

**SBH Community Service Network, Inc.
and Affiliate**

Consolidated Financial Statements and Auditor's Report

December 31, 2017



SBH Community Service Network, Inc. and Affiliate

December 31, 2017

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Independent Auditor's Report

Board of Directors
SBH Community Service Network, Inc. and Affiliate
Brooklyn, New York

We have audited the accompanying consolidated financial statements of SBH Community Service Network, Inc. and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2017, 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 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, 2017, 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.

Consolidating Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Audited by Other Auditors and Report on Summarized Comparative Information

The 2016 consolidated financial statements were audited by other auditors and their report thereon dated December 28, 2017, expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent with the audited financial statements from which it has been derived.

BKD, LLP

New York, New York
February 13, 2019

SBH Community Service Network, Inc. and Affiliate
Consolidated Statement of Financial Position with Consolidating Information
December 31, 2017
(With Summarized Financial Information for December 31, 2016)

	<u>Consolidating Information</u>			<u>2016</u>
	<u>2017</u>			
	<u>SBHC</u>	<u>SBHJB</u>	<u>Total</u>	
Assets				
Cash and cash equivalents	\$ 2,247,672	\$ -	\$ 2,247,672	\$ 893,326
Investments	211,884	4,531,239	4,743,123	4,914,691
Accounts receivable	180,294	-	180,294	271,250
Contributions receivable - net	2,520,838	72,000	2,592,838	2,316,024
Grants receivable	369,443	-	369,443	334,391
Prepaid expenses and other assets	83,660	-	83,660	130,671
Fixed assets - net	7,217,196	-	7,217,196	7,607,249
	<u>\$ 12,830,987</u>	<u>\$ 4,603,239</u>	<u>\$ 17,434,226</u>	<u>\$ 16,467,602</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 286,854	\$ -	\$ 286,854	\$ 272,944
Accrued payroll and related liabilities	310,932	-	310,932	252,948
Deferred income	437,157	-	437,157	355,450
Security deposit	1,500	-	1,500	1,500
Total liabilities	<u>1,036,443</u>	<u>-</u>	<u>1,036,443</u>	<u>882,842</u>
Net Assets				
Unrestricted	10,935,500	1,547,287	12,482,787	11,887,636
Temporarily restricted	859,044	201,233	1,060,277	1,186,505
Permanently restricted	<u>2,854,719</u>	<u>2,854,719</u>	<u>2,854,719</u>	<u>2,510,619</u>
Total net assets	<u>11,794,544</u>	<u>4,603,239</u>	<u>16,397,783</u>	<u>15,584,760</u>
Total liabilities and net assets	<u>\$ 12,830,987</u>	<u>\$ 4,603,239</u>	<u>\$ 17,434,226</u>	<u>\$ 16,467,602</u>

SBH Community Service Network, Inc. and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	2017									2016
	Unrestricted			Temporarily Restricted			Permanently Restricted			
	SBHC	SBHJB	Total	SBHC	SBHJB	Total	SBHJB	Total		
Revenues, Gains (Loss) and Other Support										
Contributions	\$ 5,740,973	\$ -	\$ 5,740,973	\$ 70,062	\$ -	\$ 70,062	\$ 344,100	\$ 6,155,135	\$ 6,108,855	
Program income – mental health clinic	1,522,022	-	1,522,022	-	-	-	-	1,522,022	1,202,889	
Special events	\$ 3,130,530									
Direct cost of special events	(1,422,154)	-	1,708,376	-	-	-	-	1,708,376	1,828,486	
Clothing revenue	-	-	-	-	-	-	-	-	64,475	
Grant revenue	799,657	-	799,657	-	-	-	-	799,657	819,603	
Net realized/unrealized gain on investments	-	338,054	338,054	-	125,421	125,421	-	463,475	184,661	
Interest and dividends	32,507	49,668	82,175	-	24,810	24,810	-	106,985	92,617	
Rental income	83,100	-	83,100	-	-	-	-	83,100	92,469	
In-kind - food and clothing	298,386	-	298,386	-	-	-	-	298,386	112,600	
Miscellaneous income	68,858	-	68,858	-	-	-	-	68,858	196,279	
	10,253,879	387,722	10,641,601	70,062	150,231	220,293	344,100	11,205,994	10,702,934	
Net assets released from restrictions	346,521	-	346,521	(346,521)	-	(346,521)	-	-	-	
Total revenues, gains (loss) and other support	10,600,400	387,722	10,988,122	(276,459)	150,231	(126,228)	344,100	11,205,994	10,702,934	
Expenses										
Program services										
Client Services	4,320,352	-	4,320,352	-	-	-	-	4,320,352	3,711,328	
Career Services Network	702,901	-	702,901	-	-	-	-	702,901	638,932	
Thrift Store Clothing/Food	200,964	-	200,964	-	-	-	-	200,964	96,446	
Family Services	202,279	-	202,279	-	-	-	-	202,279	5,292	
Senior Services	219,617	-	219,617	-	-	-	-	219,617	197,140	
Medical	365,957	-	365,957	-	-	-	-	365,957	459,581	
Volunteer	400,042	-	400,042	-	-	-	-	400,042	438,852	
Mental Health Services	1,982,496	-	1,982,496	-	-	-	-	1,982,496	2,002,021	
Total program services	8,394,608	-	8,394,608	-	-	-	-	8,394,608	7,549,592	
Supporting services										
Management and general	1,327,132	-	1,327,132	-	-	-	-	1,327,132	1,403,587	
Fund raising	671,231	-	671,231	-	-	-	-	671,231	405,670	
Total supporting services	1,998,363	-	1,998,363	-	-	-	-	1,998,363	1,809,257	
Total expenses	10,392,971	-	10,392,971	-	-	-	-	10,392,971	9,358,849	
Change in net assets before other changes	207,429	387,722	595,151	(276,459)	150,231	(126,228)	344,100	813,023	1,344,085	
Grant from SBHJB to SBHC	150,000	(150,000)	-	-	-	-	-	-	-	
Bad debt loss	-	-	-	-	-	-	-	-	(28,000)	
Change in Net Assets	357,429	237,722	595,151	(276,459)	150,231	(126,228)	344,100	813,023	1,316,085	
Net Assets, Beginning of Year	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	
Net Assets, End of Year	\$ 10,935,500	\$ 1,547,287	\$ 12,482,787	\$ 859,044	\$ 201,233	\$ 1,060,277	\$ 2,854,719	\$ 16,397,783	\$ 15,584,760	

SBH Community Service Network, Inc. and Affiliate
Consolidated Statement of Functional Expenses with Consolidating Information
Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services											Supporting Services				Total		
	Client Services				Career Services Network	Thrift Store Clothing/ Food	Family Services	Senior Services	Medical	Volunteer	Mental Health Services	Management and General	Fund Raising	Special Events	Total	2017	2016	
	Brooklyn Branch	NYC Branch	Jersey Shore Branch	Total														
Personnel Expense																		
Salaries	\$ 949,983	\$ 54,136	\$ 443,424	\$ 1,447,543	\$ 487,057	\$ 54,856	\$ 120,699	\$ 116,620	\$ 215,517	\$ 226,776	\$ 753,534	\$ 3,422,602	\$ 603,188	\$ 244,797	\$ -	\$ 847,985	\$ 4,270,587	\$ 3,845,536
Payroll taxes and benefits	118,557	5,415	57,615	181,587	70,241	9,502	19,047	12,321	32,419	27,162	108,867	461,146	82,936	22,539	-	105,475	566,621	528,595
Total professional employer expense	1,068,540	59,551	501,039	1,629,130	557,298	64,358	139,746	128,941	247,936	253,938	862,401	3,883,748	686,124	267,336	-	953,460	4,837,208	4,374,131
Other Costs																		
Financial assistance	194,608	-	24,130	218,738	-	-	-	-	-	-	-	218,738	-	-	-	-	218,738	186,651
Clients' rent	700,735	-	237,172	937,907	-	-	-	-	-	-	-	-	-	-	-	-	937,907	816,091
Food (including in-kind food of \$66,400)	261,058	-	128,453	389,511	-	4,533	-	11,551	-	26,161	-	431,756	-	-	-	-	431,756	544,096
Medical and homecare services	66,985	-	9,557	76,542	-	-	-	-	-	-	-	76,542	-	-	-	-	76,542	60,537
Camp scholarships	74,494	-	28,160	102,654	-	-	-	-	-	-	-	102,654	-	-	-	-	102,654	110,290
Tutoring and educational aid	7,259	-	-	7,259	-	-	-	-	-	-	-	7,259	-	-	-	-	7,259	3,170
Holiday programs	106,000	-	44,350	150,350	-	-	-	-	-	-	-	150,350	-	-	-	-	150,350	77,381
Child care	15,898	-	-	15,898	-	-	-	-	-	-	-	15,898	-	-	-	-	15,898	-
Clients' utilities	81,954	-	41,928	123,882	-	-	-	-	-	-	-	123,882	-	-	-	-	123,882	147,028
Flowers and gifts	16,508	-	50	16,558	-	-	-	74	-	5,180	-	21,812	-	21,167	-	21,167	42,979	13,365
Clothing (including in-kind clothing of \$231,986)	277,824	-	162	277,986	-	85,771	-	-	-	-	-	363,757	-	-	-	-	363,757	48,382
Grant expense	-	-	-	-	-	-	-	-	5,000	-	1,350	-	-	-	-	-	6,350	30,000
Professional fees	11,243	774	14,578	26,595	35,458	1,148	6,602	23,281	8,648	4,870	893,509	1,000,111	106,792	22,560	129,352	1,129,463	1,068,867	
Occupancy	15,501	-	40,585	56,086	16,139	6,469	3,488	5,426	23,004	15,358	24,246	150,216	13,569	50,642	64,211	214,427	253,833	
Printing and postage	176	-	563	739	17	-	-	325	1,508	920	110	3,619	87,732	129,402	217,134	220,753	171,640	
Repairs and maintenance	23,300	2,002	18,780	44,082	20,378	16,847	15,026	12,526	26,120	16,106	83,554	234,639	164,291	37,331	201,622	436,261	236,349	
Bank and credit card charges	-	-	-	-	-	-	-	-	-	-	-	-	18,976	-	-	18,976	18,976	58,112
Telephone	6,278	511	9,188	15,977	5,689	3,431	1,826	2,197	11,550	5,081	21,701	67,452	26,707	4,550	31,257	98,709	140,813	
Travel and meetings	899	-	2,851	3,750	21	93	13,610	5,062	1,626	9,566	126	33,854	6,332	2,249	229,081	262,935	229,466	
Advertising	442	-	5,084	5,526	155	-	1,135	2,738	8,802	3,861	12,304	34,521	1,284	9,118	10,402	44,923	31,537	
Security	-	-	1,042	1,042	784	355	63	-	1,129	470	1,350	5,193	1,466	-	11,764	13,230	18,423	
Supplies	19,198	715	14,957	34,870	3,872	10,715	4,986	13,145	2,190	19,907	17,904	107,589	21,418	38,752	158,764	218,934	326,523	
Insurance	14,189	648	6,895	21,732	8,406	1,137	2,280	1,475	3,880	3,251	13,029	55,190	9,926	2,697	-	12,623	67,813	
Depreciation	102,125	5,820	47,669	155,614	52,360	5,897	12,975	12,537	23,168	24,379	43,870	330,800	64,844	26,316	-	91,160	421,960	
Hall, catering and entertainment	-	-	-	-	-	-	-	-	-	-	-	-	-	44,715	883,330	928,045	792,313	
Gifts and prizes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	147,796	147,796	130,998	
Bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,825	59,825	289,355	
Miscellaneous expenses	2,789	-	5,135	7,924	2,324	210	542	339	1,396	10,994	7,042	30,771	57,846	14,396	72,242	103,013	169,749	
Total other costs	1,999,463	10,470	681,289	2,691,222	145,603	136,606	62,533	90,676	118,021	146,104	1,120,095	4,510,860	641,008	403,895	1,422,154	2,467,057	6,977,917	6,200,807
Total expenses by function	3,068,003	70,021	1,182,328	4,320,352	702,901	200,964	202,279	219,617	365,957	400,042	1,982,496	8,394,608	1,327,132	671,231	1,422,154	3,420,517	11,815,125	10,574,938
Less Direct Costs of Special Events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,422,154)	(1,422,154)	(1,422,154)	(1,216,089)
Total expenses	\$ 3,068,003	\$ 70,021	\$ 1,182,328	\$ 4,320,352	\$ 702,901	\$ 200,964	\$ 202,279	\$ 219,617	\$ 365,957	\$ 400,042	\$ 1,982,496	\$ 8,394,608	\$ 1,327,132	\$ 671,231	\$ -	\$ 1,998,363	\$ 10,392,971	\$ 9,358,849

SBH Community Service Network, Inc. and Affiliate
Consolidated Statement of Cash Flows
Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	2017	2016
Operating Activities		
Change in net assets	\$ 813,023	1,316,085
Items not requiring (providing operating cash flows		
Depreciation	421,960	390,975
Realized/unrealized gain on investments	(463,475)	(184,661)
Permanently restricted contributions	(344,100)	(260,394)
Changes in		
Accounts receivable	90,956	(31,247)
Contributions receivable	(526,814)	(172,509)
Grants receivable	(35,052)	(279,474)
Prepaid expenses and other assets	47,011	1,966
Accounts payable and accrued expenses	13,910	202,150
Accrued payroll and related liabilities	57,984	51,330
Deferred income	81,707	36,139
Net cash provided by operating activities	157,110	1,070,360
Investing Activities		
Acquisition of fixed assets	(31,907)	(680,645)
Purchases of investments	(1,345,966)	(1,749,553)
Proceeds from sales and redemptions of investments	1,981,009	1,009,427
Net cash provided by (used in) investing activities	603,136	(1,420,771)
Financing Activities		
Proceeds from permanently restricted contributions	594,100	226,394
Net cash provided by financing activities	594,100	226,394
Net Change in Cash and Cash Equivalents	1,354,346	(124,017)
Cash and Cash Equivalents, Beginning of Year	893,326	1,017,343
Cash and Cash Equivalents, End of Year	\$ 2,247,672	\$ 893,326

SBH Community Service Network, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017

Note 1: Nature of Organization and Summary of Significant Accounting Policies

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. 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.

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.

SBH Community Service Network, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017

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, 2017 as compared to December 31, 2016.

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.

SBH Community Service Network, Inc. and Affiliate
Notes to Consolidated Financial Statements
December 31, 2017

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2017:

	Level 1
Equities	
Strategic equity	\$ 641,744
Mutual funds	
Discovery value	151,448
Emerging markets	163,241
U.S. fixed income	634,606
Global fixed income	497,354
Global real estate	175,546
Intermediate duration	1,140,921
International portfolio	769,910
Value equity	309,253
Total mutual funds	3,842,279
Total investments reported on the fair value hierarchy	4,484,023
Cash and cash equivalents	259,100
Total investments	\$ 4,743,123

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, 2017.

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.

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.

SBH Community Service Network, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017

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.

SBH Community Service Network, Inc. and Affiliate

Notes to Consolidated Financial Statements

December 31, 2017

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 based on the salary allocation method and other methods.

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, 2016, 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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

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Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through February 13, 2019, which is the date the consolidated financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable are due as follows:

Past due	\$ 3,727,977
2018	<u>178,862</u>
	3,906,839
Less allowance for doubtful accounts	<u>(1,314,001)</u>
Contributions receivable	<u>\$ 2,592,838</u>

Note 3: Fixed Assets

	<u>2017</u>	<u>Estimated Useful Lives</u>
Land	\$ 356,534	
Building and improvements	11,364,148	31.5 years
Furniture and equipment	885,600	5-10 years
Vehicles	<u>37,723</u>	5 years
	12,644,005	
Less accumulated depreciation	<u>(5,426,809)</u>	
	<u>\$ 7,217,196</u>	

Note 4: 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 2018 and May 2020.

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Future noncancelable lease revenue is as follows:

2018	\$ 18,650
2019	19,525
2020	<u>9,075</u>
Total	<u>\$ 47,250</u>

Note 5: Temporarily Restricted Net Assets

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

Sephardic hospital fund	\$ 680,182
Unappropriated endowment earnings	201,233
Periods after December 31, 2017	<u>178,862</u>
Total	<u>\$ 1,060,277</u>

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

Time restrictions lapsed	<u>\$ 346,521</u>
Total net assets released	<u>\$ 346,521</u>

Note 6: 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.

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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.

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.

Funds with Deficiencies

SBH does not have any funds with deficiencies.

Net Asset Composition by Type of Fund as of December 31, 2017

The endowment net asset composition of \$3,055,952 consists of one permanently donor-restricted fund and the investment return in excess of the organization’s spending policy.

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 51,002	\$ 2,510,619	\$ 2,561,621
Contributions	-	344,100	344,100
Net realized/unrealized gain on investments	249,221	-	249,221
Interest and dividends	49,300	-	49,300
Appropriated for expenditures	<u>(148,290)</u>	<u>-</u>	<u>(148,290)</u>
Endowment net assets, end of year	<u>\$ 201,233</u>	<u>\$ 2,854,719</u>	<u>\$ 3,055,952</u>

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Note 7: 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.

SBH's cash accounts exceeded federally insured limits by approximately \$2 million.

Note 8: 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.

Note 9: Future Change in Accounting Principles

NFP Accounting Standard for Financial Reporting

Accounting Standards Update (ASU) 2016-14 changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted and should be applied on a retrospective basis; however, NFPs have the option in the year adopted to omit certain disclosures shown in comparative financials.

A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The NFP statement of financial position will distinguish between two new classes of net assets those with donor-imposed restrictions and those without. The ASU retains the current requirements to provide information on the nature and amount of different types of donor restrictions in the notes to the financial statements.
- Underwater donor-restricted endowment funds are to be shown within the donor-restricted fund class. This is a change from the previously required classification as unrestricted.

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Statement of activities:

- The standard requires NFPs to report expenses by both nature and function, either on the face of the statement of activities, as a separate statement or within the notes.
- NFPs are required to use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset, in the absence of explicit donor stipulations. This eliminates the option to release the donor-imposed restriction over the estimated useful life of the acquired asset.
- Investment income will be shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Statement of cash flows:

- An NFP can continue to choose to either use the indirect or direct method of reporting to present operating cash flows. If the direct method is used, there is no longer a requirement to present or disclose cash flows using the indirect (reconciliation) method.

Notes to the financial statements:

- The standard requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows.
- Provide disclosures on amounts and purposes of governing board or self-imposed designations and appropriations as of the end of the period.

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.