u>       |                     | <u>882,842</u>       | <u>593,223</u>       |
| <b>Net assets (Exhibit B)</b>           |                      |                     |                      |                      |
| Unrestricted                            | 10,578,071           | \$ 1,309,565        | 11,887,636           | 11,059,603           |
| Temporarily restricted (Note 6)         | 1,135,503            | 51,002              | 1,186,505            | 958,847              |
| Permanently restricted (Note 7)         |                      | 2,510,619           | 2,510,619            | 2,250,225            |
| Total net assets                        | <u>11,713,574</u>    | <u>3,871,186</u>    | <u>15,584,760</u>    | <u>14,268,675</u>    |
| Total liabilities and net assets        | <u>\$ 12,596,416</u> | <u>\$ 3,871,186</u> | <u>\$ 16,467,602</u> | <u>\$ 14,861,898</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016  
(With Summarized Financial Information  
for the Year Ended December 31, 2015)

|   |  | 2016          |              |                        |              |           |                        |              |               |               |
|---|--|---------------|--------------|------------------------|--------------|-----------|------------------------|--------------|---------------|---------------|
|   |  | Unrestricted  |              | Temporarily Restricted |              |           | Permanently Restricted |              |               |               |
|   |  | SBHC          | SBHJB        | Total                  | SBHC         | SBHJB     | Total                  | SBHJB        | Total         | 2015          |
| Revenues, gains (loss) and other support            |  |               |              |                        |              |           |                        |              |               |               |
| Contributions (including in-kind food of \$112,600) |  | \$ 5,509,090  |              | \$ 5,509,090           | \$ 451,971   |           | \$ 451,971             | \$ 260,394   | \$ 6,221,455  | \$ 5,549,431  |
| Program income - mental health clinic               |  | 1,202,889     |              | 1,202,889              |              |           |                        |              | 1,202,889     | 1,526,359     |
| Special events                                      |  |               | \$ 3,044,575 |                        |              |           |                        |              |               |               |
| Direct cost of special events                       |  |               | (1,216,089)  |                        |              |           |                        |              |               |               |
| Clothing revenue                                    |  | 64,475        |              | 64,475                 |              |           |                        |              | 64,475        | 58,712        |
| Grant revenue                                       |  | 819,603       |              | 819,603                |              |           |                        |              | 819,603       | 382,460       |
| Net realized/unrealized (loss) gain on investments  |  |               | \$ 149,872   | 149,872                |              | \$ 34,789 | 34,789                 |              | 184,661       | (41,619)      |
| Interest and dividends                              |  | 6,558         | 69,846       | 76,404                 |              | 16,213    | 16,213                 |              | 92,617        | 55,399        |
| Rental income (Note 5)                              |  | 92,469        |              | 92,469                 |              |           |                        |              | 92,469        | 98,946        |
| Miscellaneous income                                |  | 196,279       |              | 196,279                |              |           |                        |              | 196,279       | 230,876       |
|   |  | 9,719,849     | 219,718      | 9,939,567              | 451,971      | 51,002    | 502,973                | 260,394      | 10,702,934    | 9,584,093     |
| Net assets released from restrictions (Note 6)      |  | 247,315       |              | 247,315                | (247,315)    |           | (247,315)              |              |               |               |
| Total revenues, gains (loss) and other support      |  | 9,967,164     | 219,718      | 10,186,882             | 204,656      | 51,002    | 255,658                | 260,394      | 10,702,934    | 9,584,093     |
| Expenses (Exhibit C)                                |  |               |              |                        |              |           |                        |              |               |               |
| Program services                                    |  |               |              |                        |              |           |                        |              |               |               |
| Client Services                                     |  | 3,711,328     |              | 3,711,328              |              |           |                        |              | 3,711,328     | 3,418,746     |
| Career Services Network                             |  | 638,932       |              | 638,932                |              |           |                        |              | 638,932       | 567,780       |
| Thrift Store Clothing/Food                          |  | 96,446        |              | 96,446                 |              |           |                        |              | 96,446        | 278,445       |
| Family Services                                     |  | 5,292         |              | 5,292                  |              |           |                        |              | 5,292         | 53,447        |
| Senior Services                                     |  | 197,140       |              | 197,140                |              |           |                        |              | 197,140       | 148,484       |
| Medical   |  | 459,581       |              | 459,581                |              |           |                        |              | 459,581       | 298,137       |
| Volunteer   |  | 438,852       |              | 438,852                |              |           |                        |              | 438,852       | 184,371       |
| Mental Health Services                              |  | 2,002,021     |              | 2,002,021              |              |           |                        |              | 2,002,021     | 1,564,157     |
| Total program services                              |  | 7,549,592     |              | 7,549,592              |              |           |                        |              | 7,549,592     | 6,513,567     |
| Supporting services                                 |  |               |              |                        |              |           |                        |              |               |               |
| Management and general                              |  | 1,403,587     |              | 1,403,587              |              |           |                        |              | 1,403,587     | 1,286,362     |
| Fund raising  |  | 405,670       |              | 405,670                |              |           |                        |              | 405,670       | 583,987       |
| Total supporting services                           |  | 1,809,257     |              | 1,809,257              |              |           |                        |              | 1,809,257     | 1,870,349     |
| Total expenses                                      |  | 9,358,849     |              | 9,358,849              |              |           |                        |              | 9,358,849     | 8,383,916     |
| Change in net assets before other changes           |  | 608,315       | 219,718      | 828,033                | 204,656      | 51,002    | 255,658                | 260,394      | 1,344,085     | 1,200,177     |
| Grant from SBHJB to SBHC                            |  | 187,500       | (187,500)    |                        |              |           |                        |              |               |               |
| Bad debt loss                                       |  |               |              |                        | (28,000)     |           | (28,000)               |              | (28,000)      | (14,000)      |
| Change in net assets (Exhibit D)                    |  | 795,815       | 32,218       | 828,033                | 176,656      | 51,002    | 227,658                | 260,394      | 1,316,085     | 1,186,177     |
| Net assets - beginning of year                      |  | 9,782,256     | 1,277,347    | 11,059,603             | 958,847      |           | 958,847                | 2,250,225    | 14,268,675    | 13,082,498    |
| Net assets - end of year (Exhibit A)                |  | \$ 10,578,071 | \$ 1,309,565 | \$ 11,887,636          | \$ 1,135,503 | \$ 51,002 | \$ 1,186,505           | \$ 2,510,619 | \$ 15,584,760 | \$ 14,268,675 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016  
(With Summarized Financial Information  
for the Year Ended December 31, 2015)

|  | Program Services   |               |                           |              |                               |                                   |                    |                    |            |            |                              |              | Supporting Services          |                 |                   |              | Total        |              |
|--|--------------------|---------------|---------------------------|--------------|-------------------------------|-----------------------------------|--------------------|--------------------|------------|------------|------------------------------|--------------|------------------------------|-----------------|-------------------|--------------|--------------|--------------|
|  | Client Services    |               |                           |              | Career<br>Services<br>Network | Thrift Store<br>Clothing/<br>Food | Family<br>Services | Senior<br>Services | Medical    | Volunteer  | Mental<br>Health<br>Services | Total        | Management<br>and<br>General | Fund<br>Raising | Special<br>Events | Total        | 2016         | 2015         |
|  | Brooklyn<br>Branch | NYC<br>Branch | Jersey<br>Shore<br>Branch | Total        |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   |              |              |              |
| Personnel expense                          |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   |              |              |              |
| Salaries                                   | \$ 797,554         | \$ 47,076     | \$ 375,120                | \$ 1,219,750 | \$ 473,621                    | \$ 47,260                         | \$ 1,450           | \$ 112,198         | \$ 273,191 | \$ 220,927 | \$ 723,442                   | \$ 3,071,839 | \$ 586,466                   | \$ 187,231      |                   | \$ 773,697   | \$ 3,845,536 | \$ 3,356,336 |
| Payroll taxes and benefits                 | 109,587            | 6,696         | 51,563                    | 167,846      | 65,250                        | 8,590                             | 218                | 12,723             | 41,745     | 29,112     | 99,453                       | 424,937      | 78,178                       | 25,480          |                   | 103,658      | 528,595      | 423,826      |
| Total professional employer expense        | 907,141            | 53,772        | 426,683                   | 1,387,596    | 538,871                       | 55,850                            | 1,668              | 124,921            | 314,936    | 250,039    | 822,895                      | 3,496,776    | 664,644                      | 212,711         |                   | 877,355      | 4,374,131    | 3,780,162    |
| Other costs                                |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   |              |              |              |
| Financial assistance                       | 186,651            |               |                           | 186,651      |                               |                                   |                    |                    |            |            |                              | 186,651      |                              |                 |                   |              | 186,651      | 95,808       |
| Clients' rent                              | 675,834            | 196           | 137,830                   | 813,860      | 731                           |                                   |                    |                    |            | 1,500      |                              | 816,091      |                              |                 |                   |              | 816,091      | 597,919      |
| Food (including in-kind food of \$112,600) | 358,507            | 853           | 131,348                   | 490,708      | 4,800                         |                                   |                    | 17,671             | 637        | 23,484     | 4,471                        | 541,771      | 2,325                        |                 |                   | 2,325        | 544,096      | 634,887      |
| Medical and homecare services              | 40,036             |               | 12,912                    | 52,948       |                               |                                   |                    |                    | 7,589      |            |                              | 60,537       |                              |                 |                   |              | 60,537       | 67,957       |
| Camp scholarships                          | 96,635             |               | 13,655                    | 110,290      |                               |                                   |                    |                    |            |            |                              | 110,290      |                              |                 |                   |              | 110,290      | 179,118      |
| Tutoring and educational aid               | 3,170              |               |                           | 3,170        |                               |                                   |                    |                    |            |            |                              | 3,170        |                              |                 |                   |              | 3,170        | 6,140        |
| Holiday programs                           | 20,643             |               | 56,738                    | 77,381       |                               |                                   |                    |                    |            |            |                              | 77,381       |                              |                 |                   |              | 77,381       | 125,018      |
| Child care                                 |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   |              |              | 7,466        |
| Clients' utilities                         | 75,813             |               | 55,667                    | 131,480      |                               |                                   |                    |                    |            |            | 15,548                       | 147,028      |                              |                 |                   |              | 147,028      | 187,879      |
| Flowers and gifts                          | 60                 |               |                           | 60           |                               |                                   |                    |                    |            | 13,305     |                              | 13,365       |                              |                 |                   |              | 13,365       | 480          |
| Clothing                                   | 27,812             |               |                           | 27,812       |                               | 20,570                            |                    |                    |            |            |                              | 48,382       |                              |                 |                   |              | 48,382       | 54,270       |
| Grant expense                              |                    |               |                           |              |                               |                                   |                    |                    | 30,000     |            |                              | 30,000       |                              |                 |                   |              | 30,000       | 10,000       |
| Professional fees                          | 11,639             | 249           | 27,578                    | 39,466       | 1,656                         |                                   | 459                | 24,307             | 6,475      | 3,395      | 827,013                      | 902,771      | 158,850                      | 7,246           |                   | 166,096      | 1,068,867    | 1,062,363    |
| Occupancy                                  | 43,797             | 2,585         | 20,600                    | 66,982       | 26,009                        | 2,595                             | 80                 | 6,161              | 15,002     | 12,132     | 39,728                       | 168,689      | 32,206                       | 52,938          |                   | 85,144       | 253,833      | 164,788      |
| Printing and postage                       | 1,180              | 4             | 1,859                     | 3,043        | 140                           | 1,823                             |                    | 1,269              | 27,255     | 54,416     | 13,845                       | 101,791      | 22,519                       | 47,330          |                   | 69,849       | 171,640      | 120,422      |
| Repairs and maintenance                    | 28,844             |               | 17,980                    | 46,824       |                               | 109                               |                    | 400                | 3,300      | 19         | 110,873                      | 161,525      | 74,159                       | 665             |                   | 74,824       | 236,349      | 119,819      |
| Bank and credit card charges               |                    |               | 199                       | 199          |                               |                                   |                    |                    |            |            |                              | 199          | 12,842                       | 45,071          |                   | 57,913       | 58,112       | 50,398       |
| Telephone                                  | 27,100             | 691           | 28,478                    | 56,269       | 760                           |                                   |                    |                    | 4,356      | 546        | 24,305                       | 86,236       | 53,756                       | 821             |                   | 54,577       | 140,813      | 75,099       |
| Travel and meetings                        | 21,879             |               | 4,168                     | 26,047       | 247                           | 44                                | 2,520              | 2,101              | 3,003      | 11,789     | 1,828                        | 47,579       | 1,347                        | 3,942           | \$ 176,598        | 181,887      | 229,466      | 243,386      |
| Advertising                                | 750                |               | 410                       | 1,160        | 33                            |                                   |                    | 275                | 8,875      | 10,350     | 3,247                        | 23,940       | 1,658                        | 5,939           |                   | 7,597        | 31,537       | 57,147       |
| Security                                   |                    |               | 479                       | 479          |                               |                                   |                    |                    |            |            | 1,950                        | 2,429        | 1,956                        | 280             | 6,445             | 8,681        | 11,110       | 10,171       |
| Supplies                                   | 1,172              | 3,660         | 10,822                    | 15,654       | 1,005                         | 8,230                             |                    | 3,386              | 1,318      | 16,871     | 27,339                       | 73,803       | 17,134                       | 2,190           | 28,892            | 48,216       | 122,019      | 171,700      |
| Insurance                                  | 13,829             | 816           | 6,504                     | 21,149       | 8,212                         | 819                               | 25                 | 1,945              | 4,737      | 3,831      | 12,544                       | 53,262       | 10,171                       | 3,247           |                   | 13,418       | 66,680       | 64,474       |
| Depreciation                               | 81,087             | 4,786         | 38,138                    | 124,011      | 48,153                        | 4,805                             | 147                | 11,407             | 27,775     | 22,462     | 73,552                       | 312,312      | 59,627                       | 19,036          |                   | 78,663       | 390,975      | 435,090      |
| Hall, catering and entertainment           |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   |              |              |              |
| Gifts and prizes                           |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   | 792,313      | 792,313      | 791,152      |
| Bad debts                                  |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 |                   | 130,998      | 130,998      | 143,579      |
| Miscellaneous expenses                     | 8,856              | 725           | 18,508                    | 28,089       | 8,315                         | 1,601                             | 393                | 3,297              | 4,323      | 14,713     | 22,883                       | 83,614       | 289,355                      | 4,254           |                   | 289,355      | 289,355      | 126,039      |
|  |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              | 1,038                        |                 | 80,843            | 86,135       | 169,749      | 112,553      |
| Total other costs                          | 1,725,294          | 14,565        | 583,873                   | 2,323,732    | 100,061                       | 40,596                            | 3,624              | 72,219             | 144,645    | 188,813    | 1,179,126                    | 4,052,816    | 738,943                      | 192,959         | 1,216,089         | 2,147,991    | 6,200,807    | 5,715,122    |
| Total expenses by function                 | 2,632,435          | 68,337        | 1,010,556                 | 3,711,328    | 638,932                       | 96,446                            | 5,292              | 197,140            | 459,581    | 438,852    | 2,002,021                    | 7,549,592    | 1,403,587                    | 405,670         | 1,216,089         | 3,025,346    | 10,574,938   | 9,495,284    |
| Less direct costs of special events        |                    |               |                           |              |                               |                                   |                    |                    |            |            |                              |              |                              |                 | (1,216,089)       | (1,216,089)  | (1,216,089)  | (1,111,368)  |
| Total expenses (Exhibit B)                 | \$ 2,632,435       | \$ 68,337     | \$ 1,010,556              | \$ 3,711,328 | \$ 638,932                    | \$ 96,446                         | \$ 5,292           | \$ 197,140         | \$ 459,581 | \$ 438,852 | \$ 2,002,021                 | \$ 7,549,592 | \$ 1,403,587                 | \$ 405,670      | \$ -              | \$ 1,809,257 | \$ 9,358,849 | \$ 8,383,916 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**EXHIBIT D****SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE****CONSOLIDATED STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2016**

|   |                          |
|---|--------------------------|
| Cash flows from operating activities  |                          |
| Change in net assets (Exhibit B)  | \$ 1,316,085             |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities |                          |
| Depreciation  | 390,975                  |
| Realized/unrealized gain on investments   | (184,661)                |
| Permanently restricted contributions  | (260,394)                |
| Decrease (increase) in assets   |                          |
| Accounts receivable   | (31,247)                 |
| Contributions receivable  | (172,509)                |
| Grants receivable   | (279,474)                |
| Prepaid expenses and other assets   | 1,966                    |
| Increase in liabilities   |                          |
| Accounts payable and accrued expenses   | 202,150                  |
| Accrued payroll and related liabilities   | 51,330                   |
| Deferred income   | 36,139                   |
|   | <hr/>                    |
| Net cash provided by operating activities   | <u>1,070,360</u>         |
| Cash flows from investing activities  |                          |
| Acquisition of fixed assets   | (680,645)                |
| Purchases of investments  | (1,749,553)              |
| Proceeds from sales and redemptions of investments  | 1,009,427                |
|   | <hr/>                    |
| Net cash used by investing activities   | <u>(1,420,771)</u>       |
| Cash flows from financing activities  |                          |
| Proceeds from permanently restricted contributions  | 226,394                  |
|   | <hr/>                    |
| Net change in cash and cash equivalents   | (124,017)                |
| Cash and cash equivalents - beginning of year   | <u>1,017,343</u>         |
| Cash and cash equivalents - end of year   | <u><u>\$ 893,326</u></u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.



# **SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

### **NOTE 1 - NATURE OF ORGANIZATION**

SBH Community Service Network, Inc. (SBHC), a not-for-profit organization with offices located in Brooklyn, and New York, NY and Deal, New Jersey, is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization under Section 509(a).

In 2014, The Sephardic Bikur Holim Fund in Memory of Joseph D. Beyda, Inc. (SBHJB) was organized to engage in fund-raising activities, manage investments, maintain an endowment fund, and to provide grants and scholarships to support not-for-profit organizations, including SBH Community Service Network, Inc. In 2015 SBHC transferred \$3,392,494 to SBHJB. SBHC is the sole member of SBHJB. SBHJB's activity is consolidated in this report. SBHJB qualifies as a tax-exempt organization under existing provisions of Internal Revenue Code Section 501(c)(3).

SBH Community Service Network, Inc. and Affiliate (SBH) provides various forms of assistance to individuals, whose needs are assessed on a case-by-case basis. SBH also operates a mental health clinic to provide counseling. SBH is supported primarily by contributions, special events, and income from their clinic.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The consolidated financial statements are prepared on the accrual basis of accounting.

***Consolidation*** - All material intercompany transactions and balances have been eliminated in the consolidation.

***Use of estimates*** - The preparation of consolidated 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 and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents*** - Cash and cash equivalents include certain short-term highly liquid investments with original maturities, when acquired, of three months or less.

***Investments*** - Investments are reported at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the consolidated financial statements.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SBH has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 as compared to December 31, 2015.

- ***Equities*** - Valued at the closing price reported on the active market on which the individual securities are traded.
- ***Mutual funds*** - Valued at the net asset value ("NAV") of shares held by SBH at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SBH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements (continued)***

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2016:

|   | <u>Level 1</u>      |
|---|---------------------|
| Equities  |                     |
| Strategic equity  | \$ <u>504,376</u>   |
| Mutual funds  |                     |
| Discovery value   | 133,476             |
| Emerging markets  | 88,447              |
| Global fixed income                                       | 388,361             |
| Global real estate  | 137,952             |
| Intermediate duration                                     | 900,780             |
| International portfolio                                   | 550,717             |
| Value equity  | <u>330,771</u>      |
| Total mutual funds  | <u>2,530,504</u>    |
| Total investments reported on<br>the fair value hierarchy | 3,034,880           |
| Cash and cash equivalents                                 | <u>1,879,811</u>    |
| Total investments   | \$ <u>4,914,691</u> |

***Accounts receivable*** - SBH records receivables based on established rates or contracts for services provided. Interest is not charged on overdue receivables. Management has determined that an allowance was not necessary at December 31, 2016.

***Contributions receivable*** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the year in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Interest is not accrued or recorded on outstanding receivables.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Grants receivable** - SBH records revenue and receivables for grants from contracting agencies when reimbursable expenses are incurred under the terms of the contract. Such revenues are subject to audit by the agencies. No provision for any disallowances is reflected in the consolidated financial statements, since management does not anticipate any material adjustments.

**Allowance for doubtful accounts** - SBH determines whether an allowance for uncollectibles should be provided for receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions, subsequent receipts and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

**Fixed assets** - Fixed assets are capitalized at cost. Items with a cost in excess of \$600 and an estimated useful life greater than one year are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

**Special events and deferred income** - Special event income is recognized at the net realizable amount when the event is held. A portion of the special event gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. The portion of income collected in advance but not yet earned is reflected as deferred income.

**Net assets** - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those funds restricted by donors, to be used for a specified time period or purpose. Permanently restricted funds are to be maintained in perpetuity at the behest of the donor and the income generated by such funds is utilized for operating purposes except if otherwise directed by the donor.

**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 either 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. Donor-restricted contributions and earnings on endowment funds whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

**In-kind contributions** - In-kind contributions are recorded at fair value at the date of donation.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Program income - mental health clinic*** - Revenues are reported at the estimated net realizable amounts from patients, third-party payors, which includes Medicaid and Medicare, and others for services rendered, based upon agreements with third-party payors. Laws and regulations governing Medicaid and Medicare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicaid and/or Medicare programs.

***Rental income*** - Rental income is recognized on the straight-line basis based on signed rental agreements. Accrued rental income is recorded when material. Rental payments received in advance are deferred until earned.

***Operating leases*** - Rental income is reflected on the straight-line basis over the terms of the lease. Deferred rent is recorded when there are material differences between the fixed payments and the rent expense.

***Grant expense*** - Grants are made to various health related organizations pursuant to authorization by the Board of Directors of SBH Community Service Network, Inc. and Affiliate and are recorded when awarded.

***Advertising*** - Advertising costs are expensed as incurred.

***Functional allocation of expenses*** - The costs of providing SBH's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Summarized financial information*** - The consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

***Uncertainty in income taxes*** - SBH has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through December 28, 2017, which is the date the consolidated financial statements were available to be issued.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Past due                             | \$ 2,947,786        |
| 2017                                 | <u>455,321</u>      |
|                                      | 3,403,107           |
| Less allowance for doubtful accounts | <u>(1,087,083)</u>  |
| Contributions receivable             | <u>\$ 2,316,024</u> |

**NOTE 4 - FIXED ASSETS**

|                               | <u>2016</u>         | <u>2015</u>         | <u>Estimated<br/>Useful Lives</u> |
|-------------------------------|---------------------|---------------------|-----------------------------------|
| Land                          | \$ 356,534          | \$ 356,534          |                                   |
| Building and improvements     | 10,357,286          | 10,006,623          | 31.5 years                        |
| Furniture and equipment       | 753,499             | 739,901             | 5-10 years                        |
| Vehicles                      | 37,723              | 37,723              | 5 years                           |
| Construction in progress      | <u>1,107,056</u>    | <u>790,672</u>      |                                   |
|                               | 12,612,098          | 11,931,453          |                                   |
| Less accumulated depreciation | <u>(5,004,849)</u>  | <u>(4,613,874)</u>  |                                   |
|                               | <u>\$ 7,607,249</u> | <u>\$ 7,317,579</u> |                                   |

**NOTE 5 - FUTURE NONCANCELABLE LEASES**

SBH rents out a portion of its space to unrelated third parties. Rental leases are long-term operating leases, expiring between October 2017 and July 2019.

Future noncancelable lease revenue is as follows:

|       |                   |
|-------|-------------------|
| 2017  | \$ 70,835         |
| 2018  | 44,635            |
| 2019  | <u>26,487</u>     |
| Total | <u>\$ 141,957</u> |

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purpose and periods:

|                                   |                     |
|-----------------------------------|---------------------|
| Sephardic hospital fund           | \$ 680,182          |
| Unappropriated endowment earnings | 51,002              |
| Periods after December 31, 2016   | <u>455,321</u>      |
| Total                             | \$ <u>1,186,505</u> |

Net assets were released from restrictions in the current year for the following programs or periods:

|                           |                   |
|---------------------------|-------------------|
| Sephardic hospital fund   | \$ 30,000         |
| Time restrictions lapsed  | <u>217,315</u>    |
| Total net assets released | \$ <u>247,315</u> |

**NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS**

**General**

SBH's endowments consist of a single donor-restricted endowment fund established to support general operations. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of SBH adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. SBH is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7%. As a result of this interpretation, SBH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS (continued)**

**Return Objectives, Strategies Employed and Spending Policy**

The objective of SBH is to generate investment income while maintaining the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in income-generating investments. Investment income earned in relation to the endowment fund is recorded as unrestricted if restrictions are met within the same year as being earned.

**Funds with Deficiencies**

SBH does not have any funds with deficiencies.

**Permanently Restricted Net Asset Composition by Type of Fund as of December 31, 2016**

The endowment net asset composition of \$2,573,119 consists of one permanently donor-restricted fund.

**Changes in Endowment Net Assets for the Year Ended December 31, 2016**

|   | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>        |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year     |                                   | \$ 2,250,225                      | \$ 2,250,225        |
| Contributions                               |                                   | 260,394                           | 260,394             |
| Net realized/unrealized gain on investments | \$ 117,795                        |                                   | 117,795             |
| Interest and dividends                      | 54,897                            |                                   | 54,897              |
| Appropriated for expenditures               | <u>(121,690)</u>                  |                                   | <u>(121,690)</u>    |
| Endowment net assets, end of year           | \$ <u>51,002</u>                  | \$ <u>2,510,619</u>               | \$ <u>2,561,621</u> |

**NOTE 8 - CONCENTRATIONS**

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with financial institutions in New York City in excess of FDIC insurance limits.

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**SBH COMMUNITY SERVICE NETWORK, INC. AND AFFILIATE****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016****NOTE 9 - CONTINGENCIES**

SBH is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and OPWDD. These agencies, as well as the New York State Office of the Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements. The current third-party-payor programs, including Medicaid, are based upon extremely complex laws and regulations. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. SBH is not aware of any allegations of noncompliance that could have a material adverse effect on SBH's change in net assets or financial position and believes that it is substantially in compliance with all applicable laws and regulations.