Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc.

Financial Statements and Independent Auditor's Report

June 30, 2019

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Queens Village Committee for Mental Health
for Jamaica Community Adolescent Program, Inc.

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Independent Auditor's Report

To the Board of Trustees
Queens Village Committee for Mental Health
for Jamaica Community Adolescent Program, Inc.

We have audited the accompanying financial statements of Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 2 to the financial statements, the Organization had a working capital deficiency of $2,376,702 as of June 30, 2019. This raises substantial doubt about the Organization's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

CohnReznick LLP

New York, New York
February 28, 2020

Queens Village Committee for Mental Health
for Jamaica Community Adolescent Program, Inc.

Statement of Financial Position
June 30, 2019

<u>Assets</u>

Current assets		
Cash	$	114,807
Restricted cash held on behalf of welfare clients		64,066
Client services receivable		96,011
Grants and contract services receivable		76,236
Other receivables		243,347
Prepaid expenses and other current assets		20,327
Total current assets		614,794
Restricted cash held for capital projects		294,683
Security deposits		22,578
Property and equipment, net		7,407,182
Total assets	$	8,339,237

<u>Liabilities and Net Assets</u>

Current liabilities		
Current portion of long-term debt	$	38,005
Accounts payable and accrued expenses		1,021,749
Pension payable		666,103
Funds held on behalf of welfare clients		58,305
Accrued compensation		340,448
Due to third-party payor		171,875
Due to OASAS		695,011
Total current liabilities		2,991,496
Capital project advance - OASAS		2,545,000
Long-term debt, less current portion		171,995
Total liabilities		5,708,491
Commitments and contingencies		
Net assets without donor restrictions		2,630,746
Total liabilities and net assets	$	8,339,237

See Notes to Financial Statements.

Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc.

Statement of Activities and Change in Net Assets Year Ended June 30, 2019

Revenue without donor restrictions	
Client services	$ 2,617,275
Grants and contract services	4,136,475
Other	254,926
Total revenue without donor restrictions	7,008,676
Expenses	
Salaries and fringe benefits	5,180,029
Other than personnel services	2,454,025
Interest	20
Total expenses	7,634,074
Change in net assets before depreciation and amortization	(625,398)
Depreciation and amortization	370,896
Change in net assets	(996,294)
Net assets	
Beginning	3,627,040
End	$ 2,630,746

See Notes to Financial Statements.

Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program services				
	Residential services	Article 28 services	Total	General and administrative	Total
Salaries	$ 3,174,915	$ 431,669	$ 3,606,584	$ 711,877	$ 4,318,461
Fringe benefits	709,657	36,939	746,596	114,972	861,568
Insurance	89,140	7,035	96,175	14,015	110,190
Repairs and maintenance	65,472	1,680	67,152	173,046	240,198
Occupancy	100,369	2,622	102,991	-	102,991
Utilities	224,317	4,898	229,215	5,919	235,134
Client transportation	37,329	-	37,329	1,752	39,081
Travel, conferences and meetings	19,976	344	20,320	2,114	22,434
Consumable supplies	75,559	6,486	82,045	407	82,452
Equipment rental and maintenance	54,243	7,625	61,868	6,412	68,280
Subscriptions and membership dues	2,500	-	2,500	4,150	6,650
Interest and bank charges	872	3	875	1,093	1,968
Postage and supplies	10,876	330	11,206	1,347	12,553
Consultants and subcontractors	45,313	236,120	281,433	-	281,433
Professional fees	48,271	19,600	67,871	563,175	631,046
Telephone	68,109	9,256	77,365	4,670	82,035
Food and client incidentals	407,728	1,200	408,928	321	409,249
Bad debt expense	-		-		-
Other	66,098	45,043	111,141	17,210	128,351
	5,200,744	810,850	6,011,594	1,622,480	7,634,074
Depreciation and amortization	370,896	-	370,896	-	370,896
Total functional expenses	$ 5,571,640	$ 810,850	$ 6,382,490	$ 1,622,480	$ 8,004,970

See Notes to Financial Statements.

Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc.

Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities	
Cash received from client services	$ 2,707,012
Cash received from grants and contract services	3,646,656
Cash paid for other	254,926
Cash paid for personnel costs	(5,187,716)
Cash paid for other than personnel costs	(2,383,466)
Cash paid for interest	(20)
Net cash used in operating activities	(962,608)
Cash flows from investing activities	
Restricted cash paid on behalf of welfare clients	(45,594)
Restricted cash held for capital projects	181,755
Purchase of property and equipment	(250,816)
Net cash used in investing activities	(114,655)
Cash flows from financing activities	
Loan proceeds	210,000
Net cash provided by financing activities	210,000
Net decrease in cash	(867,263)
Cash, beginning	982,070
Cash, end	$ 114,807

See Notes to Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Queens Village Committee for Mental Health for Jamaica Community Adolescent Program, Inc. (the "Organization"), a nonprofit organization, is engaged primarily in residential treatment programs using the therapeutic community model to treat drug and alcohol abusers, in Queens County, New York.

Effective June 27, 2019, through a reorganization agreement, Acacia Network, Inc. became the sole member of the Organization and is therefore considered the parent company.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Adoption of new accounting pronouncement

For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU No. 2016-14 is the net asset classes used in the financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets

The Organization reports information regarding its financial position and activities according to the following two categories:

<u>Net assets without donor restrictions</u> are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

<u>Net assets with donor restrictions</u> are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and change in net assets. The Organization had no net assets with donor restrictions as of June 30, 2019.

Cash
The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization maintains its cash with high-quality financial institutions. The Organization monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. For purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. There were no cash equivalents as of June 30, 2019.

Client services receivable and concentration of credit risk
The collection of receivables from government agencies is the Organization's primary source of cash for operations and is critical to its operating performance. The primary collection risk relates to receivables from government agencies that are carried at a net amount determined by the original charge for the service provided, less an estimate made for doubtful accounts.

Property and equipment
Property and equipment are recorded at cost, or, if donated, at fair value on the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Organization capitalizes all purchases of property and equipment in excess of $1,000.

Maintenance, repairs and minor renewals are expensed as incurred, when assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and any resulting gains or losses are included in change in net assets.

Construction-in-progress is recorded at cost. The Organization capitalizes construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction has been substantially completed and the assets are placed in service.

Impairment of long-lived assets
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Organization compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values giving consideration to recent operating performance and pricing trends. The Organization does not believe that any material impairment currently exists related to its long-lived assets.

Funds held on behalf of welfare clients
The Organization receives cash allowances for eligible welfare clients from the New York City Human Resources Administration, which are held in a separate bank account. The clients must use these amounts for personal needs items.

Client services
The Organization has agreements with government agencies that provide payments to the Organization at established rates, based on predetermined fee schedules. Service fees are reported at the estimated net realizable amounts for services rendered, including retroactive adjustments, if applicable, under reimbursement agreements, which are subject to audit by the

administrating government agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

The Organization provides care to certain patients under Medicaid payment arrangements. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Grants and contract services

Revenue from cost reimbursement-based grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Revenue from performance-based grants and contracts designated for use in specific activities is recognized when performance objectives pursuant to the grant are accomplished. Cash received in excess of revenue recognized is recorded as refundable advances.

Functional expenses

The cost of providing the various services and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program services and general and administrative. Such allocations are determined by management on an equitable basis. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, fringe benefits, transportation, supplies, postage, consultant and contractors, food and participant incidentals, and depreciation and amortization, which are allocated on the basis of actual expenses; occupancy, which is allocated on the basis of direct program cost; interest and bank changes, equipment rental and maintenance, subscriptions and membership dues, and training and staff development, which are allocated on the basis of program specific cost; insurance, which is allocated on the basis of square footage; repairs and maintenance, utilities, professional fees, and telephone, which are allocated on the basis of number of employees and clients. The functional expenses for the year ended June 30, 2019 is reflected in the statement of functional expenses.

Performance indicator

The statement of activities and change in net assets includes change in net assets as the performance indicator.

Tax status

The Organization was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

The Organization has no unrecognized tax benefits at June 30, 2019. The Organization's federal and state income tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Organization recognizes interest and penalties associated with tax matters as operating expenses, and includes accrued interest and penalties with accounts payable and accrued expenses in the statements of financial position. There were no interest or penalties for the year ended June 30, 2019.

Subsequent events

The Organization has evaluated subsequent events through February 28, 2020, which is the date the financial statements were available to be issued.

Note 2 - Management's plan to improve operations and availability and liquidity

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Organization had a working capital deficiency of $2,376,702 as of June 30, 2019. This matter raises substantial doubt about the Organization's ability to continue as a going concern. The net deficit experienced in 2019 resulted primarily from a significant reduction in revenue due to a high bed vacancy rate in the Organization's NYS Office of Alcoholism and Substance Abuse Services ("OASAS") licensed residential program, and a low patient census in its Article 28 clinic. Effective June 27, 2019, the Organization became an affiliate of Acacia Network, Inc. Under its new affiliation, new processes have been implemented to improve cash flow and the operating deficit through, among other things, cost containment and maximization of third-party revenue. To help improve the Organization's operating cash flow, the billing function was successfully transitioned to Acacia's electronic patient revenue billing platform to increase the billing speed and accuracy. The electronic payroll system was transitioned to Acacia's payroll provider to better manage employees' time and benefits and comply with required reports and filings. Payroll taxes are being paid timely. Filing of employer tax returns and payment of employees' withholding taxes are current. While the registration process of the 2019-2020 OASAS contract for the residential program is completed, and revenue streams are restored, Acacia has been providing necessary funding to maintain services as reviewed and approved by OASAS.

The financial statements do not include any adjustment to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the Organization's ability to continue as a going concern. However, there can be no assurance that the Organization will be able to operate profitably or obtain enough cash either through operating activities or third parties to continue its operations.

The following represents the Organization's financial assets at June 30, 2019:

Financial assets at year end		
Cash	$	114,807
Client services receivable		96,011
Grants and contract services receivable		76,236
Other receivables		243,347
Financial assets available to meet general expenditures over the next 12 months	$	530,401

Note 3 - Client services receivable

Client services receivable, net consists of the following:

Medicaid - Article 28	$	13,707
New York City Human Resources Administration		63,706
Other		18,598
Total	$	96,011

Note 4 - Grants and contract services receivable

Grants and contract services receivable consists of the following:

New York State Office of Alcoholism and Substance Abuse Services		
HIV Intervention Services	$	72,569
Other		3,667
Total	$	76,236

Note 5 - Property and equipment, net

Property and equipment, net, consists of the following.

Land	$	2,645,000
Building and leasehold improvements		9,213,836
Furniture and equipment		748,776
Vehicles		117,522
Subtotal		12,725,134
Less accumulated depreciation and amortization		(5,923,350)
Subtotal		6,801,784
Construction-in-progress		605,398
Total	$	7,407,182

Note 6 - Due to third-party-payor

Due to third-party payor of $171,875 represents the amount paid in advance by New York City Human Resources Administration for patients who are subsequently discharged from the residential program.

Note 7 - Due to OASAS

In fiscal year 2017, OASAS completed a review of the 2013, 2014, 2015 and 2016 consolidated fiscal report ("CFR") expenses. Based on the review and subsequent adjustments, $829,310 of administrative expenses were deemed unallowable and will be recouped from the Organization in future payments. In addition, management accrued an additional amount of $280,357, representing estimated unspent funds related to fiscal year 2019. As of June 30, 2019, OASAS has recouped $414,656. There were no recoupments during fiscal year 2019. The amount due to OASAS as at June 30, 2019 is $695,011. The OASAS contract with the Organization expired on June 30, 2019, and the disposition of future contracts with the Organization are under discussion.

Note 8 - Long-term debt

On June 27, 2019, the Organization entered into an agreement with Acacia Network, Inc. Under the agreement, the Organization received an unsecured loan of $210,000. The loan has a maturity date of June 26, 2024 and interest of 5% per annum. Interest payable will be forgiven if the principal is paid within six months. The long-term debt consists of the following as of June 30, 2019.

Principal	$	210,000
Less current maturities		(38,005)
Long-term portion	$	171,995

The future scheduled maturities of the long-term debt are as follows:

2020	$	38,005
2021		39,905
2022		41,900
2023		43,995
2024		46,195
Total	$	210,000

Note 9 - Client services

Client services consist of the following as of June 30, 2019:

Medicaid - Article 28	$	359,461
Other Article 28 revenue		71,405
New York City Human Resources Administration		
Food stamps		274,874
Shelter		1,207,391
Supplemental Security Income shelter		99,000
Nassau County shelter		105,218
Suffolk County shelter		274,176
Client shelter		192,133
Other shelter payors		33,617
Total	$	2,617,275

Note 10 - Grants and contract services revenue

Grants and contract services revenue consists of the following for the year ended June 30, 2019:

New York State Office of Alcoholism and Substance Abuse Services		
Chemical Dependency and Problem Gambling Treatment, Prevention and Prevention Support Services	$	3,906,104
HIV Intervention Services		194,896
U.S. Department of Housing and Urban Development Shelter Plus Care Program		25,659
One City Health Services Delivery System Reform Incentive Payment Program		9,816
Total	$	4,136,475

Note 11 - Pension plan

The Organization has a defined contribution pension trust for employees, which was adopted on October 22, 1980. The trust is funded by contributions from the Organization based on an amount equal to 1% of each participant's compensation, plus 2% of all salary in excess of the Social Security wage base, $132,900 for 2019.

Participants become vested in their individual contribution amounts based on a sliding scale vesting schedule: 0% for year 1, 20% for year 2, 40% for year 3, 60% for year 4, 80% for year 5, and 100% for year 6 and thereafter. Forfeited amounts are used by the trust to reduce its future years' contributions.

Principal Financial Group administers the plan assets as individual money purchase accounts for each eligible participant. Participants have the authority to direct their individual assets to selected John Hancock Funds. In addition, borrowings and distributions can be made in accordance with the trust's Plan Document and specific Internal Revenue Service regulations. Total expense for fiscal year 2019 was $65,753.

For the years 2008, 2009 and 2010, the Organization did not receive adequate funding from OASAS to fully fund the pension plan obligations. In 2011, the Organization changed the plan agreement to the current employer contribution structure. The amount payable for previous unfunded employer contributions for fiscal year June 30, 2019 is $666,103. Possible earnings for the unfunded contributions will not be remitted or accrued for because the amounts cannot be estimated.

Note 12 - Capital project advance - OASAS

In September 2015, the New York State Office of Alcoholism and Substance Abuse Services contracted with the Organization to demolish and construct a building at 118-36/44 Merrick Boulevard, Jamaica, NY to accommodate the re-establishment of the Organization's residential program. The new facility would accommodate a 50 bed men's and 25 bed community residence, as well as the Organization's administration offices. The total costs to construct this property shall not exceed $24,711,000. After the capital project is completed it is anticipated that the entire advance will convert to a mortgage payable to OASAS which will be transferred to Dormitory

Authority of the State of New York ("DASNY"). As of June 30, 2019, the location has been purchased and the design phase has begun. OASAS has funded the project through June 30, 2019, and the Organization has accrued an advance in the amount of $2,545,000.

As part of the agreement with OASAS, the Organization is required to hold a restricted cash account in a bank to pay for future capital expenditures of the project. The amount included in the restricted cash account is the remaining funds that were advanced to the Organization that had not been utilized as of June 30, 2019 for the construction. As of June 30, 2019, the total cash restricted for future capital expenditures related to this project amounted to $294,683.

Note 13 - Commitments and contingencies

The Organization has contracted with various funding agencies to perform certain services and receives revenue from state and federal governments. Reimbursements received under these contracts and payments are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Organization could be held responsible for reimbursing the agencies for the amounts in question.

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions.

The Organization is involved in other claims and legal actions in the ordinary course of business. At this time, it is too early for management to determine the ultimate outcome of these matters and if there would be a material adverse impact on the Organization's financial position, results of operations or cash flows.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Organization believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Organization could be held responsible for refunding the amount in question.

The Organization entered into various lease agreements, which have been classified as operating leases. As of June 30, 2019, the Organization is obligated to make future minimum payments as follows:

2020	$	38,385
2021		10,060
2022		10,060
Total	$	58,505

Space and equipment lease expenses for the year ended June 30, 2019 amounted to $107,215.

Note 14 - Capital improvement project

The New York State Office of Alcoholism and Substance Abuse Services is drafting a contract with the Organization to carry out a capital improvement project at 116-30 Sutphin Boulevard, Jamaica, NY to renovate an existing rehabilitation of chemical dependence treatment facility. The total costs to construct this property shall not exceed $12,928,000. After the capital project is completed, it is anticipated that the entire advance will convert to a mortgage payable to OASAS which will be transferred to DASNY.

As part of the agreement with OASAS, the Organization is required to hold a restricted cash account in a bank to pay for future capital expenditures of the project. The amount included in the restricted cash is the remaining funds that were advanced to the Organization that had not been utilized as of June 30, 2019 for the construction.

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