

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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018



# SBH Community Service Network, Inc. and Affiliate

December 31, 2018

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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, 2018, 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 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, 2018, 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.

**Report on Summarized Comparative Information**

We have previously audited SBH Community Service Network, Inc. and Affiliate's December 31, 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*BKD, LLP*

New York, New York  
October 10, 2019

**SBH Community Service Network, Inc. and Affiliate**  
**Consolidated Statement of Financial Position with Consolidating Information**  
**December 31, 2018**  
**(With Summarized Financial Information for December 31, 2017)**

	<u>Consolidating Information</u>			<b>2017</b>
	<b>2018</b>			
	<b>SBHC</b>	<b>SBHJB</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,624,928	\$ -	\$ 1,624,928	\$ 2,247,672
Investments	1,034,936	4,246,425	5,281,361	4,743,123
Accounts receivable	299,555	-	299,555	180,294
Contributions receivable - net	2,380,869	50,000	2,430,869	2,592,838
Grants receivable	1,262,852	-	1,262,852	369,443
Prepaid expenses	188,178	-	188,178	83,660
Other assets	369,944	-	369,944	-
Fixed assets - net	6,962,503	-	6,962,503	7,217,196
	<u>\$ 14,123,765</u>	<u>\$ 4,296,425</u>	<u>\$ 18,420,190</u>	<u>\$ 17,434,226</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 340,356	\$ -	\$ 340,356	\$ 286,854
Accrued payroll and related liabilities	487,591	-	487,591	310,932
Deferred income	416,645	-	416,645	437,157
Security deposit	-	-	-	1,500
	<u>1,244,592</u>	<u>-</u>	<u>1,244,592</u>	<u>1,036,443</u>
<b>Net Assets</b>				
Without donor restriction - undesignated	12,033,474	1,323,695	13,357,169	12,482,787
With donor restrictions	845,699	2,972,730	3,818,429	3,914,996
	<u>12,879,173</u>	<u>4,296,425</u>	<u>17,175,598</u>	<u>16,397,783</u>
Total liabilities and net assets	<u>\$ 14,123,765</u>	<u>\$ 4,296,425</u>	<u>\$ 18,420,190</u>	<u>\$ 17,434,226</u>

**SBH Community Service Network, Inc. and Affiliate**  
**Consolidated Statement of Activities with Consolidating Information**  
**Year Ended December 31, 2018**  
**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	2018								2017
	Without Donor Restriction			With Donor Restriction			Total		
	SBHC	SBHJB	Total	SBHC	SBHJB	Total			
	Supplementary Information			Supplementary Information					
<b>Revenues, Gains (Loss) and Other Support</b>									
Contributions	\$ 5,495,404	\$ -	\$ 5,495,404	\$ 170,517	\$ 118,011	\$ 288,528	\$ 5,783,932	\$ 6,155,135	
Program income - mental health clinic	1,858,166	-	1,858,166	-	-	-	1,858,166	1,522,022	
Special events	\$ 3,691,517								
Direct cost of special events	(1,520,239)								
Grant revenue	1,598,302	-	1,598,302	-	-	-	1,598,302	799,657	
Rental income	127,461	-	127,461	-	-	-	127,461	83,100	
In-kind - food and clothing	258,720	-	258,720	-	-	-	258,720	298,386	
Miscellaneous income	68,171	-	68,171	-	-	-	68,171	68,858	
Net assets released from restrictions	183,862	18,864	202,726	(183,862)	(18,864)	(202,726)	-	-	
	11,761,364	18,864	11,780,228	(13,345)	99,147	85,802	11,866,030	10,635,534	
Grant from SBHJB to SBHC	150,000	(150,000)	-	-	-	-	-	-	
Total revenues, gains (loss) and other support	11,911,364	(131,136)	11,780,228	(13,345)	99,147	85,802	11,866,030	10,635,534	
<b>Expenses</b>									
Program services									
Client services	4,253,529	-	4,253,529	-	-	-	4,253,529	4,320,352	
Career Services Network	686,138	-	686,138	-	-	-	686,138	702,901	
Thrift store clothing/food	165,727	-	165,727	-	-	-	165,727	200,964	
Family services	176,828	-	176,828	-	-	-	176,828	202,279	
Senior services	386,179	-	386,179	-	-	-	386,179	219,617	
Medical	321,608	-	321,608	-	-	-	321,608	365,957	
Volunteer	439,310	-	439,310	-	-	-	439,310	400,042	
Mental health services	2,020,578	-	2,020,578	-	-	-	2,020,578	1,982,496	
Total program services	8,449,897	-	8,449,897	-	-	-	8,449,897	8,394,608	
Supporting services									
Management and general	1,441,923	-	1,441,923	-	-	-	1,441,923	1,327,132	
Fund raising	836,987	-	836,987	-	-	-	836,987	671,231	
Total supporting services	2,278,910	-	2,278,910	-	-	-	2,278,910	1,998,363	
Total expenses	10,728,807	-	10,728,807	-	-	-	10,728,807	10,392,971	
Change in net assets before other changes	1,182,557	(131,136)	1,051,421	(13,345)	99,147	85,802	1,137,223	242,563	
Nonoperating revenues/expenses									
Net realized/unrealized gain (loss) on investments	(126,476)	(146,124)	(272,600)	-	(254,382)	(254,382)	(526,982)	463,475	
Interest and dividends	41,893	53,668	95,561	-	72,013	72,013	167,574	106,985	
Total nonoperating revenues/expenses	(84,583)	(92,456)	(177,039)	-	(182,369)	(182,369)	(359,408)	570,460	
<b>Change in Net Assets</b>	1,097,974	(223,592)	874,382	(13,345)	(83,222)	(96,567)	777,815	813,023	
<b>Net Assets, Beginning of Year</b>	10,935,500	1,547,287	12,482,787	859,044	3,055,952	3,914,996	16,397,783	15,584,760	
<b>Net Assets, End of Year</b>	\$ 12,033,474	\$ 1,323,695	\$ 13,357,169	\$ 845,699	\$ 2,972,730	\$ 3,818,429	\$ 17,175,598	\$ 16,397,783	

**SBH Community Service Network, Inc. and Affiliate**  
**Consolidated Statement of Functional Expenses with Consolidating Information**  
**Year Ended December 31, 2018**  
**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	Program Services											Supporting Services			Total		
	Client Services			Career Services Network	Thrift Store Clothing/Food	Family Services	Senior Services	Medical	Volunteer	Mental Health Services	Total	Management and General	Fund Raising	Special Events	Total	2018	2017
	Brooklyn Branch	Jersey Shore Branch	Total														
<b>Personnel Expense</b>																	
Salaries	\$ 1,052,360	\$ 433,893	\$ 1,486,253	\$ 475,806	\$ 60,595	\$ 110,299	\$ 253,666	\$ 199,142	\$ 266,889	\$ 765,761	\$ 3,618,411	\$ 590,085	\$ 391,388	\$ -	\$ 981,473	\$ 4,599,884	\$ 4,270,587
Payroll taxes and benefits	132,135	57,752	189,887	79,088	12,475	18,427	36,724	40,090	30,957	116,249	523,897	122,479	45,913	-	168,392	692,289	566,621
Total professional employer expense	1,184,495	491,645	1,676,140	554,894	73,070	128,726	290,390	239,232	297,846	882,010	4,142,308	712,564	437,301	-	1,149,865	5,292,173	4,837,208
<b>Other Costs</b>																	
Financial assistance	117,287	8,020	125,307	-	-	-	4,350	7,103	-	-	136,760	-	-	-	-	136,760	218,738
Clients' rent	565,772	132,042	697,814	-	-	-	-	-	-	-	697,814	-	-	-	-	697,814	937,907
Food (including in-kind food of \$53,720)	380,650	144,341	524,991	-	-	-	-	-	-	-	524,991	-	-	-	-	524,991	431,756
Medical and homecare services	114,246	14,153	128,399	-	-	-	-	-	-	-	128,399	-	-	-	-	128,399	76,542
Camp scholarships	83,380	22,350	105,730	-	-	-	1,050	2,534	-	-	109,314	-	-	-	-	109,314	102,654
Tutoring and educational aid	14,572	2,331	16,903	-	-	-	-	-	-	-	16,903	-	-	-	-	16,903	7,259
Holiday programs	108,658	36,108	144,766	-	-	-	-	-	-	-	144,766	-	-	-	-	144,766	150,350
Child care	18,970	-	18,970	-	-	-	-	-	-	-	18,970	-	-	-	-	18,970	15,898
Clients' utilities	104,400	16,161	120,561	-	-	-	-	-	-	-	120,561	-	-	-	-	120,561	123,882
Flowers and gifts	9,719	-	9,719	-	-	203	-	-	203	-	10,125	-	10,213	-	10,213	20,338	42,979
Clothing	276,808	6,485	283,293	-	21,331	-	30	-	-	-	304,654	-	-	-	-	304,654	363,757
Grant expense	-	-	-	-	-	-	-	5,000	-	-	5,000	-	-	-	-	5,000	6,350
Professional fees	18,323	16,930	35,253	30,093	809	9,973	13,587	8,565	7,608	859,758	965,646	95,418	85,202	-	180,620	1,146,266	1,129,463
Occupancy	21,638	40,334	61,972	8,684	38,946	2,173	7,238	5,106	4,743	32,806	161,668	21,552	72,767	-	94,319	255,987	214,427
Printing and postage	25,813	5,851	31,664	5,900	905	2,157	3,099	4,360	3,163	10,033	61,281	44,184	49,226	-	93,410	154,691	220,753
Repairs and maintenance	1,300	21,166	22,466	6,522	6,800	-	4,617	4,190	1,684	41,918	88,197	151,399	37,227	-	188,626	276,823	436,261
Bank and credit card charges	-	165	165	-	-	-	-	-	-	-	165	60,483	-	-	60,483	60,648	18,976
Telephone	11,779	8,274	20,053	566	1,174	1,053	3,158	7,533	1,209	23,672	58,418	16,211	7,695	-	23,906	82,324	98,709
Travel and meetings	4,513	3,323	7,836	315	195	15,470	4,429	945	7,881	379	37,450	10,514	3,749	212,700	226,963	264,413	262,935
Advertising	74	1,098	1,172	858	1,041	75	3,036	5,621	4,048	6,578	22,429	6,105	16,037	-	22,142	44,571	44,923
Security	-	1,025	1,025	-	-	-	339	-	-	3,053	1,800	6,217	-	23,280	26,068	32,285	18,423
Supplies	7,767	17,551	25,318	4,121	14,570	4,605	16,924	1,345	55,072	11,753	133,708	19,812	13,890	103,924	137,626	271,334	326,523
Insurance	16,950	7,035	23,985	8,330	757	1,515	4,544	3,786	1,515	12,874	57,306	10,438	9,862	-	20,300	77,606	67,813
Depreciation	100,772	41,223	141,995	48,811	4,437	8,875	26,624	22,187	8,875	75,435	337,239	62,123	44,374	-	106,497	443,736	421,960
Hall, catering and entertainment	4,449	5,692	10,141	626	347	846	1,539	846	39,532	-	53,031	500	32,240	1,000,949	1,033,689	1,086,720	928,045
Gifts and prizes	336	933	1,269	321	1,192	525	624	1,385	1,120	135	6,571	1,429	-	179,386	180,815	187,386	147,796
Bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	199,000	199,000	-	59,825
Miscellaneous expenses	15,708	914	16,622	16,097	153	632	601	2,716	1,758	61,427	100,006	27,403	17,204	-	44,607	144,613	103,013
Total other costs	2,023,884	553,505	2,577,389	131,244	92,657	48,102	95,789	82,376	141,464	1,138,568	4,307,589	729,359	399,686	1,520,239	2,649,284	6,956,873	6,977,917
Total expenses by function	3,208,379	1,045,150	4,253,529	686,138	165,727	176,828	386,179	321,608	439,310	2,020,578	8,449,897	1,441,923	836,987	1,520,239	3,799,149	12,249,046	11,815,125
Less direct costs of special events	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,520,239)	(1,520,239)	(1,520,239)	(1,422,154)
Total expenses	\$ 3,208,379	\$ 1,045,150	\$ 4,253,529	\$ 686,138	\$ 165,727	\$ 176,828	\$ 386,179	\$ 321,608	\$ 439,310	\$ 2,020,578	\$ 8,449,897	\$ 1,441,923	\$ 836,987	\$ -	\$ 2,278,910	\$ 10,728,807	\$ 10,392,971

**SBH Community Service Network, Inc. and Affiliate**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2018**  
**(With Summarized Financial Information for the Year Ended December 31, 2017)**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Change in net assets	\$ 777,815	\$ 813,023
Items not requiring (providing) operating cash flows		
Depreciation	443,736	421,960
Realized/unrealized loss (gain) on investments	526,982	(463,475)
Perpetually restricted contributions	(118,011)	(344,100)
Changes in		
Accounts receivable	(119,261)	90,956
Contributions receivable	140,471	(526,814)
Grants receivable	(893,409)	(35,052)
Prepaid expenses	(104,518)	47,011
Other assets	(369,944)	-
Accounts payable and accrued expenses	53,502	13,910
Accrued payroll and related liabilities	176,659	57,984
Deferred income	(20,512)	81,707
Net cash provided by operating activities	493,510	157,110
<b>Investing Activities</b>		
Acquisition of fixed assets	(189,045)	(31,907)
Purchases of investments	(2,907,234)	(1,345,966)
Proceeds from sales and redemptions of investments	1,842,014	1,981,009
Net cash provided by (used in) investing activities	(1,254,265)	603,136
<b>Financing Activities</b>		
Proceeds from perpetually restricted contributions	138,011	594,100
Net cash provided by financing activities	138,011	594,100
<b>Net Change in Cash and Cash Equivalents</b>	(622,744)	1,354,346
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,247,672	893,326
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,624,928	\$ 2,247,672



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

## **Notes to Consolidated Financial Statements**

**December 31, 2018**

### **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 in equity securities having a readily determinable fair value are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external investment expenses.

# SBH Community Service Network, Inc. and Affiliate

## Notes to Consolidated Financial Statements

December 31, 2018

SBH maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

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 value 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 financial statements.

### ***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, 2018 as compared to December 31, 2017.

*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.

**SBH Community Service Network, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018**

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.

***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, 2018.

***Contributions Receivable***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

***Grants***

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. The portion of income collected in advance but not yet earned is reflected as deferred income.

***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.

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

## **Notes to Consolidated Financial Statements**

### **December 31, 2018**

#### ***Long-Lived Asset Impairment***

SBH evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As of December 31, 2018 and 2017, no asset impairment has been recorded.

#### ***Special Events***

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.

#### ***Net Assets***

Net assets without donor restrictions include funds having no restriction as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use has been restricted by donor stipulations to a specific time period or purpose.

#### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions. (Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.)

#### ***In-Kind Contributions***

In addition to receiving cash contributions, SBH receives in-kind contributions of food and clothing from various donors. It is the policy of SBH to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2018 and 2017, \$258,720 and \$298,386 respectively, was received in in-kind contributions.

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

## **Notes to Consolidated Financial Statements**

**December 31, 2018**

### ***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.

### ***Grant Expense***

Grants are made to various health related organizations pursuant to authorization by the Board of Directors of SBH 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 SBH's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

### ***Measure of Operations***

SBH's operating gain includes revenues and expenses directly related to services provided and excludes net realized and unrealized gain (loss) on investments, interest and dividend income.

### ***Subsequent Events***

Subsequent events have been evaluated through October 10, 2019, which is the date the consolidated financial statements were available to be issued.

**SBH Community Service Network, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
**December 31, 2018**

**Note 2: Change in Accounting Principle**

**ASU 2016-14**

In 2018, SBH adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

**Statement of financial position:**

- The statements of financial position distinguish between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

**Statements of activities:**

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

**Notes to the financial statements:**

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheets.

The adoption of ASU 2016-14 has no impact on previously reported total change in net assets.

**SBH Community Service Network, Inc. and Affiliate**  
**Notes to Consolidated Financial Statements**  
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**Note 3: Investments**

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

	<b>2018</b>	<b>2017</b>
	<b>Level 1</b>	<b>Level 1</b>
Equities		
Strategic equities	\$ -	\$ 641,744
Mutual funds		
Discovery value	187,416	151,448
Emerging markets	75,803	163,241
U.S. fixed income	88,606	634,606
Global fixed income	2,020,411	497,354
Global real estate	415,892	175,546
Intermediate duration	2,119,499	1,140,921
Intermediate portfolio	-	769,910
Value equity	228,623	309,253
Total mutual funds	<u>5,136,250</u>	<u>3,842,279</u>
Total investments reported on the fair value hierarchy	5,136,250	4,484,023
Cash and cash equivalents	<u>145,111</u>	<u>259,100</u>
Total investments	<u>\$ 5,281,361</u>	<u>\$ 4,743,123</u>

**Note 4: Contributions Receivable**

Contributions receivable are due as follows:

	<b>2018</b>		
	<b>Without Donor</b>	<b>With Donor</b>	
	<b>Restrictions</b>	<b>Restrictions</b>	<b>Total</b>
Past due	\$ 3,271,568	\$ 404,000	\$ 3,675,568
2019	<u>-</u>	<u>134,200</u>	<u>134,200</u>
	3,271,568	538,200	3,809,768
Less			
Allowance for uncollectible contributions	<u>(1,024,899)</u>	<u>(354,000)</u>	<u>(1,378,899)</u>
	<u>\$ 2,246,669</u>	<u>\$ 184,200</u>	<u>\$ 2,430,869</u>

**SBH Community Service Network, Inc. and Affiliate**  
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	<b>2017</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Past due	\$ 3,325,977	\$ 402,000	\$ 3,727,977
2018	-	178,862	178,862
	3,325,977	580,862	3,906,839
Less			
Allowance for uncollectible contributions	(984,001)	(330,000)	(1,314,001)
	<u>\$ 2,341,976</u>	<u>\$ 250,862</u>	<u>\$ 2,592,838</u>

**Note 5: Fixed Assets**

	<b>2018</b>	<b>2017</b>	<b>Estimated Useful Lives</b>
Land	\$ 356,534	\$ 356,534	
Building and improvements	11,406,400	11,364,148	31.5 years
Furniture and equipment	893,163	885,600	5-10 years
Vehicles	37,723	37,723	5 years
Construction in progress	139,230	-	
	12,833,050	12,644,005	
Less accumulated depreciation	(5,870,547)	(5,426,809)	
	<u>\$ 6,962,503</u>	<u>\$ 7,217,196</u>	

**Note 6: 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.

Future noncancelable lease revenue is as follows:

2019	\$ 19,525
2020	9,075
	<u>28,600</u>
Total	<u>\$ 28,600</u>



**SBH Community Service Network, Inc. and Affiliate**  
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**Note 7: Net Assets with Donor Restrictions**

Net assets with donor restrictions are available for the following purpose and periods:

	<u>2018</u>	<u>2017</u>
Sephardic hospital fund	\$ 711,499	\$ 680,182
Unappropriated endowment earnings	-	201,233
Periods after December 31, 2018	134,200	178,862
Endowments		
Subject to appropriation and expenditures when a specified event occurs restricted by donors for available for general use	<u>2,972,730</u>	<u>3,055,952</u>
Total	<u>\$ 3,818,429</u>	<u>\$ 4,116,229</u>

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

	<u>2018</u>
Time restrictions lapsed	\$ 178,862
Hospital Fund	5,000
Appropriated for expenditures	<u>18,864</u>
Total net assets released	<u>\$ 202,726</u>

**Note 8: Endowment**

***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.

# SBH Community Service Network, Inc. and Affiliate

## Notes to Consolidated Financial Statements

December 31, 2018

### ***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 perpetually restricted net assets (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 perpetually restricted net assets is classified as donor-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***

The endowment net asset composition for December 31, 2018 and 2017 of \$2,972,730 and \$3,055,952, respectively, consists of one 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, 2018***

	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 3,055,952	\$ 2,561,621
Contributions	118,011	344,100
Net realized/unrealized gain (loss)		
on investments	(254,382)	249,221
Interest and dividends	72,013	49,300
Appropriated for expenditures	<u>(18,864)</u>	<u>(148,290)</u>
Endowment net assets, end of year	<u>\$ 2,972,730</u>	<u>\$ 3,055,952</u>

### **Note 9: 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 Community Service Network, Inc. and Affiliate**  
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SBH's cash accounts exceeded federally insured limits by approximately \$2 million.

**Note 10: 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 11: Liquidity and Availability**

SBH's assets available within one year from December 31, 2018 are as follows:

Cash and cash equivalents	\$ 1,624,928
Investments	5,281,361
Accounts receivable	299,555
Contributions receivable - net	2,380,869
Grants receivable	<u>1,262,852</u>
 Total financial assets	 10,849,565
 Donor-imposed restrictions restricted funds	  <u>(2,972,730)</u>
 Net assets available	  <u><u>\$ 7,876,835</u></u>

SBH's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

**SBH Community Service Network, Inc. and Affiliate**  
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**Note 12: Future Changes in Accounting Principles**

***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. SBH is in the process of evaluating the impact the amendment will have on the financial statements.

***FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions***

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. For all non-public entities, the standard will be effective for reporting periods beginning on or after December 15, 2018 including interim periods within annual periods beginning after December 15, 2019.